

CHAPTER 18:

COMPLIANCE

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CHAPTER 18:

Compliance

18.1 BASIS OF PREPARATION

18.1.1 STATEMENT OF COMPLIANCE

The group and company annual financial statements as at and for the year ended 31 December 2020 have been prepared under the supervision of Mr PA Koppeschaar CA(SA), SAICA registration number: 00038621. The principal accounting policies of Exxaro Resources Limited (the company) and group of companies (the group), as well as the disclosures made in these annual financial statements comply with IFRS and IFRIC interpretations, effective for the financial year, as well as the SAICA Financial Reporting Guidelines (as issued by the Accounting Practices Committee), the Financial Reporting Pronouncements (as issued by the Financial Reporting Standards Council), the Companies Act (applicable to companies reporting under IFRS) and the Listings Requirements.

18.1.2 BASIS OF MEASUREMENT

The annual financial statements are prepared on the historical cost basis, except for the revaluation to fair value of financial instruments, share-based payments and biological assets. The annual financial statements are prepared on the going-concern basis.

The annual financial statements are presented in South African rand, which is the company's functional and presentation currency. However, the group measures the transactions of each of its material operations using the functional currency determined for that specific entity, which, in most instances, is the currency of the primary economic environment in which the operation conducts its business.

Management considers key financial metrics and loan covenant compliance in its approved medium-term budgets, together with its existing term facilities, to conclude that the going concern assumption used in compiling the annual financial statements is relevant.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant, are disclosed within the relevant chapters.

The accounting policies applied for 2020 are consistent with those applied in 2019, except for the adoption of new or amended standards as set out below. In addition, hedge accounting has been adopted (refer note 16.3.3) following the Cennergi business combination.

18.1.3 BASIS OF CONSOLIDATION

The group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of the company and its subsidiaries as those of a single entity.

18.1.4 JUDGEMENTS MADE BY MANAGEMENT

Judgements, apart from those involving estimates, have been made by management in the process of applying the accounting policies. Details of these judgements have been included within the relevant chapters.

18.1.5 KEY ASSUMPTIONS MADE BY MANAGEMENT IN APPLYING ACCOUNTING POLICIES

Key assumptions concerning the future, and other key sources of estimation uncertainty at the financial year end, may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year if the assumption or estimation changes significantly. Details of key assumptions and key sources of estimation uncertainty have been included within the relevant chapters.

18.1.6 CARBON TAX

Following the enactment of the Carbon Tax Act No 15 of 2019, as amended, Exxaro has licensed each of its emissions generating facilities with SARS of which two subsidiaries only received their licences in February 2021. The group has accrued R5.4 million (R3.4 million for 2019) for Carbon tax which is payable on 29 July 2021.

18.1.7 IMPACT OF THE COVID-19 PANDEMIC ON FINANCIAL REPORTING

The COVID-19 pandemic developed rapidly in 2020, not only in the world, but South Africa specifically has seen a significant number of infections being reported. Measures to prevent transmission of the virus included limiting the movement of people, restricting flights and other travel, temporarily closing businesses and schools and cancelling of public events. This had an immediate impact on the economy of South Africa. Measures taken to contain the virus affected economic activity, which in turn had implications on the financial reporting.

The following key areas of financial reporting required specific attention for the year ended 31 December 2020:

Revenue recognition

Changes to terms of customer contracts and business practices during the COVID-19 pandemic were evaluated and found not to influence the recognition of revenue.

Inventory

Inventory has been evaluated and written down to the lower of cost and net realisable value. An amount of R9 million on the write-down of inventory from cost to net realisable value has been recognised for 2020.

CHAPTER 18:

Compliance continued

18.1 BASIS OF PREPARATION continued

18.1.7 IMPACT OF COVID-19 ON FINANCIAL REPORTING continued

Impairment of non-financial assets

Impairment testing was based on the latest budgets which incorporated changes in parameters and economic outlooks revised for the effect of COVID-19. As at 31 December 2020, the investment in Insect Technology was fully impaired (refer note 8.5).

Allowances for ECLs

When assessing the amount to be recognised for ECLs, management considered the impact that COVID-19 had on the risk of default as well as the expected loss rates. The trade and other receivables are categorised into the following categories corporate, public sector, as well as SMEs. Where additional risk was identified the credit ratings of each counterparty were reviewed and adjusted accordingly with a corresponding adjustment to the PD and LGD rates. Although these adjustments resulted in higher ECL multipliers the ECL amount recognised for 2020 was not significant as the trade and other receivables outstanding balance was 14% lower than 2019 and certain of the long outstanding other receivable debtors settled their debt during the year.

Taxation

Exxaro benefited from the following tax relief measures announced:

- A skills development levy holiday was granted to all businesses
- Carbon tax payments were deferred until 31 October 2020
- The implementation by SARS limiting the utilisation of tax losses and interest expense deductions has been postponed to 2022.

Going concern assessment

The going concern assessment was based on the latest budgets that incorporated changes in parameters and economic outlooks revised for the effects of COVID-19. Additional sensitivity analysis was performed as part of stress testing the going concern assumption. Exxaro also prudently increased its available borrowing facilities. The additional facility was available from 1 July 2020.

