

INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS



10.1 ACCOUNTING POLICIES RELATING TO INVESTMENTS IN ASSOCIATES AND JOINT ARRANGEMENTS

Investments in associates and joint arrangements

Associates are those entities in which the group has significant influence, but not control or joint control, over the financial and operating policies. Significant influence is presumed to exist when Exxaro holds between 20% and 50% of the voting rights of another entity.

Joint arrangements are arrangements in which the group has joint control, established by contracts requiring unanimous consent for decisions on the activities that significantly affect the arrangements' returns. They are classified and accounted for as follows:

- Joint operation: when the group has rights to the assets and obligations for the liabilities relating to an arrangement, each of its assets and liabilities, including its share of those held or incurred jointly, are accounted for in relation to the joint operation
- Joint venture: when the group has rights only to the net assets of the arrangements, its interest is accounted for using the equity method, similar to the accounting treatment for associates.

The company carries its investments in associates and joint ventures at cost less accumulated impairment losses. The cost of investments in associates and joint ventures is the fair value at the date of acquisition or the fair value at the date of loss of control of a former subsidiary where the company retains an associate or joint venture interest in the former subsidiary.

Investments in associates and joint ventures are accounted for using the equity method and are recognised initially at cost. The cost of the investments includes transaction costs. Equity-accounted income represents the group's proportionate share of profits of those entities and the share of tax thereon.

The consolidated financial statements include Exxaro's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of Exxaro, from the date that significant influence commences until the date that significant influence ceases.

When Exxaro's share of losses exceeds its interest in an equity-accounted investee, the carrying amount of the investment, including any long-term interest that forms part thereof, is reduced to zero, and recognition of further losses is discontinued except to the extent that Exxaro has an obligation or has made payments on behalf of the investee.

The cumulative post-acquisition movements in profit or loss and other comprehensive income are adjusted against the carrying amount of the investment in the consolidated group financial statements.

The retained earnings of an associate, net of any dividends, are classified as distributable reserves. The group's interest in associates is carried in the statement of financial position at an amount that reflects its share of the net assets and the goodwill on acquisition.

Where an increase in the shareholding of an equity investment through a share buy-back executed by the associate has been accounted for in the records of the investor at the original cost of the investment, the investment in the associate in the records of the investor will not change, but the components of the carrying amounts within the investment will change.

Dilution gains and losses arising on investments in associates are recognised in profit or loss.

Unrealised gains from transactions with equity-accounted investees are eliminated against the investment to the extent of Exxaro'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.

Dividend income is recognised when the right to receive payment is established.

For an acquisition achieved in stages (step acquisition), the acquisition date carrying value of the acquirer's previously held interest in the acquiree is remeasured to fair value at the acquisition date. All previous reserves in relation to the fair value adjustments are reversed through equity.

10.2 (LOSS)/INCOME FROM INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

	Share of (loss)/income from equity-accounted investments		Dividend and other income	
	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
For the year ended 31 December				
Associates	(1 339)	2 339	1 429	3 733
<i>Listed investments</i>	(1 646)	(628)	668	553
– Tronox Limited	(1 646)	(628)	668	553
<i>Unlisted investments</i>	307	2 967	761	3 180
– RBCT ¹	(4)			
– SIOC ²	104	2 830	673	3 095
– Tronox SA	40	(38)		
– Tronox UK ³	103	98	88	85
– Black Mountain	64	77		
Joint ventures	202	176		
– Mafube	253	267		
– SDCT	2	1		
– Cennergi	(53)	(92)		
Total (loss)/income from investments in associates and joint ventures	(1 137)	2 515	1 429	3 733

¹ Previously reported as a financial asset available-for-sale.

² The reduction in equity-accounted income from SIOC was mainly due to the impairment of property, plant and equipment (Exxaro's share amounted to R1 194 million, pre-tax) and the decline in iron ore prices.

³ The income from Tronox UK for the company comprises partnership profits.

10.3 INVESTMENTS IN ASSOCIATES AND JOINT VENTURES
10.3.1 Investments in associates

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
At 31 December				
Investments				
– Listed	8 997	9 686	10 880	10 880
– Unlisted	10 693	8 902	2 272	2 272
Total investments in associates	19 690	18 588	13 152	13 152

Refer note 10.5.1 for market and directors' valuations of investments.

