09

NON-RECURRING EVENTS

9.1 ACCOUNTING POLICIES RELATING TO NON-RECURRING EVENTS

Impairment of non-current assets

The carrying amounts of assets are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount is estimated as the higher of the fair value less costs of disposal and the value in use.

For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the CGU to which the asset belongs. An impairment loss is recognised whenever the carrying amount of the CGU exceeds its recoverable amount.

A previously recognised impairment loss is reversed (or partially reversed) if there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined (net of depreciation and amortisation) had no impairment loss been recognised in prior years. For goodwill, a recognised impairment loss is not reversed.

Non-current assets and liabilities held-for-sale

If the carrying amount of non-current assets and liabilities (or a disposal group) will be recovered principally through a sale transaction rather than through continuing use, such assets and liabilities are classified as non-current assets and liabilities held-for-sale and are measured at the lower of carrying amount and fair value less costs of disposal. This condition is regarded as met only when the sale is highly probable and the assets and liabilities (or a disposal group) are available for immediate sale in their 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.

Business combinations

The group uses the acquisition method of accounting for business combinations when control is transferred to the group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair value at the acquisition date. The group recognises any non-controlling interest in the acquired subsidiary on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability are recognised in accordance with IAS 39 *Financial Instruments: Recognition and Measurement* either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The group measures goodwill (refer note 11.3.1.1) at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interest in the acquired entity; plus
- If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquired entity; less
- The net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess of the fair value over the consideration paid is negative, a bargain purchase gain is recognised immediately in profit or loss.

Business combinations involving entities under common control

A business combination involving entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

The group applies the predecessor accounting method when accounting for common control transactions, whereby the assets and liabilities of the combining entities are not adjusted to fair value but are rather transferred at their carrying amounts at the date of the transaction. Any difference between the consideration paid/transferred and the net asset value 'acquired' is recognised in a separate reserve. No new goodwill is recognised as a result of the common control transaction. The statement of financial position and statement of comprehensive income is adjusted from the date of the transaction.

9.2 IMPAIRMENT CHARGES OF NON-CURRENT ASSETS

For the year ended 31 December	Notes	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
ECC					
Impairment charges, net of tax		1 524		797	
– Goodwill	11.3.2	1 524			
– Impairment of subsidiaries[1]				797	
Reductants operation					
Impairment charges, net of tax		162			
– Property, plant and equipment	11.1.2	225			
– Tax effect		(63)			
Mayoko iron ore project					
Impairment charges, net of tax			5 208		4 922
– Property, plant and equipment	11.1.2		4 740		
– Goodwill	11.3.2		1 020		
– Impairment of subsidiaries					4 922
– Tax effect			(552)		
Intellectual property					
Impairment charges, net of tax			202		202
– Intangible asset			202		202
Net impairment charges per statement of comprehensive income		1 749	5 962	797	5 124
Net tax effect		(63)	(552)		
Net effect on attributable earnings		1 686	5 410	797	5 124

[1] *On 31 December 2015, an impairment assessment was performed by comparing the carrying amount of the investment in ECC to the net asset value of the ECC operations in which the investment was held. As a result, an impairment of R797 million was recognised.*

9.2.1 ECC

Exxaro acquired TCSA on 20 August 2015 and renamed it ECC. The PPA was completed and goodwill of R1 524 million was recognised at acquisition. Refer note 9.5 and note 11.3 regarding detail of the business combination and goodwill recognised. The goodwill was as a result of the purchase price being in excess of the net identifiable assets and assumed liabilities.

ECC forms part of the coal commercial operating segment for chief operating decision-maker reporting purposes. The goodwill recognised was allocated to ECC, with all its business units and legal entities, for group reporting purposes. Upon finalisation of the PPA, the goodwill was assessed for impairment as required by IAS 36 *Impairment of Assets* on 31 December 2015.

The recoverable amount of ECC, being the fair value less costs of disposal (Level 3 as per IFRS 13 *Fair value Measurements*), marginally exceeds the carrying amount (excluding goodwill) of R1 087 million and therefore the full amount of goodwill was impaired. The carrying amount of the remaining assets is fully supported by the recoverable amount.

This recoverable amount derived using a discounted cash flow method where the net cash flows taking into account the capital, working capital, operating costs and tax against the revenue generated from sales are discounted over the LOM of the Dorstfontein East and West operations, Forzando North and South operations as well as Tumelo operation. The financial model was performed in nominal terms in South African rand.

