

08 TAXATION

8.1 Accounting policies relating to taxation

Income tax expense

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

The current tax payable or receivable is based on taxable profit for the year. Taxable profit or loss differs from profit/loss as reported in the statement of comprehensive income as it excludes items of income or expense that are taxable or deductible in other years in determination of taxable profit or loss (temporary differences), and it further excludes items that are never taxable or deductible (non-temporary differences). The group's liability for tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date.

Deferred tax

Deferred tax is provided using the balance sheet method on all temporary differences between the carrying amounts for financial reporting purposes and the amounts used for tax purposes.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using tax rates that have been enacted at the reporting date. The effect on deferred tax of any changes in taxation rates is charged to the statement of comprehensive income, except to the extent that it relates to items previously charged directly to equity.

Deferred tax assets and liabilities are off set when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the group intends and has the ability to settle its current tax assets and liabilities on a net basis.

8.2 Income tax expense/(benefit)

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
For the year ended 31 December				
Charge to income				
<i>South African normal tax</i>				
Current	97	119		
– Current year	84	104		
– Prior year	13	15		
Deferred	589	497	(86)	(132)
– Current year	662	592	(86)	(80)
– Prior year	(73)	(95)		(52)
<i>Foreign normal tax</i>				
Current	(41)	65		
– Current year	23	77		
– Prior year	(64)	(12)		
Deferred	(635)	(37)		
– Current year	(636)	(38)		
– Prior year	1	1		
Dividend withholding tax	3	1		
Total charge/(benefit) to statement of comprehensive income (continuing operations)	13	645	(86)	(132)

TAXATION (continued)

8.3 Reconciliation of tax rates

	Group		Company	
	2014 %	2013 %	2014 %	2013 %
For the year ended 31 December				
Tax as percentage of profit before tax	(1,5)	9,4	5,9	(4,5)
Tax effect of:				
– Tax losses for which no deferred tax was recognised		(0,3)		
– Capital losses	1,1	0,1		0,1
– Expenses not deductible for tax purposes ¹	10,9	(2,9)	2,9	0,3
– Exempt income (not subject to tax)	0,1	0,3		0,4
– Special tax allowances	(0,4)			
– Post-tax equity-accounted investment income ²	(79,3)	14,6	(75,8)	29,9
– Disposal of investments and other non-core assets ³		7,8		0,9
– Remeasurements of foreign tax rate differences ⁴	(4,0)	0,5		
– Prior year tax adjustments ⁵	(14,4)	1,3		1,7
– Deferred tax assets not recognised ⁶	9,7	(0,9)		
– Reinstatement of deferred tax asset		0,4		
– Impairment of assets/investments ⁷	119,9	(2,3)	95,0	(0,6)
– Exchange differences on translations ⁸	(11,0)			
– Dividend withholding tax	0,3			
– Write-down of subsidiaries' loans				(0,2)
– Foreign tax credits and refunds ⁹	(3,4)			
Standard tax rate	28,0	28,0	28,0	28,0
Effective tax rate for operations, excluding income from equity-accounted investments, impairment charge and share of tax thereon	0,5	19,8		

1 Non-deductible legal and consulting fees have doubled from the prior year inter alia due to prefeasibility studies for new coal projects, the acquisition of Total Coal South Africa Proprietary Limited (TCSA) transaction and the sale of NCC. Also included in the prior year was an amount of R1,2 billion that related to the realisation of foreign currency translation differences as a result of the tax migration of Exxaro International BV to SA.

2 Post-tax equity-accounted investment income and dividend income (majority from SIOC) has reduced by approximately 32% in the current year.

3 There were no significant disposals of investments or other non-allowance assets during the current year. In the prior year Exxaro Base Metals was sold to Lebonix Proprietary Limited.

4 The differences in tax rates did not change significantly from the prior year, however due to the significant change in profit or loss before tax from the prior year, the effect it has on the tax rate is greater.

5 Prior year adjustments to tax as a result of differences between income tax returns submitted and tax accruals made in the prior year. Although the amounts were not significant, the effect it has on the tax rate is greater due to the significant reduction in profit or loss before tax.

6 Related to capital development expenditure.

7 The majority of the impairments relate to the Mayoko iron ore project.

8 Deferred tax was not recognised in the current year on foreign translation differences.

9 The majority relates to an 80% credit received on tax by Mayoko Investment Company in Mauritius.

The discontinued operations in 2013 had an income tax expense of Rnil. There were no discontinued operations in the current year.

