thungela

ANNUAL FINANCIAL STATEMENTS 2021

ABOUT THUNGELA

Thungela, a Zulu word which means 'to ignite', is a leading South African thermal coal business, focused exclusively on thermal coal production. It is one of the largest pure-play producers and exporters of thermal coal in South Africa based on aggregate Coal Reserves and marketable coal production.

The Group owns interests in, and produces its thermal coal predominantly from seven mining operations, namely Goedehoop, Greenside, Isibonelo, Khwezela, AAIC (operating the Zibulo colliery), Mafube Coal Mining (operating the Mafube colliery) and Butsanani Energy (owning the independently operated Rietvlei colliery) which consist of both underground and opencast mines located in the Mpumalanga province of South Africa.

Thungela's operations are among the highest quality thermal coal mines in South Africa by calorific value.

Thungela, through AAIC, also holds a 50% interest in Phola, which owns and operates the Phola Coal Processing Plant, and a 23% indirect interest in RBCT. The Richards Bay Coal Terminal is one of the world's leading coal export terminals, with an advanced 24-hour operation and a design capacity of 91 Mtpa.

Thungela is committed to operating in a sustainable way to ignite value for a shared future,for the benefit of the communities in which it operates, its employees, shareholders and society as a whole.

DIRECTORS' DECLARATION

The Thungela Resources Limited ('Thungela' or the 'Group' or the 'Company') board of directors, supported by the audit committee, is ultimately responsible for the preparation, fair presentation and integrity of the consolidated and separate annual financial statements and related financial information of the Group, as contained in the consolidated and separate annual financial statements for the year ended 31 December 2021. The board of directors confirm that they have collectively reviewed the content of the consolidated and separate annual financial statements for the year ended 31 December 2021 and approved the same at its meeting on 18 March 2022, for presentation to shareholders at the next AGM, expected to be held on or around 24 May 2022. These consolidated and separate annual financial statements have been prepared under the supervision of Deon Smith CA (SA), CFO.

LEVEL OF ASSURANCE

The consolidated and separate annual financial statements have been audited in compliance with the requirements of the Companies Act of South Africa.

THUNGELA'S 2021 REPORTING SUITE

This report forms part of our overall suite of reporting documents for the year ended 31 December 2021, all of which should be read together. Our 2021 reporting suite includes the documents as detailed below.

INTEGRATED ANNUAL REPORT*

- Balanced assessment of our approach to creating and sustaining value.
- Detailed assessment of our Coal Resources and Coal Reserves in line with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2016 (the SAMREC Code).
- Developed in line with the <IR> Framework, the Companies Act of South Africa, King IV, the JSE Listings Requirements, the UK Listing Rules and the UK Disclosure Guidance and Transparency Rules.

ANNUAL FINANCIAL STATEMENTS

- Detailed understanding of the Group's financial and operational performance, including Pro forma financial information.
- Prepared in accordance with IFRS, the Companies Act of South Africa, King IV, the JSE Listings Requirements, the UK Listing Rules and the UK Disclosure Guidance and Transparency Rules.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT*

- Detailed disclosure of the key environmental, social and governance elements that could have a material impact on our performance and business if not effectively managed.
- Prepared in accordance with the core requirements of the GRI requirements, and internal safety and sustainable development indicators.

* Available from April 2022.

Various acronyms, abbreviations and measures used throughout our 2021 reporting suite have been defined on pages 140 to 143.

For more information, visit www.thungela.com/investors/annualreporting

Responsibly creating value together for a shared future

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DIRECTORS' RESPONSIBILITY AND APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

The directors are responsible for the preparation, fair presentation and integrity of the consolidated annual financial statements and related financial information of the Group, as well as the separate annual financial statements of the Company, which include amounts based on judgements and estimates made by management, in accordance with IFRS, the requirements of the Companies Act of South Africa and the JSE Listings Requirements as well as with the UK Listing Rules, MAR and the UK Disclosure Guidance and Transparency Rules.

The consolidated and separate annual financial statements are based on appropriate accounting policies which have been consistently applied and which are supported by reasonable judgements and estimates. The consolidated and separate annual financial statements comprise the statements of financial position at 31 December 2021, the statements of profit or loss and other comprehensive income, the statements of changes in equity and statements of cash flows for the year then ended, the notes to the annual financial statements, the review of financial performance, the directors' report, the report of the audit committee, the CEO and CFO responsibility statement on internal financial controls and the certificate by the company secretary.

The directors, primarily through the audit committee, meet quarterly with the internal and independent external auditors as well as the Group executive committee, and other members of management as appropriate, to evaluate matters concerning the responsibilities below:

- maintaining adequate accounting records and an effective system of risk management
- developing, implementing and maintaining a sound system of internal control relevant to the preparation and fair presentation of these financial statements, that provides reasonable assurance against material misstatement or loss, whether owing to fraud or error
- selecting and applying appropriate accounting policies
- making accounting estimates that are reasonable in the circumstances
- safeguarding shareholders' investments and the Group's assets
- preparing the consolidated and separate annual financial statements, including the supplementary annexures.

The Group's internal auditors independently evaluate the internal controls and co-ordinate their audit coverage with the independent external auditor.

The Group's independent external auditor is responsible for reporting on whether the consolidated and separate annual financial statements are fairly presented in accordance with IFRS. The independent external auditor's report to the shareholders is set out on pages 25 to 31 of these consolidated and separate annual financial statements.

The Group's internal auditors and independent external auditor have unrestricted access to all records, property and personnel as well as to the audit committee.

The directors acknowledge that they are ultimately responsible for the process of risk management and the system of internal financial control established by the Group, and place a strong emphasis on maintaining a strong control environment. Based on the information and explanations given by management, the internal auditors, the independent external auditor and the Group's risk, compliance and other reporting processes, the directors are not aware of any material breakdown in the functioning of these controls and systems during the year ended 31 December 2021. The directors are of the opinion that the risk management processes and system of internal financial control provide reasonable assurance in all key material aspects that the financial records may be relied upon for the preparation of the consolidated and separate annual financial statements.

The directors are satisfied that the Group's forecasts, taking into account reasonably possible changes in performance, show that Thungela will be able to operate at its current level for the foreseeable future. For this reason, Thungela has adopted the going concern basis in preparing the consolidated and separate annual financial statements.

APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

The consolidated and separate annual financial statements on pages 3 to 156 were approved by the board of directors and will be presented to the shareholders at the next AGM. The consolidated and separate annual financial statements are signed on the directors' behalf by:

Sango Ntsaluba
Chairman

22 March 2022

July Ndlovu
CEO

CEO AND CFO RESPONSIBILITY STATEMENT ON INTERNAL FINANCIAL CONTROLS

For the year ended 31 December 2021

The directors, whose names are stated below, hereby confirm that:

- the annual financial statements set out on pages 34 to 135, fairly present, in all material respects, the financial position, financial performance and cash flows of Thungela in terms of IFRS
- no facts have been omitted or untrue statements made that would make the annual financial statements false or misleading
- internal financial controls have been put in place to ensure that material information relating to Thungela and its consolidated subsidiaries have been provided to effectively prepare the financial statements of Thungela
- the internal financial controls are adequate and effective and can be relied upon in compiling the annual financial statements, having fulfilled our role and function within the combined assurance model pursuant to principle 15 of King IV. Where we are not satisfied, we have disclosed to the audit committee and the auditors the deficiencies in design and operational effectiveness of the internal financial controls and any fraud that involves directors, and have taken the necessary remedial action.

July Ndlovu
CEO

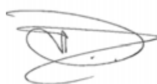
Deon Smith
CFO

22 March 2022

CERTIFICATE BY THE COMPANY SECRETARY

For the year ended 31 December 2021

In terms of section 88(2)(e) of the Companies Act of South Africa, I, Francois Klem, in my capacity as company secretary, confirm that, to the best of my knowledge and belief, Thungela has filed with the Companies and Intellectual Property Commission all such returns and notices for the year ended 31 December 2021, as required of a public company in terms of the Companies Act of South Africa, and that all such returns and notices appear to be true, correct and up to date.



Francois Klem
Company secretary

22 March 2022

REVIEW OF FINANCIAL PERFORMANCE

For the year ended 31 December 2021

"Thungela reports a strong set of results and declares maiden dividend"
Deon Smith, chief financial officer

Net profit for the year	Headline earnings per share	Adjusted EBITDA	Net cash
R6.9 BILLION	**R66.57**	**R10.0 BILLION**	**R8.7 BILLION**
(2020: loss of R362 million)	(2020: headline loss per share of R5.31)	(2020: R286 million)	(2020: net debt R388 million)

Total dividend to shareholders of Thungela	Dividend per share	Inaugural dividend of
R2.5 BILLION	**R18**	**R273 MILLION**
	63% of Adjusted operating free cash flow	to the SACO Employee and the Nkulo Community Partnership Trusts

OVERVIEW

It is with pride that we have released Thungela's first full year results as a listed business. Looking back on the time since our listing on 7 June 2021, we have transitioned to a standalone business and we have delivered a strong set of results, notwithstanding a number of challenges, most notably the rail infrastructure constraints and the impact of COVID-19 on our operations.

After experiencing the negative impact of the second wave of COVID-19 on production and unit costs in the first quarter of 2021, the business regained momentum in the second half. We were, however, impacted by the rail constraints which became more pronounced as the year progressed (including two separate TFR maintenance shutdowns compared to the single shutdown in prior years). As a result, we decided late in the third quarter to curtail lower margin production which had a concomitant impact on the full year saleable production and export equity sales. Our results, however, reflect the benefit of product mix optimisation as well as good management of cost and capital expenditure.

Despite the curtailment of production, the Group recorded export saleable production of 14.5 Mt (Pro forma of 15.0 Mt) at an FOB cost per export tonne of R830 (Pro forma R812). The combination of strong realised export prices coupled with the good cost performance, resulted in an Adjusted EBITDA of R10.0 billion and headline earnings of R7.0 billion.

The Group recognised impairments of R808 million in the period. These were recorded at Khwezela where we have curtailed production as a result of the poor rail performance, and at Isibonelo which is incurring increased unit cost as a result of production challenges. Plans are in place at Isibonelo which are likely to result in a gradual recovery of production and cost.

We initiated a forward coal swap programme in quarter four of 2021, taking advantage of a strong Benchmark coal price forward curve as we recognised the need to secure firm margins for the operations which were curtailed to a lower production run rate. We will continue to evaluate the merits of this programme in the context of TFR's progress to resolve rail constraints and our ability to lock in firm margins to protect these operations should prices deteriorate prior to the recovery in rail performance. The mark-to-market position for the period ended 31 December 2021 resulted in a fair value gain of R348 million on these forward coal swaps, with settlement expected from January 2022.

An assessed loss carried over from prior years, coupled with the utilisation of unredeemed capital deductions within TOPL, resulted in an effective tax rate (ETR) of 7.6% in 2021. We expect the ETR to normalise closer to the statutory tax rate of 28% from 2022.

Our operating activities generated cash flows of R9.3 billion, before adjusting for the impact of the build up of working capital of R3.2 billion, with a further R2.2 billion invested in capex to sustain the business and develop reserves at our key underground operations. The full year capex is lower than our previous guidance mainly due to efforts to optimise capital expenditure applying a Thungela lens, and planned deferral of approximately R200 million of sustaining capex following the decision to pare back production owing to the rail constraints and the associated impact on on-mine stockpiles.

The Group invested R227 million in a new plant through a strategic partnership agreement with the Nasonti Group. This plant is expected to deliver approximately 1.0 Mt of saleable production per annum, with first coal expected in March 2022.

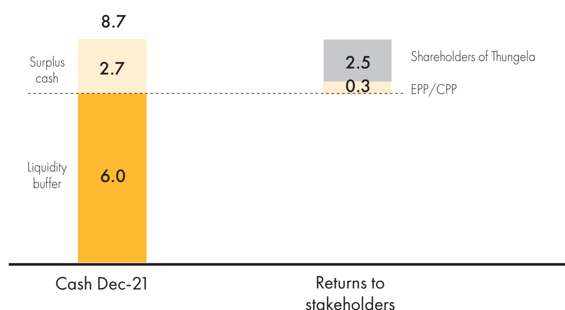
The Group's net working capital increased by R3.2 billion, mainly due to an increase in inventories and higher realised prices, which is reflected in our trade and other receivables.

Net of the working capital movements and sustaining capital expenditure the Group generated Adjusted operating free cash flow of R3.9 billion. We remain confident in the strength of our balance sheet and our continued ability to generate strong cash flows given current market conditions. We are pleased to have declared an ordinary dividend of R18 per share – a return to shareholders of R2.5 billion, representing 63% of Adjusted operating free cash flow. We recognise that our shareholder base is diverse and to balance the interests of shareholders we will also seek authorisation from shareholders at the forthcoming AGM for a potential future share buyback programme, if appropriate.

In addition SACO has funded the EPP and CPP (collectively the Trusts) dividends of R273 million (which represents 10% of the dividend declared by SACO). Net of these payments the Group is able to maintain the liquidity buffer of between R5 billion and R6 billion, with the upper end of this range being appropriate given continued global economic and geopolitical uncertainty.

REVIEW OF FINANCIAL PERFORMANCE
CONTINUED
For the year ended 31 December 2021

LIQUIDITY (Rbn)



In line with our capital allocation framework, we continue to evaluate the Group's life extension and production replacement project options to determine the most optimal sequencing and capital intensity, as well as the merits of investing in these options. We have continued studies to progress our understanding of the various project options, including the Elders production replacement, the Zibulo North shaft life extension, the Clydesdale life extension and the Dalyshope projects. The first two projects – the Elders production replacement and Zibulo North shaft life extension projects – will be considered by the board for approval, based on our financial and ESG investment evaluation criteria as well as our view of the optimal sequence for these projects.

The Elders production replacement project, with an estimated R1.9 billion capital expenditure (real), will extend the production footprint in the Goedehoop region by approximately 10 years. The effective utilisation of regional infrastructure coupled with our value focused approach has reduced real capital expenditure by approximately R1.0 billion compared to prior studies. The capital expenditure is expected to be incurred during 2023 and 2024 with a portion of completion spend expected in 2025.

Depending on the outcomes of the value feasibility study at Zibulo, the North shaft life extension project is likely to be considered for investment in early 2023.

FINANCIAL AND OPERATING RESULTS OF THE GROUP

The financial and operating results of the Group have been prepared in a manner fully compliant with IFRS. The Group has also deemed it necessary to present Pro forma financial information in order to enhance stakeholders' understanding of the Group's operating and financial performance as an independent business on a like for like basis, as the Group is expected to exist on a forward-looking basis.

Table 1 reflects the financial results as disclosed in the Annual financial statements. The directors consider additional operational and financial measures to assess the results of the operations, referred to as as Alternative Performance Measures (APMs). APMs are the responsibility of the Thungela directors and have been presented consistently in each period. Further detail on the APMs is included in Annexure 1 of this document.

The material differences between the current and comparative period for the measures set out in table 1 relate mainly to the Internal restructure as described in note 2A of this document.

FINANCIAL OVERVIEW

TABLE 1: IFRS FINANCIAL RESULTS FOR THE GROUP

Rand million (unless otherwise stated)	2021	2020
Revenue	26,282	3,750
Operating costs	(17,322)	(3,872)
Profit/(loss) for the reporting period	6,938	(362)
Attributable to non-controlling interests	509	(32)
Attributable to equity shareholders of the Group	6,429	(330)
Earnings/(losses) per share (cents)	6,108	(531)
Headline earnings/(losses) per share (cents)	6,657	(531)
WANOS (number of shares)	105,260,339	62,110,182
APMs		
Adjusted EBITDA	9,978	286
Adjusted EBITDA margin (%)	38	7.6
FOB cost per export tonne (Rand/tonne)	830	804
Adjusted operating free cash flow	3,923	(249)
Net cash/(debt)	8,663	(388)
Capital expenditure	2,323	604
Environmental liability coverage (%)	52	47

PROFIT FOR THE REPORTING PERIOD

Profit for the reporting period was R6.9 billion (2020: loss of R362 million), mainly due to improved prices and various restructuring steps.

R6.4 billion (2020: loss of R330 million) is attributable to equity shareholders of the Group, while R509 million (2020: loss of R32 million) is attributable to non-controlling interests (NCI). Of the total profit attributable to NCI, R463 million (2020: loss of R32 million) relates to the NCI in AAIC (operating the Zibulo colliery). However, due to the nature of the loan structure within AAIC, the cash generated by AAIC is primarily utilised for the repayment of debt owed by AAIC to TOPL. The balance of R46 million (2020: Rnil) is attributable to NCI in Butsanani Energy (owning the Rietvlei colliery).

The Group assesses at each reporting date whether there are any indicators that its assets may be impaired. Operating and economic assumptions are made which could affect the valuation of assets using discounted cash flow models to determine the recoverable amounts. The Group has impaired assets at Khwezela and Isibonelo by R808 million in the year ended 31 December 2021. The impairment of Khwezela results from the reduced production to compensate for poor rail performance while the Isibonelo impairment reflects production challenges and a resultant higher cost per tonne against fixed contractual prices.

Profit for the reporting period was also impacted by the restructuring costs and termination benefits incurred. These costs relate primarily to two matters:

- additional costs incurred in placing the Bokgoni pit at Khwezela on care and maintenance during the first quarter of 2021 amounting to R193 million
- costs relating to the Demerger amounting to R229 million, of which R138 million related to the accelerated vesting of the Anglo American share awards which were settled as part of the Demerger, and a further R91 million related to costs incurred to execute the Demerger.

Profit for the reporting period was further impacted by a fair value loss of R569 million (2020: Rnil) on the derivative asset relating to the Capital support agreement with Anglo American which commenced on 1 June 2021. Given the higher forecasted Benchmark coal prices through to the end of the agreement in December 2022, compared to the trigger price of R1,175/tonne when the agreement was concluded in March 2021, it is unlikely that the Group will draw on the additional capital support available as set out in the agreement. Thus, an adjustment has been processed to reflect the derivative asset at its fair value at 31 December 2021. This agreement has not resulted in any cash inflow or outflow to date for the Group. The Capital support agreement will continue until 31 December 2022 with a further R2.5 billion potentially available for drawdown should prices drop below the trigger price.

REVIEW OF FINANCIAL PERFORMANCE
CONTINUED

For the year ended 31 December 2021

The Group entered into a limited level of derivative trading activity consisting of forward coal swap agreements in 2021, which have been accounted for as derivative assets at fair value through profit or loss. For the period ended 31 December 2021, a fair value gain of R348 million has been recognised in the statement of profit or loss and other comprehensive income representing the mark-to-market impact of these agreements.

The Group on Demerger carried over an assessed loss and significant unredeemed capital deductions in TOPL. In the current strong price environment these assessed losses within TOPL have been utilised and will result in the ETR increasing from 7.6% in 2021 closer to the statutory tax rate of 28% from 2022.

EARNINGS PER SHARE AND HEADLINE EARNINGS PER SHARE

The Group generated earnings attributable to shareholders of the Group of R6.4 billion and R61.08 per share for the period ended 31 December 2021 while in the comparative period the Group incurred a loss of R330 million and R5.31 per share.

The Group issued 136,311,808 shares on 1 June 2021. Of these, 62,110,182 shares are considered to have been issued for the existing SACO Group and are shown as outstanding from the start of the comparative period and reflected as the WANOS for 31 December 2020. The remaining 74,201,626 shares are considered to have been issued in exchange for cash received from Anglo American in June 2021. These shares have been appropriately weighted from the time of their issue to 31 December 2021, resulting in a WANOS of 105,260,339 for 31 December 2021.

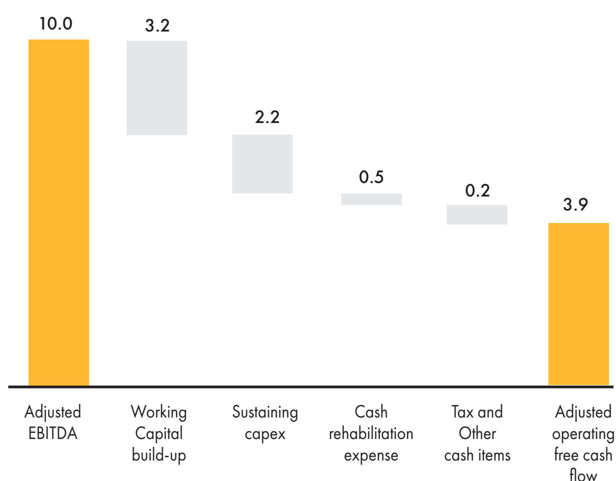
The Group generated headline earnings of R7.0 billion and headline earnings of R66.57 per share for the period ended 31 December 2021. For the comparative period, the Group incurred a headline loss of R330 million and R5.31 per share. The major contributor to the difference between earnings and headline earnings for the period was the impairment of R808 million, net of tax, which was adjusted in the calculation of headline earnings.

ADJUSTED OPERATING FREE CASH FLOW

The Group generated an Adjusted operating free cash flow of R3.9 billion for the period ended 31 December 2021 and it utilised Adjusted operating free cash flow of R249 million in the comparative period.

The difference between the profit generated for the reporting period and the Adjusted operating free cash flow was attributable mainly to the build-up of working capital and sustaining capital expenditure incurred.

ADJUSTED OPERATING FREE CASH FLOW (Rbn)



CASH AND CASH EQUIVALENTS

The Group ended the period with cash and cash equivalents of R8.7 billion. On achieving economic and operational independence on 1 June 2021, the intercompany loan balance with Anglo American was extinguished and Thungela received a cash injection of R2.5 billion from Anglo American, which is not repayable.

Given that Thungela is a single commodity and single geography thermal coal business, coupled with limited access to debt markets, an appropriate level of balance sheet flexibility is important to manage the business through periods of Benchmark coal price volatility. The Thungela board believes it is appropriate to maintain a liquidity buffer of between R5 billion and R6 billion during and following periods of stronger market conditions, and all else being equal, between R2 billion and R3 billion during and following periods of weaker market conditions.

It is important that the Group maintains an adequate level of liquidity to continue to operate confidently in lower price environments without compromising returns to shareholders, and to enable funding for key life extension and production replacement projects.

CAPITAL EXPENDITURE

The Group incurred capital expenditure of R2.3 billion for the period ended 31 December 2021 (2020: R604 million), comprising the following:

- R1.7 billion invested in stay-in-business activities, mainly for routine machinery overhauls, capital spares, infrastructure upgrades and mining fleet upgrades or replacements as well as an investment in intangibles for the implementation of a new ERP system to enable the Demerger
- R511 million for stripping and development capital to access LOM reserves for the underground Greenside and Zibulo mines and for the opencast Khwezela and Zibulo box cuts
- R130 million expansionary capital expenditure for the final completion activities at Khwezela's Navigation pit.

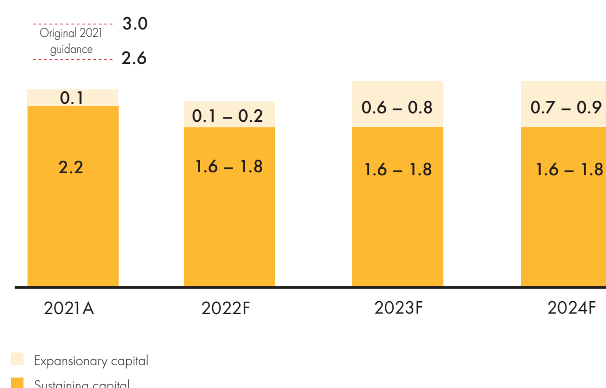
The Group deferred sustaining capex of approximately R200 million to the first quarter of 2022 as a result of a lower production run rate in quarter four of 2021 due to the ongoing TFR challenges. The 2022 capital guidance provided in the Outlook section of this document includes this deferral of capex from 2021.

At Demerger the Group provided guidance of between R2.6 billion and R3.0 billion total capital expenditure in 2021, however, further commented that a 'Thungela lens' would be applied to the capital spend for the remainder of 2021, and capital expenditure into the future which has as anticipated, resulted in lower capital intensity across our operations.

The Elders production replacement project is set to deliver approximately 4.0 Mt ROM (2 seam) annually over a period of approximately 10 years. The revised study which seeks to optimise the resource extraction and achieve a lower capital intensity, now reflects a capital cost of approximately R1.9 billion (real) compared to the pre feasibility study of 2015 which indicated a capital spend of approximately R2.6 billion. The feasibility study is expected to be presented to the board for approval during the first half of 2022.

The Zibulo North shaft project seeks to sink a shaft and associated infrastructure to enable access to the Zondagsfontein West reserves. This project will add approximately 10 years LOM and is likely to cost approximately R2.2 billion (real). The Zibulo North shaft project will ensure that the mine is able to continue to produce approximately 8.0 Mt ROM annually. It is expected that this project will be approved in early 2023 with capital expenditure starting from late 2023.

CAPITAL EXPENDITURE (Rbn)



REVIEW OF FINANCIAL PERFORMANCE

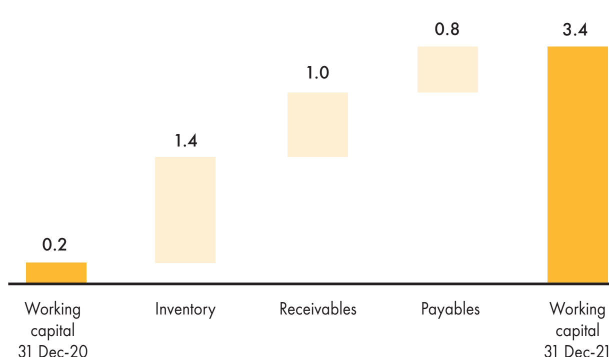
CONTINUED

For the year ended 31 December 2021

NET WORKING CAPITAL

Net working capital at 31 December 2021 was R3.4 billion (2020: R156 million), reflecting an increase of R3.2 billion during the reporting period. Inventory increased by R1.4 billion due to a build-up of inventory at operations as a result of poor TFR performance while trade receivables increased by R960 million on the back of higher realised export prices and an increase in refunds due from SARS. Payables decreased as historical payables were cleared in preparation for the Demerger.

WORKING CAPITAL MOVEMENT (Rbn)



ENVIRONMENTAL PROVISIONS

The Environmental provisions are comprehensively assessed on an annual basis and determined with assistance from specialist independent environmental consultants. At 31 December 2021 the Environmental provisions recognised amount to R6.8 billion (2020: R6.2 billion).

The movement in Environmental provisions can be explained as follows:

Rand million	
Environmental provisions at 31 December 2020	**6,184**
Mafube inclusion post Internal restructure	**268**
Increase based on independent assessment of current disturbances	**249**
Unwinding of discount	**530**
Less: Cash spent on rehabilitation activities	**(480)**
Environmental provisions at 31 December 2021	**6,751**

The Group has investments ringfenced in environmental rehabilitation trusts and the Green fund of R3.5 billion (2020: R2.9 billion). Environmental liability coverage has improved from 47% at 31 December 2020, to 52% as at 31 December 2021.

The Environmental provisions are calculated using the MPRDA Regulations as a base, adjusted for costs the Group is likely to incur over the period until closure is completed. The financial provisioning as required by the current MPRDA Regulations amounted to R4.1 billion (2020: R4.0 billion), compared to the total Environmental provisions recognised by the Group of R6.8 billion (2020: R6.2 billion). This difference is due to additional costs which the Group believes we are likely to incur through a combination of our interpretation of the NEMA Financial Provisioning Regulations as well as actual costs to be incurred in the period up to and following mine closure, most significantly in relation to water treatment costs.

We have provided for water treatment costs using a combination of active and passive water treatment methods, based on the activities currently being performed at our operations. The NEMA Financial Provisioning Regulations require the treatment of water to be provided for using the costs for currently available technologies which the DMRE has approved, based on evidence that the technology to be implemented is able to consistently achieve the discharge requirements. Thungela has embarked on a drive to investigate several different technologies to mitigate the impact of water liabilities. Significant progress has also been made on proving passive water treatment on a pilot scale, to demonstrate the passive water treatment process as an integrated system at a larger scale. The construction of a demonstration scale plant to further prove this treatment commenced in August 2021.

The Group is expected to transition to the NEMA Financial Provisioning Regulations on the transition date of 19 June 2022, however, there are several regulatory steps that are required to take place before this transition can be effective. The Group has continued to provide for our interpretation of the increase in costs required as a result of the NEMA Financial Provisioning Regulations.

PERFORMANCE OF THE BUSINESS ON A PRO FORMA BASIS

The Pro forma financial information has been prepared to enhance stakeholders' understanding of the Annual financial statements, based on the timing of the Internal restructure and its impact on the comparability of the financial results as detailed in note 2A of this document.
The Pro forma information is only prepared for selected operational figures and the statement of profit or loss in each reporting period.