Key assumptions made in the valuation included the following (all in real terms):

- Costs of disposal was assumed to be 2% of the fair value of each business unit
- Coal API4 selling price: range US$44,07/tonne and US$70,00/tonne
- Discount factor on API4 was applied for the specific coal quality: 20%
- Coal domestic selling price: range R789/tonne and R796/tonne
- Post-tax discount rate: 13%
- Corporate tax rate: 28%
- R/US$ exchange rate: range R15,50 and R16,58
- RSA production price index: range 6,00% and 5,50%
- LOM: range five years and 23 years.

9.2 IMPAIRMENT CHARGES OF NON-CURRENT ASSETS (CONTINUED)

The values assigned to the key assumptions represented management's best estimates of LOM, operating conditions projections and pricing forecasts. The coal price ranges were based on the current industry trends and analysis. The discount rate was based on a post-tax weighted average cost of capital.

9.2.2 Reductants operation

The char plant was commissioned in 2009 and had its first year of full production in 2011. The plant was selling semi-coke to five major customers until September 2015 when the FeCr market started to experience difficulties after the demise of steel and stainless steel markets globally. Three of the five customers were put into business rescue and the remaining two customers turned off their furnaces. There is no commercially viable demand for the semi-coke or char products in the current market.

The weakness in the FeCr industry and lack of demand resulted in the char plant's four retorts being placed on care and maintenance. This impairment indicator (according to IFRS) resulted in an impairment assessment being performed at 31 December 2015.

The decline in demand, lower FeCr prices and rising production costs have drastically impacted local producers, coupled with continued declining imported semi-coke and cheaper market coke prices which has resulted in producers increasing market coke usage and further reducing semi-coke demand. There are no foreseeable sales contracts that will be acquired in 2016. The char plant was fully impaired (R225 million) based on the cessation of production.

9.2.3 Mayoko iron ore project

The Mayoko iron ore project was acquired in 2012 when Exxaro acquired AKI. The project is reported within the iron ore operating segment which forms part of the ferrous reportable operating segment.

The concept study on the revised 12 million tonnes Mayoko iron ore project was concluded in June 2014. As a result of the delays in the rail and port agreements as well as higher future project development costs following the outcome of the concept study, a pre-tax impairment loss of R5 803 million (R5 760 million excluding financial assets and trade and other receivables written down), was raised on 30 June 2014 consisting of an impairment of goodwill acquired in the business combination with AKI in 2012 of R1 020 million, impairment of property, plant and equipment of R4 740 million as well as financial assets amounting to R43 million written down in terms of IAS 39 *Financial instruments: Recognition and Measurement*.

9.2.4 Other impairment considerations

Impairment indicators, including declining commodity prices, share prices and increased cost pressures, resulted in impairment assessments being performed for the operations and other investments within the Exxaro group on 31 December 2015. Other than the impairments discussed above, recoverable amount exceeded the carrying value of the respective assets.

Sensitivity analysis

Tronox

If all assumptions remain unchanged, a 2,3% decrease in the pigment prices will result in the recoverable amount being equivalent to the carrying value of the investment or, a 9,2% increase in the discount rate will result in the recoverable amount being equivalent to the carrying value of the investment.

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If all assumptions remain unchanged, a 12,1% decrease in the iron ore prices will result in the recoverable amount being equivalent to the carrying value of the investment or, a 14,4% decrease in the rand/US$ exchange rate will result in the recoverable amount being equivalent to the carrying value of the investment.

9.3 GAIN/(LOSS) ON THE DISPOSAL OF OPERATION/SUBSIDIARY

For the year ended 31 December 2015	NCC operation Rm	Total Rm
Group		
Profit on the disposal of operation		
Consideration received or receivable:		
Cash	70	70
Total disposal consideration	70	70
Carrying amount of net liabilities sold	42	42
– Property, plant and equipment	(149)	(149)
– Inventories	(7)	(7)
– Provisions	197	197
– Trade and other payables	1	1
Gain on disposal	112	112
Net tax effect	(31)	(31)