Group	Notes	Investments Rm	Total Rm
2015			
At beginning of year		18 588	18 588
Loss on dilution of investment		(10)	(10)
Transfer from financial assets	16.2.2.1	683	683
Transfer from other assets		106	106
Acquisition of subsidiaries	9.5	1 133	1 133
Net share of results	10.2	(1 339)	(1 339)
Dividends received		(1 341)	(1 341)
Other			
Share of reserve movements		1 870	1 870
At end of year (refer note 10.5)		19 690	19 690
2014			
At beginning of year		19 207	19 207
Loss on dilution of investment		(58)	(58)
Net share of results	10.2	2 339	2 339
Dividends received		(3 719)	(3 719)
Other		(3)	(3)
Share of reserve movements		822	822
At end of year (refer note 10.5)		18 588	18 588

There were no loans with associates for the 2015 and 2014 financial years.

10.3.2 Investments in joint ventures

	Group		Company	
	2015 Rm	2014 Rm	2015 Rm	2014 Rm
At 31 December				
Investments (per statement of financial position)	1 662	966	641	267
Loans	105	83	60	60
Total investments and loans in joint ventures	1 767	1 049	701	327

Refer note 10.5.1 for market and directors' valuations of investments.

	Notes	Investments Rm	Loans ^{1, 2} Rm	Total Rm
Group				
2015				
At beginning of year		966	83	1 049
Additional interests acquired		374		374
Net share of results		196	2	198
– Share of equity-accounted income	10.2	200	2	202
– Elimination of intergroup profits		(4)		(4)
Share of reserve movements		126		126
Movement in indebtedness from joint ventures			20	20
At end of year (refer note 10.5)		1 662	105	1 767
2014				
At beginning of year		861	255	1 116
Additional interests acquired		108		108
Net share of results		198	1	199
– Share of equity-accounted income	10.2	175	1	176
– Elimination of intergroup profits		23		23
Share of reserve movements		(201)		(201)
Movement in indebtedness from joint ventures			(173)	(173)
At end of year (refer note 10.5)		966	83	1 049
Company				
2015				
At beginning of year		267	60	327
Additional interests acquired		374		374
At end of year (refer note 10.5)		641	60	701
2014				
At beginning of year		159	60	219
Additional interests acquired		108		108
At end of year (refer note 10.5)		267	60	327

¹ The loans to joint ventures are included in financial assets on the statement of financial position. (Refer note 11.4.3).

² The loans have no fixed repayment terms and are interest free.

10.4 NOTES TO THE STATEMENTS OF CASH FLOWS RELATING TO INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

10.4.1 Income from investments in associates and joint venture

	Notes	Group		Company	
		2015 Rm	2014 Rm	2015 Rm	2014 Rm
For the year ended 31 December					
Share of (loss)/income from investments in associates and joint ventures	10.2	(1 137)	2 515		
Dividends received	10.5.2	1 341	3 719	1 341	3 648
Non-cash flow loss/(income) from investments in associates and joint ventures		1 137	(2 515)		
Total income received from investments in associates and joint ventures		1 341	3 719	1 341	3 648

10.5 DETAILED ANALYSIS OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES
10.5.1 Summary of investments in associates and joint ventures

	Nature of business ¹	Country of incorporation ²	Number of shares held	Percentage holding	
				2015 %	2014 %
At 31 December					
Associated companies					
Listed					
– Tronox Limited ⁴	A	USA	51 154 280	43,87	43,98
Unlisted					
– SIOC ⁵	A	RSA	240 000 000	19,98	19,98
– Tronox SA	A	RSA	208	26,00	26,00
– Tronox UK ⁶	F	UK		26,00	26,00
– RBCT ⁷	T	RSA	92 844	10,33	
– Black Mountain ⁸	A	RSA	260	26,00	26,00
Total associated companies (refer note 10.3.1)					
Incorporated joint ventures⁹					
Unlisted					
Mafube	A	RSA	50	50,00	50,00
– Investment					
– Loan					
SDCT	T	RSA	1 333	33,33	33,33
– Investment					
– Loan					
Cennergi	EN	RSA	50	50,00	50,00
– Investment					
– Loan					
Unincorporated joint operations					
Moranbah Coal Project	A	AUS		50,00	50,00
Total joint arrangements (refer note 10.3.2)					
Total investment in associates and joint ventures					

¹ A – Mining, F – Financing, EN – Energy, T – Export terminal.