TABLE 2: PRO FORMA FINANCIAL AND OPERATIONAL RESULTS

Rand million (unless otherwise stated)	**2021**	2020
Revenue	**26,393**	18,254
Operating costs	**(17,377)**	(20,351)
Profit/(loss) for the reporting period	**6,999**	(4,703)
Attributable to non-controlling interests	**509**	(290)
Attributable to equity shareholders of the Group	**6,490**	(4,413)
Earnings/(losses) per share (cents)	**4,774**	(3,237)
Headline earnings/(losses) per share (cents)	**5,199**	(1,860)
WANOS (number of shares)	**135,957,450**	136,311,808
APMs		
Adjusted EBITDA	**10,067**	(1,024)
Adjusted EBITDA margin (%)	**38**	(5.6)
FOB cost per export tonne (Rand/tonne)	**812**	833
Thermal coal price and exchange rate		
Benchmark coal price (USD/tonne)	**124.11**	65.21
Average realised export price (USD/tonne)	**103.82**	48.47
Average realised export price (Rand/tonne)	**1,535**	798
Realised price as a % of Benchmark coal price (%)	**84**	74
ZAR:USD average exchange rate	**14.79**	16.47
kt		
Run of mine	**28,104**	31,410
Export saleable production	**14,957**	16,463
Domestic saleable production	**10,064**	14,015
Total saleable production	**25,021**	30,478
Export equity sales	**13,893**	16,573
Third party export sales	**967**	1,580
Domestic sales	**10,185**	12,369
Total sales	**25,045**	30,522

REVIEW OF FINANCIAL PERFORMANCE
CONTINUED

For the year ended 31 December 2021

OPERATIONAL PERFORMANCE

ROM decreased by 11% to 28,104 kt (2020: 31,410 kt) mainly due to higher cost production at the Bokgoni pit at Khwezela being placed on care and maintenance in the first quarter of 2021 and lower than expected train allocation from TFR that resulted in the curtailing of export production towards the latter part of 2021. The decrease of volumes from Bokgoni would have been partially offset by increased volumes from the Navigation pit at Khwezela but its continued ramp-up was significantly hampered by the TFR performance as on-mine stockpiles filled up from September 2021. Furthermore, during January 2021, production was impacted by the second wave of the COVID-19 pandemic in South Africa.

Export saleable production volumes decreased by 9.1% to 14,957 kt (2020: 16,463 kt) as a result of the decrease in ROM production. Export equity sales also declined by 16% to 13,893 kt (2020: 16,573 kt), primarily due to the lower saleable production volumes and lower than planned railings due to the challenges experienced by TFR. The rail performance impacted production in in the second half of 2021 as on-mine stockpiles reached capacity levels from September resulting in the curtailment of operations. Khwezela and Zibulo were the most severely impacted by the poor TFR performance – equipment and resources at these mines were deployed to other value adding activities albeit at lower efficiencies. Incremental costs to manage higher than normal on-mine inventory stockpiles were incurred.

Domestic saleable production decreased 28% to 10,064 kt (2020: 14,015 kt) as demand from domestic customers weakened and Isibonelo experienced operational challenges from excessive rainfall in the fourth quarter of 2021. Domestic sales decreased by 18% to 10,185 kt (2020: 12,369 kt) due to the lower production but were offset by the Rietvlei colliery selling down product stockpiles.

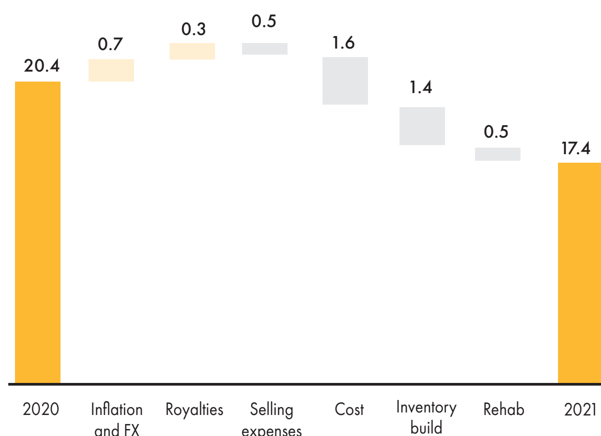
REVENUE

Revenue increased by 45% to R26.4 billion compared to R18.3 billion for 2020, mainly as a result of a 90% increase in Benchmark coal prices as well as higher achieved realised prices, partially offset by a stronger Rand. The Group achieved a realised price of R1,535/tonne compared to the prior period of R798/tonne. The realised price as a percentage of Benchmark coal prices averaged 84% for the year and has improved from 74% in 2020. This is mainly due to market conditions and the optimisation of the Group's export equity sales mix in order to prioritise the railing and sales of higher margin products to mitigate the TFR challenges. The increase in revenue was partially offset by the impact of the stronger average ZAR:USD exchange rate of R14.79 (2020: R16.47).

OPERATING COSTS

Total operating costs decreased by 15% to R17.4 billion (2020: R20.4 billion). FOB cost decreased by 12% to R12.1 billion as we eliminated higher cost production by placing Bokgoni on care and maintenance in the first quarter of 2021 as well as lower selling expenditure as a result of lower railings. FOB cost reductions were partially offset by the mining royalty charge of R396 million (2020: R70 million).

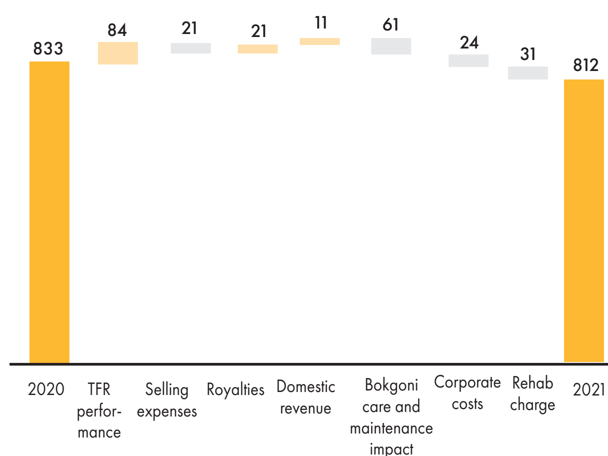
OPERATING COSTS (Rbn)



FOB COST PER EXPORT TONNE

Despite lower export saleable production as a result of the TFR performance (R84/tonne), the FOB cost per export tonne at R812 was lower than the prior period of R833 as the unit cost benefitted from the Bokgoni care and maintenance decision (R61/tonne), reduced rehabilitation charge (R31/tonne) as well as lower corporate costs (R24/tonne) following the Demerger. The Group continues to seek further opportunities to optimise the operating costs to reflect the standalone business, and to offset the expected increase in prices as a result of the global inflation outlook.

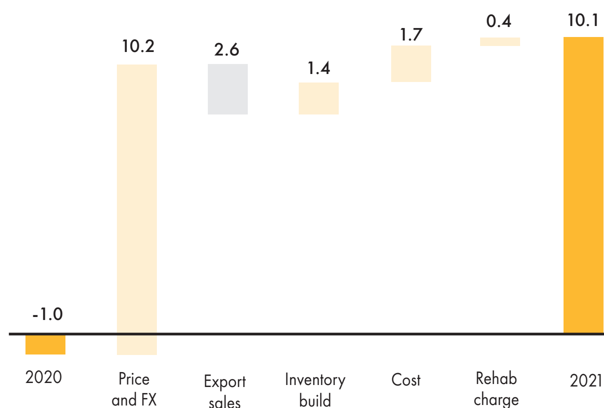
FOB COST PER TONNE (R/tonne)



ADJUSTED EBITDA

The Group delivered an Adjusted EBITDA of R10.1 billion for the period ended 31 December 2021 (2020: loss of R1.0 billion) mainly as a result of an increase of 92% in realised prices offset by the impact of foreign exchange and inflation. The impact on Adjusted EBITDA of lower sales volumes amounting to R2.6 billion was more than offset by an increase in on-mine inventory, overall operating cost savings and a lower rehabilitation charge. The Adjusted EBITDA margin improved to 38%, compared to a negative margin of 5.6% for the comparative period.

ADJUSTED EBITDA (Rbn)



REVIEW OF FINANCIAL PERFORMANCE

CONTINUED

For the year ended 31 December 2021

PROFIT FOR THE REPORTING PERIOD

Profit for the reporting period was R7.0 billion, compared to a loss of R4.7 billion in the comparative period. This improvement was driven mainly by the increase in revenue and lower operating costs.

Profit attributable to equity shareholders of the Group improved to R6.5 billion, compared to an attributable loss of R4.4 billion in the comparative period. Net profit attributable to NCI improved to R509 million from the comparative period loss of R290 million.

EARNINGS PER SHARE AND HEADLINE EARNINGS PER SHARE

The Group generated earnings attributable to equity shareholders of R6.5 billion and R47.74 per share during the period (based on a WANOS for the period of 135,957,450). For the purposes of the Pro forma financial information, these shares have been considered to be in issue from the start of the comparative period, and WANOS is reflective of total shares in issue adjusted for treasury shares held. In the comparative period the Group incurred a loss attributable to equity shareholders of R4.4 billion and R32.37 per share (based on WANOS for the period of 136,311,808).

The Group generated headline earnings of R7.0 billion and R51.99 per share during the period compared to a loss of R18.60 per share in 2020. The difference between the EPS and HEPS mainly relates to the impairment losses, which were excluded from headline earnings.

INVESTOR RELATIONS ACTIVITY AND SHARE PRICE

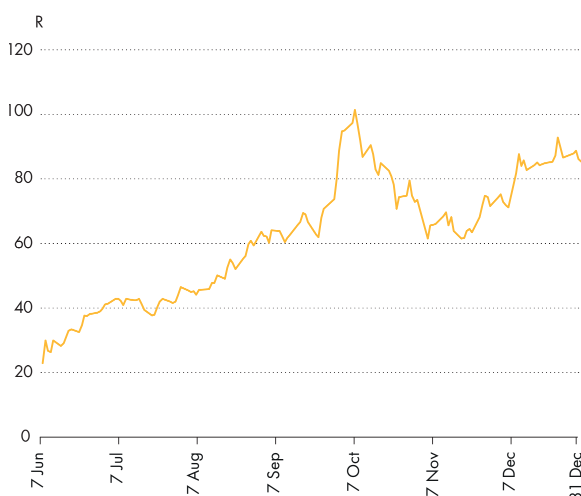
Since our listing on 7 June 2021 Thungela has positioned itself as a leading thermal coal company in terms of generating value for shareholders.

The investor relations function was set up at the onset of the announcement of the Demerger in April 2021. The investor relations function engages regularly with the market to ensure effective communication of the Group's financial and operating performance, ESG matters and corporate strategy. Engagement with the market includes regular interactions with buy-side and sell-side analysts, existing institutional and retail investors, as well as potential investors. Engagements with the market have been important to ensure an understanding of our business, recognising our very recent listing.

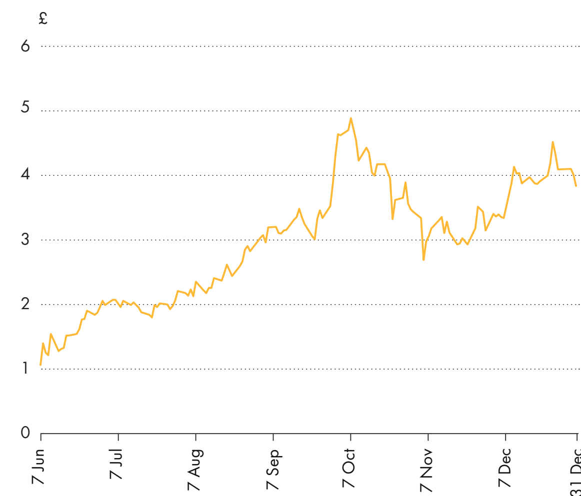
Thungela was admitted to trading on the JSE and LSE under the ticker 'TGA'. We have communicated and engaged with the market through the hosting of a Capital markets day (6 May 2021), the release of interim results (13 August 2021), the release of a CFO Pre-close and trading statement (6 December 2021), analyst and investor calls accompanying the aforementioned releases, as well as the release of material information through the JSE SENS and LSE RNS platforms.

TGA closed at R21.90 per share on the JSE on its first day of trading but has subsequently increased to R84.54 per share at close on 31 December 2021, representing an increase of 286%.

TGA CLOSING SHARE PRICE ON JSE (ZAR)



TGA CLOSING SHARE PRICE ON LSE (GBP)



CORPORATE ACTIONS

Thungela continues to evaluate opportunities to enhance our business and optimise resource extraction, whether through value accretive acquisitions or through strategic partnerships. We concluded a strategic partnership agreement with the Nasonti Group, a partner with whom we have had a long and successful working relationship, to establish a company through which we will enable increased saleable production. Through the agreement a beneficiation plant will be re-established at Goedehoop South to commercially exploit the mineral residue material at the site.

Thungela paid R227 million into the structure, of which R120 million is in the form of a loan. The commercial arrangement has resulted in the creation of a joint operation, Pamish, which has been reflected in the Annual financial statements for the year ended 31 December 2021. It is estimated that our effective share of steady state production will be up to 1.0 Mt of low-cost saleable product per annum for the next four years. First coal is planned for March 2022.

DIVIDENDS

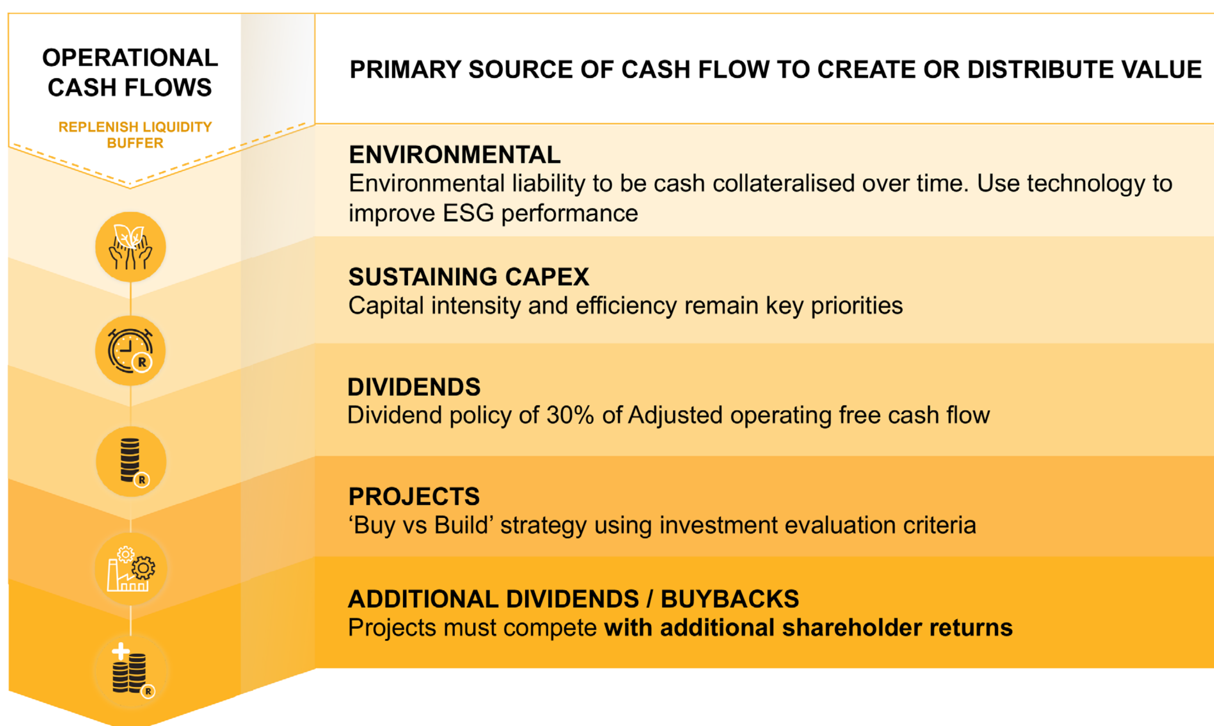
The Group's dividend policy targets a minimum return to shareholders of 30% of Adjusted operating free cash flow. The board declared an ordinary dividend of R18 per share for the year ended 31 December 2021, which results in R2.5 billion cash dividends to shareholders of Thungela.

The EPP and the CPP were both established on 2 June 2021 to participate in the success of the business. The EPP and CPP are each eligible for 5% of the dividends declared by SACO on its ordinary shares and will receive a dividend of R273 million which represents 10% of the SACO dividend declared.

The aggregate total returns to shareholders of Thungela amount to R2.5 billion which represents 63% of Adjusted operating free cash flow well above our policy of 30%.

This is in line with our capital allocation framework which seeks to prioritise returns to shareholders during periods of strong performance. The board remains focused on and committed to delivering attractive shareholder returns, while maintaining disciplined capital allocation.

CAPITAL ALLOCATION



REVIEW OF FINANCIAL PERFORMANCE
CONTINUED

For the year ended 31 December 2021

OUTLOOK

	2022	2023	2024
Export saleable production (Mt)	14 – 15	>16	>16
FOB cost per export tonne (Rand/tonne)*	870 – 890	870	870
Capital – sustaining (bn) (Rand billion)*	1.6 – 1.8	1.6 – 1.8	1.6 – 1.8
Capital – expansionary (bn) (Rand billion)*	0.1 – 0.2	0.6 – 0.8	0.7 – 0.9

* Rand amounts in real money terms.

Based on the operational and financial performance achieved in 2021, the Group is updating the operational outlook. The range for export saleable production is revised to between 14 Mt and 15 Mt for 2022, taking into account a gradual rather than immediate recovery in TFR performance. In 2022 export sales are expected to more closely align with export saleable production because the Group has largely utilised available on-mine stockpile capacity. Export saleable production, subject to TFR's performance, is expected to recover and exceed 16 Mt from 2023.

Inflationary pressures are currently increasing across various commodities and consumables. These, coupled with a lower production denominator in 2022 due to the constrained rail availability, are likely to weigh on the Group's unit cost. The Group expects the 2022 FOB cost per export tonne to range between R870 and R890 per export tonne – the bottom end of the unit cost range assumes the achievement of the upper end of the production guidance. The unit cost includes a mining royalty amount of R20/tonne payable to the South African government. The royalty could increase materially if current Benchmark coal prices, which are higher than the Group's working assumptions, were to prevail for the remainder of the year. FOB cost per export tonne guidance for 2023 and 2024 is expected to moderate as a result of higher export saleable production and continuous productivity improvements offsetting geological inflation.

Taking into account the capital deferrals from 2021, sustaining capital for 2022 is expected to be between R1.6 billion and R1.8 billion. Future sustaining capital has been reset to this range as a result of reviewing capital expenditure through a 'Thungela lens'.

In addition, the Group sets guidance for expansionary capital expenditure aimed at supporting the execution of its strategy. The range is set between R100 million and R200 million in 2022, increasing to between R700 million and R900 million by 2024; it includes the Elders production replacement and Zibulo North shaft life extension projects that are currently scheduled to commence in late 2022 and 2023 respectively.

The Group will maintain disciplined capital allocation as it seeks further opportunities to achieve a fit-for-purpose capital expenditure profile while lowering capital intensity.

At the time of writing, geopolitical unrest in Europe is resulting in an unprecedented escalation in prices across the energy complex and commodity prices. This escalation is expected to have a pronounced impact on cost inflation into the future. The above guidance is accordingly set in this context and will be reviewed as the impact of the current situation becomes clearer.

We have a proven ability to deliver on our promises in a challenging environment and intend to further demonstrate the resilience of our operations.

SIGNIFICANT ACCOUNTING MATTERS

Environmental provisions

Environmental provisions have been recognised based on the current environmental disturbances caused at the reporting date and for our current assessment of the risk of latent or residual environmental impacts that may become known in the future. Assessments are annually updated for changes in the environmental footprints across our operations, rates used to determine the costs required for closure, regulations, technology and approaches to conduct rehabilitation. The Environmental provisions are determined per operating site, with the assistance of specialist independent environmental consultants. An amount of R306 million (2020: credit of R15 million) has been recognised in the statement of profit or loss and other comprehensive income and a credit to the decommissioning assets of R57 million (2020: debit of R8 million) has been recognised related to the annual assessment.

The Group has provided for water treatment costs using a combination of active and passive water treatment methods, based on the activities currently being performed at its operations. The NEMA Financial Provisioning Regulations require the treatment of water to be provided for using the costs for currently available technologies which the DMRE has approved, based on the evidence that the technology to be implemented is able to consistently achieve the discharge requirements. Thungela has embarked on an exercise to investigate several different technologies to mitigate the impact of water liabilities.

The Group is expected to transition to the NEMA Financial Provisioning Regulations on the transition date of 19 June 2022, however, there are several regulatory steps that are required to take place before this transition can be effective. The Environmental provisions have been determined based on the legal obligations under the existing MPRDA Regulations, as well as the Group's interpretation of the potential increase in costs required to meet certain of the NEMA Financial Provisioning Regulations, for example water treatment costs.

It is important to note that financial provisioning as specified in the NEMA Financial Provisioning Regulations, as well as the existing MPRDA Regulations, does not translate into the Environmental provisions as recognised by the Group, but rather the level of cash or other funding to be made available to fund the closure of operations should the Group not be able to do so. The financial provisioning as required by the current MPRDA Regulations amounts to R4.1 billion (2020: R4.0 billion), compared to the total Environmental provisions recognised by the Group of R6.8 billion (2020: R6.2 billion).

Deferred tax assets

The Group has a significant amount of unredeemed capital deductions (and previously assessed losses – collectively the 'available tax losses') available in TOPL, based on historical loss-making operations within this entity. Given the strong financial performance of the Group, including TOPL, the assessed losses within TOPL have been fully utilised in the year ended 31 December 2021.

However, due to specific requirements in the tax legislation applicable to mining companies in South Africa, a large portion of the unredeemed capital deductions is ring-fenced to specific mines and specific activities.

Based on the ring-fencing criteria, it is unlikely that all of the available unredeemed capital deductions will be utilised in relation to the higher cost, and older operations of TOPL. As a result, the Group did not recognise deferred tax assets of R1.2 billion (2020: R1.6 billion) related to the available tax losses.

Deon Smith
Chief financial officer

22 March 2022

DIRECTORS' REPORT

For the year ended 31 December 2021

The directors have pleasure in presenting the consolidated and separate annual financial statements of Thungela for the year ended 31 December 2021.

INTERNAL RESTRUCTURE OF THE THUNGELA GROUP BEFORE DEMERGER

In preparation for the Demerger which was effective from 4 June 2021, the Group completed the Internal restructure. This has had a significant impact on the reporting results of the Group for the years ended 31 December 2021 and 31 December 2020. Refer to note 2A for further information relating to the Internal restructure, and the impact thereof on the consolidated annual financial statements. Due to the impact of the Internal restructure on the overall comparability of the Group's results, the Pro forma financial information as included in Annexure 3 has been presented to show what the financial and operating results of the Group would have been for the years ended 31 December 2021 and 31 December 2020, if the Group had existed in its current form in those periods.

SUCCESSFUL TRANSITION TO A STANDALONE, JSE AND LSE LISTED BUSINESS

Our listing on the JSE and LSE on 7 June 2021 was a significant milestone for our business and also marked the start of our economic and operational independence.

FINANCIAL RESULTS

The consolidated and separate annual financial statements, including the annexures to these financial statements, can be found on pages 34 to 156. Detailed analysis as to the performance of the Group can be found on pages 4 to 17.

COMPLIANCE AND ACCOUNTING POLICIES

Thungela was duly incorporated on 5 January 2021 in compliance with the provisions of the Companies Act of South Africa and has been operating in conformity with the Thungela MOI and all relevant regulatory requirements since incorporation.

The Thungela board is responsible for ensuring that the Group complies with all of its statutory obligations as specified in the Thungela MOI, the Companies Act of South Africa, the JSE Listings Requirements, the UK Listing Rules, as applicable to a Standard listing, MAR and the UK Disclosure Guidance and Transparency Rules and all other relevant regulatory requirements. The directors endorse King IV and recognise the need to conduct the affairs of the Group with integrity and in accordance with generally accepted corporate practices. In discharging this responsibility, the intention is to apply the principles of King IV in both letter and spirit. The directors recognise that they are ultimately responsible for the financial performance of the Group.

The directors have proactively taken steps to ensure full compliance with all relevant regulatory requirements.

The consolidated and separate annual financial statements have been prepared in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee; the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, the requirements of the Companies Act of South Africa, the JSE Listings Requirements and the UK Listing rules.

A number of amendments to accounting standards were effective for the first time for the financial year beginning on or after 1 January 2021. None of these amendments had a material impact on the Group. Refer to note 3 for detail of the new accounting standards adopted in the year.

GOING CONCERN

The financial position of Thungela, its cash flows, liquidity position and net cash position are set out in the consolidated annual financial statements. The Group's net cash at 31 December 2021 was R8,663 million (2020: net debt of R388 million), inclusive of funding received from Anglo American to fund the operations of the business up to the Demerger, and the cash injection received of R2,500 million. The Group's net current asset position of R12,113 million (2020: net current liability position of R880 million) is strong, bolstered by the strong Benchmark coal price environment experienced in the year, and operational efficiencies realised by the Group, despite the poor rail performance from TFR impacting our ability to rail product to the Richards Bay Coal Terminal for export. The Group has no significant external debt at 31 December 2021.

The directors have considered Thungela's cash flow forecasts for the period to the end of March 2023, under reasonably expected and stressed scenarios, with consideration given to the uncertainty of the current economic environment, as well as the Group's operations. In all of the scenarios assessed, the Group maintains sufficient liquidity throughout the period of assessment.

The directors are satisfied that the Group's forecasts, taking into account reasonably possible changes in performance, show that Thungela will be able to operate at its current level for the foreseeable future. For this reason, Thungela has adopted the going concern basis in preparing the consolidated and separate annual financial statements.

SUBSIDIARIES, JOINT OPERATIONS AND ASSOCIATES

The detailed analysis in respect of investments in the subsidiaries, joint operations and associates of Thungela is disclosed in note 37.

AUTHORISED AND ISSUED SHARES AND STATED CAPITAL

The Group's authorised shares of 10,000,000,000 remained unchanged from the date of listing on 7 June 2021. The Group issued 136,311,808 shares as part of the Demerger and listing process. No additional shares have been issued after this date.

As detailed in note 2A, although the Thungela Group is considered a continuation of the SACO Group, Thungela was only incorporated in January 2021, and issued shares in June 2021. The capital structure of the Thungela Group reflects the structure of the legal entity and thus no shares are reflected as issued until June 2021. The value of the SACO Group was reflected in the merger reserve in the consolidated statement of financial position from the start of the earliest comparative period presented until the date the shares were legally issued, when it was transferred into stated capital.

For the purpose of determining the WANOS in each reporting period, Thungela has applied judgement in determining how many shares were issued in substance for no corresponding increase in the economic value of the Group. Of the total stated capital of R10,041 million issued in June 2021, R5,466 million was received in cash from ASA. The issue of these 74,201,626 shares (as a proportion of the total shares issued based on the proportion of cash consideration to total consideration received) reflect a direct increase in the economic value of the Thungela Group. The remaining stated capital issued amounting to R4,575 million (reflective of 62,110,182 shares, as a proportion of non-cash consideration to total consideration received) is considered in substance to have been issued in consideration for the pre-existing SACO Group. The WANOS has been calculated to reflect the issue of these shares as if it occurred at the start of the earliest comparative period presented.

Further detail on the stated capital is disclosed in note 31.

DIVIDENDS

The board recognises the importance of maintaining a consistent dividend policy and will endeavour to deliver high-quality medium-term strategic and financial planning in order to enhance returns to shareholders.

Any dividend proposed by the board in respect of any financial period will be dependent on and influenced by, among other considerations, the Group's operating results, financial condition, investment strategy, capital requirements and strategic initiatives. The Group will seek to ensure that there is sufficient cash available and cash is generated by the Group in order to fund sustaining capital expenditure and selective production replacement opportunities, without resorting to excessive leverage, recognising the nature of the Group's assets and single commodity price exposure.

The Group's dividend policy is to target a dividend pay-out of a minimum of 30% of the adjusted net cash flows from operating activities after funding sustaining capital expenditure. The board is committed to delivering attractive shareholder returns, while maintaining disciplined capital allocation. Therefore, in any given year, the Group might declare dividends above the targeted minimum 30% pay-out ratio, subject to the board being satisfied that subsequent to the dividend declaration, the Group has adequate balance sheet flexibility and sufficient funding available to withstand market and coal price volatility.