For the year ended 31 December 2014	Exxaro Coal Botswana Proprietary Limited Rm	Total Rm
Group		
Loss on the disposal of subsidiary		
Consideration received or receivable:		
Cash[1]		
Total disposal consideration		
Carrying amount of net asset value sold	(28)	(28)
– Property, plant and equipment	(1)	(1)
– Trade and other receivables	(1)	(1)
– Cash and cash equivalents	(2)	(2)
– Non-controlling interest	(27)	(27)
– Foreign currency translation reserve	(17)	(17)
– Provisions	20	20
Loss on disposal[2]	(28)	(28)

[1] *The company was sold for 1 pula.*
[2] *After tax of nil.*

9.4 NON-CURRENT ASSETS AND LIABILITIES HELD-FOR-SALE

EMJV

Exxaro concluded the purchase of ECC in 2015 (refer note 9.5), and as part of this acquisition Exxaro acquired non-current liabilities held-for-sale relating to the EMJV (classified as a joint operation). The sale of the EMJV is conditional on section 11 approval required in terms of the MPRDA for transfer of the new-order mining right to the new owners, Scinta, as well as section 43(2) approval for the transfer of environmental liabilities and responsibilities. The EMJV remains a non-current liability held-for-sale for the Exxaro group.

The EMJV does not meet the criteria to be classified as a discontinued operation since it does not represent a separate major line of business, nor does it represent a major geographical area of operation.

Other

Exxaro concluded a sale of asset agreement relating to the land and buildings situated at the corporate centre in Pretoria, with Africorp International Properties Proprietary Limited (Africorp) in November 2015. The sale is conditional to Africorp providing a guarantee issued by a financial institution. The land and buildings situated at corporate centre were classified as a non-current asset held-for-sale on 31 December 2015.

NCC

Exxaro concluded a sale of asset agreement of the NCC operation with Universal Coal Development VIII Proprietary Limited (Universal) in January 2014. The sale was conditional on section 11 approval required in terms of the MPRDA for transfer of the new-order mining right from Exxaro Coal Mpumalanga Proprietary Limited to the new owners. On 31 December 2014, conditions precedent to the sale agreement with Universal had not been met. On 31 July 2015 all conditions precedent to the NCC sale of asset agreement were met and the sale became effective. The NCC operation did not meet the criteria to be classified as a discontinued operation since it did not represent a separate major line of business, nor did it represent a major geographical area of operation and is reported as part of the coal commercial operating segment.

9.4 NON-CURRENT ASSETS AND LIABILITIES HELD-FOR-SALE (CONTINUED)

The major classes of non-current assets and liabilities held-for-sale are as follows:

At 31 December	Group 2015 Rm	Group 2014 Rm	Company 2015 Rm	Company 2014 Rm
Assets				
Property, plant and equipment	128	174	81	
Deferred tax		65		
Financial assets		73		
Inventories		8		
Trade and other receivables		8		
– Trade receivables		3		
– Non-financial instrument receivables		5		
Total assets	128	328	81	
Liabilities				
Non-current provisions	(1 027)	(158)		
Post-retirement employee obligations	(17)	(4)		
Trade and other payables		(21)		
– Trade payables		(11)		
– Other payables		(3)		
– Non-financial instrument payables		(7)		
Current provisions		(40)		
Tax payable		(9)		
Total liabilities	(1 044)	(232)		
Net (liabilities)/assets held-for-sale	(916)	96	81	

