Accounting policies

Accounting policies that relate to specific line items of the statements of financial position and income statements have been disclosed in the relevant notes to the financial statements. Accounting policies not relating to specific line items and accounting policies that relate to more than one line item remain in this section.

BASIS OF PREPARATION

Reporting entity

African Oxygen Limited (Afrox or the Company) is a company domiciled in South Africa. The address of the Company's registered office is 23 Webber Street, Selby, Johannesburg, South Africa. Its parent company is BOC Holdings Limited (registered in the United Kingdom), a wholly owned subsidiary of Linde AG (registered in Germany), which is the ultimate holding company of the Afrox Group. The Group financial statements of Afrox as at 31 December 2016 and for the year ended 31 December 2016 comprise the Company and its subsidiaries (together referred to as the Group or individually as Group entities) and the Group's interest in an associate and a trading trust. The Group is primarily involved in the manufacture and distribution of gases and welding products.

Where reference is made to the Group accounting policies, it should be interpreted as referring to the Company where the context requires, unless otherwise noted.

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the SAICA Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the requirements of the Companies Act of South Africa.

Except for changes explained in accounting policy 9, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied by all the Group entities.

SIGNIFICANT ACCOUNTING POLICIES

1. Basis of preparation

Functional and presentation currency

The Group financial statements and the financial statements of the Company (the financial statements) are presented in South African Rand (Rand), which is the Company's functional and presentation currency. All financial information presented in Rand has been rounded to the nearest million (R'm) except when otherwise indicated.

Basis of measurement

The financial statements are prepared using the historical cost basis except for the following items, which are measured using an alternative basis at each reporting date:

Items	Measurement bases
Retirement benefit assets and liabilities (refer to note 6)	Fair value of plan assets less the present value of the defined benefit obligation
Derivative financial instruments at fair value through profit or loss (refer to note 18)	Fair value
Share-based payment awards (refer to note 32)	Fair value of equity instruments granted. The fair value of the entity instruments granted is estimated using an industry-accepted technique

The financial statements are prepared on the going-concern basis.

2. Basis of consolidation

Business combinations

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. The excess of the cost of acquisition plus the recognised amount of non-controlling interest over the individual net assets acquired, is recognised as goodwill. Any goodwill that arises is tested annually for impairment. Any bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities, and are capitalised to the cost of the investment in subsidiary in separate financial statements. The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognised in profit or loss.

Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for in equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

Non-controlling interests

The Group measures non-controlling interests at acquisition date on a transaction-by-transaction basis either at the non-controlling shareholder's proportionate share of the fair value of the net identifiable assets of the entity acquired, or at its fair value.

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. In the financial statements of the Company, the interests in subsidiaries are measured at cost less impairments. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with those of the Group.

Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity. Any resulting gain or loss is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an equity accounted investee or as an available-for-sale financial asset depending on the level of influence retained.

Interests in equity-accounted investees

The Group's interest in equity-accounted investees comprises an interest in an associate, which is accounted for using the equity method. Associates are entities over which the Group has significant influence, but not control or joint control of the financial and operating policies. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and other comprehensive income of the equity-accounted investee, until the date on which significant influence ceases. In the financial statements of the Company, the interest in the associate is measured at cost less impairments.

Associate accounting policies have been changed where necessary to ensure consistency with the policies adopted by the Group. The reporting dates of the associate are not aligned to the reporting dates of the Group. The Group recognises its share of the net profit or loss of the associate up to the Group's reporting date. If the Group's share of losses of the associated company exceeds the carrying amount the investment is carried at Rnil. Additional losses would only be recognised to the extent that the Group has incurred legal or constructive obligations or has made payments on behalf of the associate.

Transactions eliminated on consolidation

Intra-Group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3. Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group companies at exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the reporting date. Gains and losses arising on these exchange differences are recognised in profit or loss. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated to the functional currency at the exchange rate when the fair value was determined. Non-monetary items that are measured based on historical cost in a foreign currency are not translated.

Translation differences on equities held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on equities classified as available-for-sale financial assets are included in other comprehensive income (except on impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss).

Foreign operations

The financial statements of the Group entities (none of which has the currency of a hyperinflationary economy) whose functional currencies are different to the Group's presentation currency are translated in Rand on consolidation as follows:

- Assets and liabilities, including goodwill and fair value adjustments: At the closing exchange rates for each reporting date presented
- Income and expense items: At the exchange rates at the dates of the transaction
- Equity items: At the exchange rates ruling when they arose.