Thungela's board believes it is appropriate to maintain a liquidity buffer of between R5,000 million and R6,000 million during and following periods of stronger market conditions, and all else being equal, between R2,000 million and R3,000 million following periods of weaker market conditions.

The board declared a final gross ordinary dividend of R18 per share from retained earnings, which will be paid in May 2022.

EVENTS AFTER THE REPORTING PERIOD

Events occurring after the reporting date which are considered material to the consolidated and separate annual financial statements have been considered in note 38.

DIRECTORS' REPORT CONTINUED

For the year ended 31 December 2021

DIRECTORS

The table below list the names, position and appointment dates of the directors of the Group. There have been no changes to the Thungela board from the listing date of 7 June 2021.

Name, age and nationality	Position	Date of Group appointment[1]
SS Ntsaluba	Chairperson	1 January 2021
J Ndlovu[2]	CEO	1 September 2016
GF Smith	CFO	1 July 2017
BM Kodisang	Independent non-executive director	16 March 2021
KW Mzondeki	Independent non-executive director	9 February 2021
TML Setiloane	Independent non-executive director	7 March 2021
SG French[3]	Non-executive director	4 June 2021

Notes:

1 This column discloses the date on which each director was first engaged with the Group, notwithstanding the date of their appointment as directors of Thungela.

2 South African, Zimbabwean.

3 Irish.

DIRECTORS' INTEREST IN THUNGELA SHARES

The directors' beneficial interests in Thungela's issued ordinary shares are shown below:

Director	Direct	Indirect	2021 Total
SS Ntsaluba	–	–	–
J Ndlovu	1,150,092	–	1,150,092
GF Smith	578,407	–	578,407
BM Kodisang	–	–	–
KW Mzondeki	8	–	8
TML Setiloane	–	–	–
SG French	–	–	–
Total	**1,728,507**		**1,728,507**

The movements in the directors' beneficial interests are as follows:

Number of shares	J Ndlovu	GF Smith	KW Mzondeki	2021 Total
Balance at the start of the reporting period	–	–	–	–
Vesting of Anglo American Retention awards[1]	247,406	127,451	–	374,857
Thungela transitional shares[2]	2,151	1,127	–	3,278
Thungela Milestone awards granted[3]	899,658	449,829	–	1,349,487
Demerger scheme of arrangement[4]	877	–	8	885
Total	**1,150,092**	**578,407**	**8**	**1,728,507**

1 These awards vested on Demerger and the transfer of the shares occurred on 15 June 2021 after adjusting for shares sold in order to settle the tax obligation of the directors in relation to the vesting. Refer to note 32 for further details.

2 Each award converted into one ordinary share in Thungela upon exercise. These were provided as part of the Demerger agreement whereby every shareholder received one Thungela share for every 10 Anglo American shares held. Refer to note 39 for further details.

3 The Thungela Milestone awards granted carry a right to dividends and voting rights. Participants will be entitled to dividends paid on the ordinary shares underlying their awards prior to the vesting date. Refer to note 39 for further details. The Thungela Milestone awards are Forfeitable shares and will vest in equal tranches on 4 June 2022 and 4 June 2023.

4 The Demerger of the Group from the Anglo American Group was implemented by way of a scheme of arrangement (including an in specie reduction of capital), which is a process that required approval by the UK High Court under the UK Companies Act (the 'Scheme'). Under the Scheme and pursuant to the reduction of capital, Anglo American transferred all of the issued Shares of Thungela to Anglo American shareholders in the ratio of one Thungela share for every 10 Anglo American shares held at the time of the Demerger.

Details of the awards made to directors and prescribed officers in Thungela shares are disclosed in note 32 and note 39.

There were no changes in directors' shareholding between the end of the reporting period and the date of approval of the consolidated and separate annual financial statements.

DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

Refer to note 39 for detail of remuneration paid to directors and prescribed officers.

COMPANY SECRETARY

Francois Klem has been appointed as the company secretary of Thungela with effect from 31 March 2021. The business and postal address of the company secretary are set out on the inside back cover.

INDEPENDENT EXTERNAL AUDITOR

PricewaterhouseCoopers Inc. was appointed as the Group's independent external auditor on 9 February 2021 and on 5 May 2020 for the SA Thermal coal operations before the Demerger.

In accordance with the Companies Act of South Africa, it will be proposed at the next AGM that PricewaterhouseCoopers Inc. continue in office.

ANNUAL GENERAL MEETING

The AGM for Thungela will be held via electronic communication and is expected to be held on or around Tuesday, 24 May 2022.

REPORT OF THE AUDIT COMMITTEE

For the year ended 31 December 2021

INTRODUCTION

The Thungela audit committee is pleased to present its report for the year ended 31 December 2021, in terms of section 94 of the Companies Act of South Africa, King IV, and the JSE Listings Requirements, as well as the UK Disclosure Guidance and Transparency Rules.

The audit committee has conducted its work in accordance with its written terms of reference approved by the board on 31 March 2021.

The terms of reference are subject to review annually.

The Thungela board of directors has mandated the audit committee to fulfil the duties as the audit committee of all the companies within the Thungela Group with a statutory requirement to have an audit committee.

In addition to its statutory responsibilities the audit committee's main objective is to assist the board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and effectiveness of accounting policies, system of internal financial control, financial and corporate reporting processes, assessing the effectiveness of the CFO, and both the internal and external audit functions.

COMPOSITION

The audit committee, whose members were appointed by the Thungela board, and approved by the shareholders on 26 March 2021, in respect of the year ended 31 December 2021, comprised the following independent non-executive directors, all of whom have the requisite financial skills, business acumen and experience to fulfil their duties:

- Kholeka Mzondeki (chairperson)
- Ben Kodisang
- Thero Setiloane.

The appointment of all the committee members is subject to shareholders approval at the upcoming AGM. Brief biographies of individual committee members can be found on the Thungela website at www.thungela.com/about-us/who-we-are.

MEETING ATTENDEES

In addition to the audit committee members, the chairman of the board, CEO, CFO, Head of risk and assurance, Head of finance, Head of investor relations, and Financial accounting manager attend the meetings by standing invitation, together with representatives of the independent external auditor.

COMMITTEE MEETING ATTENDANCE

During the period under review, the audit committee met four times as required the details of which are set out below:

	2021 meeting dates				
Member	30 March	12 May	5 August	17 November	Number of Meetings: 4
KW Mzondeki (chairperson)	√	√	√	√	4/4
BM Kodisang	√	√	√	√	4/4
TML Setiloane	√	√	√	√	4/4

Additional meetings are set up on an ad hoc basis as and when required. In addition, the audit committee chairperson meets separately with management and the internal and independent external auditors prior to committee meetings.

ROLE AND RESPONSIBILITIES

The audit committee discharged all of its responsibilities as contained in the audit committee terms of reference including, but not limited to:

- nominating for appointment the Group's external auditor and ensuring that such auditor is independent of the Group
- determining the independent external auditor's fees and terms of engagement
- ensuring that the appointment of the independent external auditor complies with the provisions of the Companies Act of South Africa and any other relevant legislation
- determining, from time to time, the nature and extent of non-audit services to be provided by the Group's independent external auditor
- preparing a report to be included in the annual financial statements of the Group in compliance with the Companies Act of South Africa
- receiving and dealing with any concerns and complaints (whether from within or outside the Group, or on its own initiative) relating to accounting practices, internal or external audits conducted, the content of the Group's financial statements, the financial reporting procedures, controls and related matters

- making submissions to the board on any matter concerning the Group's accounting policies, financial control, records, and reporting
- ensuring that appropriate financial reporting procedures have been established and that those procedures are operating, which includes consideration of all entities included in the consolidated financial statements, to ensure that it has access to all financial information to allow for the effective preparation and reporting on the financial statements
- independently reviewing and monitoring the integrity of the Group's consolidated annual financial statements
- assessing the annual financial statements, income tax returns and CIPC annual returns of the Company and all subsidiaries
- to the extent delegated by the Thungela board, the management of financial and other risks that affect the integrity of other external reports issued by the Group and the effectiveness of its systems of governance, systems of risk management and internal control
- overseeing the independent external audit process, as well as the scope and performance of the internal audit process through the risk and assurance function
- assessing the effectiveness and objectivity of the internal and independent external auditors
- reporting to the shareholders through this report that the audit committee has executed the responsibilities as set out in paragraph 3.84(g) of the JSE Listings Requirements
- ensuring that the Group's risk and assurance function is appropriately resourced and equipped to perform in accordance with appropriate professional standards for internal auditors
- ensuring compliance with the statutory duties of the committee as contained in relevant legislation and the JSE Listings Requirements
- performing such oversight functions as may be determined by the Thungela board.

KEY FOCUS AREAS FOR THE YEAR ENDED 31 DECEMBER 2021

For the year ended 31 December 2021, the audit committee had key focus areas and objectives, including but not limited to:

- reviewing the PLS and other relevant financial information required for the purpose of the Demerger and the listing of Thungela on the JSE and LSE
- considering the relevance of the JSE's findings from their proactive monitoring of annual financial statements
- considering the appropriateness of the expertise and experience of the CFO and the finance function
- overseeing the development of the risk and assurance function and appointing the Head of risk and assurance
- considering the appropriateness of the expertise and experience of the risk and assurance function, including the internal audit plan, reports, and resources
- reviewing the Group's significant accounting matters and recommending the approval thereof to the Thungela board
- reviewing the Condensed consolidated interim financial statements, the Integrated annual report and the consolidated annual financial statements, along with other required documents for publication and recommending these documents for the approval by the Thungela board
- reviewing the quarterly business performance, solvency, liquidity and going concern assessments
- reviewing the independent external audit function, and considering its quality of work and independence
- evaluating the independent external auditor's audit plan, reports and fees
- considering the key audit matters included in the independent external auditor's report on the consolidated and separate annual financial statements.

The objectives of the committee were adequately met for the year ended 31 December 2021.

INTERNAL AUDIT AND INTERNAL CONTROLS

The audit committee has established that the risk and assurance function, undertaking the internal audit of the Group, was appropriately resourced. The Head of risk and assurance has direct access to the audit committee chairperson and has a standing invitation to the audit committee meetings. The risk and assurance function reviews and provides assurance on the adequacy and effectiveness of internal controls including the system of internal financial control.

During the year ended 31 December 2021, the audit committee:

- reviewed and approved the 2022 internal audit plan
- monitored progress against the 2021 internal audit plan
- reviewed the Thungela risk register for appropriateness
- received assurance that proper and adequate accounting records are being maintained
- reviewed the CEO and CFO attestation process related to the system of internal financial control
- considered internal audit reports on the Group's systems of internal controls and business risk management
- met with the Head of risk and assurance independently of management
- assessed the adequacy of the performance of the internal audit function.

Nothing came to the attention of the audit committee, through the audits conducted by the risk and assurance function, to indicate a breakdown in the system of internal financial control nor was there an indication that the internal controls were inadequate in design and implementation.

REPORT OF THE AUDIT COMMITTEE CONTINUED

For the year ended 31 December 2021

INDEPENDENT EXTERNAL AUDITOR

During the year ended 31 December 2021 the audit committee:

- requested from the independent external auditor the information detailed in paragraph 22.15(h) of the JSE Listings Requirements in their assessment of the suitability for appointment of the audit firm and designated individual audit partner for each year they are appointed
- notwithstanding the provisions of Section 90(6) of the Companies Act of South Africa, ensured that the appointment of the auditor is presented and included as a resolution at the AGM pursuant to Section 61(8) of the Companies Act of South Africa
- satisfied itself that PwC and Andries Rossouw in their individual capacities as the appointed independent external audit firm and lead audit partner respectively were both accredited and independent
- assessed the independence of the independent external audit firm, in particular in the context of various public and media reports around the external audit profession's conduct in recent history
- approved the PwC terms of engagement and fees for the audit for the year ended 31 December 2021, including the review of the Condensed consolidated interim financial statements for the six months ended 30 June 2021
- provided oversight on the external audit process
- approved and monitored compliance with the external auditor independence policy
- reviewed the quality and effectiveness of the external audit process and performance against the external audit plan
- reviewed the findings and recommendations by the independent external auditor and confirmed there were no material matters to report.

Meetings, at which concerns could be raised, were held with the independent external auditor in the absence of management. No concerns were raised.

COMMENTS ON THE KEY AUDIT MATTERS INCLUDED IN THE INDEPENDENT EXTERNAL AUDITOR'S REPORT

The independent external auditor has reported on three key audit matters in respect of their audit for the year ended 31 December 2021, being: the impairment of long-lived assets, environmental restoration and decommissioning provision and the accounting for the internal restructuring prior to the Demerger. These key audit matters related to material financial statement line items and require judgement and estimates to be applied by management. The audit committee assessed the methodology, assumptions and judgements applied by management in dealing with the key audit matters.

Furthermore, the audit committee discussed the key audit matters with the independent external auditor to understand their related audit processes and views. Following this assessment, the audit committee was comfortable with the conclusions reached by management and the independent external auditor.

KEY FOCUS AREAS FOR 2022

Key areas of focus in the year ended 31 December 2022 will be, among others:

- assessing the robustness of internal controls
- reviewing the financial performance against targets where relevant, including the impact on the financial statements
- continued oversight of the external and internal audit process.

EXPERTISE OF THE CFO AND FINANCE FUNCTION

The audit committee has reviewed the current performance and future requirements of the financial management of the Group and concluded that the current CFO and finance team have the appropriate skills, experience and expertise required to fulfil their function.

GOING CONCERN

The audit committee reviewed and assessed the basis of the going concern assumption applied by management and concurred with the assessment that Thungela is a going concern, and recommended that the Thungela board approve the consolidated and separate annual financial statements being prepared on this basis.

RECOMMENDATION OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS FOR APPROVAL BY THE THUNGELA BOARD

The consolidated and separate annual financial statements have been prepared using appropriate accounting policies, which conform to IFRS and other related pronouncements governing financial reporting. The audit committee has recommended the approval of the consolidated and separate annual financial statements for the year ended 31 December 2021 to the board.

On behalf of the audit committee

Kholeka Mzondeki
Chairperson

22 March 2022

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF THUNGELA RESOURCES LIMITED

REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

OUR OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Thungela Resources Limited (the 'Company') and its subsidiaries (together the 'Group') as at 31 December 2021, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

WHAT WE HAVE AUDITED

Thungela Resources Limited's consolidated and separate financial statements set out on pages 34 to 139 comprise:

- the consolidated and separate statements of financial position as at 31 December 2021
- the consolidated and separate statements of profit or loss and other comprehensive income for the year then ended
- the consolidated and separate statements of changes in equity for the year then ended
- the consolidated and separate statements of cash flows for the year then ended
- the notes to the consolidated and separate annual financial statements, which include a summary of significant accounting policies.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated and separate financial statements* section of our report.

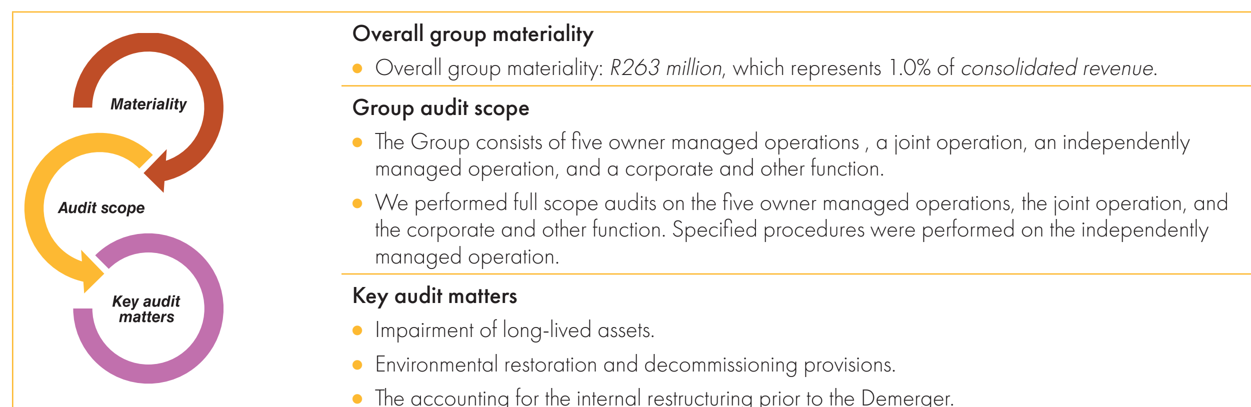
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENCE

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors* (the 'IRBA Code') and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards).*

OUR AUDIT APPROACH

OVERVIEW



Overall group materiality

- Overall group materiality: *R263 million*, which represents 1.0% of *consolidated revenue.*

Group audit scope

- The Group consists of five owner managed operations , a joint operation, an independently managed operation, and a corporate and other function.
- We performed full scope audits on the five owner managed operations, the joint operation, and the corporate and other function. Specified procedures were performed on the independently managed operation.

Key audit matters

- Impairment of long-lived assets.
- Environmental restoration and decommissioning provisions.
- The accounting for the internal restructuring prior to the Demerger.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated and separate financial statements. In particular, we considered where the directors made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

MATERIALITY

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	R263 million
How we determined it	*1.0% of consolidated revenue.*
Rationale for the materiality benchmark applied	*We have selected consolidated revenue as the benchmark because, in our view, it best reflects the true operational performance of the Group and it is a benchmark against which the performance of the Group is most commonly measured by its users due to the fluctuation of consolidated profit before income tax.*

HOW WE TAILORED OUR GROUP AUDIT SCOPE

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group consists of five owner managed operations, a joint operation, an independently managed operation and a corporate and other function. We performed a full scope audit on the five owner managed operations, the joint operation and the corporate and other function. Specified procedures were performed on the independently managed operation.

In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team and component auditors from other firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined that there are no key audit matters with regard to the audit of the separate financial statements of the Company to communicate in our report.

Key audit matter	How our audit addressed the key audit matter

Impairment of long-lived assets

Refer to notes 2B, 7, 11, 12 and 13 of the consolidated financial statements for disclosures in relation to this key audit matter.

This key audit matter relates to the consolidated financial statements.

International Financial Reporting Standards ('IFRS') require the Group to assess long-lived assets for impairment when there are indicators of impairment and for goodwill on an annual basis. Long-lived assets comprise of property, plant and equipment ('PPE') and intangible assets.

Management recognised an impairment of R808 million of which R786 million related to PPE and R22 million related to intangible assets (refer to notes 12 and 13 of the consolidated financial statements respectively).

Due to the continued underperformance of Transnet Freight Rail which impacted negatively on forecasted production, management considered there to be an indicator of impairment for the export operations cash generating units ('CGUs'). Furthermore, for the Isibonelo CGU the operational challenges faced by the CGU were seen as an indicator of impairment.

Management performed impairment assessments to determine the recoverable amount of the various CGU's. The recoverable amount was based on a combination of discounted cash flow models and valuation of mineral resources beyond approved mine plans.

The assumptions (inputs) which were used for cash flow forecasts and valuations of mineral resources beyond approved mine plans are based on forecasted results and expected market and economic conditions. The most significant inputs in these forecasts and valuations are: production volumes, costs of production, capital expenditure, forecasts for coal prices, exchange rates and discount rates.

The impairment assessment of long-lived assets was considered to be a matter of most significance to our current year audit due to the significant judgement involved in the valuation of those CGUs as well as the magnitude of the impairment recognised in the current year.

We assessed the reasonableness of the impairment indicators identified by management by analysing the financial results of the Group, paying particular attention to factors that have negatively impacted the operations. We concurred with management's assessment.

Through discussions with management, we obtained an understanding as to management's process for considering impairments across long-lived assets as well as the methodologies and models used in making their assessments.

For purposes of the impairment assessment, management has valued the CGU's using future life-of-mine cash flows and/or mineral resources beyond approved mine plan valuations. We assessed these models and found them to be in accordance with generally accepted methodologies.

In assessing the reasonableness of future cash flows applied in the model, our audit procedures included:

- testing the accuracy of the model used by management by performing an independent recalculation and comparing the results of our calculation with that of management. No material exceptions were noted
- the significant assumptions used by management in the model were subjected to audit procedures as follows:
  - with the assistance of our valuations expertise, we assessed the reasonableness of the coal price forecasts (Benchmark coal price and coal domestic contracted selling price) to benchmark the price and exchange rates against analysts' forecasts. Based on the work performed, we found management's assumption to be within a reasonable range of possible prices
  - we agreed long-term coal supply agreement prices used in the fair value less cost to sell models to the underlying agreements. No material exceptions noted
  - with the assistance of our valuation expertise we independently recalculated the discount rates used in performing the impairment assessments. These calculations included inspection of relevant third party sources and data such as the cost of debt, risk-free rates in the market, market risk premiums, debt/equity ratios and the beta of comparable companies. We found the discount rate applied in the model to be within a reasonable range
  - we compared the production volumes per the life-of-mine plan assumption to reserves signed off by the Group's Competent Person and to existing production volumes and approved budgets. No material exceptions noted
  - we compared the life-of-mine plan operating costs, capital costs and unit costs to budget and actual costs for reasonableness. No material exceptions noted.

Based on work performed we are comfortable with the impairment recognised.

Key audit matter	How our audit addressed the key audit matter
Environmental restoration and decommissioning provision	
Refer to notes 2C and 27 of the consolidated financial statements for disclosure as it relates to this key audit matter. **This key audit matter relates to the consolidated financial statements.** As of 31 December 2021, the Group's environmental restoration and decommissioning provision amounted to R6,751 million. In determining the environmental restoration and decommissioning provision, management applies significant judgement and assumptions to estimate the closure costs (estimated future costs) and discount rates. On an annual basis management uses internal and external experts to determine the current costs estimates for the environmental restoration and decommissioning provision, based on these estimates the current costs will be future valued over the life of mine using long-term inflation and discounted back using risk free rates We considered the provision for environmental rehabilitation to be a matter of most significance to our current year audit due to the following: • the significant judgement and estimates applied by management • the magnitude of the balance to the consolidated financial statements as a whole.	Through discussions with management, we obtained an understanding of management's process of calculating the environmental restoration and decommissioning provision. With the assistance of our sustainability and climate change expertise, we performed the following procedures: • we assessed the reasonableness of the process applied by management to determine the closure costs by comparing it to industry practice. We found the process followed by management to be reasonable • we assessed the objectivity, competence and experience of management experts by obtaining evidence relating to their qualifications and professional membership. In doing so, we inspected their CVs and considered whether the management experts, where applicable, were in good standing with the relevant professional bodies. No aspects requiring further consideration were noted • we assessed whether the closure costs used by management's experts considered the requirements of the relevant laws and regulations, such as water treatment costs, in order to identify potential environmental liabilities that were not provided for and process-related omissions on the closure costs estimation that could be of material significance. No material exceptions were noted. We independently recalculated management's discount rates applied with reference to relevant third-party sources. Where discount rates determined by us differed from that used by management, the impact of the differences was assessed to be immaterial. We tested the mathematical accuracy of the model used by management by performing an independent recalculation and comparing the results of our calculation with management's calculations. We noted no material differences. We assessed the Group's disclosures relating to the environmental restoration and decommissioning provisions in note 27 to the consolidated financial statements against the requirements of the relevant accounting standards and found them to be adequate.

Key audit matter	How our audit addressed the key audit matter
The accounting for the internal restructuring prior to the Demerger	
Refer to note 2A of the consolidated financial statements for disclosures as it relates to this key audit matter. **This key audit matter relates to the consolidated financial statements.** Anglo American plc has undergone a group reorganisation of its coal operations in South Africa into Thungela Resources Limited which it demerged and publicly listed. As Thungela Resources Limited was only incorporated on 5 January 2021 it did not historically constitute a legal group for reporting purposes. For the period covered by the consolidated financial statements, the entities and the proportionate share of the assets and liabilities of the joint operations (together the 'operations') listed in note 2A of the consolidated financial statements were under the common control of Anglo American plc. As all these operations are ultimately controlled by Anglo American plc before and after the reorganisation, the reorganisation meets the definition of a common control transaction, which is excluded from the scope of IFRS 3 Business Combinations. Accordingly, the coal business reporting entity needed to apply judgement to develop an accounting policy to account for the reorganisation that provides reliable and relevant information in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. Refer to note 2A of the consolidated financial statements for the principles applied in preparing the consolidated financial statements. We considered the accounting for the internal restructuring prior to the Demerger to be a matter of most significance to our current year audit due to: • the judgement applied in determining the principles to be applied to account for the reorganisation • the application of the principles applied in preparing the consolidated financial statements.	We assessed the appropriateness of the accounting for the reorganisations and the basis on which the consolidated financial statements were prepared by performing the following procedures: • we obtained an understanding of the Demerger of the Thungela Resources Limited business from Anglo American plc • we involved our accounting specialists in evaluating whether the principles applied in the preparation of the consolidated financial statements are appropriate and prepared in accordance with IFRS requirements and found these to be appropriate • we inspected the transactions steps and relevant signed Share for Share Agreements for the purposes of obtaining an understanding of the reorganisation transactions and identifying the businesses to be combined and these have been appropriately included in management's workings • we obtained management's workings for preparing the consolidated financial statements and performed the following procedures: o for material businesses within the operations, we agreed the workings to the audited results of the operations with no material exceptions o we assessed that the accounting principles as set out in note 2A of the consolidated financial statements have been appropriately applied by management in their workings and noted no inconsistencies.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the document titled *Thungela Resources Limited Annual Financial Statements*, which includes the Directors' report, Report of the audit committee and the Certificate by the company secretary as required by the Companies Act of South Africa, which we obtained prior to the date of this auditor's report, and the other sections of the document titled *Thungela Resources Limited Integrated annual report 2021*, which is expected to be made available to us after that date. The other information does not include the consolidated or the separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not and will not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that PricewaterhouseCoopers Inc. has been the auditor of Thungela Resources Limited for one year. Prior to the incorporation of Thungela Resources Limited, its operations formed part of the Anglo Coal SA operations of Anglo American plc, of which PricewaterhouseCoopers Inc. has been the auditor for two years.

PricewaterhouseCoopers Inc.
Director: AJ Rossouw
Registered Auditor
Johannesburg, South Africa
22 March 2022

475A

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

Rand million	Notes	**2021**	2020
Revenue	4	**26,282**	3,750
Operating costs	5	**(17,322)**	(3,872)
Impairment losses	7	**(808)**	–
Fair value gains on derivative assets	24	**348**	–
Fair value loss on derivative asset – capital support	24	**(569)**	–
Restructuring costs and termination benefits	8	**(422)**	(2)
Profit/(loss) before net finance costs and tax[1]	5	**7,509**	(124)
Net finance costs		**–**	(314)
Investment income	9	**503**	3
Interest expense	9	**(680)**	(312)
Other financing gains/(losses)	9	**177**	(5)
Profit/(loss) before tax		**7,509**	(438)
Income tax (expense)/credit	10	**(571)**	76
Profit/(loss) for the reporting period		**6,938**	(362)
Attributable to:			
Non-controlling interests	34	**509**	(32)
Equity shareholders of the Group		**6,429**	(330)
Other comprehensive loss			
Items that will not be reclassified to profit or loss			
Remeasurement of retirement benefit obligations	29	**27**	–
Fair value losses on financial asset investments	22	**(63)**	(10)
Related tax	10	**(6)**	2
Net items that will not be reclassified to profit or loss		**(42)**	(8)
Total comprehensive income/(loss) for the reporting period		**6,896**	(370)
Attributable to:			
Non-controlling interests	34	**508**	(34)
Equity shareholders of the Group		**6,388**	(336)
Earnings/(losses) per share			
Basic (cents)	11	**6,108**	(531)
Diluted (cents)	11	**6,087**	(531)

[1] The subtotal for operating profit/(loss) shown previously has been removed to simplify the presentation of the statement of profit or loss and other comprehensive income.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

Rand million	Notes	**2021**	2020
ASSETS			
Non-current assets			
Intangible assets	12	**118**	158
Property, plant and equipment	13	**10,568**	8,436
Environmental rehabilitation trusts	27	**3,288**	2,880
Investment in associate	14	**63**	89
Deferred tax assets	30	**378**	*
Financial asset investments	22	**323**	361
Trade and other receivables	19	**64**	44
Other non-current assets	17	**109**	111
Total non-current assets		**14,911**	12,079
Current assets			
Inventories	18	**2,546**	1,149
Trade and other receivables	19	**4,320**	3,351
Current tax assets	10	**46**	123
Financial asset investments	22	**31**	–
Derivative asset – capital support	24	**347**	–
Derivative assets	24	**348**	–
Cash and cash equivalents	20	**8,736**	194
Total current assets		**16,374**	4,817
Total assets		**31,285**	16,896
EQUITY			
Stated capital		**10,041**	–
Contributed capital		**965**	–
Merger reserve		**2,606**	7,179
Treasury shares		**(183)**	–
Share-based payment reserve		**16**	65
Other reserves		**89**	411
Retained earnings/(losses)		**3,039**	(4,894)
Equity attributable to the shareholders of the Group		**16,573**	2,761
Non-controlling interests	34	**1,901**	1,395
Total equity		**18,474**	4,156
LIABILITIES			
Non-current liabilities			
Loans from Anglo American	23	**–**	361
Lease liabilities	28	**92**	127
Retirement benefit obligations	29	**449**	455
Deferred tax liabilities	30	**1,400**	581
Environmental and other provisions	27	**6,609**	5,519
Total non-current liabilities		**8,550**	7,043
Current liabilities			
Trade and other payables	21	**3,499**	4,344
Loans and borrowings	23	**63**	221
Lease liabilities	28	**29**	24
Environmental and other provisions	27	**392**	1,107
Current tax liabilities	10	**278**	1
Total current liabilities		**4,261**	5,697
Total liabilities		**12,811**	12,740
Total equity and liabilities		**31,285**	16,896

* Represents an amount less than R1 million.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

Rand million	Notes	Stated capital	Contributed capital	Merger reserve
Balance at 1 January 2020		–	–	2,591
Acquired through Internal restructure	15	–	–	4,588
Total comprehensive loss for the reporting period		–	–	–
Movements in share-based payment reserve[2]	32	–	–	–
Balance at 31 December 2020		–	–	7,179
Issue of shares for assumed fair value of SACO	31	4,575	–	(4,575)
Issue of shares for cash	31	5,466	–	–
Purchase of shares by Group companies	31	–	–	–
Acquired through Internal restructure	15	–	–	2
Total comprehensive (loss)/income for the reporting period		–	–	–
Movements in share-based payment reserve[2]	32	–	–	–
Transfer of financial asset revaluation reserve on sale of investments[3]		–	–	–
Reclassifications		–	–	–
Contributed capital – Capital support agreement	24	–	916	–
Contributed capital – Anglo American Retention awards	32	–	49	–
Balance at 31 December 2021		10,041	965	2,606

1 Includes the financial asset revaluation reserve of R3 million (2020: R352 million) and retirement benefit obligation reserve of R86 million (2020: R59 million).
2 Includes movements as a result of share-based payment expenses, vesting of shares and granting of share awards. The individual movements are not considered material, other than the accelerated vesting of the Anglo American share awards as detailed in note 32.
3 The transfer of financial asset revaluation reserve relates to the disposal of Anglo American shares as detailed in note 32.