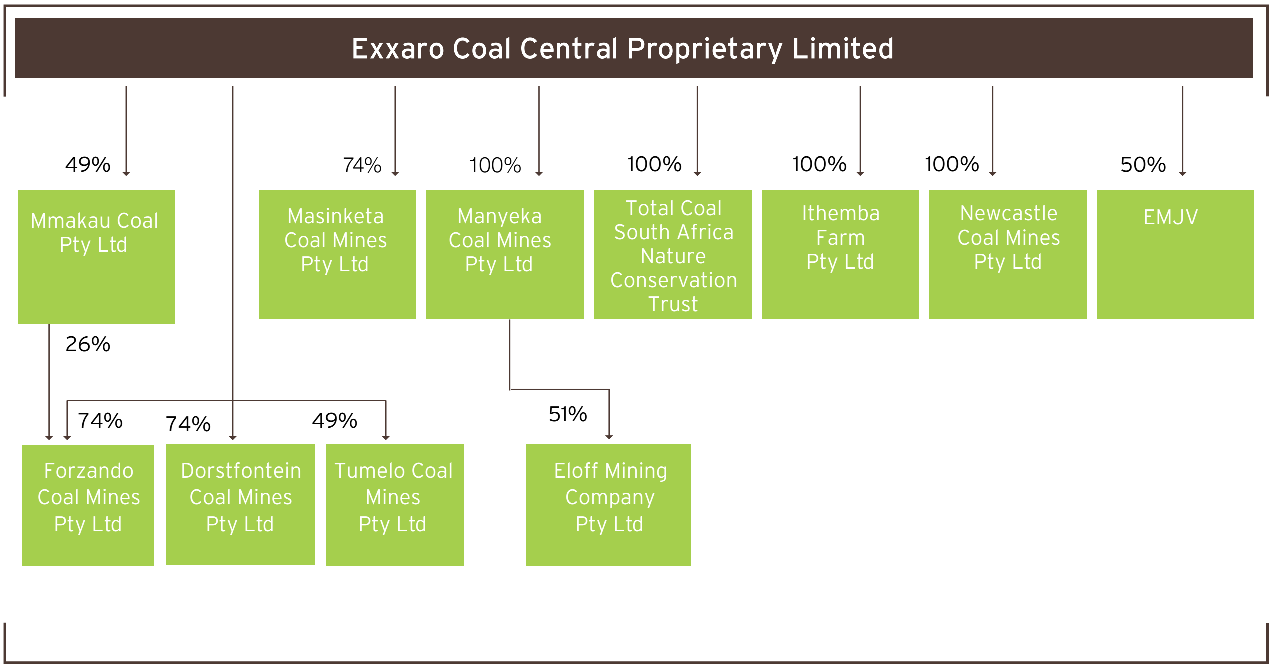
9.5 BUSINESS COMBINATION

On 20 August 2015, the group acquired a 100% controlling interest, of the share capital of TCSA for a cash amount of US$262 million (R3 381 million) from Total S.A. plus a maximum additional amount of US$120 million structured in a series of deferred payments linked to the performance of the API4 price between 2015 and 2019 (contingent consideration). The acquisition was classified as an acquisition of a business, in accordance with IFRS 3 *Business Combinations*.

TCSA was renamed ECC on 20 August 2015, which forms part of the coal commercial operating segment for purposes of reporting to the chief operating decision-maker. ECC is a large-scale South African business which has a majority interest in two mining complexes, DCM and Forzando, located in the Witbank coal basin in the Mpumalanga province. The majority of ECC's production is export coal which is shipped via RBCT to international markets, mainly India and China. ECC also sells some of its production into the South African domestic market.

The business combination increases the scale of the group's coal portfolio and further entrenches Exxaro as one of the premier coal producers in South Africa. The transaction compliments Exxaro's strategic imperative to focus on coal businesses.

The ECC group is shown in the organogram below:



The following table summarises the consideration paid for the ECC group, the fair value of the assets acquired, liabilities assumed and the non-controlling interests at the acquisition date:

	Group
At 31 December	**2015 Rm**
Consideration	
Cash	3 381
Contingent consideration	33
Consideration	3 414
Less: indemnification asset	(1 044)
Total consideration	2 370
Recognised amounts of identifiable assets acquired and liabilities assumed	
– Property, plant and equipment	1 064
– Intangible assets	2
– Investment in RBCT	1 133
– Deferred tax assets	42
– Financial assets	211
– Inventories	133
– Trade and other receivables	235
– Current tax receivable	25
– Cash and cash equivalents	31
– Current outside shareholder loans	(21)
– Non-current provisions	(878)
– Deferred tax liabilities	(507)
– Trade and other payables	(248)
– Current tax payable	(4)
– Contingent liability	(13)
– Overdraft	(86)
– Non-current liabilities held-for-sale	(1 044)
Net identifiable assets acquired	75
Add: non-controlling interests	771
Add: goodwill	1 524
Net assets acquired	2 370
Purchase consideration – cash flow	
Subsidiary acquired, net of cash:	
Cash consideration	3 381
Add: overdraft acquired	55
– Bank	(31)
– Overdraft	86
Net cash outflow investing activities	3 436

9.5 BUSINESS COMBINATION (CONTINUED)

Goodwill

The goodwill of R1 524 million arising from the business combination was a result of the purchase price being in excess of the net identifiable assets (including mineral properties, RBCT investments and other assets) and assumed liabilities. The goodwill is not deductible for tax purposes. This goodwill was recognised as part of intangible assets, refer note 11.3.2.