Foreign currency differences are recognised in other comprehensive income and accumulated in equity in the foreign currency translation reserve, except to the extent that the translation difference is allocated to non-controlling interests. On disposal of a foreign operation, the related amount in equity is reclassified to profit or loss as part of the gain or loss on disposal. When the Group disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, the relevant proportion of the cumulative amount is reattributed to the non-controlling interests. When the group disposes of only part of an associate while retaining significant influence, the relevant proportion of the cumulative amount is reclassified to profit or loss.

SIGNIFICANT ACCOUNTING POLICIES continued

4. Financial assets

Financial assets are recognised as assets when the entity becomes a party to the contract and has a right to receive cash. Financial assets comprise trade and other receivables, receivables from fellow subsidiaries of the holding company, receivables from Group companies (applicable to the Company only), cash and cash equivalents and derivative financial instruments. They are recognised initially at fair value plus transaction costs. However, transaction costs in respect of financial assets classified as at fair value through profit or loss are expensed. Financial assets other than those at fair value through profit or loss are subsequently measured at amortised cost using the effective interest method, less impairment losses.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

The Group classifies its financial assets into the following categories:
- fair value through profit or loss (measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss); and
- loans and other receivables (initial recognition at fair value plus any directly attributable transaction costs. Subsequently measured at amortised cost using the effective interest method, less any impairment losses).

Impairment of financial assets

Impairment losses on these financial assets are established when there is objective evidence that one or more events have had a negative effect on the estimated future cash flows of that asset that can be measured reliably.

The following factors are considered when determining whether there is objective evidence that the asset has been impaired:
- time period of overdue contractual payments or breach of contract;
- significant financial difficulty of the counterparty; and
- high probability of bankruptcy.

A provision matrix is used to calculate the impairment provision for trade receivables. The matrix considers the ageing of trade receivables as well as an appropriate default rate. The default rates applied consider historical default rates over the expected life of the receivables as well as management's expectations and judgements.

The amount of the impairment loss for loans and receivables is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate.

The amount of the impairment loss is recognised in profit or loss. At each reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics (including those tested individually and not impaired). When an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The amount of the impairment loss is recognised in profit or loss. At each reporting period the Group assesses whether there is objective evidence that a financial asset or group of financial assets is impaired. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit characteristics (including those tested individually and not impaired). When an event occurring after the impairment was recognised causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Group currently has a legal enforceable right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Derecognition

Financial assets or parts thereof are derecognised, by removing them from the statement of financial position, when the contractual rights to receive the cash flows have been transferred or have expired, or if substantially all the risks and rewards of ownership have passed. Where substantially all the risks and rewards of ownership have not been transferred or retained, the financial assets are derecognised if they are no longer controlled. However, if control in this situation is retained, the financial assets are recognised only to the extent of the continuing involvement in those assets.

5. Financial liabilities

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred on the date that they are originated. Borrowings are subsequently measured at amortised cost using the effective interest method; any difference between the proceeds (net of transaction costs) and redemption value is recognised over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Other financial liabilities

Financial liabilities are initially measured at fair value plus transaction costs on the date that the Group becomes a party to the contract. Transaction costs in respect of financial liabilities classified at fair value through profit or loss are expensed. Financial liabilities that are not classified as financial liabilities at fair value through profit or loss are measured at amortised cost using the effective interest method. Other financial liabilities comprise trade and other payables, other short-term financial liabilities, payables to fellow subsidiaries of the holding company, payables to Group companies (applicable to the Company only), derivative financial instruments and bank overdrafts.

Derecognition

Financial liabilities are derecognised when the relevant obligation has been discharged, cancelled or has expired.

6. Impairment of non-financial assets

At each reporting date the carrying amount of the Group's non-financial assets, other than inventories and deferred tax assets, are assessed to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount (greater of fair value less costs to sell and value in use) of the asset is estimated in order to determine the extent of the impairment loss, if any.

Where it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit (CGU) to which the asset belongs is estimated. For impairment testing, assets are grouped into the smallest group of assets that generates cash flows from continuing use that is largely independent of the cash flows from other assets or CGUs. Goodwill arising from a business combination are allocated to a CGU or groups of CGUs that are expected to benefit from the synergies of the combination. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected useful lives of the assets.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount is reduced to the higher of its recoverable amount and zero. Impairment losses are recognised in profit or loss. The loss is first allocated to reduce the carrying amount of goodwill and then to the other assets of the CGU on a pro rata basis. Subsequent to the recognition of an impairment loss, the depreciation or amortisation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

If an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but limited to the carrying amount that would have been determined (net of amortisation and depreciation) had no impairment loss been recognised in prior years. A reversal of an impairment loss is recognised in profit or loss.