Treasury shares	Share-based payment reserve	Other reserves[1]	Retained (losses)/ earnings	Total equity attributable to share-holders of the Group	Non-controlling interests	Total equity
–	7	9	(2,247)	360	1,559	1,919
–	60	408	(2,311)	2,745	(127)	2,618
–	–	(6)	(330)	(336)	(34)	(370)
–	(2)	–	(6)	(8)	(3)	(11)
–	**65**	**411**	**(4,894)**	**2,761**	**1,395**	**4,156**
–	**–**	**–**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**5,466**	**–**	**5,466**
(183)	**–**	**–**	**–**	**(183)**	**–**	**(183)**
–	**–**	**–**	**1,299**	**1,301**	**–**	**1,301**
–	**–**	**(41)**	**6,429**	**6,388**	**508**	**6,896**
–	**(49)**	**–**	**(76)**	**(125)**	**(2)**	**(127)**
–	**–**	**(290)**	**290**	**–**	**–**	**–**
–	**–**	**9**	**(9)**	**–**	**–**	**–**
–	**–**	**–**	**–**	**916**	**–**	**916**
–	**–**	**–**	**–**	**49**	**–**	**49**
(183)	**16**	**89**	**3,039**	**16,573**	**1,901**	**18,474**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Rand million	Notes	2021	2020
Cash flows from operating activities			
Profit/(loss) before tax		**7,509**	(438)
Net finance costs	9	**–**	314
Profit/(loss) before net finance costs and tax		**7,509**	(124)
Impairment losses	7	**808**	–
Restructuring costs and termination benefits[1]	8	**174**	–
Fair value loss on derivative asset – capital support	24	**569**	–
Fair value gains on derivative assets	24	**(348)**	–
Depreciation and amortisation	12, 13	**1,018**	408
Share-based payment charges	32	**87**	2
Increase in provisions		**127**	34
Profit on sale of property, plant and equipment	5	**(8)**	–
Other adjustments		**33**	15
Movements in working capital		**(3,154)**	(109)
Increase in inventories		**(1,352)**	(70)
Increase in trade and other receivables		**(960)**	(201)
(Decrease)/increase in trade and other payables		**(842)**	162
Cash flows from operations		**6,815**	226
Amounts applied to reduce Environmental and other provisions[2]	27	**(502)**	–
Income tax paid	10	**(197)**	(66)
Net cash generated from operating activities		**6,116**	160
Cash flows from investing activities			
Expenditure on property, plant and equipment	4	**(2,312)**	(604)
Proceeds on sale of property, plant and equipment		**9**	–
Expenditure on intangible assets	12	**(11)**	–
Purchase of financial asset investments[3]	22	**(302)**	(4)
Repayment of loans granted to investees	22	**6**	–
Loans granted to investees	22	**(69)**	–
Repayment of quasi-equity loans to associate	14	**26**	–
Investment income received		**108**	3
Acquired through Internal restructure	15	**158**	195
Acquisition of joint operation	16	**8**	–
Net cash utilised in investing activities		**(2,379)**	(410)
Cash flows from financing activities			
Shares issued for cash	31	**5,466**	–
Interest expense paid		**(58)**	(1)
Capital repayment of lease liabilities	28	**(32)**	–
Repayment of loans and borrowings	23	**(3,135)**	–
Proceeds on loans from Anglo American	23	**2,570**	430
Purchase of shares by Group companies	31	**(183)**	–
Net cash generated from financing activities		**4,628**	429
Net increase in cash and cash equivalents		**8,365**	179
Cash and cash equivalents at the start of the reporting period		**194**	15
Net increase in cash and cash equivalents		**8,365**	179
Effects of changes in foreign exchange rates	9	**177**	–
Cash and cash equivalents at the end of the reporting period[4]	20	**8,736**	194

[1] Restructuring costs and termination benefits of R174 million include the accelerated vesting of the Anglo American shares on Demerger of R138 million and represents the non-cash portion of the expense.
[2] Amounts applied to reduce Environmental and other provisions represents cash paid to settle these obligations which is not recognised through the statement of profit or loss and other comprehensive income.
[3] Purchase of financial asset investments relates to the initial investment in the other environmental investments, through the Green fund, as detailed in note 27, as well as the purchase of Anglo American shares related to the employee share awards detailed in note 32.
[4] Cash and cash equivalents at the end of the reporting period include cash held in Trusts of R10 million. Refer to note 20 for further detail.

BASIS OF PREPARATION

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. BASIS OF PREPARATION

Accounting polices relating to specific underlying transactions and balances have been disclosed in their respective notes.

A. Statement of compliance

The accounting policies applied by the Group and Company comply with IFRS effective for the Group's reporting period 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 of South Africa, the JSE Listings Requirements, the UK Listing Rules and the UK Disclosure Guidance and Transparency Rules.

B. Basis of measurement

The consolidated and separate annual financial statements have been prepared on the historical cost basis, except for certain assets and liabilities that are measured at fair value. The consolidated and separate annual financial statements are prepared on the going concern basis and are presented in South African Rand, which is the functional currency of Thungela.

The preparation of the consolidated and separate annual financial statements in conformity with IFRS requires the use of estimates and 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 to the consolidated and separate annual financial statements, are disclosed in note 2.

C. Basis of consolidation

The consolidated annual financial statements include the results and financial position of Thungela, its subsidiaries, joint operations and associates.

Subsidiaries are entities which the Group controls through its power over the entities, and in respect of which it is exposed, or has rights, to variable returns from its involvement with these entities and has the ability to affect those returns through its power over those entities.

Joint arrangements are arrangements in which the Group shares joint control with one or more parties. Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. The joint arrangements of the Group are accounted for as joint operations. The Group accounts for joint operations by recognising its share of the joint operations' assets, liabilities, revenue and expenses, including its share of such items held or incurred jointly. Refer to note 37 for further detail.

Associates are investments over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but without the ability to exercise control or joint control. Investments in associates are equity accounted and represent the cost of the investment, the post-acquisition share of any profits or losses and other changes in equity, and the long-term debt interests which in substance form part of the Group's net investment in the associate.

The results of subsidiaries, joint operations and associates acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the results of subsidiaries, joint operations and associates to bring their accounting policies into line with those used by the Group. Intra-group transactions, balances, income and expenses are eliminated on consolidation, where appropriate. Unrealised profits or losses that arise between group entities are also eliminated.

For non-wholly owned subsidiaries, non-controlling interests are presented in equity separately from the equity attributable to shareholders of the Group. Profit or loss and other comprehensive income are attributed to the shareholders of the Group and to non-controlling interests even if this results in the non-controlling interests having a negative balance.

D. Foreign currency transactions

The Group's export revenue is priced using the Benchmark coal price as a basis. This revenue is generated in USD, and payments received for export revenue are in USD. Foreign currency transactions undertaken by the Group are recognised in South African Rand at the exchange rate ruling on the date of the transaction. At each reporting date, monetary items that are denominated in foreign currencies are translated to South African Rand at the rates prevailing on the reporting date. Gains or losses arising on translation are included in the statement of profit or loss and other comprehensive income and are classified according to the nature of the monetary item giving rise to them.

2. ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated and separate annual financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group's accounting policies. These judgements, estimates and assumptions may affect the carrying amounts of assets and liabilities at the date of the consolidated and separate annual financial statements, and the reported amounts of income and expenses during the reporting periods as set out below. In addition to these items, further detail on other judgements and estimates determined by management is provided, where applicable, in the relevant notes.

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

A. Internal restructure of the Thungela Group before Demerger

An internal restructuring process was undertaken to separate the SA Thermal coal operations and the various non-thermal coal operations within Anglo American in order to prepare the Group for the Demerger. This included consolidating all of the SA Thermal coal operations into a single group of companies and is referred to as the Internal restructure. As part of the Internal restructure, the following key steps were undertaken, among others:

- certain categories of assets and liabilities that were not exclusively or predominantly related to TOPL's coal business were transferred from TOPL to ACSSA, at the time both wholly owned subsidiaries of ASA, with effect from 1 September 2020
- the 100% ownership interest in TOPL was transferred from ASA to SACO, also a wholly owned subsidiary of ASA, with effect from 31 December 2020. TOPL owns 33% of the ordinary shares in Butsanani Energy and, in combination with SACO's existing 33% holding in Butsanani Energy, SACO also obtained control of this entity with effect from 31 December 2020
- Thungela was incorporated on 5 January 2021 as a wholly owned subsidiary of ASA to act as the holding company of the Group
- Anglo American's 50% interest in Mafube Coal Mining was transferred from ASAC, also a wholly owned subsidiary of ASA, to SACO with effect from 31 March 2021
- the 100% ownership interest in SACO was sold by ASA to Thungela, also at the time of the sale a wholly owned subsidiary of ASA, with effect from 1 June 2021
- the EPP and CPP came into effect and each purchased from Thungela 5.0% of its share in SACO respectively, with effect from 2 June 2021, as well as subscribed for the E preference share and C preference share issued by SACO as more fully detailed below.

Thungela was then demerged from the Anglo American Group with effect from 4 June 2021 through a series of independent steps, which resulted in the Thungela shares being distributed to Anglo American shareholders. Thungela listed on the JSE and the LSE on 7 June 2021. The Group obtained economic and operational independence from Anglo American from 1 June 2021, on the sale of SACO to Thungela.

The acquisition of SACO by Thungela with effect from 1 June 2021 is considered a group reorganisation as per IAS 27 rather than a business combination, and so the Group is presented as if Thungela has always owned SACO, rather than reflecting the acquisition of SACO by Thungela from 1 June 2021. As such, the comparatives included in the consolidated annual financial statements reflect the book values of the assets and liabilities of the SACO Group as previously recognised in the Anglo American Group financial statements. The equity of the Thungela Group, however, reflects Thungela's capital structure, which reflects shares issued only in June 2021.

The acquisitions of TOPL, including Butsanani Energy, and Mafube Coal Mining on 31 December 2020 and 31 March 2021 respectively, are business combinations under common control. The Group has elected to account for both acquisitions by applying the predecessor accounting approach using the book values that were previously recognised in the Anglo American Group financial statements. The book values of the net assets of TOPL, Butsanani Energy and Mafube Coal Mining were recognised on the effective date of the business combinations and the comparative financial statements have not been restated.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

2. ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

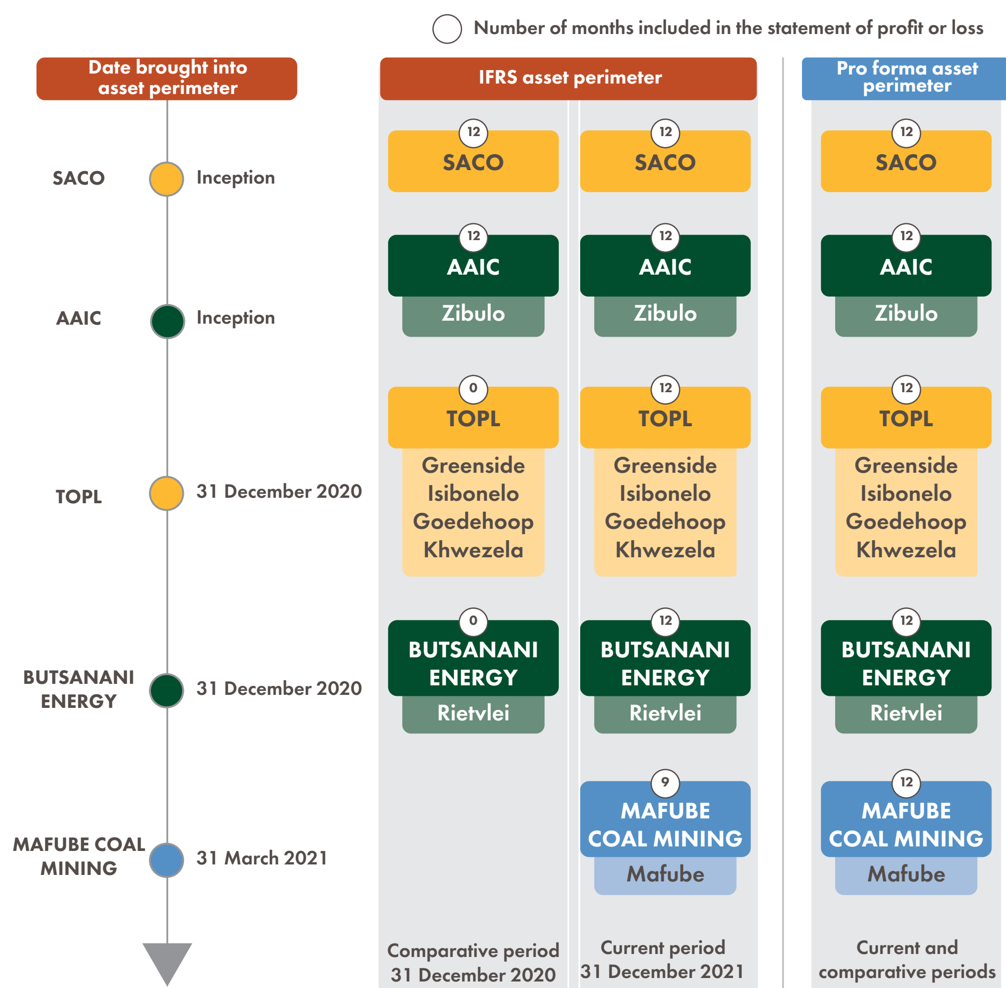
A. Internal restructure of the Thungela Group before Demerger continued

Consequently, the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2021 includes the results of the TOPL, Butsanani Energy and Mafube Coal Mining businesses as follows:

- the results of the operations of TOPL (owning and operating the Isibonelo, Khwezela, Greenside and Goedehoop collieries) with effect from 1 January 2021 (representing a full year of performance)
- the results of the operations of Butsanani Energy (owning the independently managed Rietvlei colliery) with effect from 1 January 2021 (representing a full year of performance)
- the proportionate share of the results of the operations of Mafube Coal Mining (owning and operating the Mafube colliery) for nine months with effect from 1 April 2021.

Before the Internal restructure, SACO owned 73% of AAIC (owning and operating the Zibulo colliery), and thus the comparatives included in the consolidated annual financial statements reflect only the operations of AAIC before the Internal restructure was implemented.

The impact of these steps, and on the comparatives included in the consolidated annual financial statements, can be illustrated using the diagram below:



For the purpose of determining the WANOS in each reporting period, Thungela has applied judgement in determining how many shares were issued in substance for no corresponding increase in the economic value of the Group. Of the total stated capital of R10,041 million issued in June 2021, R5,466 million was received in cash from ASA. The issue of these 74,201,626 shares (as a proportion of the total shares issued based on the proportion of cash consideration to total consideration received) reflects a direct increase in the economic value of the Thungela Group. The remaining stated capital issued amounting to R4,575 million (reflective of 62,110,182 shares, as a proportion of non-cash consideration to total consideration received) is considered in substance to have been issued in consideration for the pre-existing SACO Group. The WANOS has been calculated to reflect the issue of these shares as if it occurred at the start of the earliest comparative period presented.

Presentation of Pro forma financial information

The impact of the Internal restructure is significant to the financial and operating results of the Group, given that the ownership structure reflected only one out of seven operating mines until 31 December 2020, which is not reflective of the operations of the Group on a forward-looking basis. The comparatives included in the consolidated annual financial statements are therefore not fully reflective of the operations of the Group as it is likely to exist on a forward-looking basis over the comparative period. On this basis, the Group has presented a Pro forma consolidated statement of profit or loss for the years ended 31 December 2021 and 31 December 2020, to reflect what the financial results may have been, if the Internal restructure had happened at the start of the reporting period. This Pro forma financial information is included in Annexure 3, and has been presented using the same basis of preparation as reflected in the HFI as included in the PLS. The Pro forma financial information has been reported on by the Group's independent external auditor, and their report on this information appears on pages 144 and 145 of this document.

Community Partnership Plan and Employee Partnership Plan

In order to further enhance the environmental, social and governance factors of the Group, Thungela has founded the Nkulo Community Partnership Trust and the SACO Employee Partnership Plan Trust (collectively the 'Trusts'). The Trusts were founded in June 2021, and each purchased 5.0% of the issued ordinary share capital of SACO from Thungela immediately before the Demerger. The purchase of the shares was funded by Thungela, with no repayment required of the contributed capital, meaning that the Trusts are debt free from their inception.

The Nkulo Community Partnership Trust also subscribed for a C preference share in SACO for a nominal amount, which entitles the Trust to a preference dividend of a minimum of R6 million per annum, up to 2024, subject to the availability of cash flows in SACO, in order to benefit the people that ordinarily reside in the communities surrounding the mines operated by the Group.

The SACO Employee Partnership Plan Trust also subscribed for an E preference share in SACO for a nominal amount, which entitles the Trust to a fixed minimum payment over the first three years of the plan and a potential lump-sum payment at the end of the LOM of the current asset portfolio, at which point it will likely be closed.

The SACO Employee Partnership Plan Trust is entitled to dividends on the E preference share it holds in SACO, amounting to R4,000 per eligible employee of the Group per annum up to 2024, to be paid to the employee three years after grant date.

The Trusts will be entitled to 10% collectively of the dividends declared on ordinary shares by SACO, which will be made available to beneficiaries in the same way as the dividends on the C and E preference shares. The preference dividends on the C and E preference shares will only be payable to the extent that the dividends declared by SACO on ordinary shares in a reporting period do not exceed the minimum amounts.

The Trusts are controlled by the Group, and so are consolidated into the financial results as presented, with no non-controlling interests in relation to the Trusts reflected in the consolidated annual financial statements. The effect of the transactions relating to the Trusts are included in note 6 and note 27 respectively.

2. ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY CONTINUED

B. Impairment of assets

The Group assesses at each reporting date whether there are any indicators that its assets or CGUs may be impaired, or that an impairment previously recognised may need to be reversed. Operating and economic assumptions, which could affect the valuation of assets using discounted cash flow models, are updated regularly as part of the Group's planning and forecasting processes. Judgement is therefore required to determine whether the updates represent significant changes in the service potential of an asset or CGU and are therefore indicators of impairment or impairment reversal. The judgement also considers the Group's long-term economic forecasts, market consensus and sensitivity analyses of the discounted cash flow models used to value the Group's assets for the purpose of assessing the impairment thereof.

Assets (other than goodwill) that have been previously impaired must be assessed for indicators of both impairment and impairment reversal. Such assets are generally carried on the statement of financial position at a value close to their recoverable amount at the last assessment. Therefore, in principle any change to operational plans or assumptions or economic parameters, could result in further impairment or impairment reversal if an indicator is identified.

For assets where indicators of impairment or impairment reversals are identified, the Group performs impairment reviews to assess the recoverable amount of its operating assets principally with reference to their fair value less costs of disposal, assessed using discounted cash flow models. Mining operations are large, complex assets requiring significant technical and financial resources to operate, and their value may be sensitive to a range of characteristics.

The Group applies judgement in determining the assumptions that are reasonable and consistent with those that would be applied by market participants as outlined in note 7.

C. Estimation of Environmental provisions

Estimates are made in determining the liability in relation to the Environmental provisions required in relation to the management, rehabilitation and remediation of environmental impacts from mining operations as per various environmental regulations and legislation. These provisions are based on the estimated rehabilitation, closure and required post-closure monitoring costs per operation on reporting date, inflation and discount rates relevant to the calculation and the expected date of closure of mining activities in determining the present value of the total Environmental provisions.

Because of the long-term nature of the Environmental provisions, the greatest uncertainties in estimating the liabilities are the costs that will be incurred and the discount rates applied.

Environmental provisions have been recognised based on the current environmental disturbances caused at the reporting date and for our current assessment of the risk of latent or residual environmental impacts that may become known in the future. Assessments are annually updated for changes in our environmental footprint across the operations, rates used to determine the costs required for closure, regulations, technology and approaches to conduct rehabilitation. These costs have been discounted to present value over the period they are expected to be incurred, which ranges up to 20 years post closure, and for water treatment costs up to 50 years post closure of the mine. Discounting of the costs relating to closure on the reporting date is calculated over the expected closure and rehabilitation plan of each mine, including the impact of concurrent rehabilitation undertaken while mining is ongoing. The closure plan is determined based on the remaining Coal Reserves per operation, which is assessed on an annual basis.

The Group has provided for water treatment costs using a combination of active and passive water treatment methods, based on activities currently being performed at its operations. The NEMA Financial Provisioning Regulations require the treatment of water to be provided for using the costs for currently available technologies which the DMRE has approved, based on evidence that the technology to be implemented is able to consistently achieve the discharge requirements. Thungela has embarked on an exercise to investigate several different technologies to mitigate the impact of water liabilities. Significant progress has been made on proving passive water treatment on a pilot scale, to demonstrate the passive water treatment process as an integrated system at a larger scale. The construction of a demonstration scale plant to further prove this treatment commenced in August 2021.

The Group is expected to transition to the NEMA Financial Provisioning Regulations on the transition date of 19 June 2022, however, there are a number of regulatory steps that are required to take place before this transition can be effective. The Group has continued to provide for our interpretation of the increase in costs required as a result of the NEMA Financial Provisioning Regulations.

Refer to note 27 for further detail related to the Environmental provisions.

D. Recognition of deferred tax assets

The Group has a significant amount of unredeemed capital deductions (and previously assessed losses – collectively the 'available tax losses') available in TOPL, on the basis of historical loss-making operations in this entity. No deferred tax asset has previously been raised on these available tax losses based on the expected future taxable income that would have been available to utilise these losses against in TOPL, as assessed at 31 December 2020.

For the year ended 31 December 2021, TOPL has returned to profitability on the back of a stronger Benchmark coal price environment, as well as an optimised sales mix to ensure that higher margin products were sold where possible to mitigate the impact of the continued poor rail performance. The assessed losses within TOPL have been fully utilised in the year ended 31 December 2021.

Due to specific requirements in the tax legislation applicable to mining companies in South Africa, a large portion of the unredeemed capital deductions is ring-fenced to specific mines and specific activities. On this basis, although TOPL is now forecasted to generate healthy future taxable income, it is unlikely that the available unredeemed capital deductions will be utilised in relation to the higher-cost, and older operations of TOPL. The portion of these unredeemed capital deductions which the Group expects to utilise has been assessed using the LOM cash flow models utilised for the impairment of assets as a basis, adjusted for specific known factors as appropriate.

The appropriateness of the deferred tax asset recognised will be assessed at each reporting date and updated as required.

Refer to note 30 for further detail on the deferred tax assets recognised.

OTHER ACCOUNTING JUDGEMENTS AND SOURCES OF ESTIMATION UNCERTAINTY

E. Estimating the useful life of property, plant and equipment

The estimation of the useful life of an asset is a matter of judgement based on the experience of the Group with similar assets. In determining the useful life of items of property, plant and equipment that are depreciated, management considers the expected usage of assets, expected physical wear and tear, legal or similar limits of assets such as mineral rights, as well as obsolescence.

The estimate is further impacted by management's best estimation of Coal Resources and Coal Reserves, and in certain circumstances other mineral reserves, and the expected future life of each of the mines within the Group. The forecast production could be different from the actual coal mined, which may impact the future life of each mine.

This would generally result from changes in the factors or assumptions used in estimating the Coal Reserves. These factors could include:

- changes in Coal Resources and Coal Reserves
- unforeseen operational issues at mine sites
- changes in capital, operating, mining or processing costs, discount rates and foreign exchange rates.

F. Measurement of retirement benefit obligations

For defined benefit obligations, the Group is required to make estimates and assumptions about the discount rate, future remuneration changes, employee attrition rates, administration costs, changes in benefits, medical cost trends, inflation rates, and life expectancy. In making these estimates and assumptions, management considers advice provided by external advisers, such as actuaries. The funding valuations are carried out at least every three years, using the projected credit method, by independent qualified actuaries and impact the measurement of the retirement benefit obligations.

Refer to note 29 for further detail on the retirement benefit obligations.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS AND INTERPRETATIONS

Impact of standards issued and effective on 1 January 2021 and adopted by the Group

The following amendments to IFRS have been adopted by the Group from 1 January 2021 with no material impact on the Group's operating results, financial position or disclosures:

- Interest Rate Benchmark Reform – Phase 2, effective for annual periods beginning on or after 1 January 2021. Amendments to:
  - IFRS 9
  - IAS 39
  - IFRS 7.

Impact of standards and interpretations not yet adopted

At the reporting date the following relevant new accounting standards were in issue but not yet effective:

	Effective for annual periods commencing on or after
Amendments to IFRS 16 – COVID-19-related rent concessions beyond 30 June 2021 that extends, by one year, the May 2020 amendment that provides lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification.	1 April 2021
Amendments to IAS 37 – Onerous contracts – cost of fulfilling a contract – clarifies that the 'cost of fulfilling a contract' when assessing whether a contract is onerous comprises both incremental costs and an allocation of direct costs.	1 January 2022
Annual Improvements to IFRS Standards 2018-2020 – the improvements include amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41.	1 January 2022
Amendments to IAS 16 – Proceeds before intended use – the amendment prohibits deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss.	1 January 2022
Amendments to IFRS 3 – amendment updates a reference in IFRS 3 to the Conceptual framework for financial reporting without changing the accounting requirements for business combinations.	1 January 2022
Amendments to IAS 1 – Classification of liabilities as current or non-current: Narrow-scope amendments to IAS 1 to clarify how to classify debt and other liabilities as current or non-current.	1 January 2023
Amendments to IAS 8 – definition of accounting estimates to help entities to distinguish between accounting policies and accounting estimates.	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2 – disclosure of accounting policies with amendments that are intended to help preparers in deciding which accounting policies to disclose in their financial statements.	1 January 2023
Amendments to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations.	1 January 2023
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance contracts as of 1 January 2023.	1 January 2023

The above standards and amendments are not expected to have a material impact on the consolidated and separate annual financial statements in future periods, however, the Group will continue to assess the potential impacts thereof.

FINANCIAL PERFORMANCE

4. SEGMENTAL INFORMATION

Thungela's segments are aligned to those operations that are evaluated regularly by the CODM in deciding how to allocate resources and in assessing performance. The Group executive committee is identified as the CODM of Thungela.