8.4 Deferred tax

At 31 December	Group		Company ¹	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
The movements on the deferred tax account are as follows:				
At beginning of year	3 115	2 325	(303)	(235)
Statement of comprehensive income charge	(71)	460	(86)	(132)
– Current	26	554	(86)	(80)
– Prior	(72)	(94)		(52)
– Deferred tax relating to non-current assets held-for-sale	(25)			
Exchange rate differences on translation	36			
Items charged directly to equity				
– Share-based payments movement ²	35	100	24	64
Items charged directly to other comprehensive income	78	142		
– Revaluation of available-for-sale investments	78	28		
– Unrealised exchange differences on foreign operations		114		
Net reclassification to non-current assets held-for-sale		90		
Other		(2)		
At end of year	3 193	3 115	(365)	(303)
– Deferred tax asset as per statement of financial position	(539)	(366)	(365)	(303)
– Deferred tax liability as per statement of financial position	3 732	3 481		

¹ The deferred tax asset recognised for the company is supported by sufficient forecasted profits to be utilised. The forecasted profits are based on agreements in place with commodity businesses within Exxaro and other external parties.

² In the prior year deferred tax movements on share-based payments were incorrectly reflected in other comprehensive income, but were correctly charged directly to equity.

TAXATION (continued)

8.4 Deferred tax (continued)

Comprising the following items

Group	At 31 December 2013	Movements during the year				At 31 December 2014		
	Total Rm	Recognised in profit or loss Rm	Exchange rate difference on translation Rm	Recognised in other comprehensive income Rm	Recognised directly in equity Rm	Assets Rm	Liabilities Rm	Total Rm
Property, plant and equipment	2 988	690				61	3 617	3 678
Share-based payments	(114)	40			35	(30)	(9)	(39)
Other accruals and provisions	(158)	213				168	(113)	55
Bad debt reassessment	(6)					(6)		(6)
Restoration provisions	(262)	(202)				(198)	(266)	(464)
Decommissioning provision	(35)	(85)				(54)	(66)	(120)
Leave pay accrual	(48)	2				(26)	(20)	(46)
Retention payables		(68)				(1)	(67)	(68)
Prepayments	17	9				8	18	26
Environmental Rehabilitation Fund	159	63				84	138	222
Income received in advance	(6)	3				(3)		(3)
Inventories	(5)	34				(1)	30	29
Unrealised foreign currency gains/(losses)	100	(171)	36			(107)	72	(35)
Finance lease receivable	24						24	24
Local tax losses carried forward	(257)	(24)				(276)	(5)	(281)
Foreign tax losses carried forward	(53)	(32)				(85)		(85)
Financial instruments	27			78		65	40	105
Borrowing costs capitalised	187	91				(66)	344	278
Derecognition of deferred tax assets	43	(108)				(72)	7	(65)
Mineral resource	514	(526)					(12)	(12)
Total	3 115	(71)	36	78	35	(539)	3 732	3 193

Company	Movements during the year			
	At 31 December 2013 Rm	Recognised in profit or loss Rm	Recognised directly in equity Rm	At 31 December 2014 Rm
Property, plant and equipment	26	(56)		(30)
Share-based payments	(80)	30	24	(26)
Other accruals and provisions	(41)	(3)		(44)
Restoration provision	(8)			(8)
Leave pay accrual	(11)	2		(9)
Environmental Rehabilitation Fund	6			6
Unrealised foreign currency gains/(losses)	1	(2)		(1)
Assessed losses	(196)	(57)		(253)
Total	(303)	(86)	24	(365)

Calculated tax losses

	Group		Company	
	2014 Rm	2013 Rm	2014 Rm	2013 Rm
At 31 December				
Tax losses available for set-off against future taxable income on which deferred tax was raised				
– Local	1 004	918	904	700
– Foreign	304	189		
Tax losses on which no deferred tax assets were raised	363	219		
All recognised deferred tax asset balances are supported by the future taxable profits against which they can be utilised.				

8.5 Notes to the statements of cash flows relating to taxation

Normal tax paid

Amounts (unpaid)/receivable at beginning of year	(49)	18		
Amounts receivable at beginning of year:				
non-current assets held-for-sale	24			
Amounts charged to the statement of comprehensive income	(56)	(184)		
Arising on translation of foreign operations	3	(17)		
Reclassification to non-current assets/(liabilities) held-for-sale	9	(24)		
Amounts (receivable)/unpaid at end of year	(51)	49		
Normal tax paid	(120)	(158)		

8.6 Tax effect of other comprehensive income

	2014			2013		
	Before tax Rm	Tax Rm	Net of tax Rm	Before tax Rm	Tax Rm	Net of tax Rm
At 31 December						
Group						
Unrealised exchange differences on translating foreign operations	224		224	648	(114)	534
Share of comprehensive income of equity-accounted investments	570	51	621	2 103	(100)	2 003
Revaluation of available-for-sale financial assets	423	(78)	345	128	(28)	100
Non-controlling interests' share of other comprehensive income				3		3
Total	1 217	(27)	1 190	2 882	(242)	2 640