3. ADOPTION OF NEW STANDARDS EFFECTIVE

IFRS 16 LEASES

The Group adopted IFRS 16 on 1 October 2019 and elected to apply the modified retrospective approach with the net impact of the first time adoption of IFRS 16 recognised in retained earnings. The Group applied the exception for short term leases (lease term of less than 12 months) and leases of low value (R85 000) assets.

The adoption of the new standard had the most impact on the Group's property operating leases that were capitalised on 1 October 2019 for the first time. The adoption of IFRS 16 resulted in a right-of-use asset of R1.8 billion and a corresponding liability of R2.3 billion with the difference of R281 million adjusted against retained earnings opening balance (see statement of changes in equity), R213 million against lease smoothing liability and R78 million against deferred tax.

There were a limited number of immaterial onerous lease contracts that required adjustment to the right-of-use asset at the date of initial application.

The lessor accounting has remained primarily the same and therefore there was no financial impact on the Group.

The following practical expedients were applied by the Group on adoption of IFRS 16 as follows:

1. No application of IFRS 16 to leases that were previously assessed not to contain a lease;
2. The accounting for operating leases with a remaining lease term of less than 12 months as at 1 October 2019 as short term was not amended;
3. The use of hindsight in determining the lease term where the contract contains options to extend or terminate was not applied; and
4. Lease components were separated from non-lease components and account for each separately.

JUDGEMENTS AND ESTIMATES APPLIED IN IMPLEMENTING IFRS 16

Lease term

The lease term is the non-cancellable period of the lease plus any optional renewal period less any optional early terminations where it is reasonably certain that the options will be exercised. The lease term was determined considering these options, where applicable, and involves judgement to determine whether the options will be exercised on a lease-by-lease basis. The following factors were considered in determining whether it is reasonably certain the options will be exercised, thus whether there is an economic incentive to exercise:

1. The strategic objectives of the business and annual business plans that observes a 5-year cycle;
2. Whether the terms and conditions of the current lease are more favourable than the current market conditions;
3. The proximity of the leased premises to core customers and other business hubs;
4. Specifics for the premises/assets leased and any leasehold improvements, such as workshops or office building, undertaken by the Group optimised to business needs;
5. Costs relating to the termination of the lease;
6. The availability of similar/alternative assets in the market suitable to the business needs; and
7. All relevant facts and circumstances that create an economic incentive for the lessee to exercise, or not to exercise, the option, including any expected changes in facts and circumstances from the commencement date until the exercise date of the option.

Incremental borrowing rate (IBR)

The Group engaged an external service provider to determine the IBRs which were distributed to and used by all divisions except for Barloworld Transport for leases of trucks and trailers as the IBRs could be determined from the contracts. The following judgements and estimates were applied in determining IBRs for Barloworld Transport:

1. The purchase price of the assets is known from the invoice/contract;
2. The lessors specify the residual value of the assets at the end of the lease period;
3. The leases are secured by the asset and there are separate contracts for each truck and trailer;
4. The present value, number of payments and actual payments are specified in the contracts; and
5. The contracts have no option for extensions and no escalations.

The recognised right-of-use assets relate to the following categories of property, plant and equipment:

R million	2020	2019
Land and buildings	**1 324**	1 295
Equipment, IT and plant	**7**	11
Vehicles	**280**	424
Total right-of-use assets	**1 611**	1 730

The impact of first time adoption of IFRS 16 for the 12 month ended 30 September is as follows:

	Right-of-use asset	Right-of-use liabilities	Deferred tax	Retained earnings	Lease smoothing liability
Capitalisation of operating leases on 1 October 2019	1 730	2 302	78	281	213
Additions	286				
Impairment losses	(37)				
Lease liabilities raised		295			
Lease liabilities repaid		(342)			
Depreciation	(402)				
Lease modifications		(10)			
Reclassifications and lease retirements	8	67			
Foreign currency exchange movements	26	16			
Balance as at 30 September 2020	**1 611**	**2 328**			
Current		**351**			
Non-current		**1 978**			

Reconciliation of operating lease commitments disclosed as at 30 September 2019 to the right-of-use liabilities recognised as at 1 October 2019:

R million	Total	Held for sale	1 October 2019
Operating lease commitments on 30 September 2019	3 273	43	3 230
Impact of discounting lease payments*	(1 082)	(21)	(1 061)
Renewals/new leases not included in lease commitments	882	12	870
Short-term leases included in lease commitments	(779)	(1)	(778)
Forex impact	8		8
Right-of-use liability at 1 October 2019	2 302	33	2 269
Current	285	5	280
Non-current	2 017	28	1 989

* The weighted average incremental borrowing rate used to measure the right-of-use liabilities on 1 October 2019 was 14.89%.

New standards and amendments to existing standards issued but not yet effective as at 30 September 2020 are not expected to have a material impact on the Group's financial statements when they become effective.