Accounting policy

Reportable segments

Operating segments with similar economic characteristics are aggregated into reportable segments. The economic characteristics considered include performance of key equipment specific to each type of operation, and productivity of the operations measured in volumes and headcount. Thungela has one principal operating activity which is the operation of opencast and underground energy coal mines and the processing of thermal coal in South Africa. The reportable segments are aggregated by the nature of the technology applied by the operations either as an opencast or underground mine, and similar economic characteristics as it relates to the capital and operating structure thereof.

The following summary describes each reportable segment.

Reportable segments	Operations
Opencast	Mining operations undertaken in an opencast mine where coal is extracted, include the following mining operations: • Isibonelo • Khwezela • Mafube • Rietvlei.
Underground	Mining operations undertaken in an underground mine where coal is extracted, include the following mining operations: • Zibulo • Greenside • Goedehoop.
Corporate and other	Various corporate and other marketing activities.

Revenue

Revenue is recognised in a manner that depicts the pattern of the transfer of thermal coal to customers. The amount recognised reflects the amount to which the Group is entitled in exchange for the sale of thermal coal. Sales contracts are evaluated to determine the performance obligations, the transaction price and the point at which there is transfer of control. The transaction price is the amount of consideration due in exchange for transferring thermal coal to the customer and is recognised at a specific point in time.

Revenue is comprised of export sales, being sales made to AAML in terms of the Offtake agreement, and domestic sales made to various customers in the areas in which the Group mines. Revenue is measured at the fair value of consideration received or receivable, after deducting discounts and VAT. The Group has applied the practical expedient available in IFRS 15, and determined that no significant financing component is included in the consideration received. A sale is recognised when control has been transferred, which is usually when title and significant risks have passed to the customer and the thermal coal has been delivered.

Export sales

Revenue derived from export sales is recognised when the thermal coal is loaded onto the ship at the Richards Bay Coal Terminal, and the Group is not directly involved in the delivery of thermal coal to its final destination. The transaction price is determined with reference to the average Benchmark coal price in the month of loading, with various adjustments for quality, grade and calorific value, as well as a fee payable to AAML in terms of the Offtake agreement. Revenue is not impacted by changes in the Benchmark coal price subsequent to the month of loading during which control transfers.

Domestic sales

Domestic sales are made to various customers in the areas in which the Group operates and revenue from these sales is recognised when the thermal coal is delivered to a contractually agreed location, either at the customers premises, or at the collection point at the operation. The transaction price is contractually agreed based on various inputs and is not directly impacted by changes in the Benchmark coal price.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

4. SEGMENTAL INFORMATION CONTINUED

The results of operations by reportable segment can be analysed as follows:

Rand million	Revenue	Adjusted EBITDA[1]	Depreciation and amortisation	Fair value gains on derivative assets
Opencast	**9,780**	**2,568**	**(261)**	**–**
Underground	**16,502**	**7,743**	**(733)**	**–**
Corporate and other	**–**	**(333)**	**(24)**	**348**
Total	**26,282**	**9,978**	**(1,018)**	**348**
Profit for the reporting period				

1 This is considered an APM – refer to Annexure 1 for detail.

Rand million	Revenue	Adjusted EBITDA[1]	Depreciation and amortisation	Fair value gains on derivative assets
Opencast	–	–	–	–
Underground	3,750	282	(408)	–
Corporate and other	–	4	–	–
Total	3,750	286	(408)	–
Loss for the reporting period				

1 This is considered an APM – refer to Annexure 1 for detail.
2 Interest expense and other financing losses for the Corporate and other segment includes interest on the RCF between AAIC, AASAF and TOPL prior to the Internal restructure as detailed in note 23. From the date of the acquisition of TOPL through the Internal restructure, this interest is considered intercompany.

						2021
Fair value loss on derivative asset – capital support	**Restructuring costs and termination benefits**	**Impairment losses**	**Investment income and other financing gains**	**Interest expense and other financing losses**	**Income tax expense**	**Profit/(loss) after tax**
–	**(137)**	**(757)**	**221**	**(412)**	**(163)**	**1,059**
–	**(51)**	**–**	**153**	**(168)**	**(391)**	**6,553**
(569)	**(234)**	**(51)**	**306**	**(100)**	**(17)**	**(674)**
(569)	**(422)**	**(808)**	**680**	**(680)**	**(571)**	**6,938**
						6,938

						2020
Fair value loss on derivative asset – capital support	Restructuring costs and termination benefits	Impairment losses	Investment income and other financing gains	Interest expense and other financing losses[2]	Income tax credit/(expense)	Loss after tax
–	–	–	–	–	–	–
–	(2)	–	3	(27)	127	(25)
–	–	–	–	(290)	(51)	(337)
–	(2)	–	3	(317)	76	(362)
						(362)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

4. SEGMENTAL INFORMATION CONTINUED

Capital expenditure

Capital expenditure encompasses expenditure (cash capital expenditure and capital expenditure accruals) to sustain the business (stay-in-business and stripping and development) and to invest in production replacement projects (expansionary).

The capital expenditure per reportable segment can be analysed as follows:

Rand million	Expansionary	Stay-in-business	Stripping and development	Total capital expenditure
				2021
Property, plant and equipment	**130**	**1,562**	**511**	**2,203**
Opencast	**31**	**659**	**2**	**692**
Underground	**97**	**730**	**509**	**1,336**
Corporate and other	**2**	**173**	**–**	**175**
Intangible assets	**–**	**11**	**–**	**11**
Corporate and other	**–**	**11**	**–**	**11**
Expenditure on property, plant and equipment and intangible assets	**130**	**1,573**	**511**	**2,214**
Reconciliation to the statement of cash flows				
Movement in capital creditors	**–**	**109**	**–**	**109**
Capital expenditure[1]	**130**	**1,682**	**511**	**2,323**

[1] Capital expenditure consists of expenditure on property, plant and equipment of R2,312 million and expenditure on intangible assets of R11 million.

Rand million	Expansionary	Stay-in-business	Stripping and development	Total capital expenditure
				2020
Property, plant and equipment	195	389	101	685
Underground	155	389	101	645
Corporate and other	40	–	–	40
Expenditure on property, plant and equipment	195	389	101	685
Reconciliation to the statement of cash flows				
Movement in capital creditors	–	(81)	–	(81)
Capital expenditure	195	308	101	604

Revenue

The revenue generated by the Group can be analysed as follows:

Revenue by product and segment

Rand million	Opencast	Underground	2021 Total
Thermal export[1]	**6,490**	**16,323**	**22,813**
Industrial and domestic	**3,290**	**179**	**3,469**
Total revenue	**9,780**	**16,502**	**26,282**

Rand million	Opencast	Underground	2020 Total
Thermal export[1]	–	2,943	2,943
Industrial and domestic[2]	–	807	807
Total revenue	–	3,750	3,750

1 Thermal export revenue consists of revenue generated from sales to AAML.
2 Industrial and domestic revenue represents product sold to TOPL for export to AAML in the ordinary course of business prior to the Internal restructure.

Revenue by destination

Rand million	**2021**	2020
United Kingdom	**22,813**	2,943
South Africa[1]	**3,469**	807
Total revenue	**26,282**	3,750

1 Revenue in South Africa for the year ended 31 December 2020 represents product sold to TOPL for export to AAML in the ordinary course of business prior to the Internal restructure.

All revenue and profit of Thungela is derived from operations based in South Africa.

Revenue by customer

	2021	2020
Sales to AAML	**22,813**	2,943
Other – domestic sales[1,2]	**3,469**	807
Total revenue	**26,282**	3,750

1 No individual domestic customer contributes more than 10% to the total revenue generated by the Group for the year ended 31 December 2021.
2 Domestic sales for the year ended 31 December 2020 represents product sold to TOPL for export to AAML in the ordinary course of business prior to the Internal restructure.

5. PROFIT/(LOSS) BEFORE NET FINANCE COSTS AND TAX

Profit/(loss) before net finance costs and tax represents the results of the ongoing normal operations of the Group.

Accounting policy

Operating costs incurred in the ongoing operations of the Group are recognised in the statement of profit or loss and other comprehensive income as incurred.

Exploration expenditure is the cost of exploring Coal Resources other than that occurring at existing operations and projects and comprises of various studies, drilling and developments. Evaluation expenditure includes the cost of conceptual and pre-feasibility studies and evaluation of Coal Resources at existing operations. Exploration and evaluation expenditure is expensed in the year in which it is incurred. Upon the studies proving that the projects are feasible and commercially viable, subsequent and directly attributable expenditures are capitalised within property, plant and equipment.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

5. PROFIT/(LOSS) BEFORE NET FINANCE COSTS AND TAX CONTINUED

Profit/(loss) before net finance costs and tax can be analysed as follows:

Rand million	Notes	2021	2020
Revenue	4	**26,282**	3,750
Employee costs	6	**(4,112)**	(827)
Depreciation	13	**(989)**	(406)
Amortisation	12	**(29)**	(2)
Third party commodity purchases		**(1,380)**	–
Commodity purchases from Mafube Coal Mining[1]		**(137)**	–
Consumables used in production[2]		**(1,646)**	(284)
Maintenance expenditure[2]		**(2,716)**	(648)
Production input costs[2]		**(2,583)**	(238)
Inventory production movement		**1,222**	48
Logistics costs		**(3,235)**	(806)
Demurrage and other expenses		**(204)**	(78)
Increase in expected credit loss provision	19	**(67)**	*
Royalties		**(394)**	(14)
Exploration and evaluation[3]		**(124)**	(64)
Exploration expenditure		**(27)**	–
Evaluation expenditure		**(97)**	(64)
Foreign exchange gains		**214**	4
Profit on sale of property, plant and equipment		**8**	–
Audit fees		**(9)**	(2)
Audit services		**(9)**	(2)
Non audit services[4]		*****	–
Professional fees		**(84)**	(10)
Learnership and development expenses		**(169)**	(26)
Temporary staff		**(138)**	(6)
Recharged costs from Anglo American		**(605)**	(57)
Administration expenses		**(331)**	(9)
Operating expenses		**(274)**	(48)
Other administration expenses		**(49)**	(65)
Other operating expenses[5]		**(96)**	(391)
Operating costs		**(17,322)**	(3,872)
Impairment losses	7	**(808)**	–
Fair value gains on derivative assets	24	**348**	–
Fair value loss on derivative asset – capital support	24	**(569)**	–
Restructuring costs and termination benefits	8	**(422)**	(2)
Profit/(loss) before net finance costs and tax		**7,509**	(124)

* Represents amounts less than R1 million.

1 Commodity purchases from Mafube Coal Mining relate to purchases by TOPL in the ordinary course of business prior to the acquisition of Mafube Coal Mining through the Internal restructure on 31 March 2021.

2 Consumables used in production, maintenance expenditure and production input costs have been re-presented so as to provide a more detailed level of disaggregation of the expense in line with the underlying nature thereof.

3 Exploration and evaluation expenditure exclude associated employee costs, which are considered immaterial.

4 Included in restructuring costs and termination benefits are fees from the independent external auditor of R20 million in relation to the Demerger. Refer to note 8 for further detail.

5 Other operating expenses for the year ended 31 December 2020 include costs payable to TOPL prior to the Internal restructure.

6. EMPLOYEE COSTS

The Group incurs various costs in relation to our employees, including various long-term and short-term benefits.

Accounting policy

Short-term benefits

The cost of short-term employee benefits is recognised during the period in which the employees render the related service. Short-term employee benefits are measured on an undiscounted basis. The accrual for employee entitlements to salaries, bonuses and annual leave represents the amount which the Group has a present legal or constructive obligation to pay as a result of the employees' services provided up to the reporting date.

SACO Employee Partnership Plan Trust

The participating employees of the EPP are entitled to receive a fixed minimum payment over the first three years of the plan, a variable payment over the full term of the plan and a potential lump-sum payment at the end of the LOM of the current asset portfolio, at which point the Trust will likely be wound up. The variable payment to employees is dependent on the value of the dividend declared by SACO on its ordinary shares, given the shareholding that the EPP has in SACO. The grants for the first three years will vest at the end of the third year after grant date, and so on until the end of the LOM of the current SACO asset portfolio. The EPP includes rules in relation to good leavers which could result in the early payment of awards granted under certain conditions. The cost in relation to the EPP grant is recognised in the statement of profit or loss and other comprehensive income over the vesting period on a straight-line basis, in relation to the amount of the grant that is expected to vest.

The employee costs incurred by the Group can be analysed as follows:

Rand million	Notes	**2021**	2020
Wages and salaries		**3,580**	741
Social security costs		**106**	15
Post-employment benefits		**386**	69
Share-based payments	32	**225**	2
EPP awards granted		**4**	–
Termination benefits		**26**	2
Total employee costs		**4,327**	829
Less – employee costs capitalised		**(51)**	–
Less – accelerated vesting of Anglo American share awards included in restructuring costs and termination benefits	8	**(138)**	–
Less – termination benefits included in restructuring costs and termination benefits[1]	8	**(26)**	(2)
Employee costs included in operating costs	5	**4,112**	827

[1] Termination benefits are included in the costs related to placing the Bokgoni pit at Khwezela on care and maintenance.

Post-employment benefits include contributions to defined contribution pension and medical aid plans, current and past service costs related to medical aid plans and other benefits provided to certain employees during retirement. Refer to note 29 for further detail.

The EPP is entitled to dividends on the E preference share it holds in SACO, amounting to R4,000 per eligible employee of the Group per annum up to 2024, to be paid to the employee three years after grant date. The EPP also owns 5.0% of the ordinary share capital in SACO, and so is eligible for dividends declared by SACO on ordinary shares, which will be included in the awards made to employees. No dividend has been declared by SACO for the year ended 31 December 2021, and so the first grant to employees reflects the minimum payment of R4,000 per employee only.

Employee costs capitalised related to costs incurred for employees dedicated to work performed on capital projects.

7. IMPAIRMENT LOSSES

The Group is required to assess whether assets may be impaired, or an impairment previously recognised may need to be reversed, at each reporting date. The impairment losses recognised are determined based on the Group's judgements around the recoverable amount of each identified CGU.

Accounting policy

Any impairment loss is recognised immediately in the statement of profit or loss and other comprehensive income.

Goodwill arising on business combinations is allocated to the CGUs that are expected to benefit from synergies of the combination and represents the lowest level at which goodwill is monitored by the Group's leadership team for internal management purposes. The recoverable amount of the CGUs to which goodwill has been allocated is tested for impairment annually, or when events or changes in circumstances indicate that it may be impaired. An impairment of goodwill is not subsequently reversed.

At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets are impaired. If such an indication exists, the recoverable amount of those assets is estimated in order to determine the extent of any impairment loss. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The CGUs are determined as the individual operating mines and impairment is assessed at that level. In addition, when assessing assets for impairment, management allocates corporate and other assets, which do not generate independent cash flows to the CGUs on an appropriate basis.

The recoverable amount is the higher of the fair value less costs of disposal and the VIU assessed using discounted cash flow models. In assessing the recoverable amount, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which estimates of future cash flows have not been adjusted. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount.

Subsequent changes to the CGU allocation, timing of the forecasted cash flows or to the assumptions used to determine these forecasted cash flows could impact the recoverable amounts of the respective assets. There have been no changes in the CGU allocation for the year ended 31 December 2021, with the exception of the Mafube colliery being identified as a CGU after the Group's acquisition of Mafube Coal Mining through the Internal restructure.

Impairment losses recognised

Impairment losses comprise an impairment in relation to the Khwezela and Isibonelo operations, as well as an appropriate allocation of corporate and other assets. No impairment losses were recognised for the year ended 31 December 2020.

Impairment losses recognised in the year can be analysed as follows:

Rand million	Notes	**2021**	2020
Property, plant and equipment	13	**786**	–
Intangible assets	12	**22**	–
Impairment losses		**808**	–
Tax impact	30	**(224)**	–
Net impairment losses		**584**	–

Goodwill impairment testing

Goodwill is tested at least annually for impairment by assessing the recoverable amounts of the related CGUs. The recoverable amounts of the CGUs have been determined based on their fair value less costs of disposal using discounted cash flow models. The recoverable amount of Greenside, which is the only operation with a remaining goodwill balance, is determined on the same basis as CGUs where an indicator of impairment has been identified.

Assessing impairment indicators for CGUs without goodwill

Export operations

The mining operations carried out at Goedehoop, Khwezela, Greenside, Mafube and Zibulo represent the export operations of the Group. All export sales are made to AAML as per the Offtake agreement. The price realised on export sales is determined using the Benchmark coal price as a base, with specific adjustments made for quality, grade, volume and content. These CGUs do supply limited quantities into the domestic market, but domestic sales are not a key value contributor to the CGUs.

Domestic operations

The mining operations carried out at Isibonelo and Rietvlei represent the domestic operations of the Group. These operations sell to domestic customers under fixed-term offtake agreements. Contractual prices are escalated annually with reference to various input cost indices. Changes in the Benchmark coal price therefore do not directly impact the LOM revenue assumptions at these operations.

Capital projects

The viability of ongoing capital projects is assessed when there are indicators that the projects might not be recoverable. A project can be deemed as not viable due to a variety of reasons, eg a decision to adopt different technology, a decrease in the recoverable amount of the mines that the projects were intended for or indicators that the project did not achieve the initially deemed probable outcomes. When deemed not viable the project is impaired.

Corporate and other assets

Assets that are held centrally are allocated to the CGUs on an appropriate basis. The corporate and other assets allocated to CGUs which have been impaired are allocated a proportionate share of that impairment loss.

Determining recoverable amounts

The recoverable amounts are determined on a fair value less costs of disposal basis with reference to the LOM forecasted cash flows and where relevant a valuation of in-situ Coal Resources beyond the current LOM plan.

Expected future cash flows used in discounted cash flow models are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including Coal Resources and Coal Reserves and production volumes, together with economic factors such as the forecasted Benchmark coal price, forecasted exchange rates, discount rates, estimates of production costs and future capital expenditure. Where discounted cash flow models based on management assumptions are used, the resulting fair value measurements are at level 3 in the fair value hierarchy as defined in IFRS 13, as they depend to a significant extent on unobservable valuation inputs.

Where in-situ Coal Resources beyond the LOM plan are included in the cash flow models, an appropriate risk adjustment is made, or alternatively, the fair value is determined on a comparable transaction basis and added to the recoverable amount.

The discounted cash flow models are based on approved financial budgets and LOM plans incorporating key assumptions which can be analysed as follows:

Coal prices

The estimated coal prices used are based on the latest internal forecasts, benchmarked with external sources of information, to ensure they are within the range of available external forecasts. The estimated realised price for export operations is calculated using the forecasted Benchmark coal price, with adjustments to reflect the quality and calorific value of the product, to reflect the estimated realised price at each CGU. The forecasted Benchmark coal prices in real terms used in the estimation of cash inflows over the forecast period range from $85/tonne to $94/tonne (2020: $61/tonne to $73/tonne).

In estimating the forecasted cash flows, the Group also considers the expected realised prices from existing contractual arrangements for the domestic operations where relevant, ranging from R380/tonne to R540/tonne over the forecast period.

7. IMPAIRMENT LOSSES CONTINUED

Determining recoverable amounts continued

The discounted cash flow models are based on approved financial budgets and LOM plans incorporating key assumptions which can be analysed as follows continued:

Foreign exchange rates

Foreign exchange rates are based on the latest internal forecasts, benchmarked with external sources of information. Given the volatility experienced in foreign exchange rates for the year ended 31 December 2021, the estimated foreign exchange rates were kept flat in real terms at R14.75:1 USD over the forecast period, in line with the approved budget assumptions. For the year ended 31 December 2020, the estimated foreign exchange rates utilised were also based on internal forecasts and were included in the impairment assessment at a range of R15.01:1 USD to R17.11:1 USD. Operations supplying solely into the domestic market are not directly exposed to fluctuations in the foreign exchange rate.

Discount rate

The discounted cash flow models used to determine the recoverable amounts are discounted based on a real post-tax discount rate, assessed annually, of 9.5% (2020: 9.5%). Adjustments to the discount rate are made for any risks that are not reflected in the underlying cash flows, including the risk profile of the CGU. The cost of capital of comparable producers was considered in determining the discount rate.

Operating costs, capital expenditure and other operating factors

Operating costs and capital expenditure are based on the approved financial budgets covering a five-year period. Forecasted cash flows beyond five years are based on approved LOM plans and internal forecasts. Cost assumptions incorporate the Group's experience and expectations, as well as the nature and location of the operation and the risks associated therewith (for example, due to varying geological conditions over time and unforeseen operational issues).

Climate change

The Group has carefully considered the potential impact of climate related risks in the estimation of the recoverable amounts. The risks considered include the global trends of decreasing demand for coal, the impact on the cost of capital, the impact on Benchmark coal prices and the increased cost of adhering to applicable regulatory requirements in addition to physical risks caused by climate change.

The LOM models are based on the assumption that there will be a market for thermal coal over the expected LOM after assessing local and global demand forecasts. The prices and other key assumptions represent the Group's best estimate of key market factors, including climate change related scenarios.

The cost of carbon related emissions has been considered and incorporated into the discounted cash flow models, based on enacted legislation and expectations for carbon prices based on the latest internal forecasts benchmarked with external sources.

The DFFE declaration of greenhouse gases as priority air pollutants in 2017 has been followed by the imposition of a regulatory framework for greenhouse gas emission reporting. This forms the basis and input for the imposition of the Carbon Tax Act on 1 June 2019, which introduces a carbon tax on identified affected sectors on the basis of their greenhouse gas emission concentrations as a controlled climate change mitigation measure.

The relevant regulations include:

- the Carbon Tax Act. The South African government introduced a carbon tax under the Carbon Tax Act. The first phase of the Carbon Tax Act applies to scope 1 or direct emissions from 1 June 2019 to 31 December 2022. Under the first phase, the introduction of the carbon tax is not expected to have an immediate impact on the price of electricity. The Group has expensed a total of R3 million (2020: R2 million) in relation to carbon tax
- declaration of greenhouse gases as priority pollutants under the National Environmental Management: Air Quality Act
- national Pollution Prevention Plans Regulations (Government Notice 712 in Government Gazette 40996 of 2019)
- simultaneously with the introduction of the Carbon Tax Act, a carbon fuel levy was introduced under the Customs and Excise Act, as part of the current South African fuel levy regime. The carbon fuel levy now includes a carbon levy, which applies to stationary and non-stationary mobile emissions resulting from the use of liquid fuels, mostly petrol and diesel. The carbon fuel levy on diesel and petrol, which came into effect on 5 June 2019, is 10c per litre and 9c per litre, respectively. In addition, a notice published in the South African Government Gazette on 31 May 2019 provided that the carbon fuel levy was excluded from the diesel refund regime. As such, a person who becomes liable for the carbon fuel levy will not be able to claim a refund on the 10c per litre of diesel paid in respect of the carbon fuel levy on diesel.

Impact of COVID-19 on the discounted cash flow models

The Group has considered the impact of COVID-19 on each of its significant accounting judgements and key sources of estimation uncertainty. The Group's principal source of estimation uncertainty which may be impacted by the ongoing pandemic continues to be in relation to the assumptions used to determine the recoverable amounts. No further significant estimates have been identified as a result of COVID-19, although the pandemic has increased the level of uncertainty inherent in all future cash flow forecasts.

The coal price and foreign exchange rate assumptions used in the discounted cash flow models used to determine the recoverable amounts have been updated to consider production implications and both the short-term observable impact of COVID-19 and the forecast medium and longer-term impact on the world economy and commodity prices. Production assumptions are based on the latest approved budgets and LOM plans. These plans assume that the mines will continue to operate with appropriate safety measures in place.

Impairment loss assessments

Export operations

The mining operations carried out at Goedehoop, Khwezela, Greenside, Mafube and Zibulo represent the export operations of the Group. These CGUs do supply the domestic market as well, but to a lesser extent, and domestic sales are not the key value contributor to the CGUs. The export operations are largely dependent on the ability to rail coal to the Richards Bay Coal Terminal in order to realise the sales forecast for each of the CGUs, and this has a concomitant impact on the forecasted production of the CGUs.

Throughout 2021 the export operations have encountered severe problems in railing coal to the Richards Bay Coal Terminal due to the continued underperformance of TFR. The rail operator's performance challenges are attributable to theft of infrastructure (eg overhead power cables, signalling and tracks) and equipment failures mainly related to locomotives. This has led to some of our operations becoming stock bound, and impacting forecasted production to manage stockpile capacity.

Khwezela has historically been a higher-cost operation based on the accessibility of the reserves at the colliery. The Bokgoni pit at Khwezela has been placed on care and maintenance effective from the first quarter of 2021, which further increases the cost burden on the remaining pits of this operation. Given that it is a higher-cost operation, Khwezela's forecasted production for 2022 has been curtailed, to allow for available trains to be sent to other mines, based on our assessment of the potential available rail capacity in the near-term. On this basis, despite the significantly stronger Benchmark coal price environment experienced, an impairment loss of R317 million (2020: Rnil) has been recognised on the Khwezela CGU. This has resulted in the CGU being fully impaired.

Greenside, Mafube, Goedehoop and Zibulo are also export operations, however, our continued efficient management of the available rail capacity has ensured continued strong performance for these operations. As a result, the recoverable amounts of these CGUs are estimated to be higher than the carrying amounts of the non-current assets. The significantly improved Benchmark coal price environment has not led to impairment reversals at other previously impaired operations held within TOPL on the basis of the rail constrained environment, and the impact on the Group's forecasted production.

The carrying amounts of the CGUs that are not impaired can be analysed as follows:

			2021
Rand million	**Reporting segment**	**Goodwill**	**Carrying amounts other than goodwill[1]**
Zibulo	Underground	**–**	**4,999**
Greenside	Underground	**9**	**2,132**
Goedehoop	Underground	**–**	**271**
Mafube	Opencast	**–**	**1,919**
Total		**9**	**9,321**

[1] Carrying amounts other than goodwill comprise other intangible assets and property, plant and equipment.

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For the year ended 31 December 2021

7. IMPAIRMENT LOSSES CONTINUED

Impairment loss assessments continued

Export operations continued

			2020
Rand million	Reporting segment	Goodwill	Carrying amounts other than goodwill[1]
Zibulo	Underground	–	4,770
Total		–	4,770

[1] Carrying amounts other than goodwill comprise other intangible assets and property, plant and equipment.

Sensitivities

The recoverable amounts, based on the discounted cash flow models, are sensitive to changes in input assumptions, particularly in relation to forecasted Benchmark coal prices and foreign exchange rates over the LOM of the CGUs. In addition to the base case valuation, alternative scenarios have been considered to assess the impact of changes in key assumptions. The most significant inputs to the discounted cash flow models are the short to medium-term forecasted Benchmark coal price used to calculate the estimated realised prices across the CGUs and the discount rates applied.

The impact on the estimated recoverable amounts, for reasonably possible changes to the key assumptions used, keeping other assumptions constant, can be analysed as follows:

	2021			2020	
Rand million	**5.0% increase in estimated prices**	**5.0% decrease in estimated prices**	**0.5% increase in discount rate**	5.0% decrease in estimated prices	0.5% increase in discount rate
Zibulo	**1,050**	**(1,053)**	**(65)**	(1,354)	(85)
Greenside	**518**	**(535)**	**(20)**	–	–
Goedehoop	**190**	**(216)**	*****	–	–
Khwezela	**558**	**(581)**	**(10)**	–	–
Mafube	**357**	**(344)**	**(33)**	–	–
Total	**2,673**	**(2,729)**	**(128)**	(1,354)	(85)

* Represents an amount less than R1 million based on the short LOM of the operation.

For the year ended 31 December 2020, the movements in the recoverable amounts shown above did not indicate that an impairment was required.

For the year ended 31 December 2021, the impact of the sensitivities shown above is as follows:

- increase in estimated prices of 5.0%: this sensitivity would result in no impairment being recognised at Khwezela
- decrease in estimated prices of 5.0%: this sensitivity would result in an impairment possibly being recognised at Greenside and a reduction of headroom at the remaining CGUs. No additional impairment would be recognised at Khwezela as the CGU has already been fully impaired
- increase in discount rate of 0.5%: this sensitivity would not result in an impairment at any of the CGUs.

The recoverable amounts are the most sensitive to changes in the estimated prices used over the forecast period. The Group has effectively managed our operations in the current year to ensure that higher margin products are railed to the Richards Bay Coal Terminal which has impacted the on-mine stockpiles of lower margin products. Should the rail constrained environment not improve, production may need to be further curtailed, which may impact the recoverable amounts of the CGUs. The rail constrained environment, coupled with a number of ongoing geopolitical tensions in thermal coal producing regions, have led to significant volatility being experienced in the Benchmark coal price throughout the year ended 31 December 2021. On this basis we have determined that the estimated prices used in the determination of the recoverable amounts are appropriate, although the sensitivities show a potential reversal of impairments based on utilising increased prices.