Goodwill and intangible assets with indefinite useful lives and the CGUs to which these assets have been allocated are tested for impairment annually even if there is no indication of impairment, and whenever there is an indication of impairment, and impaired if necessary. Impairment losses on goodwill are not reversed.

7. Leases

Where the Group is the lessor

When assets are leased under a finance lease the present value of the minimum lease payments is recognised as the receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Finance income is recognised over the term of the lease on the lessor's net investment in the lease, which reflects a constant periodic rate of return.

Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position.

They are depreciated over their expected useful lives on a basis consistent with similar property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term. Contingent rentals are recognised in profit or loss as they are earned.

Where the Group is the lessee

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received by the lessee) are recognised in profit or loss on a straight-line basis over the period of the lease. Contingent rentals are recognised in profit or loss as they are incurred.

SIGNIFICANT ACCOUNTING POLICIES continued

8. Use of estimates and judgements

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that may affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical estimates and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:
Asset useful lives, depreciation and amortisation methods and residual values – Notes 1 and 2
Accounting for arrangements containing a lease – Note 5
Measurement of the post-employment benefit obligations – Note 6
Deferred tax assets – Note 7
Inventory obsolescence allowance – Note 8
Impairment of trade receivables – Note 9
Provisions – Note 15
Measurement of share-based payment transactions – Note 32

9. Application of new standards, amendments to standards and interpretations

In the current year, the Group applied a number of new standards, amendments to standards and interpretations which are effective for an accounting period that begins on or after 1 January 2016.

Annual improvements to IFRS 2010 to 2012 cycle and annual improvements to IFRS 2011 to 2013 cycle

The amendments to IFRS 13 *Fair Value Measurement* clarify that the portfolio exception – whereby entities are exempted from measuring the fair value of a group of financial assets and financial liabilities with offsetting risk positions on a net basis if certain conditions are met – potentially applies to contracts in the scope of IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 9 *Financial Instruments* regardless of whether they meet the definition of a financial asset or financial liability under IAS 32 *Financial Instruments: Presentation*. The IASB clarified that, in issuing IFRS13 and making consequential amendments to IAS 39 and IFRS 9, it did not intend to prevent entities from measuring short-term receivables and payables that have no stated interest rate at their invoiced amounts without discounting, if the effect of not discounting is immaterial. The adoption of these amendments had no effect on the financial statements.

10. Forthcoming changes in accounting policies

A number of new standards and amendments to standards have been issued that are not yet effective for the period ended 31 December 2016 and have not been applied in preparing these financial statements. All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the Group and/or Company).

Standards and interpretations	Details of amendment
Disclosure Initiative **(Amendments to IAS 7)**	The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities. The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.
Recognition of Deferred Tax Assets for Unrealised Losses **(Amendments to IAS 12)**	The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised. Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this. Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income of a specific type. The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Standards and interpretations	Details of amendment
IFRS 15 *Revenue from Contracts with Customers*	This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group is expecting to have an additional performance obligation relating to supply contracts and as a result, a change in timing of revenue recognition is expected. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group. The standard is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted under IFRS.
Clarifying share-based payment accounting (Amendments to IFRS 2)	Currently, there is ambiguity over how a company should account for certain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 *Share-based Payment*. The amendments cover three accounting areas: Measurement of cash-settled share-based payments – The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement. Classification of share-based payments settled net of tax withholdings – The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met. Accounting for a modification of a share-based payment from cash-settled to equity-settled – The amendments clarify the approach that companies are to apply. The new requirements could affect the classification and/or measurement of these arrangements, and potentially the timing and amount of expense recognised for new and outstanding awards. The amendments are effective for annual periods commencing on or after 1 January 2018.
IFRS 9 *Financial Instruments*	On 24 July 2014, the IASB issued the final IFRS 9 *Financial Instruments*, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. This standard is not expected to have a significant impact on the Group regarding the classification and measurement of financial assets and liabilities. The change in the IFRS 9 impairment model from an "incurred loss" model from IAS 39 to an "expected credit loss" model, is expected to change the impairment allowance recognised in the Group. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application. Early adoption is permitted.
IFRS 16 *Leases*	IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer (lessee) and the supplier (lessor). IFRS 16 replaces the previous leases standard, IAS 17 *Leases*, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lessees and lessors. The Group is expecting to recognise significant right-of-use assets and lease liabilities relating to the current properties and vehicle operating leases. In addition, the Group is considering the application of the lease definition to its current arrangements. The Group is currently in the process of performing a more detailed assessment of the impact of this standard on the Group.