² RSA – Republic of South Africa, USA – United States of America, UK – United Kingdom, AUS – Australia.

³ Fair value represents the directors' value for unlisted investments and market value for listed investments.

⁴ The group's 43,98% investment in Tronox Limited on 31 December 2014 was diluted during the year to 43,87% on 31 December 2015 due to share warrants and share options that were exercised by participants during the year. The fair value of the investment is based on a share price of US\$3,91 on 31 December 2015 (31 December 2014: US\$28,88), and an exchange rate against the US\$ of R15,48 (31 December 2014: R11,56). The recoverable amount (value in use) of this investment was determined based on Exxaro's share of the present value of Tronox's future cash flows, and resulted in no impairment charge being recognised on 31 December 2015.

⁵ The fair value of the investment is based on the share price of KIO on 31 December 2015 of R41,20 per share (31 December 2014: R239,90 per share), adjusted for a liquidity discount of 20%. The recoverable amount (value in use) of this investment was determined based on Exxaro's share of the present value of SIOC's future cash flows, and resulted in no impairment charge being recognised on 31 December 2015.

⁶ Tronox UK does not have shares, but only members' interest.

⁷ The investment in RBCT increased as part of the ECC acquisition. This resulted in RBCT being accounted for as an associate. The effective shareholding percentage of 9,37% was applied to equity account for RBCT. RBCT is considered to be an associate as a result of Exxaro having representation on the RBCT board of directors.

⁸ Black Mountain's financial year-end is 31 March and therefore not co-terminous with that of Exxaro. Financial information has been obtained from published information or management accounts as appropriate.

⁹ Carrying values of joint ventures include loans to joint ventures (disclosed as part of financial assets) for this summary.

The investments are valued at the reporting date. Unlisted shares are valued at directors' value.

Restrictions

There are no significant restrictions on the ability of associates or joint ventures to transfer funds to Exxaro in the form of cash dividends, or to repay loans or advances made by Exxaro.

Risks

Refer notes 13.3 and 13.4 for details with regard to contingent liabilities and assets relating to associates and joint ventures.

Refer note 11.1.3 for details with regard to commitments relating to associates and joint ventures.

Group carrying value		Company carrying value		Fair value ³		Fair value hierarchy level	Valuation technique
2015 Rm	2014 Rm	2015 Rm	2014 Rm	2015 Rm	2014 Rm		
8 997	9 686	10 880	10 880	3 095	14 122	1	Listed market price
5 081	5 422			2 900	16 700	2	Adjusted equity value
1 833	1 786	1 181	1 181	1 833	1 786	3	Net asset value
1 440	1 337	1 091	1 091	1 440	1 337	3	Net asset value
1 919				2 026		3	DCF
420	357			802	828	3	DCF
19 690	18 588	13 152	13 152	12 096	34 773		
1 067	818			1 453	1 030	3	DCF
1 067	818						
105	83			197	227	3	DCF
105	83						
595	148	701	327	1 112	581	3	DCF
595	148	641	267				
		60	60				
1 767	1 049	701	327	2 762	1 838		
21 457	19 637	13 853	13 479	14 858	36 611		

10.5 DETAILED ANALYSIS OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)
10.5.2 Summarised financial information

The summarised financial information set out below relates to the associates and joint ventures and represent 100% of the entity's financial performance and position, adjusted to reflect adjustments made by Exxaro when using the equity method.

