

## ACCOUNTING POLICIES

for the year ended 31 March

### BASIS OF PRESENTATION

The financial statements of the group are prepared in accordance with International Financial Reporting Standards (IFRS), on the going concern principle, and using its historical cost basis, except where otherwise indicated.

### ACCOUNTING POLICIES

The accounting policies are consistent with those applied in the previous year.

### PRINCIPLES OF CONSOLIDATION

- **Business combinations**

Business combinations are accounted for in accordance with the underlying nature of the combination. Acquisitions are accounted for using purchase accounting. Where an investment in a subsidiary or associated company is acquired or disposed of during the financial year, its results are included from, or to, the date control became, or ceased to be, effective. Mergers which took place before 31 March 2004, the effective date of IFRS 3 "Business Combinations" were accounted for using the uniting of interests method.

- **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the company and entities controlled by the company (its subsidiaries) up to 31 March each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (ie discount on acquisition) is credited to profit and loss in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Subsequently, any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the group. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

- **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of its subsidiaries, associates, joint ventures or intangibles at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries, associates or joint ventures and intangibles, which were not part of the merger in 1998, and is disclosed as such.

The carrying amount of goodwill is reviewed annually and written down for impairment where considered necessary.

- **Associated companies**

Associates are those enterprises in which the group holds a long-term equity interest and over which it has the ability to exercise significant influence, but not control, and which are neither subsidiaries, nor joint ventures. Investments in private equity associates are referred to under "Private equity investments" on pages 93 and 94.

Equity accounted income, which is included in the carrying values of the associates, represents the group's proportionate share of the associates' profit after tax, after accounting for dividends payable by those associates.

- **Joint ventures**

A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity which is subject to joint control. Equity accounted income, which is included in the carrying values of joint ventures, represents the group's proportionate share of the joint ventures' profit before tax, after accounting for dividends payable by the joint ventures.

### TRANSLATION OF FINANCIAL STATEMENTS OF FOREIGN ENTITIES INTO THE PRESENTATION CURRENCY

Assets and liabilities of foreign entities are translated into the group's presentation currency, US dollar, at year-end exchange rates. The presentation currency is in accordance with the functional currency of Brait S.A..

Capital and reserves are translated at historical rates. Income statement items are translated at the average exchange rates for the year.

Translation differences arising from the translation of foreign operations are taken directly to reserves. On disposal of foreign operations, such translation differences are recognised in the income statement as part of the gain or loss on disposal.

### FOREIGN CURRENCY ASSETS AND LIABILITIES

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency, are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currency are translated at rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currency are retranslated at the rates prevailing when the fair value was determined. Non-monetary items that are measured in terms of historical costs in a foreign currency are not translated at the current rate.

## **TAXATION**

Income tax on the profit and loss for the year comprises current and deferred tax. Current income tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustments to tax payable in respect of previous years.

Deferred tax is provided for on the comprehensive basis, using the balance sheet liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates enacted at the balance sheet date.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

## **PROPERTY AND EQUIPMENT**

Property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is provided on historical cost, using the straight-line basis at rates considered appropriate to write the assets down to their expected residual value over their estimated useful lives (refer note 10). Land is not depreciated.

## **NON-CURRENT ASSETS HELD FOR SALE**

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

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset 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.

## **FINANCIAL INSTRUMENTS**

Financial instruments refer to all assets and liabilities, including derivative instruments, but exclude investments in subsidiaries, associated companies and joint ventures, property and equipment, deferred taxation, taxation payable, intangible assets and goodwill.

Financial assets are initially recorded at cost and are remeasured to fair value at subsequent reporting dates on the group's balance sheet when the group has become a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or the asset is transferred.

- **Listed investments**

Listed investments are carried at their fair values, using quoted prices at year-end. Where an active market does not exist for the quoted investment, estimation techniques are used to determine fair value. Changes in fair value are reflected in the income statement under "other income".

- **Private equity investments**

Private equity investments, which include listed and unlisted co-investments and capital participations in Brait's managed funds, as well as proprietary investments, are valued at their estimated fair value as determined by the board at the reporting date. The resultant increase or decrease in fair value is recognised as other income in the income statement.

The fair value measurement of unrealised capital participations takes into consideration the attrition effect of the preferred return on the future value of the capital participation. This adjustment is measured by discounting the future fair value of the capital participation, at Brait's cost of equity, for the remaining anticipated life of the fund.

In valuing investments, the directors follow the principles recommended in the International Private Equity and Venture Capital Valuation Guidelines. In cases where fair value cannot be reliably measured, existing book value, less any impairment, is used as the basis of valuation.

Fair value represents the amount for which an asset could be exchanged between knowledgeable, willing parties at an arm's length transaction. In estimating fair value, the directors use a methodology which is appropriate in light of the nature, facts and circumstances of the investment. Due to the inherent uncertainties in estimating the value of private equity investments, the directors exercise due caution in applying the various methodologies.

