NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS
for the year ended 30 June 2014

1. ACCOUNTING POLICIES

The principal accounting policies adopted and the methods of computation used in the preparation of these consolidated annual financial statements are set out below and are consistent in all material respects with those applied during the previous year except for the adoption of new and amended statements and interpretations as disclosed in note 2.

1.1 Statement of compliance

The consolidated annual financial statements are stated in South African Rand and are prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) in issue and effective for the Group at 30 June 2014 and the SAICA Financial Reporting Guides, as issued by the Accounting Practices Committee and financial reporting pronouncements as issued by the Financial Reporting Standards Council and the Companies Act of South Africa, 2008.

1.2 Basis of measurement

The consolidated annual financial statements are prepared on the historical cost basis, modified by the restatement of certain financial instruments to fair value, insurance and defined retirement benefit liabilities in accordance with actuarial valuations.

1.3 Insurance

Detailed accounting policies and other disclosures specifically covering insurance companies are outlined in Annexure A.

1.4 Consolidation

The consolidated annual financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries).

The Group controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Subsidiaries held exclusively with a view to their subsequent disposal which is highly probable are accounted for as assets held for sale in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

Income and expenses of subsidiaries acquired or disposed of during the year are included in profit or loss and other comprehensive income from the date on which control was obtained or lost respectively.

Total comprehensive income of subsidiaries is attributed to owners of Imperial and to non-controlling interests even if this results in non-controlling interests having a deficit balance.

In preparing the consolidated financial statements where a subsidiary of the Group uses accounting policies other than those adopted in the consolidated financial statements for like transactions, appropriate adjustments are made to its financial statements to bring it in line with the Group's accounting policies.

All intergroup transactions, balances and unrealised income and expenses are eliminated in full.

Changes in the Group's ownership interest in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for in equity. Any difference between the amount by which non-controlling interests is adjusted and the fair value of the consideration paid or received is recognised directly to the premium paid on purchase of non-controlling interests reserve in equity.

When the Group loses control of a subsidiary a gain or loss is recognised in profit or loss.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 – *Financial Instruments: Recognition and Measurement or*, when applicable, the cost on initial recognition of an investment in associate or a jointly controlled entity.

Consolidation of Lereko Mobility (Pty) Ltd (Lereko)

Imperial Holdings Limited (Imperial) owns 49% of the share capital of Lereko which in turn has an interest in Imperial's ordinary shares, together with a related call option liability to Imperial to be settled by the delivery of the Imperial shares. The Imperial shares held by Lereko, together with the related call option liability, are economically ring fenced from the interests held by other parties in Lereko (silo). Imperial's interest in these shares with the related call option liability to Imperial has been consolidated.

The Imperial shares recognised through the consolidation of Lereko are treated as shares repurchased and the call option liability is eliminated against the call option asset held by the company.

1.5 Business combinations

Acquisitions of businesses are accounted for using the acquisition method as described below.

An acquisition is considered a business combination if the assets acquired and liabilities assumed constitute a business.

The consideration transferred in a business combination is measured at fair value, which includes the fair value of the acquisition date asset and any liability resulting from a contingent consideration arrangement.

Acquisition-related costs are expensed in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are measured at fair value except for deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements which are recognised and measured in accordance with IAS 12 – *Income Taxes* and IAS 19 – *Employee Benefits respectively*.

The excess of the aggregate of the consideration transferred, the non-controlling interest and the acquisition date fair value of previously held equity interest over the fair value of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired (i.e. bargain purchase), then the difference is credited to profit or loss in the period of acquisition.

The non-controlling interests are measured at their proportionate share of the fair value of the identifiable assets acquired and liabilities assumed.

When the consideration transferred includes a contingent consideration, that contingent consideration is recognised as a liability and measured at its acquisition-date fair value and included in the consideration transferred in a business combination. The contingent consideration is remeasured at subsequent dates to its fair value through profit or loss.

When the business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value with the resulting gain or loss recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts for the items where the accounting is incomplete. Those provisional amounts are adjusted during the measurement period where applicable.

1.6 Foreign currencies

Transactions denominated in a foreign currency are recorded at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange differences on monetary items are recognised in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks which are recognised in other comprehensive income and accumulated in the hedge accounting reserve in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Rand using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the weighted average exchange rates for the period.

Exchange differences arising are recognised in other comprehensive income and accumulated in the foreign currency translation reserve in equity.

