CHAPTER 8:

BUSINESS ENVIRONMENT AND PORTFOLIO CHANGES

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Business environment and portfolio changes

8.1 ACCOUNTING POLICIES RELATING TO BUSINESS ENVIRONMENT AND PORTFOLIO CHANGES

8.1.1 BUSINESS COMBINATIONS

The acquisition method of accounting is used 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 their fair values at the acquisition date. The group recognises any NCI in the acquired subsidiary on an acquisition-by-acquisition basis either at fair value or at the NCI's proportionate share of the acquiree's net assets.

For group, when a business combination is achieved in stages, the acquisition date carrying value of the previously held equity interest is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

For group, acquisition-related costs are expensed as incurred.

Any contingent consideration to be transferred 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 IFRS 9 *Financial Instruments* in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is measured at the acquisition date as:
- The fair value of the consideration transferred; plus
- The recognised amount of any NCI 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.

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

When the carrying amount of non-current assets and liabilities (or a disposal group) will be recovered principally through a disposal 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 disposal is highly probable and the assets and liabilities (or a disposal group) are available for immediate disposal in its present condition. Management must be committed to the disposal, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

8.1.3 IMPAIRMENT OF NON-CURRENT ASSETS

The carrying amounts of non-current assets (or CGUs) are reviewed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indicator of impairment exists, the recoverable amount of the asset 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.

Goodwill is tested annually for impairment (refer note 10.2.1).

8.2 SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS MADE BY MANAGEMENT IN APPLYING THE RELATED ACCOUNTING POLICIES

IFRS 3 *Business Combinations* (IFRS 3)

In applying IFRS 3, management applied the following significant judgements and estimates:

Fair values of material assets acquired

The following material assets were fair valued applying the following valuation techniques and key assumptions:

Plant and equipment:	Primary operating assets: Wind turbines with substation connections to the grid
Valuation technique:	Cost approach applying a depreciated replacement cost method, which determines the replacement cost of an existing asset after deducting an allowance for wear or consumption to reflect the remaining economic life of the existing asset.
Key assumptions:	Asset lives: 26.3 to 26.4 years Depreciation method: Straight line Condition rating[1]: Very good (94% to 96%) [1] *Asset condition: Asset is like new, fully operable, well maintained, and performs consistently at or above current standards. Little wear shown and no further action required.*
Intangible assets:	**Existing power purchase agreements with Eskom**
Valuation technique:	Income approach applying a multi-period excess earnings method which determines the present value of the after-tax cash flow attributed to the intangible asset. The technique is based on the earnings power or cash-generating abilities of the entity or asset being valued. The income approach focuses on estimating a forecast cash flow stream that is reflective of the most likely future operations of the entity or asset. Such forecast cash flows are then discounted to present value based on the appropriate risk adjusted discount rate or capitalisation rate that is reflective of both the risk and long-term growth prospects of the entity or asset.
Key assumptions:	Discount rate: 11.1% Remaining life of contracts: 16.3 to 16.4 years

Non-controlling interests:

Management views the share-based payment transactions with the BEE minority shareholders of the SPVs as in-substance share options that are equity-settled in terms of IFRS 2 *Share-based Payment* (IFRS 2). These options were not yet exercised at the acquisition date.

Non-controlling interests: In-substance share option		
Valuation technique:	A Monte-Carlo simulation technique has been applied, discounting the distribution streams using a risk-free rate of return.	
Key assumption:	Risk-free curve – ZAR swap zero curve semi-annual:	Year 1 to 5: 5.31% to 6.20% Year 6 to 16: 7.03% to 10.28%
	Lock-in discount percentage:	33% for community BEE parties 25% for other BEE party
	Standard deviation tolerance:	7% for Amakhala SPV 10% for Tsitsikamma SPV

8.2 SIGNIFICANT JUDGEMENTS AND ASSUMPTIONS MADE BY MANAGEMENT IN APPLYING THE RELATED ACCOUNTING POLICIES continued

IFRS 5 *Non-current Assets Held-for-Sale and Discontinued Operations* (IFRS 5)

In applying IFRS 5, management made judgements as to which non-current assets and discontinued operations meet the criteria to be classified and measured in terms of IFRS 5 (refer notes 8.4 and 6.1.4).