Domestic operations

The mining operations carried out at Isibonelo and Rietvlei represent the domestic operations of the Group.

The mining operations carried out at Rietvlei reached commercial production in October 2019 and the ramp up of production to meet the existing coal supply agreement occurred after this date. During 2021 the operation was able to produce as expected and showed no indication of production challenges. Rietvlei has a fixed-term coal supply agreement in place with its customer, and throughout 2021 it delivered in excess of its contractual commitment. There was no impairment indicator identified in relation to the Rietvlei CGU.

Isibonelo's sales are made under a fixed-term offtake agreement with committed production per year. Prices are contractually agreed and impacted by mining inflation and other inputs. During 2021, the operation experienced an increase in production costs and a decrease in saleable tonnes produced, as a result of difficult geological conditions as well as significant rainfall experienced in quarter four of 2021, which impacted the overall profitability of the contract in place. This resulted in an impairment loss of R440 million being recognised on the Isibonelo CGU (2020: Rnil).

The carrying amounts of the CGU that is not impaired can be analysed as follows:

			2021
Rand million	**Reporting segment**	**Goodwill**	**Carrying amounts other than goodwill**[1]
Rietvlei	Opencast	–	315
Total		**–**	**315**

[1] Carrying amounts other than goodwill comprise other intangible assets and property, plant and equipment.

Sensitivities

As domestic sales prices are largely fixed with annual input cost inflation adjustments, recoverable amounts are the most sensitive to production volumes and cost increases not catered for in the annual sales price adjustment.

The impact on the estimated recoverable amounts, for reasonably possible changes to the key assumptions used, keeping other assumptions constant, can be analysed as follows:

		2021
Rand million	**5.0% increase in operating expenditure**	**5.0% decrease in saleable production**
Isibonelo	(114)	(297)
Rietvlei	(154)	(179)
Total	**(268)**	**(476)**

For Isibonelo, any movements in the sensitivities indicates an additional impairment, as the CGU is currently recognised at its recoverable amount. The sensitivities provided for Rietvlei would not result in an impairment.

Capital projects

No impairment has been recognised on capital projects in the year (2020: Rnil).

Corporate and other assets

The assets held centrally by the Group are allocated to all CGUs on an appropriate proportionate basis. Due to the impairments recognised at Khwezela and Isibonelo, an impairment of R51 million (2020: Rnil) has been recognised on these corporate and other assets.

8. RESTRUCTURING COSTS AND TERMINATION BENEFITS

The Group incurs various costs in relation to restructuring costs and termination benefits, based on changes in the underlying structure of the Group.

Accounting policy

Restructuring costs are recognised as an expense at the earlier of the date the costs are incurred or when the Group is demonstrably committed, without a realistic possibility of withdrawal, to a formal detailed restructuring plan. Benefits that are expected to be wholly settled more than one year after the end of the reporting period are discounted to their present value.

Termination benefits are recognised as an expense when the employment of an employee or group of employees is terminated before their normal retirement date or as a result of an offer made to encourage voluntary redundancy. In the case of an offer to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer.

Expenses related to the Demerger were incurred directly in relation to the creation of the Group, and are recognised as an expense as incurred.

The restructuring costs and termination benefits can be analysed as follows:

			2021
Rand million	**Before tax**	**Tax**	**Net**
Bokgoni care and maintenance and other termination benefits	**193**	**(54)**	**139**
Accelerated vesting of Anglo American share awards	**138**	**(39)**	**99**
Other Demerger related costs	**91**	**–**	**91**
Total restructuring costs and termination benefits	**422**	**(93)**	**329**

			2020
Rand million	Before tax	Tax	Net
Other termination benefits	2	(1)	1
Total restructuring costs and termination benefits	2	(1)	1

The Bokgoni care and maintenance costs relate to the costs incurred to place the Bokgoni pit at the Khwezela colliery on care and maintenance in 2021.

The accelerated vesting of the Anglo American share awards was completed based on the Demerger becoming effective. Refer to note 32 for further detail.

Other Demerger related costs include fees of R20 million for audit services provided by the Group's independent external auditor as the independent reporting accountant of the Group in relation to the PLS, as well as other costs directly related to the Demerger.

9. NET FINANCE COSTS

The Group's net finance costs include interest income on cash and cash equivalents, interest expense on loans and borrowings, fair value movements on investments, the unwinding of the discount on environmental and other provisions and net interest costs on retirement benefit obligations, as well as foreign exchange gains and losses, and other financing costs.

Accounting policy

Interest income is recognised in the statement of profit or loss and other comprehensive income using the effective interest rate method.

Growth on the environmental rehabilitation trusts' assets and other environmental investments represents the growth on unit trust and other investments held in order to mitigate the Group's exposure to Environmental provisions, and is recognised in the statement of profit or loss and other comprehensive income as it is earned.

Interest expenses, other than the unwinding of discount on environmental and other provisions, are recognised in the statement of profit or loss and other comprehensive income in the period in which they are incurred. The unwinding of the discount on environmental and other provisions is recognised in the statement of profit or loss and other comprehensive income over the life of the relevant provision, based on the expected outflow of economic benefits in future periods.

Foreign exchange gains and losses relate to the translation of cash and cash equivalents held by the Group denominated in USD from the receipt of export revenue, which are presented within net finance costs.

Net finance costs can be analysed as follows:

Rand million	Notes	**2021**	2020
Investment income			
Interest income on cash and cash equivalents		**114**	1
Growth on environmental rehabilitation trusts' assets	27	**385**	2
Growth on other environmental investments	27	**4**	–
Total investment income		**503**	3
Interest expense			
Interest and other finance expenses		**(65)**	(6)
Net interest costs on retirement benefit obligations	29	**(43)**	–
Interest expense on loans from Anglo American		**(35)**	(277)
Unwinding of discount on environmental and other provisions	27	**(537)**	(29)
Total interest expense		**(680)**	(312)
Other financing gains/(losses)			
Foreign exchange gains/(losses)		**177**	(5)
Total other financing gains/(losses)		**177**	(5)
Net finance costs		**–**	(314)

10. INCOME TAX (EXPENSE)/CREDIT

Accounting policy

Income tax (expense)/credit comprises the sum of current and deferred tax. Income tax is recognised in profit or loss except to the extent that it relates to items recognised directly in in OCI or in equity.

Current tax and deferred tax is recognised in OCI or equity if the taxation relates to items that are recognised, in the same or a different period, in OCI or in equity.

The Group's liability for current tax is calculated using tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date.

Analysis of (expense)/credit for the reporting period

Rand million	Notes	**2021**	2020
Current tax expense		**(521)**	–
Charged in respect of the current reporting period		**(504)**	–
Charged in respect of prior reporting periods		**(17)**	–
Deferred tax (expense)/credit	30	**(50)**	76
Credited in respect of deferred tax asset	30	**384**	–
(Charged)/credited in respect of deferred tax liability	30	**(434)**	76
Total income tax (expense)/credit for the reporting period		**(571)**	76

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10. INCOME TAX (EXPENSE)/CREDIT CONTINUED

Factors affecting income tax (expense)/credit for the reporting period

The income tax (expense)/credit for the reporting period has been impacted by various transactions and can be analysed as follows:

Rand million	2021	2020
Profit/(loss) before tax	7,509	(438)
Tax at the applicable rate (South African corporation tax rate) of 28%	(2,103)	123
Adjusted for the tax effects of:		
Items non-deductible for tax purposes	(226)	(1)
Depreciation of mineral rights	(4)	(1)
Impairment on mineral rights and land	(2)	–
Legal and professional fees	(3)	–
SARS penalties and interest	(3)	–
Fair value loss on biological assets	(1)	–
Fair value loss on derivative asset – capital support	(159)	–
Non-deductible items considered capital in nature	(38)	–
Expenses not incurred in the production of income	(4)	–
Acquisition of joint operation	(12)	–
Items non-taxable for tax purposes	23	7
Contribution to other environmental investments	1	–
Reversal of expenses previously not deductible	–	7
Royalty and carbon tax prior year adjustment	22	–
Other items	1,594	–
Donations	30	–
Other	(5)	–
Net deferred tax asset previously not recognised	1,569	–
Prior year adjustments	141	(53)
Current tax	(17)	–
Deferred tax	158	(53)
Income tax (expense)/credit	(571)	76

The effective tax rate for the year of 7.6% (2020: 17%) is lower than the applicable statutory rate of corporation tax in South Africa of 28%.

The prior year tax adjustments relate to adjustments required to align with the final tax return as submitted to SARS.

Tax amounts included in other comprehensive loss

The tax impact of the individual items presented in other comprehensive loss can be analysed as follows:

Rand million	2021	2020
Tax (expense)/credit on items that will not be reclassified to profit or loss		
Remeasurement of retirement benefit obligations	(7)	–
Fair value losses on financial asset investments	1	2
Total income tax (expense)/credit recognised in other comprehensive loss	(6)	2

Current tax (liabilities)/assets

The current tax (liabilities)/assets are only offset to the extent that the Group has the ability and intention to settle these amounts simultaneously. The current tax (liabilities)/assets can be analysed as follows:

Rand million	**2021**	2020
Current tax assets	**46**	123
Current tax liabilities	**(278)**	(1)
Net current tax (liabilities)/assets	**(232)**	122

Income tax paid

The income tax paid for the reporting period can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**122**	(56)
Income tax – current tax charge	**(521)**	–
Acquired through Internal restructure	**(19)**	112
Non-cash movements	**(11)**	–
Balance at the end of the reporting period	**232**	(122)
Income tax paid	**(197)**	(66)

11. EARNINGS/(LOSSES) PER SHARE AND HEADLINE EARNINGS/(LOSSES) PER SHARE

Earnings/(losses) per share has been calculated based on the WANOS, given the timing of the Internal restructure and issue of shares by Thungela. Headline earnings/(losses) has been determined in line with SAICA Circular 1/2021 and the JSE Listings Requirements, and reconciled to profit/(loss) attributable to the equity shareholders of the Group in each reporting period.

Accounting policy

The Group calculates and presents basic and diluted EPS and basic and diluted HEPS for its ordinary shares.

HEPS is calculated by adjusting the profit/(loss) attributable to the equity shareholders of the Group for all separately identifiable remeasurements as defined in SAICA Circular 1/2021, net of related tax (both current and deferred) and related non-controlling interests, other than remeasurements specifically included in headline earnings/(losses), which is then divided by the WANOS. Disclosure of headline earnings/(losses) is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa that is more closely aligned to the operating activities of an entity.

Diluted EPS and HEPS are determined by adjusting the basic and headline earnings/(losses) attributable to the equity shareholders of the Group and the WANOS for the effects of all dilutive potential ordinary shares, which comprise share awards granted to employees.

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For the year ended 31 December 2021

11. EARNINGS/(LOSSES) PER SHARE AND HEADLINE EARNINGS/(LOSSES) PER SHARE CONTINUED

Number of shares

The WANOS used in the calculation of EPS and HEPS can be analysed as follows:

Number of shares	2021	2020
WANOS at the start of the reporting period	62,110,182	62,110,182
Adjusted for the weighted average impact of shares:		
Issued during the year	43,504,515	–
Acquired during the year	(354,358)	–
WANOS at the end of the reporting period	**105,260,339**	62,110,182
Adjusted for dilutive potential ordinary shares relating to:		
Conditional share awards	171,790	–
Forfeitable share awards	184,861	–
Diluted WANOS at the end of the reporting period	**105,616,990**	62,110,182
Number of shares in issue[1]	136,311,808	–
Treasury shares held by Group companies	(2,712,606)	–
WANOS[1]	105,260,339	62,110,182
Diluted WANOS	105,616,990	62,110,182

[1] Refer to note 31 for details of the stated capital issued, and judgement applied to the calculation of WANOS.

Earnings/(losses) per share

Earnings/(losses) per share can be analysed as follows:

Rand million	2021	2020
Profit/(loss) attributable to the equity shareholders of the Group	6,429	(330)
Profit/(loss) used in the calculation of diluted earnings per share[1]	6,429	(330)
Earnings/(losses) per share		
Basic (cents)	6,108	(531)
Diluted (cents)	6,087	(531)

[1] There were no adjustments to earnings attributable to the equity shareholders of the Group used in the calculation of diluted earnings/(losses) per share relating to potential ordinary shares.

Headline earnings/(losses) per share

Profit/(loss) attributable to the equity shareholders of the Group has been reconciled to headline earnings/(losses) as follows:

Rand million	Notes	2021	2020
Profit/(loss) attributable to equity shareholders of the Group		6,429	(330)
Adjusted for:			
Excluded remeasurements		800	–
Impairment of property, plant and equipment	7	786	–
Impairment of intangible assets	7	22	–
Profit on sale of property, plant and equipment	5	(8)	–
Tax effects of excluded remeasurements		(222)	–
Impairment of property, plant and equipment	7	(218)	–
Impairment of intangible assets	7	(6)	–
Profit on sale of property plant and equipment		2	–
Headline earnings/(losses)[1]		7,007	(330)
Headline earnings/(losses) used in the calculation of diluted headline earnings/(losses) per share[2]		7,007	(330)
Headline earnings/(losses) per share			
Basic (cents)		6,657	(531)
Diluted (cents)		6,634	(531)

[1] There were no adjustments to headline earnings/(losses) that had an impact for the non-controlling interests.
[2] There were no adjustments to headline earnings/(losses) used in the calculation of diluted headline earnings/(losses) per share relating to potential ordinary shares.

CAPITAL BASE

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12. INTANGIBLE ASSETS

Intangible assets comprise goodwill, and other intangible assets, being a servitude related to the Zibulo colliery, and software implemented by the Group in previous years.

Accounting policy

Goodwill is subsequently measured at cost less accumulated impairment losses. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, and any impairment is recognised as an expense in the statement of profit or loss and other comprehensive income.

Other intangible assets are measured at cost less accumulated amortisation and accumulated impairment losses. Intangible assets are amortised on a straight-line basis over their estimated useful lives of between 3 and 20 years. The amortisation period is determined as the period over which the Group expects to obtain benefits from the asset, taking account of all relevant facts and circumstances including contractual lives and expectations about the renewal of contractual arrangements without significant incremental costs. Amortisation methods, residual values and estimated useful lives are reviewed at least annually.

Intangible assets can be analysed as follows:

				2021
Rand million	Goodwill	Other	Capital work-in-progress	Total
Cost				
Balance at the start of the reporting period	98	300	–	398
Additions	–	–	11	11
Transfers of capital work-in-progress	–	11	(11)	–
Balance at the end of the reporting period	98	311	–	409
Accumulated amortisation and impairment losses				
Balance at the start of the reporting period	(90)	(150)	–	(240)
Amortisation charge	–	(29)	–	(29)
Impairment losses[1]	–	(22)	–	(22)
Balance at the end of the reporting period	(90)	(201)	–	(291)
Carrying amount				
Balance at the start of the reporting period	8	150	–	158
Balance at the end of the reporting period	8	110	–	118

[1] The impairment of other intangible assets relates to an impairment recognised on computer software. Refer to note 7 for further detail.

Rand million	Goodwill	Other	Capital work-in-progress	Total
				2020
Cost				
Balance at the start of the reporting period	–	41	–	41
Acquired through Internal restructure	98	259	–	357
Balance at the end of the reporting period	98	300	–	398
Accumulated amortisation and impairment losses				
Balance at the start of the reporting period	–	(12)	–	(12)
Acquired through Internal restructure	(90)	(136)	–	(226)
Amortisation charge	–	(2)	–	(2)
Balance at the end of the reporting period	(90)	(150)	–	(240)
Carrying amount				
Balance at the start of the reporting period	–	29	–	29
Balance at the end of the reporting period	8	150	–	158

The goodwill acquired through Internal restructure relates to goodwill acquired through the acquisition of TOPL, including Butsanani Energy, on 31 December 2020. The remaining goodwill balance of R8 million relates to Greenside. All other goodwill balances were fully impaired in previous years, prior to the Internal restructure. Refer to note 7 for further detail related to the assessment of impairment of the intangible assets.

The servitude is amortised over a useful life of 20 years. The remaining useful life is 12 years.

The computer software is amortised over a useful life of 5 years. The remaining useful life is 4 years.

13. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment comprises tangible assets which are critical to Thungela's operations. These include acquired mineral rights, capitalised waste stripping and mine development costs, processing plant and infrastructure, vehicles and other equipment.

Accounting policy

Property, plant and equipment is stated at cost, less accumulated depreciation and accumulated impairment losses. Cost is the fair value of consideration required to acquire and develop the asset and includes the purchase price, acquisition of mineral rights, costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the initial estimate of any decommissioning provisions.

Gains or losses on the disposal of property, plant and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the asset disposed. The gains or losses are recognised in the statement of profit or loss and other comprehensive income.

Deferred stripping

The removal of rock or soil overlying a mineral deposit, overburden, and other waste materials is often necessary during the initial development of a mine site, in order to access the orebody. The process of removing overburden and other mine waste materials is referred to as stripping. The directly attributable cost of this activity is capitalised in full within mining properties, if the stripped area will only commence production in more than one year after the stripping costs are incurred. All amounts capitalised in respect of waste removal are depreciated using the unit of production method for the component of the orebody to which they relate, consistent with depreciation of property, plant and equipment.

The removal of waste material after the point at which mining properties are available for use is referred to as production stripping. When the waste removal activity improves access to ore extracted in the current period, the costs of production stripping are charged to the statement of profit or loss and other comprehensive income as operating costs in accordance with the principles of IAS 2.

13. PROPERTY, PLANT AND EQUIPMENT CONTINUED

Accounting policy continued

Right-of-use assets

Right-of-use assets are included within property, plant and equipment, and on commencement of the lease are recognised at the amount of the corresponding lease liability, adjusted for any lease payments made on or before the lease commencement date, plus any direct costs incurred, an estimate of costs for dismantling, removing, or restoring the underlying asset and less any lease incentives received.

Refer to note 28 for detail related to the leasing activities of the Group.

Depreciation

Mining properties and items of plant and equipment for which the consumption of economic benefits is linked to production are depreciated to their residual values using the unit of production method based on Proved and Probable Coal Reserves and, in certain limited circumstances, other Coal Resources included in the LOM plan. These other Coal Resources are included in depreciation calculations where, considering historical rates of conversion to Coal Reserves, there is a high degree of confidence that they will be extracted in an economic manner.

Land is not depreciated. Buildings and items of plant and equipment for which the consumption of economic benefits is linked primarily to utilisation or to throughput rather than production, are depreciated to their residual values at varying rates on a straight-line basis over their estimated useful lives, or the reserve life, whichever is shorter. Estimated useful lives normally vary from up to 20 years for items of plant and equipment to a maximum of 50 years for buildings. Under limited circumstances, items of plant and equipment may be depreciated over a period that exceeds the reserve life by taking into account additional Coal Resources other than Proved and Probable Coal Reserves included in the LOM plan, after making allowance for expected production losses based on historical rates of Coal Resource to Coal Reserve conversion.

Right-of-use assets are depreciated on a straight-line basis over the term of the lease, or, if shorter, the useful life of the asset.

Capital work-in-progress is measured at cost less any impairment losses. Depreciation commences when the assets can operate in the manner intended by management, at which point they are transferred to the appropriate asset class.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components).

Depreciation methods, residual values and estimated useful lives are reviewed at least annually.

Impairment

Refer to note 7 for details related to the impairment of property, plant and equipment.

The property, plant and equipment of the Group can be analysed as follows:

							2021
		Land and buildings		Plant and equipment			
Rand million	Mining properties	Owned	Right-of-use	Owned	Right-of-use	Capital work-in-progress	Total
Cost							
Balance at the start of the reporting period	6,831	1,315	55	22,519	107	5,485	36,312
Acquired through Internal restructure	730	57	–	1,445	–	480	2,712
Acquisition of joint operation	–	–	–	–	–	81	81
Additions	–	–	–	–	–	2,203	2,203
Disposals	(913)	(34)	–	(1,007)	–	–	(1,954)
Transfers of capital work-in-progress	190	–	–	2,386	–	(2,576)	–
Reclassifications	25	(33)	–	291	–	(67)	216
Adjustments to decommissioning assets	–	–	–	(57)	–	–	(57)
Other	–	–	3	–	–	–	3
Balance at the end of the reporting period	6,863	1,305	58	25,577	107	5,606	39,516
Accumulated depreciation and impairment losses							
Balance at the start of the reporting period	(5,129)	(831)	(23)	(18,313)	(21)	(3,559)	(27,876)
Acquired through Internal restructure	(317)	(26)	–	(692)	–	–	(1,035)
Depreciation charge	(236)	(18)	(5)	(727)	(3)	–	(989)
Impairment losses	(62)	(12)	(3)	(709)	–	–	(786)
Disposals	913	34	–	1,007	–	–	1,954
Reclassifications	(25)	33	–	(291)	–	67	(216)
Balance at the end of the reporting period	(4,856)	(820)	(31)	(19,725)	(24)	(3,492)	(28,948)
Carrying amount							
Balance at the start of the reporting period	1,702	484	32	4,206	86	1,926	8,436
Balance at the end of the reporting period	2,007	485	27	5,852	83	2,114	10,568

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13. PROPERTY, PLANT AND EQUIPMENT CONTINUED

The property, plant and equipment of the Group can be analysed as follows continued:

							2020
		Land and buildings		Plant and equipment			
Rand million	Mining properties	Owned	Right-of-use	Owned	Right-of-use	Capital work-in-progress	Total
Cost							
Balance at the start of the reporting period	1,923	349	–	4,337	–	394	7,003
Acquired through Internal restructure	4,886	966	55	18,125	107	4,477	28,616
Additions	–	–	–	18	–	667	685
Transfers of capital work-in-progress	22	–	–	50	–	(72)	–
Reclassifications	–	–	–	(19)	–	19	–
Adjustments to decommissioning assets	–	–	–	8	–	–	8
Balance at the end of the reporting period	6,831	1,315	55	22,519	107	5,485	36,312
Accumulated depreciation and impairment losses							
Balance at the start of the reporting period	(805)	(64)	–	(1,714)	–	–	(2,583)
Acquired through Internal restructure	(4,200)	(759)	(23)	(16,325)	(21)	(3,559)	(24,887)
Depreciation charge	(124)	(8)	–	(274)	–	–	(406)
Balance at the end of the reporting period	(5,129)	(831)	(23)	(18,313)	(21)	(3,559)	(27,876)
Carrying amount							
Balance at the start of the reporting period	1,118	285	–	2,623	–	394	4,420
Balance at the end of the reporting period	1,702	484	32	4,206	86	1,926	8,436

14. INVESTMENT IN ASSOCIATE

The Group holds an investment in RBCT, over which it is considered to exercise significant influence.

Accounting policy

Associates are investments over which the Group has significant influence, which is the power to participate in the financial and operating policy decisions of the investee, but without the ability to exercise control or joint control. Investments in associates are equity accounted and represent the cost of the investment, the post-acquisition share of any profits or losses and other changes in equity, and the long-term debt interests which in substance form part of the Group's net investment.

The carrying values of associates are reviewed on a regular basis and if there is objective evidence that a sustained decline in value has occurred as a result of one or more events during the period, the investment is impaired.

The investment in associate can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**89**	–
Acquired through Internal restructure	**–**	89
Net repayment of loans	**(26)**	–
Balance at the end of the reporting period	**63**	89

The Group holds a 23% (2020: 23%) ownership interest in RBCT. The principal business activity of RBCT is the export of coal and it operates on the basis that all costs incurred are recovered from shareholders, in proportion to their throughput through the Richards Bay Coal Terminal; hence no profit or loss is recognised under the equity method of accounting. The Group's total investment in associate includes loans of R43 million (2020: R68 million) which in substance form part of Group's net investment in the associate.

The Group has assessed these loans for impairment based on the expected repayment of the loan and risk of default by RBCT, taking into account both forward-looking and historical information available and determined that no impairment is required.

15. ACCOUNTING FOR THE INTERNAL RESTRUCTURE

As described in note 2A, TOPL, including Butsanani Energy, and Mafube Coal Mining were acquired by the Group on 31 December 2020 and 31 March 2021 respectively. Each of the transactions took place at the fair value of the business, or the Group's interest in the business, and the consideration was settled by the issue of shares by SACO to ASA. The transactions are considered to be business combinations under common control and the Group has applied predecessor accounting to the acquisitions.

Accounting policy

The assets and liabilities of TOPL and Butsanani Energy and the Group's share of the assets and liabilities of Mafube Coal Mining have been recognised in the consolidated annual financial statements at their book values as previously included in the Anglo American Group financial statements. Thungela has not adopted the financial history of TOPL, including Butsanani Energy, and Mafube Coal Mining and thus the comparatives included in the financial statements have not been restated to reflect the impact of the Internal restructure. Pro forma financial information has been presented in Annexure 3 to show the impact on the Group had the Internal restructure taken place at the start of the reporting period.

The acquisition date book values of the assets and liabilities of each business can be analysed as follows:

Rand million	**2021**	2020
Total non-current assets	**1,700**	7,342
Total current assets[1]	**458**	8,795
Total assets	**2,158**	16,137
Total non-current liabilities	**(588)**	(5,903)
Total current liabilities	**(271)**	(6,147)
Total liabilities	**(859)**	(12,050)
Total book value of the net assets acquired[2]	**1,299**	4,087

[1] Current assets include cash and cash equivalents of R158 million (2020: R195 million).
[2] The difference between the consideration settled by SACO to ASA and the book value of the net assets acquired is included in the merger reserve, which has been adjusted for the impact of the stated capital in the underlying entities.

16. ACQUISITION OF JOINT OPERATION

On 30 November 2021, the Group, through its wholly owned subsidiary TOPL, acquired a 49% interest in Pamish, which is classified as a joint operation. The acquisition of Pamish does not constitute a business combination as defined in IFRS 3, as Pamish was not considered to be a business as defined at the time of the acquisition.

Accounting policy

The Group's share of the results of joint operations acquired during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of the acquisition. The Group's share of the assets and liabilities of Pamish have been recognised in the consolidated annual financial statements at their fair values on the date that joint control was obtained.

TOPL has entered into various agreements with the Nasonti Group, which is the joint operator of Pamish. Pamish owns a plant, which will be used to beneficiate existing discard coal at our Goedehoop South site, which is part of the Goedehoop colliery. The structure of the contractual agreements is such that TOPL and the Nasonti Group have joint control of Pamish, and it is considered to be a joint operation.

16. ACQUISITION OF JOINT OPERATION CONTINUED

The contractual agreements result in the Nasonti Group, through Pamish, beneficiating pre-existing discard product at the Goedehoop South site, for a pre-determined fixed fee, along with their variable production and other costs incurred. TOPL has the right to a minimum of 85% of the saleable product beneficiated through Pamish over the life of the agreements. The fair value of the net assets acquired on obtaining joint control of Pamish is considered to be zero.

In order to establish Pamish, and to increase the capacity of the plant to meet the contractually agreed throughput, TOPL has funded a total of R227 million into Pamish through various mechanisms, including an investment in equity. Of this total funding, only R120 million is repayable to TOPL over 18 months, which bears interest at prime plus 3.0%. The portion of this loan that is deemed to be held by the other joint operator of Pamish is included in financial asset investments per note 22. The contractual agreements result in the Group obtaining 85% of the economic benefits of the operations of Pamish, and so the assets and liabilities of Pamish are accounted for to reflect the economic benefits obtained rather than the legal ownership of 49%.

The plant is being established and first coal is expected in March 2022.

The acquisition date fair values of the Group's share of the assets and liabilities of Pamish can be analysed as follows:

Rand million	2021
Total non-current assets	98
Total current assets[1]	125
Total assets	**223**
Total non-current liabilities	(142)
Total current liabilities	(81)
Total liabilities	**(223)**
Total fair value of the net assets acquired	**–**

[1] Current assets include cash and cash equivalents of R8 million.

17. OTHER NON-CURRENT ASSETS

Other non-current assets comprise biological assets and assets relating to employee benefits.

Accounting policy

Biological assets are measured at fair value less cost to sell, with any changes recognised in profit or loss.

Other non-current assets can be analysed as follows:

Rand million	2021	2020
Biological assets	83	86
Other employee benefits	26	25
Total other non-current assets	**109**	111

Biological assets

Biological assets include different species such as Buffalo and Sable within the Waterberg and Limpopo estates of the Group that are actively managed and bred.

The carrying amount of the biological assets can be analysed as follows:

Rand million	2021	2020
Balance at the start of the reporting period	86	–
Acquired through Internal restructure	–	86
Fair value loss	(3)	–
Balance at the end of the reporting period	**83**	86

The fair value of the biological assets is measured based on auction prices (level 1 in the fair value hierarchy) obtained at the end of each financial year. There is no reasonably possible change in the inputs into the fair value calculation that would have a material impact on the consolidated annual financial statements.