On disposal of a foreign operation all the exchange differences accumulated in equity in respect of that operation attributable to owners of Imperial are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss.

For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the rate of exchange prevailing at the end of each reporting period.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.7 Investment in associates

The results, assets and liabilities of entities over which the Group exercises significant influence (associates) are incorporated in these consolidated financial statements using the equity method of accounting.

Under the equity method, an investment in associate is initially recognised at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

The Group's share of other net asset changes in the associate, other than profit or loss or other comprehensive income and distributions received is recognised in equity. Such changes include those arising from additional shares issued by the associate to third parties or when the associate accounts for equity settled share-based payment transactions.

The Group's share of associates' net income, presented net of tax, is based on financial statements drawn up to reporting dates that are coterminous with that of the Group.

Where reporting dates are not coterminous, adjustments are made to the associate's net income for the effects of significant transactions or events that occur after the associate's reporting date and up to the reporting date of the Group.

Investments in associates held exclusively with a view to their subsequent disposal are accounted for as assets held for sale in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*.

When the Group's share of losses of the associate exceeds the Group's interest in that associate, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of profits equals the share of losses not recognised previously.

Any excess of the cost of acquisition over the Group's share of the fair value of the net identifiable assets of an associate at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the associate.

Any excess of the Group's share of the net fair value of identifiable assets, liabilities and contingent liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss as a bargain purchase.

The requirements of IAS 39 – *Financial Instruments: Recognition and Measurement* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary the entire carrying amount of the investment is tested for impairment in accordance with IAS 36 – *Impairment of Assets* as a single asset by comparing its recoverable amount to its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 – *Impairment of Assets* to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as the fair value on initial recognition as a financial asset in accordance with IAS 39 – *Financial Instruments: Recognition and Measurement*. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

When a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Ukhamba Holdings (Pty) Ltd (Ukhamba)

The Group has a 46,9% interest in Ukhamba, a black empowerment partner who currently owns ordinary and deferred ordinary Imperial shares.

Any fair value gains made by Ukhamba on the revaluation of its Imperial shares are eliminated from the Group's net profit and comprehensive income. Any dividends received from Ukhamba first reduce its carrying value as an associate to zero and then any surplus is recognised directly in equity.

1.8 Interests in joint ventures

The Group's interest in jointly controlled entities is accounted in the same way as investments in associates described above.

1.9 Goodwill

Goodwill arising on acquisition is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash generating units) that are expected to benefit from the synergies of the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is first allocated to the goodwill and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit.

Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate or joint venture is described under investment in associates.

1.10 Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives.

Intangible assets are not revalued.

The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes accounted for on a prospective basis.

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost, being the acquisition date fair value, less accumulated amortisation and accumulated impairment losses on the same basis as intangibles that are acquired separately.

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal.

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in profit or loss when the intangible asset is derecognised.

1.11 Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group assesses if there is any indication that such assets have suffered an impairment loss.

If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not ready for their intended use are tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.11 Impairment of tangible and intangible assets excluding goodwill continued

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years.

A reversal of an impairment loss is recognised immediately in profit or loss.

1.12 Property, plant and equipment, transport fleet and vehicles for hire

Land is stated at cost less accumulated impairment and is not depreciated.

Buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated at cost less any accumulated depreciation and impairment losses.

Buildings in the course of construction for production, supply or administrative purposes are carried at cost less any recognised impairment loss.

Land and buildings held as portfolio properties whose benefits are shared with policyholders are fair valued through profit or loss.

All other assets are stated at cost less accumulated depreciation and accumulated impairment losses.

Costs include all costs incurred in bringing the assets to the location and condition for their intended use and include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Depreciation is recognised so as to write off the cost of assets less their residual values over their useful lives, using the straight-line method.

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Depreciation commences when the assets are ready for their intended use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

Costs include the estimated costs of dismantling and removing the assets and, where appropriate, costs are split into significant components.

Major improvements to leasehold properties are capitalised and written off over the period of the lease.

Where significant components of an asset have different useful lives to the asset itself, those components are depreciated over their estimated useful lives.

Assets are derecognised on disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Vehicles for hire are reclassified to inventories at their carrying amount when they cease to be rented and become available-for-sale.