IAS 36 *Impairment of Assets* (IAS 36)

In applying IAS 36, impairment assessments are performed whenever events or changes in circumstances indicate that the carrying amount of an asset or CGU may not be recoverable. Management, in particular, identify and track indicators such as the movement in group market capitalisation, volatility in exchange rates, commodity prices and the economic environment in which the businesses operate, to assess whether there is an indication of impairment.

Assets previously impaired are reviewed for possible reversal of impairment at each reporting date.

Estimates are made in determining the recoverable amount of assets which includes the estimation of cash flows and discount rates used. In estimating the cash flows, management bases cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the assets. The discount rates used reflect the current market assessment of the time value of money and the risks specific to the assets for which the future cash flow estimates have not been adjusted.

The impairment assessments performed by management for the different operations resulted in no impairment for the year ended 31 December 2020, except for the ECC operation. Judgements were required in the determination of key variables and future market conditions, particularly in relation to the parameters included in the following table:

Coal operations	2020	2019
Discount rate (%)	8.38%	7.87%
Rand/US$ exchange rate	R15.50 to R16.27	R12.99 to R14.22
Coal API4 long-term price (per tonne)	US$72.14	US$81.00
Coal domestic selling price range (per tonne)	R695 to R735	R508 to R563

Management considered and assessed reasonably possible changes for the key assumptions and have not identified any instances that could cause the carrying amount of the coal operations to exceed its recoverable amount.

Refer note 10.2.2 for details of the impairment testing performed on the Cennergi CGU.

8.3 BUSINESS COMBINATION: ACQUISITION OF CONTROLLING INTEREST IN CENNERGI

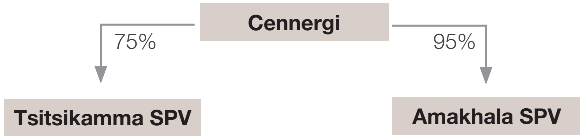
8.3.1 Overview of Cennergi

Exxaro and Tata Power, through its wholly owned subsidiary Khopoli, formed a 50:50 JV to create Cennergi in March 2012. Exxaro has recognised its existing 50% interest in the JV as an equity-accounted investment.

Cennergi is a company established and registered in South Africa operating in the renewable energy sector. Its business is the investigation of feasibility, development, ownership, operation, maintenance, acquisition and management of renewable energy projects in certain permitted territories.

Cennergi owns two wind farms which were originally bid as part of Window 2 of the Department of Energy's Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) namely:
- Amakhala Emoyeni Wind Farm situated near Cookhouse in the Eastern Cape with an installed capacity of 134 Megawatts
- Tsitsikamma Community Wind Farm located close to Tsitsikamma in the Eastern Cape with an installed capacity of 95 Megawatts.

Each of the wind farms has been set up in separate project companies (SPVs) of which Cennergi holds the controlling interest as illustrated in the diagram below:



Cennergi forms part of the energy reportable segment.

8.3.2 Overview of the transaction

Tata Power decided to dispose of its 50% interest in Cennergi creating an opportunity for Exxaro to act on its ambitions of growing its presence in the energy sector, by acquiring the 50% interest owned by Khopoli. The acquisition contributes towards aligning the long-term environmental, sustainability, growth strategy and expansion of Exxaro into renewable energies and aligns the strategic intent of Exxaro of forming a second core business next to coal.

Therefore, with effect from 1 April 2020, Exxaro acquired Khopoli's 50% share of the issued share capital of Cennergi, resulting in Exxaro obtaining sole control over Cennergi. The transaction has been accounted for as a business combination achieved in stages (step-up acquisition) in terms of IFRS 3.

Given the existing relationship with Cennergi, the related cost associated with the acquisition of the remaining 50% interest was minimal, with an amount of R2.4 million being expensed through operating expenses.

The fair value of the 100% controlling interest acquired and its attribution to the net identifiable assets acquired and resultant goodwill is summarised below:

	Note	Rm
Fair value of new 50% interest acquired (the purchase consideration)	8.3.2.1	1 739
Fair value of 50% interest held under joint control	8.3.2.2	1 502
Fair value of the 100% controlling interest acquired		3 241
Attributed to:		
Goodwill	8.3.2.3	521
Fair value of net identifiable assets acquired	8.3.2.4	2 867
NCIs	8.3.2.5	(147)
The transaction resulted in the following net cash outflow from investing activities:		
– Cash paid	8.3.2.1	(1 739)
– Cash and cash equivalents acquired	8.3.2.4	337
Net cash outflow from acquisition of subsidiaries		(1 402)

The accounting for the acquisition of Cennergi in terms of IFRS 3 was provisionally reported on for the six-month period ended 30 June 2020. Subsequently, the following changes to the purchase price allocation were made:
- Recognition of NCIs of R147 million for the existing in-substance share options held by Cennergi's BEE minorities
- Resultant increase in goodwill of R147 million to R521 million (previously reported: R374 million).