	Associate companies						Joint ventures		
	Tronox Rm	Tronox SA Rm	Tronox UK Rm	SIOC Rm	RBCT ¹ Rm	Black Mountain Rm	Mafube Rm	Cennergi Rm	SDCT Rm
Statements of comprehensive income									
For the year ended 31 December 2015									
Revenue	27 071	6 577		36 138	290	1 574	1 916		2
Operating expenses	(29 007)	(6 034)	(15)	(27 611)	(327)	(1 223)	(1 215)	(175)	
Operating (loss)/profit	(1 936)	543	(15)	8 527	(37)	351	701	(175)	2
Finance income	90	88	776	246		9	34	13	6
Finance costs	(2 317)	(418)	(355)	(880)	(11)	(23)	(36)		(2)
Impairment charges				(5 978)					
Share of income from equity-accounted investments				6					
(Loss)/profit before tax	(4 163)	213	406	1 921	(48)	337	699	(162)	6
Income tax benefit/(expense)	551	(61)	(11)	(1 398)	5	(92)	(202)	56	(2)
(Loss)/profit for the year	(3 612)	152	395	523	(43)	245	497	(106)	4
Other comprehensive income/(loss)	1 754	28		(2 223)	5				
Total comprehensive (loss)/income for the year	(1 858)	180	395	(1 700)	(38)	245	497	(106)	4
(Loss)/profit attributable to:	(3 612)	152	395	523	(43)	245	497	(106)	4
Owners of the parent	(3 754)	152	395	523	(43)	245	497	(106)	4
Non-controlling interests	142								
Total comprehensive (loss)/income attributable to:	(1 858)	180	395	(1 700)	(38)	245	497	(106)	4
Owners of the parent	(987)	180	395	(1 700)	(38)	245	497	(106)	4
Non-controlling interests	(871)								
Dividends paid to Exxaro	668			673					
Statements of financial position									
At 31 December 2015									
Non-current assets	63 877	13 360	4 405	34 584	21 778	1 652	1 943	5 383	110
Current assets	17 207	5 456	1 205	14 014	346	803	1 313	180	258
Total assets	81 084	18 816	5 610	48 598	22 124	2 455	3 256	5 563	368
Equity and liabilities									
Total equity	18 268	7 049	5 538	25 439	20 482	1 615	2 133	1 136	(1)
Equity attributable to owners of the parent	16 519	7 049	5 538	25 439	20 482	1 615	2 133	1 136	(1)
Non-controlling interests	1 749								
Non-current liabilities	54 255	9 852	63	18 406	922	546	709	4 197	333
Interest-bearing borrowings	45 020	7 221	63	8 000	241			3 853	333
Non-current provisions	2 805	319		2 726	129		394		
Post-retirement employee obligations	2 102	83			81	199			
Share-based payment liability								157	
Deferred tax	3 169	2 229		7 675	471	347	315	187	
Other (including non-current tax payable)	1 159			5					
Current liabilities	8 561	1 915	9	4 753	720	294	414	230	36
Trade and other payables	5 081	660	2	3 266	122	238	414	110	36
Interest-bearing borrowings	2 564	1 210		205	26				
Current tax payable	662		7	933		56			
Current provisions	180	45		349	14				
Current shareholder loan					558			120	
Other (including financial liabilities – warranties)	74								
Total equity and liabilities	81 084	18 816	5 610	48 598	22 124	2 455	3 256	5 563	368
Included above in joint ventures:									
– Cash and cash equivalents							964	18	10
– Depreciation and amortisation							184	1	

¹ Statement of comprehensive income relates to the period 1 September 2015 to 31 December 2015.