1.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimate of the selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Cost is determined as follows:

Vehicles	specific cost
Caravans, spares and accessories	weighted average cost
Fuel, oil and merchandise	first in, first out
Fast moving consumer goods	first in, first out

Work in progress includes direct costs and a proportion of overheads.

1.14 Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investments in the leases.

Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of interest on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Assets leased under operating leases are included under the appropriate category of assets in the statement of financial position.

They are depreciated over their expected useful lives on a basis consistent with similar items of property, plant and equipment.

The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments.

The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Finance lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest of the remaining balance of the liability.

Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Contingent rentals are recognised as an expense in the period in which they are incurred.

1.15 Incentive schemes

The Group operates equity-settled share-based compensation plans for senior employees and executives.

Equity-settled share-based payments to employees are measured at the fair value of the equity instrument at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity.

At the end of each reporting period, the Group revises its estimates of the number of equity instruments that are expected to vest.

The impact of the revision of original estimates, if any, is recognised in profit or loss with a corresponding adjustment to the share based payment reserve in equity.

1.16 Retirement benefit obligations

Defined contribution plans

Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered services entitling them to the contributions.

Defined benefit plans

For defined benefit retirement plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations carried out at the end of each reporting period.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.16 Retirement benefit obligations continued

Past-service costs are recognised immediately to the extent that the benefits are vested, otherwise it is amortised on a straight-line basis over the average period until the benefits become vested.

Actuarial gains and losses are recognised immediately in other comprehensive income and accumulated in retained earnings so that the retirement benefit obligation reflects its full value.

1.17 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is reviewed at the end of each reporting period and represents the best estimate of the consideration required to settle the obligation, taking into account the risks and uncertainties surrounding it.

When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the fair value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reversed when it is no longer probable that an outflow of resources will be required to settle the obligation.

Insurance claims

Insurance claims comprise provisions for the estimate of the ultimate cost of settling all claims incurred but unpaid at the end of the reporting period, whether reported or not. Related anticipated insurance recoveries are recognised separately as assets when it is virtually certain the amounts will be received.

Dismantling and environmental risk

The Group provides for the dismantling of property, plant and equipment at the end of their useful lives where a contractual requirement exists and for any probable environmental risks.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable cost of meeting the obligation under the contract exceeds the economic benefits expected from the contract.

1.18 Income taxes

Income tax expense represents the sum of current tax and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in profit or loss because of items of income or expense that are taxable or deductible in other years (temporary differences) and items that are not taxable or deductible.

The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the Group's consolidated financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or from the initial recognition, other than in a business combination, of other assets and liabilities in a transaction that affects neither the tax profit nor accounting profit.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised.

Deferred tax is charged or credited in profit or loss, except when it relates to items charged or credited directly to other comprehensive income and equity, in which case the deferred tax is also taken directly to other comprehensive income and equity.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same tax authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Dividends tax

Dividends tax is levied on non-exempt shareholders. The Group is responsible for the collection of the dividends tax and payment of the amounts collected to the South African Revenue Service (SARS). As this tax is levied on the shareholders and not the company, it does not form part of the tax expense recognised in profit or loss or in other comprehensive income. Dividends are reflected gross of tax.

1.19 Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale.

When the Group is committed to a sale plan involving loss of control of an entity, all of the assets and liabilities of that entity are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

1.20 Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the buyer.

Where there are guaranteed buyback arrangements in terms of which significant risks and rewards of ownership have not transferred to the purchaser, the transaction is accounted for as a lease.

Revenue arising from the rendering of services is recognised on the accrual basis in accordance with the substance of the agreement.

Revenue from vehicle maintenance plans is recognised based on an established pattern, when vehicle maintenance services are performed over the period of the plan.

The Group reflects premium income relating to insurance business gross of reinsurance. Premiums are accounted for at the commencement of the risk. Premiums on investment contracts are excluded from profit or loss.

Where the Group acts as an agent and is remunerated on a commission basis, the commission is included in revenue. Where the Group acts as principal, the total value of business handled is included in revenue.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.21 Interest and dividend income

Interest income is accrued on the time basis, by reference to the principal outstanding and the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

1.22 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

1.23 Government grants and assistance

Government grants represent assistance by government in the form of transfers of resources in return for compliance with conditions related to operating activities. Government assistance is an action by government designed to provide an economic benefit specific to an entity or range of entities qualifying under certain criteria. Government includes government agencies and similar bodies, whether local, national or international.