The reviewed condensed group interim financial statements as at and for the six-month period ending 30 June 2021 will be re-presented for these changes.

At 31 December 2020, the accounting for the acquisition of Cennergi has been concluded.

8.3 BUSINESS COMBINATION: ACQUISITION OF CONTROLLING INTEREST IN CENNERGI continued

8.3.2 Overview of the transaction continued

8.3.2.1 Purchase consideration for newly acquired 50% interest

The purchase consideration for the additional 50% interest acquired in Cennergi has been fully settled in cash. The purchase consideration represents the consideration transferred at its acquisition-date fair value. This is summarised into its components as follows:

	Rm
Purchase consideration settled in cash	1 641
Contingent consideration subsequently settled in cash[1]	98
Fair value of purchase consideration	1 739

[1] *As part of the purchase consideration, Exxaro was required to pay Khopoli 50% of the value that Cennergi company would recover from its proven claims in the liquidation account of one of the BEE minority shareholders. The liquidation account has been settled in December 2020 and the final consideration has been paid.*

8.3.2.2 Fair value of pre-existing 50% interest

The pre-existing 50% interest in Cennergi forms part of the 100% controlling interest that Exxaro holds as of the acquisition date and is therefore fair valued immediately preceding the acquisition date. The gain resulting from remeasuring the pre-existing interest was recognised in profit or loss and is ultimately treated as a deemed disposal of the pre-existing interest.

The deemed disposal and fair value recognition is summarised as follows:

	Note	Rm
Fair value of 50% interest held under joint control		1 502
Carrying value of equity-accounted investment		(181)
Gain recognised in operating expenses[1]	6.1.3	1 321
Losses on share of cash flow hedge reserve recycled through profit or loss	6.1.3	(59)
Net impact on profit or loss		1 262

[1] *Headline earnings adjustment.*

8.3.2.3 Goodwill

Goodwill represents the residual value between the fair value of the 100% controlling interest acquired, the net identifiable assets recognised and NCIs recognised. The value of goodwill is attributed to the value of other items at acquisition date which are not separately identifiable to achieve recognition as intangible assets.

The goodwill recognised is attributed mainly to:
- The further operating capability of the assets and market demand for renewable energy post the existing power purchase agreements. The wind farms' lifespan is longer than the current power purchase agreements in place. Given the expected growth in demand for energy in South Africa, coupled with limited supply of energy, and in particular the worldwide drive towards energy supply to be from renewable sources, it is considered that there is a market with value post the existing power purchase agreements' contracts
- The existing assembled workforce of Cennergi
- A premium payable arising from the limited supply of, and high demand for, investment opportunities into renewable energy projects within the South African landscape
- Non-controlling interests recognised.

The goodwill is not deductible for tax purposes.

An impairment assessment was performed on 31 December 2020 for the goodwill acquired. The assessment resulted in no impairment charge for the year. Refer note 10.2.2.

8.3 BUSINESS COMBINATION: ACQUISITION OF CONTROLLING INTEREST IN CENNERGI continued

8.3.2 Overview of the transaction continued

8.3.2.4 Identifiable assets acquired and liabilities assumed

The fair value of the identifiable assets acquired and liabilities assumed of Cennergi as at the acquisition date are summarised as follows:

	Non-current Rm	Current Rm	Total Rm
Property, plant and equipment	5 952		5 952
Right-of-use assets	51		51
Intangible assets	2 685		2 685
Deferred tax assets	66		66
Deferred tax liabilities	(983)		(983)
Provisions	(39)		(39)
Financial liabilities: derivatives designated as hedging instruments	(272)		(272)
Net debt	(4 847)	115	(4 732)
– Cash and cash equivalents		337	337
– Interest-bearing borrowings	(4 799)	(215)	(5 014)
– Lease liabilities	(48)	(7)	(55)
Trade and other receivables[1]		187	187
Trade and other payables		(25)	(25)
Financial assets at amortised cost: interest-bearing loan receivable		1	1
Current tax payable		(12)	(12)
Other assets		4	4
Other liabilities		(16)	(16)
Net identifiable assets acquired and liabilities assumed	2 613	254	2 867