The principal methodologies applied in valuing unlisted investments include the following:

- Earnings multiple;
- Price of recent investment;
- Net assets;
- Discounted cash flow or earnings (of the underlying business);
- Discounted cash flow (from the investment);
- Industry valuation benchmarks; and
- Available market prices.

In applying the earnings multiple methodology, the directors apply a market-based multiple that is appropriate and reasonable to the maintainable earnings of the company.

## ACCOUNTING POLICIES CONTINUED

### FINANCIAL INSTRUMENTS (CONTINUED)

Where a recent investment has been made, this price will be used as the estimate of fair value. An alternative methodology may be used at any time if this is deemed to provide a better assessment of the fair value of the investment.

- **Specialised funds investments**

These investments represent the group's share in various specialised funds and are measured at fair value. The underlying investments of these funds comprise cash and various listed equity, bond and derivative investments. Fair values of the various funds are determined using quoted market prices of the underlying investments of these funds at year-end. Changes in fair value are reflected in the income statement under "other income".

- **Trading investments**

Investments held for trading, which includes unlisted investments, are valued at their estimated fair value as determined by the board at the reporting date. The resultant increase or decrease in fair value is recognised in the income statement.

- **Securities**

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments, other than held-to-maturity debt securities, are classified as either held for trading or available for sale investments, and are measured at subsequent reporting dates at fair value, based on quoted market prices at the balance sheet date. Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the year.

Where securities are classified as available for sale investments, unrealised gains or losses are included in equity until such time as the security is disposed of. On disposal, the amount carried in equity is recognised in the income statement.

Where there is no formal market, insufficient liquidity in the security, or there is a restriction on the right of sale, the fair value reflects directors' valuation.

- **Loans and advances**

Loans and advances are stated at amortised cost using the effective interest rate method net of impairment provisions. Impairment provisions are made against specifically identified doubtful loans and advances.

- **Account receivables**

Trade receivables are stated at their nominal value, as reduced by appropriate allowances for estimated irrecoverable amounts.

- **Cash and cash equivalents**

For the purposes of the cash flow statement, cash and cash equivalents comprise cash and balances with banks, and short-term cash deposited with the Brait Absolute Fund.

- **Derivative financial instruments**

Derivative financial instruments are initially recorded at cost and are remeasured to fair value at subsequent reporting dates.

Changes in the fair value of derivative financial instruments that are designated and effective as cash flow hedges are recognised directly in equity.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

Financial liabilities are initially recognised at cost and are re-measured to fair value at subsequent reporting dates on the group's balance sheet when the group has become a party to the contractual provisions of the instrument. Financial liabilities are de-recognised when the obligation specific in the contract is discharged, cancelled or expires.

- **Provisions**

Provisions are recognised when the group has a present, obligation as a result of a past event, which it is probable will result in an outflow of economic benefits that can be reasonably estimated.

- **Trade payables**

Trade payables are stated at their nominal value.

- **Liabilities held for trading**

Liabilities held for trading are stated at fair value at the reporting date. The resultant increase or decrease in value is recognised in the income statement.

- **Borrowings**

Interest-bearing bank loans, overdrafts and other borrowings are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. All borrowing costs are expensed in the period in which they are incurred.

#### **OFF-SETTING**

Financial assets and liabilities are off-set and the net amount reported in the balance sheet when there is a legally enforceable right to off-set the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### **REVENUE AND INCOME RECOGNITION**

Fee income is recognised, net of value added tax, once all significant acts relating to services have been executed and the client has been invoiced.

Interest income is recognised on a basis that reflects the effective yield on the underlying instruments.

With the exception of preference share investments, dividends are brought into account as at the last date of registration in respect of listed shares and when declared in respect of unlisted shares. Where dividends on preference shares are calculated with reference to time and the ultimate receipt is beyond doubt, dividends are accrued on a daily basis.

Realised and unrealised gains and losses on trading investments are recognised in other income.

Realised and unrealised gains and losses arising from fair value adjustments to private equity and specialised funds investments are recognised in other income.

#### **BORROWING COSTS**

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

#### **TREASURY SHARES**

Shares purchased by subsidiary companies of Brait S.A. are treated as treasury shares and held at cost. In the group financial statements, the cost of treasury shares is deducted from share capital. Dividends received on treasury shares are eliminated on consolidation.

#### **SHARE-BASED PAYMENTS**

The group has applied the requirements of IFRS 2 "Share-based Payments". In accordance with the transitional provisions, IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested as of 1 January 2005.

The group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value at the date of the grant. 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 shares that will eventually vest.

Fair value is measured by use of a binomial and three-dimensional binomial tree pricing model or the Black Scholes model where applicable. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

#### **RELATED-PARTY TRANSACTIONS**

All related-party transactions are, unless otherwise disclosed, at arm's length and in the normal course of business.

#### **RETIREMENT BENEFIT COSTS**

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

#### **COMPARATIVE FIGURES**

Where necessary, comparative figures have been restated to conform with changes in presentation in the current year (refer note 40).