When the conditions attaching to government grants have been complied with and they will be received, they are recognised in profit or loss on a systematic basis over the periods necessary to match them with the related costs. When they are for expenses or losses already incurred, they are recognised in profit or loss immediately. The unrecognised portion in the statement of financial position date is presented as deferred income.

No value is recognised where government provides general industry assistance.

Where the government grants target-specific assets, the government grants are deducted from the cost of the asset, hence reducing its cost.

1.24 Exceptional items

Exceptional items include income and expense items which are not considered to be of a trading nature and generally include the following remeasurements:

- Impairments of goodwill.
- Gains and losses on disposal and impairment of subsidiaries, investment in associates and joint ventures.
- Gains and losses on the measurement to fair value less costs to sell of disposal groups.
- Reclassification to profit or loss of foreign currency translation reserves upon disposal of entities whose functional currencies are different to the Group's presentation currency.

1.25 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing net profit attributable to owners of Imperial by the weighted average number of ordinary shares in issue during the year, net of shares repurchased and the Group's interest in its own ordinary shares held by an associate.

Diluted earnings per share

For diluted earnings per share, the weighted average number of ordinary shares in issue, net of shares repurchased, is adjusted for the dilutive effect of deferred ordinary shares and potential ordinary shares under the share incentive schemes.

Potential ordinary shares are treated as dilutive when their conversion to ordinary shares would decrease basic earnings per share.

The effect of anti-dilutive potential ordinary shares is excluded from the calculation of diluted earnings per share.

Headline earnings per share and core earnings per share

The presentation of headline earnings per share is mandated under the JSE Listings Requirements and is calculated in accordance with Circular 3/2013 – Headline Earnings, as issued by the South African Institute of Chartered Accountants.

Core earnings is a non-IFRS measure and excludes the impact of certain non-operational income and expense items from reported headline earnings. It is included to provide an additional basis on which to measure the Group's normalised earnings performance.

1.26 Share issue costs, shares repurchased and dividend payments

Share issue costs

Incremental costs directly attributable to the issue of new shares or the repurchase of existing shares are shown as a deduction, net of applicable tax, in equity. An incremental share issue cost is one which would not have arisen if shares had not been issued or repurchased.

Shares repurchased

The purchase by the Group of its own equity instruments and held in a subsidiary company results in the recognition of shares repurchased. The consideration paid is deducted from equity. Where shares repurchased are subsequently sold, reissued or otherwise disposed of, any consideration received is included in equity attributable to owners of Imperial, net of any directly attributable incremental transaction costs and the related tax effects. Shares repurchased by the company and subsequently cancelled are shown as a deduction in retained earnings.

Dividend payments to owners of Imperial

Dividend distributions to owners of Imperial are recognised as a liability in the period in which the dividends are approved and declared. Interim and final dividends are accrued when approved by the board of directors.

Dividend payments to preference shareholders

Due to their cumulative nature the non-redeemable, non-participating preference shares are classified as debt financial instruments with no repayment terms. The dividends payable on the non-redeemable, non-participating preference shares are accrued on a time basis, with reference to the principal outstanding and the effective interest rate applicable, and recognised in profit or loss within finance cost. Interim and final preference dividends are payable when approved by the board of directors.

1.27 Events after the reporting period

The financial statements are adjusted to reflect events that occurred between the end of the reporting period and the date when the financial statements are authorised for issue, only if those events provide evidence of conditions that existed at the end of the reporting period.

Events that are indicative of conditions that arose after the reporting period are disclosed, with no adjustment to the financial statements.

1.28 Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The chief operating decision making body who is responsible for allocating resources and assessing performance of the operating segments. This has been identified collectively as the group executive committee.

Segment revenue reflects both sales to external parties and intergroup transactions across segments. Inter-segment revenue is revenue raised by one segment relating to sales to other segments within the Group, which is eliminated under head office and eliminations.

Segment operating assets and liabilities are only those items that can be specifically identified within a particular segment.

1.29 Financial instruments

Financial assets and financial liabilities are recognised in the Group's consolidated statement of financial position when the Group becomes party to the contractual provisions of the instrument.