[1] *The fair values of acquired receivables represent the gross contractual amount. The full contractual cash flows are expected to be collected.*

8.3.2.5 Non-controlling interests

The arrangements in place with the minority shareholders of Tsitsikamma SPV and Amakhala SPV represent fully vested share-based payment arrangements under IFRS 2. The arrangements are viewed as in substance share options with the minorities, as the minorities are not exposed to downside risk nor benefit, until such time as the underlying shareholder financing of the arrangements has been settled.

For purposes of the acquisition, Cennergi, as the acquiree, has outstanding share-based payment transactions that Exxaro, as the acquirer, did not replace, cancel or exchange as part of the acquisition. The share-based payment transactions have vested and therefore the share-based payment transactions of Cennergi are accounted for as part of the NCIs in the Cennergi group acquisition and are measured at their market-based measure in terms of IFRS 2.

8.3.3 Performance contribution to Exxaro's results

	Revenue Rm	Profit Rm
Cennergi's 100% results included in Exxaro's results from 1 April 2020 to 31 December 2020	890	(14)
Cennergi's results contribution to Exxaro's results, if included from 1 January 2020 to 31 December 2020[1]	1 156	12

[1] *The profit represents Cennergi's profit before adjustments for hedge accounting adopted at an Exxaro group level. The assimilated scenario cannot be determined from an Exxaro perspective, as Exxaro has adopted hedge accounting only from 1 April 2020.*

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

ECC OPERATION

The ECC operation was identified as non-core to the future objectives of Exxaro. As a result, Exxaro embarked on a divestment process of the total equity interest in ECC. On 31 December 2020 the ECC operation met all the criteria to be classified as a non-current asset held-for-sale in terms of IFRS 5.

The ECC operation is reported as part of the coal Mpumalanga reportable segment and 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.

8.4 NON-CURRENT ASSETS AND LIABILITIES HELD-FOR-SALE continued

TRONOX HOLDINGS PLC

In September 2017, the directors of Exxaro formally decided to dispose of the investment in Tronox Limited. As part of this decision, Tronox Limited was required to publish an automatic shelf registration statement of securities of well-known seasoned issuers which allowed for the conversion of Exxaro's Class B Tronox Limited ordinary shares to Class A Tronox Limited ordinary shares. From this point, it was concluded that the Tronox Limited investment should be classified as a non-current asset held-for-sale as all the criteria in terms of IFRS 5 were met. As of 30 September 2017, the Tronox Limited investment, totaling 42.66% of Tronox Limited's total outstanding voting shares, was classified as a non-current asset held-for-sale and application of the equity method ceased.

Subsequently, Exxaro sold 22 425 000 Class A Tronox Limited ordinary shares during October 2017. During May 2019, Tronox Holdings plc repurchased 14 000 0000 Tronox Holdings plc ordinary shares from Exxaro after Tronox Limited had redomiciled to the UK. On 31 December 2020, management concluded that the remaining investment in Tronox Holdings plc continues to meet the criteria to be classified as a non-current asset held-for-sale in terms of IFRS 5. Subsequent to year-end the remaining 14 729 280 Tronox Holdings plc ordinary shares were sold (refer note 18.4).

The Tronox Holdings plc investment is presented within the total assets of the TiO_2 reportable segment and is presented as a discontinued operation (refer note 6.1.4).

EMJV

As part of the ECC acquisition in 2015, Exxaro acquired non-current liabilities held-for-sale relating to EMJV. The transaction was conditional on a section 43 consent required in terms of the MPRDA for transfer of the legal environmental liabilities and rehabilitation obligations to Scinta Energy Proprietary Limited. On 31 December 2020, all conditions precedent to the transaction were met and the transaction became effective.