WORKING CAPITAL

18. INVENTORIES

Inventories comprise consumables to be used in the production process and finished products being processed coal stockpiled at the mine or awaiting export at the Richards Bay Coal Terminal.

Accounting policy

Inventory is measured at the lower of cost and NRV. The production cost of inventory includes an appropriate proportion of depreciation and production overheads. Cost is determined on the following basis:

- consumables are measured at cost on a FIFO basis
- finished products, being coal stock held at the mine or awaiting export at the Richards Bay Coal Terminal, are measured at production costs and transport costs where relevant, on a weighted average cost basis
- inventory is not valued until it has been processed, and so ROM stockpiles are not included in the inventory value. This is due to the fact that the costs required to convert the ROM into finished products are significant, and the product is not saleable until these are incurred.

Inventory is recognised as a current asset as it is consumed within the normal business cycle.

The estimation of volumes of stock on hand, and the measurement of production costs are calculated by engineers using available industry, engineering and scientific data based on average costs in line with the production period. These are periodically reassessed considering ongoing technical analysis and historical performance.

The NRV per product is estimated using actual realised prices for the month, based on the quality, grade and calorific value of the finished products, and deducting costs to sell including transport costs from the mine to the Richards Bay Coal Terminal where relevant. Any write-down to NRV is recognised in profit or loss in the month incurred.

Inventories can be analysed as follows:

Rand million	**2021**	2020
Consumables	**593**	477
Finished products	**1,953**	672
Total inventories	**2,546**	1,149

The cost of inventories recognised as an expense and included in operating costs amounted to R12,635 million (2020: R2,904 million).

The write-down of inventories to NRV recognised throughout the year amounted to R60 million (2020: R70 million).

The Group's ability to rail coal to the Richards Bay Coal Terminal continues to be severely hampered by the underperformance of TFR throughout the year. The rail operator's performance challenges are attributable to the theft of infrastructure (eg overhead power cables, signalling and tracks) and equipment failures mainly related to locomotives. Throughout 2021 the South African coal industry has engaged TFR in an effort to improve performance, however, the availability of rail capacity remains constrained. Thungela will continue working closely with TFR in order to resolve these challenges.

The Group will continue to maintain our focus on utilising the available rail capacity as efficiently as possible to manage stockpile capacity across our operations and the higher costs incurred in relation to the management of these stockpiles.

19. TRADE AND OTHER RECEIVABLES

Trade receivables comprise amounts due from Thungela's customers for the sale of thermal coal. Other receivables include amounts receivable for VAT and other indirect taxes, prepaid expenses and amounts receivable for other transactions not related to the sale of thermal coal.

Accounting policy

Trade and other receivables

Trade and other receivables are initially recognised at fair value. The Group's trade receivables are measured at amortised cost as they are held within a business model whose objective is to collect the contractual cash flows and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest.

Expected credit losses

The Group assesses on a forward-looking basis the expected credit losses, being the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its trade and other receivables. The impairment methodology applied depends on whether there has been a significant increase in the credit risk of the asset. For trade receivables only, the simplified approach included in IFRS 9 is applied, which requires expected lifetime losses to be recognised from the initial recognition of the receivables. Expected credit losses are in general recognised where there is a failure to make contractual payments for a period of greater than 60 days, along with an appropriate assessment of forward-looking information. Increases in the expected credit loss provision are recognised in the statement of profit or loss and other comprehensive income. When a subsequent event causes the amount of the expected credit loss provision to decrease, the decrease is reversed in the same way.

The Group will write-off trade and other receivables where there is information indicating that the customer is in severe financial difficulty and there is no realistic prospect of recovery of the asset, for example, when the customer has been placed under liquidation or entered into bankruptcy proceedings. Trade receivables are written off at the earlier of management receiving legal confirmation that the outstanding amount is irrecoverable, or when a partial settlement has been reached with the customer, or where the cost of recovery procedures outweighs the benefit of recovering the outstanding amount.

Trade and other receivables can be analysed as follows:

Rand million	**2021**	2020
Net trade receivables	**2,982**	2,374
Trade receivables	**3,081**	2,465
Expected credit loss provision	**(99)**	(91)
Other tax receivables[1]	**966**	699
Prepayments[2]	**325**	118
Net other receivables	**111**	204
Other receivables	**170**	204
Expected credit loss provision	**(59)**	–
Total trade and other receivables	**4,384**	3,395
Classified as:		
Current	**4,320**	3,351
Non-current	**64**	44

1 Other tax receivables include VAT receivables and diesel rebates receivable from SARS. A provision of R191 million was recognised in TOPL before the Internal restructure in relation to ongoing audits by SARS.

2 Prepayments include, among other items, insurance premiums of R114 million (2020: R117 million), ordinary course deposits to secure supply of critical consumables of R47 million (2020: Rnil) and a payment made in relation to educational development activities in host communities of R61 million (2020: Rnil).

The Group applies the simplified expected credit loss model to its trade receivables, and the lifetime expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience and credit rating, adjusted as appropriate for future observable data.

Trade receivables include R2,569 million (2020: R1,693 million) due from AAML. As per the contractual terms with AAML, all trade balances should be settled within 15 days of invoicing. There have historically been no defaults on payments from AAML, hence it is assessed the credit risk of the AAML trade receivable is low.

19. TRADE AND OTHER RECEIVABLES CONTINUED

Given the nature of the domestic customers, the amounts due from those customers are considered recoverable. The historical level of customer default is low and as a result the credit quality of the trade receivables is considered to be high.

Other receivables include various amounts receivable by the Group which are not related to the sale of thermal coal. No items included in other receivables are considered individually material, however, agreements with relevant counterparties are made in relation to repayment terms. In the year ended 31 December 2021 a number of these counterparties experienced financial difficulty, or ceased operations which would effect the repayment of these amounts in line with agreed terms. An expected credit loss provision has been recognised on these receivables as considered appropriate in relation to the specific circumstances applicable to each counterparty.

Refer to note 26 for further detail on our exposure to credit risk.

Trade receivables do not incur any interest, are principally short-term in nature and are measured at their nominal value, net of the appropriate provision for expected credit losses.

The expected credit loss provision can be analysed as follows:

			2021
Rand million	**Gross carrying amount – trade receivables**	**Expected credit loss provision (%)**	**Expected credit loss provision**
Current	**2,897**	**0.3**	**(10)**
Between 1 – 2 months	**85**	**13**	**(11)**
Between 3 – 4 months	**1**	**100**	**(1)**
Between 5 – 12 months	**54**	**61**	**(33)**
Greater than 12 months[1]	**44**	**100**	**(44)**
Total trade receivables	**3,081**	**3.2**	**(99)**

[1] The increase in the expected loss rate on receivables greater than 12 months is on the basis of one customer being placed into business rescue in the year ended 31 December 2021.

			2020
Rand million	Gross carrying amount – trade receivables	Expected credit loss provision (%)	Expected credit loss provision
Current	2,200	1.1	(25)
Between 1 – 2 months	185	18	(34)
Between 3 – 4 months	9	89	(8)
Between 5 – 12 months	27	89	(24)
Greater than 12 months	44	–	–
Total trade receivables	2,465	3.7	(91)

The movement in the expected credit loss provision can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**(91)**	(1)
Increase in expected credit loss provision	**(67)**	*
Trade receivables	**(8)**	*
Other receivables	**(59)**	–
Acquired through Internal restructure	**–**	(90)
Balance at the end of the reporting period	**(158)**	(91)

* Represents an amount less than R1 million.

20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash held in bank and short-term investments held with the primary purpose of managing the short-term liquidity requirements of the Group.

Accounting policy

Cash and cash equivalents comprise cash held in bank and short-term investments. Cash and cash equivalents are measured at amortised cost.

Cash and cash equivalents can be analysed as follows:

Rand million	2021	2020
Short-term investments	7,082	–
Cash held in bank	1,644	194
Cash held in Trusts	10	–
Total cash and cash equivalents	8,736	194

Short-term investments

Short-term investments are held with the primary purpose of managing short-term liquidity requirements of the Group, and include the cash injection received from Anglo American of R2,500 million.

Liquidity is a key consideration when selecting appropriate investment options for the funds to ensure they can be readily accessed for operational activity. The liquidity of the investments ranges up to 90 days, and the funds are available for the ongoing operations of the Group.

The investments are held in low-risk interest bearing instruments, across three of the five largest South African banks with an appropriate liquidity spread to support the Group's requirements. The spread of funds between banks was done in order to partially mitigate counterparty risk, and the global credit ratings for these investments range between AA- and AA+. The investments earn interest at rates of between 3.9% – 4.5% (2020: nil).

Cash held in bank

Included in cash held in bank is R1,247 million (2020: Rnil) held in USD, related to proceeds on export revenue which is settled in USD. The cash is held with one of the major South African banks and is available to support the Group's ongoing liquidity requirements.

Cash held in Trusts

Cash held in Trusts relates to cash held by the CPP and EPP which is not available for the general use of the Group. These cash balances are to be used at the discretion of the trustees of the relevant Trust, as specified in the underlying Trust deeds, for the benefit of the relevant beneficiaries.

21. TRADE AND OTHER PAYABLES

Trade and other payables include amounts owed to suppliers, tax authorities and other parties that are typically due to be settled within one year of the reporting date.

Accounting policy

Trade and other payables are initially measured at fair value. Trade and other payables are not interest bearing, are subsequently measured at nominal value, and are derecognised when the associated obligation has been discharged, cancelled or has expired.

Trade and other payables can be analysed as follows:

Rand million	2021	2020
Trade payables	1,713	2,314
Accruals	867	1,111
Other tax and employee related payables	749	723
Other payables[1]	170	196
Total trade and other payables	3,499	4,344

[1] No items included in other payables are considered individually material.

Included within other payables is deferred income of R25 million (2020: R24 million), which represents monies received from customers but for which the associated performance obligation has not yet been satisfied. These amounts are recognised as revenue when the performance obligation is satisfied.

FINANCIAL INSTRUMENTS

22. FINANCIAL ASSET INVESTMENTS

Financial asset investments comprise numerous investments which do not give the Group control, joint control or significant influence over the investee. These assets also include instruments held with various financial institutions.

Accounting policy

Financial assets

Investments, other than investments in subsidiaries, joint arrangements and associates, are financial assets and are initially recognised at fair value. The Group's financial assets are classified into the following measurement categories: debt instruments at amortised cost, equity instruments designated at FVOCI and instruments at FVPL. Financial assets are classified as at amortised cost only if the asset is held within a business model whose objective is to collect the contractual cash flows and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest. At subsequent reporting dates, financial assets at amortised cost are measured at amortised cost less a provision for expected credit losses if appropriate.

Financial assets at FVPL are measured at fair value at each reporting date, with changes in the fair value recognised in profit or loss.

The Group has elected to measure equity instruments, which are not held for trading, at FVOCI as this better reflects the strategic nature of the Group's equity investments. For equity instruments at FVOCI changes in fair value are recognised in OCI and there is no subsequent reclassification of the fair value gains and losses to profit or loss. Impairment losses relating to equity instruments at FVOCI are not reported separately from other changes in fair value.

Expected credit losses

The Group assesses on a forward-looking basis the expected credit losses, being the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in the credit risk of the asset at the reporting date. Increases in the expected credit loss provisions are recognised in the statement of profit or loss and other comprehensive income. When a subsequent event causes the amount of the expected credit loss provisions to decrease, the decrease is reversed in the same way.

Derecognition of financial assets

Financial assets are derecognised when the right to receive cash flows from the asset has expired, the right to receive cash flows has been retained but an obligation to on-pay them in full without material delay has been assumed or the right to receive cash flows has been transferred together with substantially all of the risks and rewards of ownership.

Financial assets at amortised cost comprise loans to various investees from which the Group will collect payments of solely principal and interest.

Financial assets at FVPL comprise investments held in relation to the ongoing environmental obligations of the Group, and fair value movements on these investments are reinvested to further improve the Environmental liability coverage. Refer to note 27 for further detail.

Financial assets at FVOCI comprise equity investments in various investees, as well as shares in Anglo American held to settle awards under the Anglo American share plans. The cost of the shares purchased are reimbursed through a recharge arrangement between Anglo American and the Group, which existed prior to the Demerger. Refer to note 32 for further detail.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

22. FINANCIAL ASSET INVESTMENTS CONTINUED

Financial asset investments can be analysed as follows:

Rand million	At amortised cost	At FVPL	At FVOCI	2021 Total
Balance at the start of the reporting period	71	3	287	361
Acquisition of joint operation	(17)	–	–	(17)
Additions[1,2]	–	192	110	302
Disposals	–	–	(301)	(301)
Repayment of loans by investees	(6)	–	–	(6)
Loans granted to investees	69	–	–	69
Fair value gains/(losses)	–	4	(63)	(59)
Interest capitalised	5	–	–	5
Balance at the end of the reporting period	122	199	33	354
Classified as:				
Current	31	–	–	31
Non-current	91	199	33	323

[1] The additions to the financial asset investments at FVPL relate to the investment in other environmental investments, through the Green fund as detailed in note 27.
[2] The additions to the financial asset investments at FVOCI relate to the purchase of Anglo American shares in relation to the Anglo American share awards as detailed in note 32.

Rand million	At amortised cost	At FVPL	At FVOCI	2020 Total
Balance at the start of the reporting period	1,479	–	40	1,519
Acquired through Internal restructure	64	3	271	338
Additions	–	–	4	4
Disposals	–	–	(13)	(13)
Loan converted to equity[1]	(1,460)	–	–	(1,460)
Fair value losses	–	–	(10)	(10)
Reclassifications	(12)	–	(5)	(17)
Balance at the end of the reporting period	71	3	287	361
Classified as:				
Current	–	–	–	–
Non-current	71	3	287	361

[1] The loan converted to equity relates to a loan to Anglo American that was sold from SACO to TOPL in October 2020, and later settled through the issuance of shares in TOPL to SACO as part of the Internal restructure.

The disposals of financial assets at FVOCI are as a result of the vesting of the awards under the Anglo American share plans.

The financial asset investments at amortised cost comprise various loans granted to investees in the normal course of business, with counterparties which the Group has long standing relationships. The Group has assessed the expected credit losses required for these loans based on the expected repayment thereof and risk of default by the counterparties, taking into account both forward-looking and historical information available.

Included in the financial asset investments at amortised cost is an amount of R18 million (2020: Rnil) in relation to the external portion of loans granted to Pamish. Refer to note 16 for detail related to the Pamish structure. These amounts will be repaid through proceeds on contractually committed saleable product to be purchased by TOPL, and thus the credit quality of this loan is considered to be high. No expected credit loss provision has been recognised on this investment on this basis. No other amounts included in this balance are individually material. Based on the assessment performed, it has been determined that any potential expected credit loss on these loans granted is not material to the Group.

23. LOANS AND BORROWINGS

Loans and borrowings comprise of loans with related parties to fund the operations of the Group before the Demerger, or in relation to specific capital investment activities where required.

Accounting policy

Loans and borrowings are initially measured at fair value, net of transaction costs incurred. Loans and borrowings are interest bearing and are subsequently stated at amortised cost, using the effective interest rate method. Loans and borrowings are derecognised when the associated obligation has been discharged, cancelled or has expired.

The loans and borrowings held by the Group can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**582**	2,989
Cash movements	**(565)**	430
Loans advanced	**2,570**	430
Loans repaid	**(3,135)**	–
Non-cash movements	**46**	(2,837)
Acquired through Internal restructure	**–**	582
Eliminated through Internal restructure	**–**	(3,628)
Interest capitalised[1]	**46**	209
Balance at the end of the reporting period	**63**	582
Classified as:		
Loans from Anglo American	**–**	361
Loans and borrowings	**63**	221

[1] The difference between the interest capitalised of R209 million and the interest expense on loans from Anglo American of R277 million for 31 December 2020, relates to interest charged by TOPL to AAIC prior to TOPL being acquired through the Internal restructure.

As part of the Internal restructure detailed in note 2A, the balance of the loan to TOPL from AASAF at 31 May 2021 was settled, through cash paid from ASA to the Group, and then used by TOPL to settle the outstanding loan balance with AASAF in cash. The loan balance at this date, inclusive of interest capitalised, amounted to R2,966 million. The settlement of this loan signaled the start of the economic and operational independence of the Group, as before this date all benefit and risk in the business accrued to Anglo American through the loan account.

The loan to TOPL from AASAF attracted interest at a variable interest rate between 5.2% – 5.6% (2020: 5.4%) before the settlement thereof, and was effectively used to fund the operations of the Group before the Demerger.

Before the Internal restructure became effective, the loans from Anglo American represented a RCF between AAIC and AASAF. This loan attracts interest at 1-month JIBAR plus 3.8%, and is subject to a facility limit of R5,000 million (2020: R4,000 million) to support the operations of AAIC. In order to prepare the Group for the Demerger, the RCF was ceded from AASAF to TOPL with effect from 1 October 2020. From the date that Thungela obtained control of TOPL, this loan facility, and the outstanding loan balance of R3,628 million, became intra-group, and no longer represents external funding.

Loans and borrowings are short-term in nature, have no fixed terms of repayment and attract interest at prime plus 1.0% – 2.0%. These loans are held through Butsanani Energy and were used for the initial investment into the Rietvlei colliery.

24. DERIVATIVE FINANCIAL ASSETS

Derivative financial assets consist of the Capital support agreement with ASA and forward coal swap transactions entered into with the intention for settlement net in cash.

Accounting policy

Derivative financial assets are classified as at FVPL. The fair value gains and losses on subsequent measurement are recognised in profit or loss at each reporting date. All derivatives are held in the statement of financial position and they are classified as current or non-current depending on the contractual maturity of the derivative.

Derivative asset – capital support

As part of Anglo American's commitment to provide financial assistance to Thungela over the post Demerger period, on 6 March 2021 the Group and ASA entered into a Capital support agreement. It was arranged as a free-standing contract to provide financial assistance by way of minimum price support for all export sales made to AAML from 1 June 2021 until 31 December 2022, up to a maximum amount of R1,500 million in 2021 and R2,500 million in 2022. The Group will only be required to repay any capital support received should the price recover, and thus is not limited in the benefits to be received from the sustained recovery of the Benchmark coal price.

The agreement was conditional on the Demerger being approved, and commenced on 1 June 2021, however, as the Group was contractually committed to the derivative from 6 March 2021, the derivative asset was recognised at that date. The derivative asset was initially valued at R916 million based on the pricing model noted below, and since the contract was with an Anglo American group entity, the corresponding credit was recognised as a capital contribution from the parent entity at the time.

The derivative asset is fair valued using the Clewlow and Strickland pricing model for the valuation of average rate commodity options. The fair value movements will mainly be impacted by differences between the Benchmark coal price forwards (Rand/tonne), the assumed Benchmark coal price volatility and the ZAR discount factor assumed for purposes of determining the fair value of the derivative as well as the realised price in South African Rand over the duration of the Capital support agreement. The fair value is determined by independent experts using external sources of information with reference to the forecasted quoted Benchmark coal prices and exchange rates.

A fair value loss of R569 million (2020: Rnil) on the derivative asset was recognised in profit or loss for the year ended 31 December 2021 on the basis of the sustained recovery in the Benchmark coal price to 31 December 2021. No amount of the available capital support in 2021 has been utilised by the Group on the basis of the strong pricing environment experienced throughout the year.

Inputs into the Clewlow and Strickland pricing model for the valuation dates are as set out below:

	At 31 December 2021		At initial recognition	
	2021	2022	2021	2022
Benchmark coal price forwards (Rand/tonne)	2,174	1,512	1,238	1,253
Benchmark coal price volatility (%)	47	47	24	24
ZAR discount factor	1.00	0.95	0.98	0.92

Derivative assets – forward coal swap transactions

The Group is exposed to volatility in the Benchmark coal price due to the significant volume of export sales made to AAML. In order to manage our exposure to the volatility in the Benchmark coal price, particularly at our higher-cost operations, the Group has entered into a limited level of derivative trading activity, consisting of forward financial coal swap transactions. The Thungela board has approved a mandate in relation to this derivative trading activity to commence from November 2021 which specifies the volume allowed to be financially traded, the minimum margin to be targeted per transaction, and the type of instruments which can be used in relation to the risk management activity. These transactions will be settled net in cash, in USD, with no intention for the counterparty to take physical delivery of the coal.

The forward coal swap transactions are derivative instruments and are measured at FVPL. The fair value is determined on the basis of comparing the pre-determined price at which the forward coal swap transaction was entered into, and the Benchmark coal price forward curve as at the reporting date. The fair value is determined by independent experts using external sources of information. Forward coal swap transactions have been entered into using both the Benchmark coal price, as well as a Secondary index price, which is closely correlated to the Benchmark coal price.

A fair value gain of R348 million (2020: Rnil) has been recognised on the forward coal swap transactions based on fluctuations in the Benchmark coal price forward curve from the date the transactions were entered into and the reporting date. No forward coal swap transactions have been settled at the reporting date.

Details of the open forward coal swap transactions can be analysed as follows:

		2021
	Benchmark coal price swaps	**Secondary index price swaps**
Volume committed (kt)	194	725
Average price (USD/tonne)	125.70	131.46
Settlement dates (2022)	January – June	January – June
Benchmark coal price forward curve at the reporting date (USD/tonne)	102.73	106.35
Fair value gains on derivative assets (Rand million)	73	275

25. FINANCIAL INSTRUMENTS

Financial instruments held by the Group have been disclosed in notes 19, 20, 21, 22, 23, 24 and 27 as well as in the note below.

For financial assets and liabilities that are traded on an active market, such as listed investments, fair value is determined by reference to the market price. For non-traded financial assets and liabilities, fair value is calculated using discounted cash flows, considered to be reasonable and consistent with those that would be used by a market participant and based on observable market data that is readily available (for example, forward exchange rate, interest rate or commodity price curve).

Where discounted cash flow models based on the Group's assumptions are used, the resulting fair value measurements are considered to be at level 3 in the fair value hierarchy, as defined in IFRS 13, as they depend to a significant extent on unobservable valuation inputs.

25. FINANCIAL INSTRUMENTS CONTINUED

The financial instruments held by the Group can be analysed as follows:

						2021
		Financial assets			Financial liabilities amortised cost	
Rand million	Notes	Amortised cost[1]	FVPL	FVOCI		Total
Financial assets						
Environmental rehabilitation trusts	27	–	3,288	–	–	3,288
Financial asset investments	22	122	199	33	–	354
Derivative asset – capital support	24	–	347	–	–	347
Derivative assets	24	–	348	–	–	348
Trade and other receivables[2]	19	3,093	–	–	–	3,093
Cash and cash equivalents	20	8,736	–	–	–	8,736
Total financial assets		11,951	4,182	33	–	16,166
Financial liabilities						
Lease liabilities	28	–	–	–	(121)	(121)
Loans and borrowings	23	–	–	–	(63)	(63)
Trade and other payables[3]	21	–	–	–	(2,725)	(2,725)
Total financial liabilities		–	–	–	(2,909)	(2,909)
Net financial assets/(liabilities)		11,951	4,182	33	(2,909)	13,257

1 The carrying amounts of the financial assets held at amortised cost are deemed to approximate their fair values.
2 Trade and other receivables exclude prepayments and other tax receivables.
3 Trade and other payables exclude other tax and employee related payables and deferred income.

						2020
		Financial assets			Financial liabilities amortised cost	
Rand million	Notes	Amortised cost[1]	FVPL	FVOCI		Total
Financial assets						
Environmental rehabilitation trusts	27	–	2,880	–	–	2,880
Financial asset investments	22	71	3	287	–	361
Trade and other receivables[2]	19	2,578	–	–	–	2,578
Cash and cash equivalents	20	194	–	–	–	194
Total financial assets		2,843	2,883	287	–	6,013
Financial liabilities						
Lease liabilities	28	–	–	–	(151)	(151)
Loans and borrowings	23	–	–	–	(582)	(582)
Trade and other payables[3]	21	–	–	–	(3,597)	(3,597)
Total financial liabilities		–	–	–	(4,330)	(4,330)
Net financial assets/(liabilities)		2,843	2,883	287	(4,330)	1,683

1 The carrying amounts of the financial assets held at amortised cost are deemed to approximate their fair values.
2 Trade and other receivables exclude prepayments and other tax receivables.
3 Trade and other payables exclude other tax and employee related payables and deferred income.

Fair value hierarchy

The financial assets carried at fair value can be analysed as follows:

Rand million	Level 1	Level 2	Level 3	2021 Total
Financial assets				
Financial asset investments at FVOCI	–	–	33	33
Financial asset investments at FVPL[1]	–	199	–	199
Derivative asset – capital support	–	347	–	347
Derivative assets	–	348	–	348
Environmental rehabilitation trusts	–	3,288	–	3,288
Total financial assets carried at fair value	–	4,182	33	4,215

Rand million	Level 1	Level 2	Level 3	2020 Total
Financial assets				
Financial asset investments at FVOCI	254	–	33	287
Financial asset investments at FVPL[1]	–	3	–	3
Derivative asset – capital support	–	–	–	–
Derivative assets	–	–	–	–
Environmental rehabilitation trusts[1]	–	2,880	–	2,880
Total financial assets carried at fair value	254	2,883	33	3,170

[1] The investments held by the environmental rehabilitation trusts and the financial asset investments at FVPL were reclassified from level 1 to level 2. The Group reassessed its view of these investments and concluded that level 2 better reflects the nature of the valuation applied to these assets. Accordingly, the comparative was re-presented to disclose the environmental rehabilitation trusts and financial asset investments at FVPL as level 2 financial assets.

There were no transfers between level 2 and level 3 in the year ended 31 December 2021 (2020: none).

The fair value hierarchy as included in IFRS 13 is as follows:

Fair value hierarchy	Valuation technique
Level 1	Valued using unadjusted quoted prices in active markets for identical financial instruments. This category includes listed equity shares and quoted futures.
Level 2	Instruments in this category are valued using valuation techniques where all of the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data.
Level 3	Instruments in this category have been valued using a valuation technique where at least one input (which could have a significant effect on the instrument's valuation) is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, management determines a reasonable estimate for the input. This category includes unlisted equity investments.

The movements in the fair value of the level 3 financial assets can be analysed as follows:

Rand million	2021	2020
Balance at the start of the reporting period	33	5
Acquired through Internal restructure	–	33
Reclassifications	–	(5)
Balance at the end of the reporting period	33	33

For the level 3 financial assets, changing certain estimated inputs to reasonably possible alternative assumptions does not change the fair value significantly.

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26. FINANCIAL RISK MANAGEMENT

The Thungela board and the Group executive committee approve and monitor the risk management processes, including documented treasury policies, counterparty limits and reporting structures.

The types of risk exposure, the way in which such exposure is managed and quantification of the level of exposure in the statement of financial position is monitored by the Group on an ongoing basis.

Credit risk

Credit risk is the risk that a counterparty to a financial asset will cause a loss to the Group by failing to pay its obligation.

The Group's principal financial assets which are exposed to credit risk are environmental rehabilitation trusts, other environmental investments, financial asset investments, trade and other receivables and cash and cash equivalents. The Group's maximum exposure to credit risk from these financial assets can be analysed as follows:

Rand million	Notes	2021	2020
Environmental rehabilitation trusts	27	**3,288**	2,880
Other environmental investments	27	**199**	3
Financial asset investments at amortised cost	22	**122**	71
Trade and other receivables[1]	19	**3,093**	2,578
Cash and cash equivalents	20	**8,736**	194
Total financial assets exposed to credit risk		**15,438**	5,726

[1] Trade and other receivables excludes prepayments and other tax receivables.

The environmental rehabilitation trusts' assets are managed by a reputable fund manager under an agreed mandate. The mandate is formulated to be consistent with the Group's risk management policies and hence investments are only made in high quality instruments and adequate diversity is maintained. Refer to note 27 for further detail.

Other environmental investments relate to long-term investments held through two financial institutions, in order to secure the guarantees required to further fund the financial provisioning requirements of the DMRE in relation to the Environmental provisions. Refer to note 27 for further detail.

Thungela has a level of concentration risk on its trade and other receivables balance, as a result of its exposure to one major customer, being AAML. The amount outstanding from AAML of R2,569 million (2020: R1,693 million) represents 83% (2020: 69%) of the total outstanding trade receivables balance of R3,081 million (2020: R2,465 million). However, amounts owed by AAML are due for payment 15 days after invoice date, and there has been no historical default on payments due from AAML. The credit risk of the AAML receivable is considered to be low, and thus the concentration risk does not increase the overall credit risk exposure of the Group. The Group does not have significant concentration of credit risk in respect of domestic trade receivables. No individual customer, other than AAML, represents more than 10% of the trade receivables balance at 31 December 2021 (2020: none).