Initial measurement of financial assets and financial liabilities

Financial assets and financial liabilities are initially recorded at fair value plus, in the case of financial assets and financial liabilities not fair valued through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Subsequent measurement of financial assets

Financial assets at fair value through profit or loss, including derivative assets, are subsequently measured at fair value without any deduction for transaction costs that may be incurred on sale or disposal.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.29 Financial instruments continued

Available-for-sale investments are subsequently remeasured to fair value. Any unrealised gain and loss is recognised in other comprehensive income and accumulated in the valuation reserve in equity until the investment is disposed of or impaired, at which time the cumulative gain or loss deferred in equity is reclassified to profit or loss.

Investments in equity instruments whose fair value cannot be measured reliably are carried at cost.

Loans receivable and trade receivables are subsequently measured at amortised cost using the effective interest method, less any impairment as appropriate.

Cash resources are carried at amortised cost which is also its fair value.

Subsequent measurement of financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method except for financial liabilities at fair value through profit or loss, including derivative liabilities, which are measured at fair value.

Hedge accounting

The Group enters into forward exchange contracts, forward rate agreements and interest-rate swap agreements in order to hedge its exposure to foreign exchange and interest rate risk. The Group does not use derivative financial instruments for speculative purposes.

Changes in the fair value of derivative instruments that are not formally designated in a hedge relationship are recognised immediately in profit or loss.

Changes in the fair value of a 'fair value hedge' are recognised in profit or loss. The gain or loss on the hedged item, attributable to the hedged risk, is adjusted to the carrying amount of the hedged item with a corresponding entry in profit or loss.

The effective portion of changes in the fair value of a 'cash flow hedge' is recognised directly in other comprehensive income and accumulated in the hedge accounting reserve in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

If the cash flow hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability then, at the time the asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in the Group's hedge accounting reserve in equity are included in the initial measurement of the asset or liability.

For hedges that do not result in the recognition of a non-financial asset or a non-financial liability, amounts deferred in the Group's hedge accounting reserve in equity are recognised in profit or loss in the same period in which the hedged item affects profit or loss on a proportionate basis.

Hedge accounting is discontinued when the hedge relationship is revoked or the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in equity remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

If a hedge transaction is no longer expected to occur, the net cumulative gain or loss deferred in equity is immediately reclassified to profit or loss.

Impairment of financial assets

Financial assets, other than those fair valued through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For available-for-sale investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of a provision account. When a trade receivable is considered uncollectible, it is written off against the provision account.

Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are immediately reclassified to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading valuation reserve.

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability when the obligation specified in the contract is discharged, cancelled or expires.

Put arrangements over non-controlling interests

Written put options on the shares of a subsidiary held by non-controlling interests give rise to a financial liability for the present value of the redemption amount. The liability that may become payable under the arrangement is initially recognised at fair value with a corresponding entry directly in equity. Subsequent changes to the fair value of the liability are recognised in profit and loss.

Cash resources

Cash resources comprise cash on hand and on-demand deposits, together with short-term, highly liquid investments with a maturity of three months or less from the date of acquisition, that are readily convertible to a known amount of cash and that are subject to an insignificant risk of changes in value. Bank overdrafts are shown within current portion of interest-bearing borrowings on the consolidated statement of financial position. Cash and cash equivalents in the consolidated statement of cash flows are reflected net of overdrafts.

1.30 Significant accounting judgements, estimates and assumptions

The preparation of the consolidated annual financial statements requires the Group's management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The determination of estimates requires the exercise of judgement based on various assumptions and other factors such as historical experience, current and expected economic conditions, and, in some cases, actuarial techniques. Actual results could differ from these estimates.

The following accounting policies have been identified as involving particularly complex or subjective decisions or assessments:

Insurance companies

Details of significant accounting judgements and estimates are given in Annexure A.

Residual values and useful lives

The Group depreciates its assets over their estimated useful lives taking into account residual values, which, following the adoption of IAS 16 – *Property, Plant and Equipment*, are reassessed on an annual basis.

The actual lives and residual values of these assets can vary depending on a variety of factors.

Technological innovation, product life cycles and maintenance programmes all impact the useful lives and residual values of the assets. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS – continued
for the year ended 30 June 2014

1. ACCOUNTING POLICIES continued

1.30 Significant accounting judgements, estimates and assumptions continued

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated taxes based on estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductable temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets required the Group to make significant estimates related to expectations of future taxable income.

Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the statement of financial position date could be impacted. Additionally, future changes in tax laws in the jurisdictions in which the Group operates could limit the ability of the Group to obtain tax deductions in future periods.

Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorney, advocates and other advisors in assessing if an obligation is probable, more likely than not, or remote. This judgement application is used to determine whether the obligation is recognised as a liability or disclosed as a contingent liability.

Revenue recognition

Revenue from vehicle maintenance plans is recognised based on an established pattern of when vehicle maintenance services are performed over the period of the plan.

Statement of financial position presentation based on liquidity

Management believes that the presentation of the statement of financial position on a liquidity basis provides information that is reliable and is more relevant compared to a current and non-current presentation.

The nature of the Group's operations is diverse and as such it becomes more difficult to clearly identify a single operating cycle that would be relevant across all business segments. Maturity profiles of some assets and liabilities are provided in the notes to the consolidated annual financial statements.

The following guidance is provided on assets and liabilities where further judgement is required:

Assets

Assets that the Group expects to realise, or intends to sell or consume in its normal operating cycle, would include reinsurance debtors, inventory and trade and other receivables. The operating cycles for these assets are generally not more than 12 months.

Vehicles for hire have an operating cycle of more than 12 months. Vehicles that have reached the end of the useful life as rental assets are shown as inventory.

The Group's investment portfolios are measured by portfolio managers who acquire or dispose of investments in terms of acceptable risk levels and cash requirements of the Group. The timing of the disposals are uncertain and there are no restrictions on the Group to realise investments.

Other loans receivable mature over periods longer than 12 months and include amounts that are receivable within one year from the reporting period.

Cash resources from the financial services operation are restricted by the division's capital structure. Cash resources from other operations are unrestricted.

Liabilities

Liabilities that the Group expects to settle in its normal operating cycle include trade and other payables and provisions. Trade and other payables are normally settled within one year from the reporting period, whereas some amounts of provisions mature over periods longer than 12 months.

Insurance, investment, maintenance and warranty contracts are settled as and when the services are performed. These multi-year policies often only become effective once a defined event has occurred and as such leads to a highly judgemental maturity profile. The maturity of these liabilities can range from one year to more than five years after the reporting period.

Other financial liabilities are payable over longer periods but do consist of amounts that are due within one year from the reporting period.

Discontinued operations and non-current assets classified as held for sale

Management classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

Management classifies a component of the Group as a discontinued operation if it:
- represents a separate major line of business or geographical area of operation;
- is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or
- is a subsidiary acquired exclusively with a view to resale as a discontinued operation.

Other financial assets classified as held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

Once the value of the assets and liabilities and the results of trading of discontinued operations become immaterial they are no longer shown separately and are included in continuing operations.

Provision for doubtful debts

Provision is made for doubtful debts based on management's estimate of the prospect of recovering the debt. Where management has determined that a debt is no longer recoverable, the amount is written off.

Provision against inventory

Inventory is counted at least once a year and any shortages and obsolete stock identified are written off immediately.

An allowance is made for slow-moving and obsolete inventory based on historical trends.

Fair value of financial instruments

Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering the factors specific to the asset or liability.

Asset impairments

The Group periodically evaluates its assets for impairment, including identifiable intangibles, whenever events, such as losses being incurred, or changes in circumstances such as changes in the market, indicate that the carrying amount of the asset may not be recoverable. Our judgements regarding the existence of impairment indicators are based on market conditions and operational performance of the different businesses. Future events could cause management to conclude that impairment indicators exist. In order to assess if there is any impairment, we estimate the future cash flows expected to result from the use of the asset(s) and its eventual disposition. Considerable management judgement is necessary to estimate discounted future cash flows, including appropriate bases for making judgements and estimates.

The calculation of appropriate discount rates (weighted average cost of capital) is a sensitive input into valuations. While every effort is made to make use of independent information and apply consistent methodology, actual circumstances or outcomes could vary significantly from such estimates, including changes in the economic and business environment.

The variances could result in changes in useful lives or impairment. These changes can have either a positive or negative impact on our estimates of impairment and can result in additional charges.

Share-based settlements

Equity-settled share-based payments are measured at fair value at the date of grant. In calculating the expense the Group considers the best estimate of the number of shares that are expected to vest taking into account the achieving of the performance conditions and participants who will forfeit their rights. The final number that will vest may be different.

Retirement benefit obligations

The valuation of the retirement benefit obligations is arrived at using discount rates, projected payment increases, projected salary and other contribution increases and fluctuation rates. The final obligation will depend on length of service and the value of the salary at the time of payment to the participants.