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

	Group		Company	
At 31 December	2020 Rm	(Re-presented)[1] 2019 Rm	2020 Rm	2019 Rm
Assets				
Property, plant and equipment	841			
Right-of-use assets	1			
Intangible assets	2			
Investments in associates	1 741	1 741	3 133	2 377
– Tronox Holdings plc	1 741	1 741	3 133	2 377
Investment in subsidiaries			869	
– ECC			869	
Non-current financial assets at FVPL	655			
– Environmental rehabilitation funds	655			
Inventories	149			
Trade and other receivables	39			
– Trade receivables	29			
– Other receivables	10			
Current financial assets	139			
– Loans to associates: Tumelo	139			
Current tax receivable	21			
Cash and cash equivalents	8			
Other current assets	153			
Non-current assets held-for-sale	3 749	1 741	4 002	2 377
Liabilities				
Non-current lease liabilities	(13)			
Other non-current payables	(7)			
Non-current provisions	(724)	(1 393)		
Retirement employee obligations	(1)	(17)		
Deferred tax liabilities	(21)			
Trade and other payables	(289)			
– Trade payables	(76)			
– Other payables	(213)			
Current lease liabilities	(8)			
Current provisions	(2)			
Current tax payable	(1)			
Other current liabilities	(72)			
Non-current liabilities held-for-sale	(1 138)	(1 410)		
Net non-current assets held-for-sale	2 611	331	4 002	2 377

[1] *Refer note 18.3.*

8.5 IMPAIRMENT CHARGES OF NON-CURRENT ASSETS

For the year ended 31 December	Group 2020 Rm	Group 2019 Rm	Company 2020 Rm	Company 2019 Rm
ECC operation				
Impairment charges	(1 378)		(1 520)	(227)
– Property, plant and equipment	(1 359)			
– Right-of-use assets	(19)			
– Investment in subsidiary			(1 520)	(227)
Investments in associates				
Impairment charges	(504)	(58)	(715)	(58)
– Insect Technology	(458)		(674)	
– Curapipe	(46)		(41)	
– GAM		(58)		(58)
Reductants operation				
Impairment reversal		23		
– Property, plant and equipment		23		
Net impairment charges	(1 882)	(35)	(2 235)	(285)
Tax effect[1]	236			
Net effect on attributable earnings	(1 646)	(35)	(2 235)	(285)

[1] *Tax effect relates to the ECC operation.*

ECC operation

On 31 December 2020, the ECC operation met all the criteria in terms of IFRS 5 to be classified as a non-current asset held-for-sale (refer note 8.4). An impairment assessment in terms of IAS 36 was required to be performed. The recoverable amount was determined to be its fair value less costs of disposal (which represents the discounted value of the offer price negotiated with the proposed buyer to the sales transaction).

Insect Technology

During 2020, Exxaro's investment in Insect Technology was no longer considered to be a strategic fit for Exxaro. Consequently Exxaro will not participate in any further fund raising.

Insect Technology was unable to raise funding for pre-commissioning, research and development, as well as operational expenses. The delays in the fund raising had an impact on working capital requirements and the company found itself in severe financial distress. Due to the uncertainty of whether Insect Technology will continue as a going concern, a decision was taken to impair the investment.

On 31 December 2020, the equity interest in Insect Technology was impaired to nil.

Curapipe

The investment in Curapipe was identified not to be a strategic fit for Exxaro and as a result, Exxaro embarked on a divestment process during 2020 for the total equity interest in Curapipe. On 30 June 2020, the investment in Curapipe was impaired to US$1. Subsequently, the investment in Curapipe was sold on 9 November 2020.

8.6 TRANSFER OF OPERATION AND DISPOSALS OF JOINT OPERATION, SUBSIDIARY AND ASSOCIATE

For the year ended 31 December 2020	Group Arnot operation[1] Rm	 EMJV[2] Rm
Consideration:		
– Cash transferred	(14)	
Total disposal consideration	(14)	
Carrying amount of net liabilities sold	18	17
– Non-current other assets	(1 164)	
– Financial assets at amortised cost	(280)	
– Other current assets		(612)
– Provisions	1 444	612
– Retirement employee obligation	7	17
– Trade and other payables	5	
– Other current liabilities	6	
Gain on transfer of operation/disposal of joint operation[3]	4	17

[1] *Transfer of the Arnot operation to Arnot OpCo.*
[2] *Relates to the disposal of EMJV.*
[3] *After tax of nil.*