Acquisition-related costs

Acquisition-related costs of R39,3 million were charged to operating expenses in profit or loss and included in operating cash flows for the year ended 31 December 2015. Total acquisition-related costs since the inception of the transaction amounts to R71,2 million.

Contingent consideration

The potential undiscounted amount of all deferred future payments that the group could be required to make under this arrangement is between nil and US$120 million. The amount of future payments is dependent on the API4 coal price.

The fair value of the contingent consideration arrangement of US$2,52 million (R32,51 million) was estimated by applying the discounted cash flow method. The fair value estimates are based on a discount rate of 3,44% and assumed API 4 price per tonne between US$51 and US$63. This is a Level 3 fair value measurement.

At 31 December 2015, there was an increase of US$0,03 million (R0,44 million) recognised in profit or loss for the contingent consideration arrangement.

	API4 coal price range (US$/tonne)		
Reference year	Minimum	Maximum	Future payment US$ million
2015	60	80	10
2016	60	80	25
2017	60	80	25
2018	60	90	25
2019	60	90	35

The amount to be paid in each of the five years is determined as follows:

- If the average API4 price in the reference year is below the minimum API4 price of the agreed range, then no payment will be made
- If the average API4 price falls within the range, then the amount to be paid is determined based on a formula contained in the agreement
- If the average API4 price is above the maximum API4 price of the range, then Exxaro is liable for the full amount due for that reference year

No additional payment to Total S.A. was required for the 2015 financial year as the API4 price was below the range.

Acquired trade and other receivables

The fair value and gross contractual amount of trade and other receivables acquired was R235 million. The full amount is expected to be collectable.

Indemnification asset

Total S.A. have contractually agreed to indemnify Exxaro for any claims brought by Scinta (the buyer of ECC's interest in the EMJV) or any third party in relation to the sale of ECC's interest in the EMJV to Scinta, including without limitation all liabilities arising out of the mine closure in respect of the EMJV and all environmental liabilities attributable to the mining operations which were subject of the EMJV. EMJV indemnification amounts to R1 044 million. (Refer note 9.4).

The indemnification asset is deducted from the consideration transferred for the business combination. As is the case with the indemnified liabilities, there have been no changes in the amount recognised for the indemnification asset as at 31 December 2015.

Accounting policy choice for non-controlling interests

Exxaro has elected to measure non-controlling interests at their proportionate share in the recognised amounts of the acquiree's identifiable net assets and assumed liabilities. The non-controlling interest of R771 million represents the proportionate share of net identifiable assets and assumed liabilities attributable to non-controlling interests, arising from the acquisition of ECC.

Revenue and profit contribution (before intercompany eliminations)

The acquired business contributed R827 million revenue (R156 million after eliminating intercompany sales) to the group results. It also contributed no attributable profit or loss (R671 million loss after eliminating intercompany sales) to the group's attributable profits for the period from 21 August 2015 to 31 December 2015. If the date of acquisition had been 1 January 2015, revenue contribution from this business would have been R2 268 million (R1 597 million after eliminating intercompany sales), while losses would have been R1 163 million (R1 834 million after eliminating intercompany sales).

Other judgements, estimates and assumptions applied to the business combination transaction:

Contingent liability

A contingent liability of R13 million was recognised in the statement of financial position on the acquisition of ECC for a take-or-pay penalty. The take-or-pay penalty is being finalised by the charging party. There is uncertainty on the probability of the take-or-pay penalty.

Consolidation of entities with less than 50% ownership

It has been concluded that the ECC group controls Mmakau Coal, even though it holds less than half of the voting rights of this subsidiary. This is because the group has provided the majority of the funding, is exposed to the downside risk and carries all the operational risk for the company.

Fair value of material assets acquired

Asset acquired	Valuation technique
Mineral assets (included in property, plant and equipment)	The market approach was used to fair value the mineral assets. A range of indicative market-related values of R/tonne attributed to different coal resources were identified. This was applied to the inside and outside LOM resources.
Investment in RBCT	The income approach was used to fair value the RBCT investment. DCF methodology was applied to the free cash flows expected to be generated. The discount rate applied is one which would be applicable to a similar investment. The discount rate was adjusted for a similar size shareholding.