	Associate companies					Joint ventures		
	Tronox Rm	Tronox SA Rm	Tronox UK Rm	SIOC Rm	Black Mountain Rm	Mafube Rm	Gennergi Rm	SDCT Rm
Statements of comprehensive income								
For the year ended 31 December 2014								
Revenue	18 801	6 510		47 597	1 863	1 987		1
Operating expenses	(19 478)	(6 178)	(8)	(27 939)	(1 451)	(1 135)	(281)	
Operating (loss)/profit	(677)	332	(8)	19 658	412	852	(281)	1
Finance income	141	131	740	75	8	4	5	5
Finance costs	(1 548)	(501)	(340)	(551)	(7)	(40)		(4)
Impairment charges				(439)				
Share of losses from equity-accounted investments				(5)				
(Loss)/profit before tax	(2 084)	(38)	392	18 738	413	816	(276)	2
Income tax benefit/(expense)	240	(107)	(14)	(4 573)	(115)	(236)	92	
(Loss)/profit for the year	(1 844)	(145)	378	14 165	298	580	(184)	2
Other comprehensive income/(loss)	670	(26)		(14 671)	5			
Total comprehensive (loss)/income for the year	(1 174)	(171)	378	(506)	303	580	(184)	2
(Loss)/profit attributable to:	(1 844)	(145)	378	14 165	298	580	(184)	2
Owners of the parent	(1 924)	(145)	378	14 165	298	580	(184)	2
Non-controlling interests	80							
Total comprehensive (loss)/income attributable to:	(1 174)	(171)	378	(506)	303	580	(184)	2
Owners of the parent	(925)	(171)	378	(506)	303	580	(184)	2
Non-controlling interests	(249)							
Dividends paid to Exxaro	553			3 095	71			
Statements of financial position								
At 31 December 2014								
Non-current assets	34 410	13 208	4 399	37 748	1 489	1 997	2 128	46
Current assets	26 354	5 625	781	13 198	600	686	53	100
Total assets	60 764	18 833	5 180	50 946	2 089	2 683	2 181	146
Equity and liabilities								
Total equity	21 092	6 868	5 143	27 138	1 372	1 636	242	(2)
Equity attributable to owners of the parent	19 041	6 868	5 143	27 138	1 372	1 636	242	(2)
Non-controlling interests	2 051							
Non-current liabilities	35 038	10 341	30	14 258	482	909	1 743	97
Interest-bearing borrowings	26 982	7 728	30	4 004		232	1 374	97
Non-current provisions	1 453	329		2 092		332		
Post-retirement employee obligations	1 922	77			163			
Share-based payment liability							166	
Deferred tax	3 937	2 207		8 162	319	345	90	
Other (including non-current tax payable)	744						113	
Current liabilities	4 634	1 624	7	9 550	235	138	196	51
Trade and other payables	3 460	773		3 356	235	138	76	26
Interest-bearing borrowings	210	787		5 593				25
Current tax payable	372		7	509				
Current provisions	96	64		92				
Current shareholder loan							120	
Other (including financial liabilities – warranties)	496							
Total equity and liabilities	60 764	18 833	5 180	50 946	2 089	2 683	2 181	146
Included above in joint ventures:								
– Cash and cash equivalents						357	29	10
– Depreciation and amortisation						194	1	

10.5 DETAILED ANALYSIS OF INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)
10.5.3 Reconciliation of carrying amount of investment

Set out below is a reconciliation of the equity attributable to owners of the parent (closing net assets) as disclosed, to the carrying value of the investment.

	Associate companies						Joint ventures		
	Tronox Rm	Tronox SA Rm	Tronox UK Rm	SIOC Rm	RBCT	Black Mountain Rm	Mafube Rm	Cennergi ¹ Rm	SDCT ² Rm
2015									
Closing net assets	16 519	7 049	5 538	25 439	20 482	1 615	2 133	1 136	(1)
Interest in equity-accounted investment (%)	43,87	26,00	26,00	19,98	9,37	26,00	50,00	50,00	33,33
Interest in equity-accounted investment	7 246	1 833	1 440	5 082	1 919	420	1 067	568	
Excess of carrying value over fair value of identifiable assets and liabilities ³	1 751								
Unrealised profit in closing balances				(1)				(33)	
Loans to equity-accounted investments								60	105
Carrying value at 31 December	8 997	1 833	1 440	5 081	1 919	420	1 067	595	105
2014									
Closing net assets	19 041	6 868	5 143	27 138		1 372	1 636	242	(2)
Interest in equity-accounted investment (%)	43,98	26,00	26,00	19,98		26,00	50,00	50,00	33,33
Interest in equity-accounted investment	8 374	1 786	1 337	5 422		357	818	121	
Excess of carrying value over fair value of identifiable assets and liabilities ³	1 312								
Unrealised profit in closing balances								(33)	
Loans to equity-accounted investments								60	83
Carrying value at 31 December	9 686	1 786	1 337	5 422		357	818	148	83

¹ Loan to Cennergi is capitalised to the investment in the accounting records of Exxaro.

² Investment value is limited to zero. Further equity losses are deducted from loans.

³ The excess of carrying value over fair value of identifiable assets and liabilities (goodwill) is treated as part of the assets and liabilities of the foreign operation and is translated at the closing rate.