For the year ended 31 December 2019	Group Tumelo subsidiary[1] Rm	 Tronox UK associate[2] Rm
Consideration:		
– Cash		1 597
– Loan to associate	142	
Total disposal consideration	142	1 597
Carrying amount of net assets/investment sold	(177)	(1 327)
– Property, plant and equipment	(21)	
– Investment in associate[3]	(92)	(1 327)
– Financial assets at amortised cost	(12)	
– Deferred tax asset	(10)	
– Other current assets	(1)	
– Provisions	9	
– Deferred tax liability	27	
– Trade and other payables	4	
– Other current liabilities	1	
– Non-controlling interests	(82)	
(Loss on loss of control)/gain on disposal[4]	(35)	270

[1] *On 1 January 2019, Exxaro lost control over the management function of Tumelo. This resulted in Tumelo being accounted for as an associate at an initial carrying value of nil.*
[2] *Relates to the redemption of membership interest in Tronox UK.*
[3] *The carrying amount reduced during the year by R460 million as a result of a dividend distribution received from Tronox UK.*
[4] *After tax of nil.*

8.6 TRANSFER OF OPERATION AND DISPOSALS OF JOINT OPERATION, SUBSIDIARY AND ASSOCIATE continued

	Company	
For the year ended 31 December 2020	**Eyesizwe[1] Rm**	**Exxaro Beijing[2] Rm**
Consideration:		
– Cash	924	
– Loans advanced	196	
Total disposal consideration	1 120	
Carrying amount of investment sold/deregistered	(998)	(1)
– Investment in subsidiaries	(998)	(1)
Gain on disposal/(loss on deregistration) of subsidiary[3]	122	(1)

[1] Relates to the shares sold to Exxaro ESOP SPV and Exxaro Community NPC (refer note 8.7).
[2] Relates to the deregistration of Exxaro Resources (Beijing) Commercial Company Limited.
[3] After tax of nil.

	Company
For the year ended 31 December 2019	**Tronox UK associate[1] Rm**
Consideration:	
– Cash	1 597
Total disposal consideration	1 597
Carrying amount of investment sold	(1 091)
– Investment in associate	(1 091)
Gain on disposal[2]	506

[1] Relates to the redemption of membership interest in Tronox UK.
[2] After tax of nil.

8.7 IMPLEMENTATION OF EMPLOYEE AND COMMUNITY EMPOWERMENT SCHEME

During 2020, Exxaro implemented Phase II of the Replacement BEE Transaction, by utilising 10% of Exxaro's interest in Eyesizwe for the empowerment of relevant Exxaro employees (ESOP arrangement) and communities (Community arrangement).

ESOP arrangement

On 27 March 2020, the ESOP arrangement was successfully implemented.

Exxaro sold 5% of its interest in Eyesizwe to the newly established subsidiary, Exxaro ESOP SPV. Exxaro ESOP Trust subscribed for 100% of the ordinary shares of Exxaro ESOP SPV, utilising the contributions received from participating Exxaro business units. Exxaro subscribed for 100% of the A ordinary shares of Exxaro ESOP SPV.

The beneficiaries of Exxaro ESOP Trust are the relevant Exxaro employees who are identified as qualifying employees in terms of the trust deed.

The beneficiaries will participate in distributions of Exxaro ESOP Trust as and when distributions are declared by Exxaro ESOP Trust for so long as they are in the employment of one of the relevant employer companies within the Exxaro group.

The beneficiaries do not have rights to the allocated units, nor do they retain a right to the allocated units on leaving the employment of the relevant employer companies.

The group therefore recognises a staff cost expense only when a distribution is declared by the Exxaro ESOP Trust, being the point when an unconditional liability is incurred to settle the distribution to the employees.

Community arrangement

On 11 May 2020, the Community arrangement was successfully implemented.

Exxaro sold 5% of its interest in Eyesizwe to the newly established subsidiary, Exxaro Community NPC. The share purchase was funded utilising contributions received by Exxaro Community NPC from the participating Exxaro business units.

Exxaro Community NPC is an NPC established for the benefit of communities in areas where Exxaro and its subsidiaries operate.

An additional donation of R34 million was made by Exxaro to Exxaro Community NPC to fund the first project focused on aiding communities which have been negatively impacted by the COVID-19 pandemic.

Costs are recognised as and when Exxaro Community NPC incurs costs to execute the various community projects.