18.2 ADOPTION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

18.2.1 NEW, AMENDED AND REVISED STANDARDS ADOPTED DURING 2020

Exxaro has adopted the following changes to standards and interpretations effective for the year commencing on 1 January 2020:

Standard	Key requirements
Definition of Materiality – amendments to IAS 1 and IAS 8	The IASB has made amendments to IAS 1 <i>Presentation of Financial Statements</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i> which: • use a consistent definition of materiality throughout IFRS and the Conceptual Framework for Financial Reporting, • clarify when information is material and incorporate some of the guidance in IAS 1 about immaterial information. In particular, the amendments clarify: • That the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole • The meaning of “primary users of general purpose financial statements”, by defining them as “existing and potential investors, lenders and other creditors” that must rely on general purpose financial statements for much of the financial information they need.
Revised Conceptual Framework for Financial Reporting	The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include: • Increasing the prominence of stewardship in the objective of financial reporting • Reinstating prudence as a component of neutrality • Defining a reporting entity, which may be a legal entity, or a portion of an entity • Revising the definitions of an asset and a liability • Removing the probability threshold for recognition and adding guidance on derecognition • Adding guidance on different measurement basis • Stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in OCI should be recycled where this enhances the relevance or faithful representation of the financial statements. No changes were made to any of the current accounting standards.

18.2.2 NEW, AMENDED AND REVISED STANDARDS NOT YET ADOPTED

New accounting standards, amendments to accounting standards and interpretations issued which are relevant to the group, but not yet effective on 31 December 2020, have not been adopted. It is expected that where applicable, these standards and amendments will be adopted on each respective effective date. The group continuously evaluates the impact of these standards and amendments. The effect of the implementation of the new, amended or revised standards are not expected to have a material impact, although assessments of the effect of the implementation of these new, amended or revised standards are ongoing.

18.3 RE-PRESENTATION OF COMPARATIVE INFORMATION

The group statement of comprehensive income (and related notes) for the year ended 31 December 2019 and the group statement of financial position (and related notes) at 31 December 2019 have been re-presented as a result of the investment in Black Mountain no longer meeting the criteria to be classified as a non-current asset held-for-sale and a discontinued operation due to the suspension of the sales process in December 2020.

The impact of the re-presentation of 2019 was as follows:

	Group		
	Previously presented	Re-presented	Impact
Statement of comprehensive income			
Share of income of equity-accounted investments (Rm)	4 641	4 693	52
Profit for the year from discontinued operations (Rm)	2 164	2 112	(52)
Attributable earnings per share			
Continuing operations			
– Basic (cents)	3 047	3 067	20
– Diluted (cents)	3 047	3 067	20
Discontinued operations			
– Basic (cents)	861	841	(20)
– Diluted (cents)	861	841	(20)
Statement of financial position			
Equity-accounted investments (Rm)	16 630	17 502	872
Non-current assets held-for-sale (Rm)	2 613	1 741	(872)

18.4 EVENTS AFTER THE REPORTING PERIOD

Details of the final dividend are provided in note 5.5.

Subsequent to 31 December 2020, the following notable events have occurred:

Tronox SA flip-in

On 23 February 2021, Tronox Holdings plc exercised its “flip-in” call option over Exxaro’s 26% shareholding in Tronox SA, for which Tronox Holdings plc delivered 7 246 035 newly issued Tronox Holdings plc ordinary shares to Exxaro on 24 February 2021. With these additional Tronox Holdings plc ordinary shares, Exxaro owned 21 975 315 Tronox Holdings plc ordinary shares, representing approximately 14.6% of Tronox Holdings plc’s total outstanding voting shares.

Tronox Holdings plc disposal

On 24 February 2021, Exxaro announced the commencement of a public offering in the United States of up to 17 million ordinary shares in Tronox Holdings plc. Furthermore, Exxaro granted the underwriters a 30-day option to purchase up to 2.55 million additional Tronox Holdings plc ordinary shares from Exxaro at the public offering price, less underwriting discounts and commissions.

On 25 February 2021, Exxaro announced the pricing of its upsized offering of 19 108 970 Tronox Holdings plc ordinary shares at a public offering price of US\$18.25 per share for a total net proceeds of approximately US\$332 million (approximately R4.81 billion), after deducting underwriting discounts and commissions. In addition, Exxaro granted the underwriters a 30-day option to purchase up to an additional 2 866 345 Tronox Holdings plc ordinary shares (Option shares). Settlement was expected to occur on 1 March 2021. Subsequent to the sale, Exxaro’s ownership in Tronox Holdings plc would have reduced to the Option shares, which represented approximately 1.9% of Tronox Holdings plc outstanding voting shares.

On 2 March 2021, Exxaro announced that the underwriters fully exercised the Option. Following the disposal on 1 March 2021 Exxaro no longer owned any Tronox Holdings plc ordinary shares.

Exxaro has therefore concluded its stated strategy to monetise its stake in Tronox over time in the best possible manner taking into account prevailing market conditions. The funds from the disposal of the Tronox Holdings plc ordinary shares will be used to repay debt, invest in renewable energy projects and make distributions to shareholders in accordance with Exxaro’s capital allocation framework.

The directors are not aware of any other significant matter or circumstance arising after the reporting period up to the date of this report, not otherwise dealt with in this report.

ECC operation

On 8 April 2021, Exxaro signed a sale and purchase agreement with Overlooked Colliery Proprietary Limited who will acquire ECC. The purchase price of R871 million includes a deferred payment mechanism of R150 million dependent on ECC signing a third party coal supply agreement. The sale will only be effective once all conditions precedent to the sales agreement have been met.