The historical level of default on both export and domestic customers has been low, and the credit quality of the trade receivables is considered to be high. The expected credit losses on trade receivables are estimated using a provision matrix by reference to past default experience and credit rating, adjusted as appropriate for future observable data. Details of the credit quality of trade receivables and the associated provision for expected credit losses are disclosed in note 19.

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Thungela's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group executive committee reviews the cash flow forecasts of the Group on a regular basis, including under stressed scenarios impacted by COVID-19, Benchmark coal price volatility, TFR rail and infrastructure performance levels and other reasonably possible risk scenarios.

The ultimate responsibility for liquidity risk management rests with the Thungela board, which has built appropriate liquidity risk management tools for the management of the Group's short, medium and long-term liquidity management requirements. The Group has no long-term external borrowings, given its robust financial position at 31 December 2021.

The Thungela board believes it is appropriate to maintain a liquidity buffer, mainly of cash held in bank or assets readily convertible into cash, of between R5,000 million and R6,000 million during and following periods of stronger market conditions, and all else being equal, between R2,000 million and R3,000 million during and following periods of weaker market conditions. The liquidity buffer is seen as appropriate to provide the required balance sheet flexibility and assist the Group to navigate single commodity market risks, and withstand Benchmark coal price volatility over the short and medium-term.

The Group is exposed to liquidity risk through its financial liabilities including trade and other payables, loans and borrowings and lease liabilities, as follows:

- all trade and other payables are due within one year. The remaining contractual cash outflows are the same as the carrying amount at the reporting date
- the loans and borrowings relate to Butsanani Energy and have no fixed repayment terms. The loans and borrowings at 31 December 2020 included the loan from Anglo American, which also had no fixed repayment terms and was settled as part of the Internal restructure. The carrying amount of R63 million (2020: R582 million) reflects the remaining contractual cash outflows
- the detailed maturity analysis, the carrying amount and undiscounted cash outflows related to lease liabilities are provided in note 28.

Commodity risk

Export revenue is recognised once thermal coal is loaded onto the vessel at the Richards Bay Coal Terminal, and is based on the average Benchmark coal price for the month of loading, adjusted for specific grade and quality discounts. Pricing is not adjusted post the month of sale, and thus trade receivables are not subject to changes in value based on subsequent changes in the Benchmark coal price.

In order to manage the Group's exposure to volatility in the Benchmark coal price, a number of forward coal swap transactions were entered into. These transactions are intended to be settled net in cash, and represent a targeted approach to manage the commodity risk the Group is exposed to, particularly at higher-cost operations. These forward coal swap transactions do not adjust the export revenue earned on sales to AAML, and are treated as free standing derivative contracts. The Group does not apply hedge accounting to these transactions. Refer to note 24 for further detail.

26. FINANCIAL RISK MANAGEMENT CONTINUED

Foreign exchange risk

The Group is principally exposed to fluctuations in the ZAR:USD exchange rate as a result of revenue, trade receivables balances, cash and cash equivalent balances, and to a lesser extent, capital expenditure that is not denominated in South African rand. Payments from AAML are received in USD, and the USD received is sold as required in line with the liquidity requirements of the Group. The Group enters into various short-term foreign exchange contracts in order to manage our exposure to fluctuations in the exchange rate, but no such contracts were in place at 31 December 2021 (2020: none).

The Group's exposure to foreign currency risk can be analysed as follows:

USD million	**2021**	2020
Trade receivables	**161**	118
Cash and cash equivalents	**78**	–
Trade and other payables	**–**	(6)
Net foreign currency exposure	**239**	112

Sensitivity analysis

The following analysis is intended to illustrate the sensitivity of the Group's financial instruments at 31 December to changes in the ZAR:USD exchange rate, with the impact on the statement of profit or loss and other comprehensive income being as follows:

Rand million	**2021**	2020
+10% ZAR:USD	**381**	164
-10% ZAR:USD	**(381)**	(164)

The above sensitivities are calculated with reference to a single moment in time and are subject to change due to a number of factors including fluctuating trade receivables, cash and trade payables balances.

Offset of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. There were no material amounts offset in the statement of financial position or associated with enforceable master netting agreements.

Capital management

The capital structure of the Group consists of cash and cash equivalents, equity attributable to shareholders of the Group, which comprises stated capital, retained earnings and other reserves disclosed in the consolidated statement of changes in equity and debt, consisting of lease liabilities and loans and borrowings.

The Group's capital management objective is to safeguard the Group's ability to meet its liquidity requirements (including its commitments in respect of capital expenditure) and continue as a going concern.

On an annual basis the Group updates its long-term business plan and these outputs are then incorporated into the budget process. The Group's capital expenditure included in the budget process is targeted to be funded from cash generated from operations. No entities in the Thungela Group are subject to externally imposed capital requirements.

Any capital that exceeds the operational and liquidity buffer requirements of the Group will be assessed against all available opportunities by applying our investment evaluation criteria and where appropriate we may make additional distributions to shareholders. These decisions will be evaluated through the Group's internal decision-making structures before being approved by the board where required.

Refer to note 33 for detail related to the dividend policy.

LIABILITIES

27. ENVIRONMENTAL AND OTHER PROVISIONS

The Group has raised several provisions in relation to our exposure to legal or constructive obligations at the reporting date. These comprise Environmental provisions in relation to our obligation to incur rehabilitation, restoration and decommissioning costs, restructuring provisions in relation to formal restructuring activities undertaken by the Group, and various other provisions in relation to contractual obligations.

Accounting policy

Environmental provisions

An obligation to incur environmental restoration, rehabilitation and decommissioning costs arises when environmental disturbances are caused by the development or ongoing production of a mining asset. Costs for the restoration of site disturbances, rehabilitation, remediation and environmental monitoring costs, including water treatment costs, are estimated using either the work of external consultants or internal experts. Such costs arising from the decommissioning of infrastructure and other site preparation work, discounted to their net present value, are provided for and capitalised at the start of each project, as soon as the obligation to incur such costs arises.

These costs are recognised in the statement of profit or loss and other comprehensive income over the life of the operation, through the depreciation of the asset and the unwinding of the discount on the provision. Costs for restoration of subsequent site disturbances which are created on an ongoing basis during production are provided for at their net present values and recognised in the statement of profit or loss and other comprehensive income as extraction progresses.

The amount recognised as a provision represents the Group's best estimate of the costs required to complete the restoration and rehabilitation activity, the application of the relevant regulatory framework and timing of expenditure. These estimates are inherently uncertain and could materially change over time. Changes in the measurement of a provision relating to the decommissioning of infrastructure or other site preparation work are added to or deducted from the cost of the related asset in the current period. If a decrease in the provision exceeds the carrying amount of the asset, the excess is recognised immediately in the statement of profit or loss and other comprehensive income. If the asset value is increased and there is an indication that the revised carrying value is not recoverable, an impairment test is performed on the asset.

Restructuring provisions

Restructuring costs are recognised as a liability at the earlier of the date the costs are incurred or when the Group is demonstrably committed, without a realistic possibility of withdrawal, to a formal detailed restructuring plan to either terminate employment before normal retirement date, or as a result of an offer made to encourage voluntary redundancy. In the case of an offer to encourage voluntary redundancy, the restructuring costs are measured based on the number of employees expected to accept the offer. Restructuring costs that are expected to be wholly settled more than one year after the end of the reporting period are discounted to their present value.

Other provisions

Other provisions in relation to contractual obligations are recognised when the Group has an obligation as a result of past events. Other provisions are recognised at the best estimate of the expenditure required to settle the present obligation at the reporting date taking into account the time value of money where relevant.

Environmental rehabilitation trusts

Contributions have historically been made to dedicated environmental rehabilitation trusts to fund the estimated cost of rehabilitation and restoration activities for premature closure and end of life closure of the relevant mine and as required thereafter. The Group exercises full control of these trusts and therefore the trusts are consolidated. The trusts' assets are disclosed separately on the statement of financial position as non-current assets.

The trusts' assets are held through unit trusts through a reputable investment manager, and are classified as at FVPL. Fair value gains and losses are recognised in the statement of profit or loss and other comprehensive income within net finance costs.

Other environmental investments

The Group entered into agreements with financial institutions to provide financial guarantees dedicated to funding the costs of rehabilitation and restoration activities. A portion of the premium contributions made under these agreements is invested by the financial institutions on our behalf, and held as collateral against the financial guarantees. These contributions are largely invested in money market funds and are classified as at FVPL.

The other environmental investments are recognised in the statement of financial position within financial asset investments, as disclosed in note 22, and fair value gains and losses are recognised in the statement of profit or loss and other comprehensive income within net finance costs.

Nkulo Community Partnership Trust

The Group founded the Nkulo Community Partnership Trust in June 2021 as disclosed in note 2A, which subscribed for a C preference share in SACO for a nominal amount. The C preference share entitles the trust to a preference dividend of a minimum of R6 million per annum up to 2024, subject to the availability of cash flows in SACO. The Group recognises a provision for the constructive obligation it has to the beneficiaries of the Trust at the point that the preference dividends are declared on the C preference share by SACO. This provision is recognised within other provisions.

Environmental and other provisions can be analysed as follows:

	Environmental provisions				2021
Rand million	Environmental restoration	Decommissioning	Restructuring[1]	Other[2]	Total
Balance at the start of the reporting period	5,386	798	208	234	6,626
Acquired through Internal restructure	228	40	–	–	268
Acquisition of joint operation	–	–	–	51	51
Amounts charged[3]	452	(146)	(204)	(20)	82
Adjustments to decommissioning assets	–	(57)	–	–	(57)
Unwinding of discount	463	67	–	7	537
Amounts applied[4]	(480)	–	–	(22)	(502)
Reclassifications	–	–	(4)	–	(4)
Balance at the end of the reporting period	6,049	702	–	250	7,001
Classified as:					
Current	265	22	–	105	392
Non-current	5,784	680	–	145	6,609

1 The restructuring provision at 31 December 2020 relates to a decision taken to place the Bokgoni pit at the Khwezela colliery on care and maintenance effective from the first quarter of 2021. The restructuring process has been completed and no further costs are expected.

2 Other provisions primarily relate to a provision raised for contractual obligations, and the Zibulo colliery servitude.

3 Amounts charged to provisions relates to amounts recognised through the statement of profit or loss and other comprehensive income in relation to changes in the provisions in the reporting period.

4 Amounts applied to provisions relates to cash paid to settle these obligations which reduces the provision, but is not charged through the statement of profit or loss and other comprehensive income.

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27. ENVIRONMENTAL AND OTHER PROVISIONS CONTINUED

Environmental and other provisions can be analysed as follows continued:

	Environmental provisions				2020
Rand million	Environmental restoration	Decommissioning	Restructuring[1]	Other[2]	Total
Balance at the start of the reporting period	196	98	–	62	356
Acquired through Internal restructure	5,187	683	208	172	6,250
Amounts charged[3]	(15)	–	–	–	(15)
Adjustments to decommissioning assets	–	8	–	–	8
Unwinding of discount	18	9	–	2	29
Other movements	–	–	–	(2)	(2)
Balance at the end of the reporting period	5,386	798	208	234	6,626
Classified as:					
Current	622	84	208	193	1,107
Non-current	4,764	714	–	41	5,519

1 The restructuring provision relates to a decision taken to place the Bokgoni pit at the Khwezela colliery on care and maintenance effective from the first quarter of 2021 due to the sustained low-price environment and following in depth consultation.
2 Other provisions primarily relate to a provision raised for contractual obligations, the Zibulo colliery servitude and dividends payable to the non-controlling shareholders of AAIC.
3 Amounts charged to provisions relates to amounts recognised through the statement of profit or loss and other comprehensive income in relation to changes in the provisions in the reporting period.

Environmental provisions

Thungela is obliged to undertake decommissioning, rehabilitation, remediation, closure and ongoing post-closure monitoring activities when environmental disturbances are caused by the development or ongoing production of a mining property, as well as the decommissioning of infrastructure established on the operating sites. A provision is recognised for the present value of such costs, based on the Group's best estimate of the legal and constructive obligations existing at the reporting date. It is anticipated that most of these costs will be incurred over a period of up to 20 years, with water treatment costs incurred up to 50 years, post closure of the mines. These provisions are collectively referred to as the 'Environmental provisions'. The Environmental provisions are determined per operating site, with the assistance of specialist independent environmental consultants and taking account of the current land disturbances and the expected costs of rehabilitation. The disturbed areas and expected costs are reassessed each year and any required change in the Environmental provisions is recognised on the completion of the assessment. An amount of R306 million (2020: credit of R15 million) has been recognised in the statement of profit or loss and other comprehensive income, and a credit to the decommissioning assets of R57 million (2020: R8 million debit) has been recognised related to the annual assessment performed by the independent consultants, and other factors influencing the provision.

The Environmental provisions have been determined based on the legal obligations under the existing MPRDA Regulations, as well as the Group's interpretation of the potential increase in costs required to meet certain of the NEMA Financial Provisioning Regulations, for example water treatment costs. The Group's Environmental provisions are in line with currently enforceable laws and regulations. The 2015 NEMA Financial Provisioning Regulations have been subject to numerous updates, and drafts of the replacement regulations were published in November 2017, in May 2019, and again in August 2021, but are yet to be finalised. The August 2021 draft of the NEMA Financial Provisioning Regulations again received significant feedback from the industry. No further communication has been received to date in response to the comments submitted. As currently drafted, the NEMA Financial Provisioning Regulations will alter the way companies calculate financial provisioning required for environmental obligations, and it is likely that compliance with the NEMA Financial Provisioning Regulations in their current form will substantially increase the required quantum of financial provisioning to be made by mining companies with existing operations. This likely increase is mainly attributable to the change that specifies that latent or residual environmental impacts that may become known in the future will include the pumping and treatment of extraneous water.

The Group is currently expected to transition to the NEMA Financial Provisioning Regulations on the transition date of 19 June 2022. There is currently no indication as to whether this transition date will again be deferred.

It is important to note that financial provisioning as specified in the NEMA Financial Provisioning Regulations, as well as the existing MPRDA Regulations, does not translate into the Environmental provisions as recognised by the Group, but rather the level of cash or other funding required to be made available to fund the closure of operations should the Group not be able to do so. The Environmental provisions are calculated using the MPRDA Regulations as a base, adjusted for costs the Group is likely to incur over the period until closure is completed. The financial provisioning as required by the current MPRDA Regulations amounts to R4,108 million (2020: R4,048 million), compared to the total Environmental provisions recognised by the Group of R6,751 million (2020: R6,184 million). This difference is due to additional costs which the Group believes it is likely to incur through a combination of its interpretation of the NEMA Financial Provisioning Regulations as well as actual costs to be incurred in the period up to, and post mine closure, most significantly in relation to water treatment costs.

The Group has provided for water treatment costs using a combination of active and passive water treatment methods, based on activities currently being performed at its operations. The NEMA Financial Provisioning Regulations require the treatment of water to be provided for using the costs of currently available technologies which the DMRE has approved, based on evidence that the technology to be implemented is able to consistently achieve the discharge requirements. Thungela has embarked on an exercise to investigate several different technologies to mitigate the impact of the future water treatment costs. Research and development is being conducted with various other parties, investigating passive treatment with Mintek as the research institute. In addition, technologies are being trialled which have the potential to treat highly impacted acidic water with the benefit of recovering value add products as well as the use of less impacted neutral mine water for irrigation of crops. Other mitigation measures include the use of phytoremediation to address acid mine drainage challenges. Significant progress has been made in proving passive water treatment on a pilot scale, with a co-operation agreement signed with a number of research partners, with Thungela as the industry partner, to demonstrate the passive water treatment process as an integrated system at a larger scale and determine the suitability of the treated water for various applications including the irrigation of crops. The construction of a demonstration scale plant to further prove this treatment commenced in August 2021.

The NEMA Financial Provisioning Regulations, as well as the MPRDA Regulations, require the Group to make financial provisioning available which is set aside purely to fund the rehabilitation and restoration activities required, should the Group not be able to perform these activities. This financial provisioning can be put aside through a number of vehicles, and cannot be accessed for the general use of the Group. The Group currently maintains the required financial provisioning through two mechanisms, being environmental rehabilitation trusts, as well as holding financial guarantees with financial institutions for the benefit of the DMRE.

Environmental rehabilitation trusts

The investments held in the environmental rehabilitation trusts can be analysed as follows:

Rand million	**2021**	2020
Investments in unit trusts	**3,288**	2,880
	3,288	2,880
Balance at the start of the reporting period	**2,880**	34
Acquired through Internal restructure	**23**	2,844
Growth on assets	**385**	2
Balance at the end of the reporting period	**3,288**	2,880

27. ENVIRONMENTAL AND OTHER PROVISIONS CONTINUED

Environmental provisions continued

The rehabilitation trusts aim to achieve their objectives by investing in a diversified portfolio of equity and debt securities of predominantly South African listed companies as well as South African sovereign and corporate debt through unit trust investments. Each mine's portfolio is managed separately according to each individual mine's risk and LOM profile.

Investments in the unit trusts are recognised at FVPL. The movement in the environmental rehabilitation trusts' assets includes fair value movements as well as dividend and interest income, where applicable. This movement is recognised in net finance costs.

These funds are not available for the general use of Thungela and can only be accessed to the extent of actual rehabilitation costs incurred with approval from the DMRE. All income from these assets is reinvested to further increase the level of financial provisioning held as required by the MPRDA Regulations.

Other environmental investments

The Group also holds a significant value of guarantees to further contribute to the financial provisioning as required by the MPRDA Regulations. These guarantees are held with two financial institutions, and a portion of the annual fee payable on these guarantees is invested on our behalf. These investments are held as collateral for the guarantees in place.

The other environmental investments can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**3**	–
Acquired through Internal restructure	**–**	3
Contributions during the reporting period	**192**	-
Growth on assets	**4**	-
Balance at the end of the reporting period	**199**	3

The Group invested R188 million (2020: Rnil) in long-term investments, referred to as the Green fund, through two financial institutions to secure the guarantees required to further fund the financial provisioning as required by the MPRDA Regulations and replace guarantees previously held where AASA had provided surety. These investments are ceded to the financial institutions as collateral for the guarantees provided to the Group. The Green fund requires an investment of 5.8% and 6.7% of the guarantee amounts annually into the respective funds to reduce the value of the unfunded guarantees over the LOM. Of the annual investment amount required, 0.8% and 0.7% respectively is related to fees which are not considered part of the investment. The annual requirement for funding is expected to decrease as the investment value increases, however, the Group is able to contribute to these funds in excess of the required annual investment amount in order to increase our financial provisioning held, and to maximise our return on these investments.

These funds are not available for the general use of Thungela and can only be accessed once closure activities have commenced, or to the extent that the growth on these funds has exceeded the required annual investment amount. The funds are managed on our behalf by the financial institutions, and growth on the funds is reinvested to further increase the level of financial provisioning held as required by the MPRDA Regulations.

The other environmental investments are included in financial asset investments as disclosed in note 22.

Thungela's exposure to its environmental obligations can be analysed as follows:

Rand million	2021	2020
Environmental provisions	(6,751)	(6,184)
Environmental rehabilitation trusts	3,288	2,880
Other environmental investments	199	3
Guarantees	3,153	2,890
Total financial provisioning available	**6,640**	5,773
Real pre-tax discount rate (%)	3.6 – 4.3	4.3 – 4.8

The guarantees of R3,153 million (2020: R2,890 million) are primarily in place to meet any immediate closure obligations under the existing MPRDA Regulations, and are issued in favour of the DMRE. If Thungela has to comply with the NEMA Financial Provisioning Regulations by 19 June 2022 (ie the transition date is not further deferred), it is likely that the level of guarantees required to be held as financial provisioning will increase, which if required, may be sourced from the existing providers on the market at similar terms to the Group's current guarantees.

Sensitivity analysis

The Group has determined that the expected cash flows and the discount rates used to value the Environmental provisions have a significant impact on the amounts recognised in the statement of financial position and the statement of profit or loss and other comprehensive income.

The impact that reasonably possible changes in these inputs would have on the statement of profit or loss and other comprehensive income can be analysed as follows:

Rand million	2021	2020
5.0% increase in expected cash flows	468	279
0.5% increase in discount rate	(256)	(286)

Contingent liabilities

Thungela is subject to various claims which arise in the ordinary course of business. Additionally, Thungela has provided indemnities against certain liabilities as part of agreements relating to sales or other disposals of business operations in the past. Having taken appropriate legal advice, the Group believes that any material liability arising from the indemnities provided is remote.

Total financial guarantees amounting to R3,268 million (2020: R3,051 million) have been issued in favour of the DMRE and other counterparties where relevant, including the amount identified for rehabilitation purposes noted above.

No contingent liabilities were secured against the assets of Thungela at 31 December 2021 and 31 December 2020.

28. LEASE LIABILITIES

The Group has entered into various agreements which are considered to be leases, and is currently a lessee in the following lease agreements:

- through its investment in Butsanani Energy, a contract related to the build and usage of a processing plant at the Rietvlei colliery for a period of five years from 3 June 2019
- through its investment in Butsanani Energy, a contract related to the usage of the farm for mining purposes at the Rietvlei colliery for a period of 20 years from 1 June 2019
- through TOPL, a contract for the exclusive use of the leased premises located at 25 Bath Avenue, Rosebank for a period of five years from 1 November 2020.

Right-of-use assets have been disclosed as part of property, plant and equipment as per note 13.

Accounting policy

At the inception of a contract, the Group assesses whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Lease liabilities are initially measured at the present value of the future lease payments, discounted at the applicable incremental borrowing rates. Variable lease payments are not included in the measurement of lease liabilities and are charged to operating costs as they are incurred.

Subsequent to initial recognition, lease liabilities are measured at amortised cost using the effective interest rate method. They are remeasured when there is a change to the contractual lease payments or the lease term, with an adjustment also being made to the corresponding right-of-use assets.

Leases with a term of less than one year, or committed payments of less than R75,000, are not recognised in the statement of financial position. The Group continues to recognise payments for these leases as an expense on a straight-line basis over the lease term within operating costs.

The contractual payments due under lease arrangements can be analysed as follows:

Rand million	**2021**	2020
Contractual undiscounted cash flows		
Maturity analysis of lease payments due:		
Within 1 year	**36**	35
Between 2 and 5 years	**71**	134
Over 5 years	**41**	50
Total undiscounted lease payments	**148**	219
Impact of discounting	**(27)**	(68)
Total discounted lease liabilities	**121**	151
Classified as:		
Current	**29**	24
Non-current	**92**	127

The movement in the lease liabilities can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**151**	–
Acquired through Internal restructure	**–**	151
Interest capitalised	**11**	–
Repayment – Interest	**(11)**	–
Repayment – Capital	**(32)**	–
Other	**2**	–
Balance at the end of the reporting period	**121**	151

The lease liabilities were calculated by discounting contractually escalated lease payments over the lease term at the incremental borrowing rate derived from a market related borrowing rate at the inception of the lease contracts. The range of incremental borrowing rates used is 8.6% to 9.0% (2020: 8.6% to 9.0%).

The amounts recognised in the statement of profit or loss and other comprehensive income in relation to the leasing arrangements can be analysed as follows:

Rand million	**2021**	2020
Interest expense on lease liabilities	11	–
Expenses relating to variable lease payments not included in the measurement of the lease liabilities	13	–
Depreciation of right-of-use assets	8	–
Impairment losses	3	–

Some of the leases in which the Group is the lessee contain payments that are linked to a variable monthly feed to plant rate. The variable payments of R13 million (2020: Rnil) constitute 23% of the Group's total lease payments of R56 million and this proportion is expected to remain consistent in future.

The amounts recognised in the statement of cash flows in relation to the leasing arrangements can be analysed as follows:

Rand million	**2021**	2020
Lease liabilities – capital repayment	32	–
Lease liabilities – interest repayment (included in interest expenses paid)	11	–
Variable lease payments (included in profit before tax)	13	–
Total cash outflow for leases	**56**	–

The Group is exposed to a total potential future cash outflow of R71 million (2020: R144 million) related to payments for mining and other equipment on contracts that are not considered to contain a lease.

29. RETIREMENT BENEFIT OBLIGATIONS

The Group operates both defined benefit and defined contribution pension fund plans and medical aid plans for its employees as well as post-employment medical aid plans. The post-employment medical aid plan provide health benefits to retired employees and certain dependants.

Accounting policy

The contributions paid or payable in the year in relation to defined contribution plans are recognised in profit or loss as incurred.

For post-employment medical aid plans, full actuarial valuations are carried out at least every three years using the projected unit credit method and updates are performed for each year. The average discount rate for the plan liabilities is based on government bonds as there is no deep market for corporate bonds in South Africa.

Remeasurements comprising actuarial gains and losses are recognised immediately in OCI and are not recycled to profit or loss. Any increase in the present value of the plan obligations expected to arise from employee services during the year is included in operating costs. The net interest income or expense on the defined benefit obligations is included in net finance costs.

Past service costs are recognised immediately in profit or loss to the extent that the benefits are already vested and otherwise amortised on a straight-line basis over the average period until the benefits vest.

Employer contributions are made in accordance with the terms of each plan and vary each year.

The retirement benefit obligations are unfunded and are recognised on the statement of financial position at the present value of the deficit in the defined benefit plans.

29. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Defined contribution plans

The costs of the defined contribution pension fund plans and medical aid plans represent the actual contributions payable by the Group to various plans.

The charge for the year for defined contribution pension fund plans (net of amounts capitalised) was R244 million (2020: R43 million) and for defined contribution medical aid plans (net of amounts capitalised) was R134 million (2020: R26 million). Defined contribution plans are governed by the South African Pension Fund Act and the Medical Schemes Act of South Africa as regulated by the Council for Medical Schemes.

Defined benefit medical aid plans and post-employment medical aid plans

The assets of these plans are held separately from those of the Group, in independently administered funds, in accordance with statutory requirements. The responsibility for the governance of the medical aid plans, including investment and funding decisions, lies with the Trustees of each plan.

Employer contributions are made in accordance with the terms of each plan and may vary from year to year. Benefits of R25 million (2020: Rnil) were paid in relation to the medical aid plans, and the Group expects to contribute R32 million to these medical aid plans in 2022.

The amounts recognised in profit or loss in relation to the medical aid plans can be analysed as follows:

Rand million	**2021**	2020
Operating costs	**(8)**	–
Net finance costs	**(43)**	–
Total	**(51)**	–

The pre-tax amounts recognised in OCI relating to the medical aid plans can be analysed as follows:

Rand million	**2021**	2020
Actuarial gains on plan obligations	**27**	–
Remeasurement of defined benefit obligations	**27**	–

Actuarial gains on plan obligations comprise movements in the obligations arising from changes in financial and demographic assumptions as well as experience on plan liabilities.

The movements in the retirement benefit obligations can be analysed as follows:

Rand million	**2021**	2020
Balance at the start of the reporting period	**(455)**	–
Acquired through Internal restructure	**–**	(455)
Actuarial gains from changes in assumptions	**27**	–
Current service costs	**(3)**	–
Benefits paid	**25**	–
Interest cost	**(43)**	–
Balance at the end of the reporting period	**(449)**	(455)

The medical aid plans are closed to new members and future benefit accrual, however, there are still active employees which benefit from the plans. The obligations are applicable to active employees and pensioners as follows:

Rand million	2021	2020
Active employees	(87)	(107)
Pensioners	(362)	(348)
Total retirement benefit obligations	(449)	(455)

Actuarial assumptions

The principal actuarial assumptions used to determine the present value of benefit obligations are as follows (shown as weighted averages):

%	2021	2020
Average discount rate for plan obligations	11	9.8
Average rate of inflation	7.2	5.2
Expected average increase in healthcare costs	9.6	7.5

The weighted average duration of the plans is 12 years (2020: 11 years). This represents the average period over which future benefit payments are expected to be made.

Mortality assumptions are determined based on standard mortality tables with adjustments, as appropriate, to reflect experience of conditions locally. In South Africa, the PA90 and SA85-90 tables are used. The mortality tables used imply that a male or female aged 60 at the reporting date has the following future life expectancy (shown as weighted averages):

Years	2021	2020
Male	18.7	18.7
Female	23.4	23.4

The defined benefit plans are exposed to risks such as longevity, investment risk, inflation risk and interest rate risk.

The Group's provision of anti-retroviral therapy to HIV positive staff does not significantly impact the post-employment medical aid plan obligations.

Sensitivity analysis

The significant actuarial assumptions for the determination of medical aid plan obligations are the discount rate, inflation rate and life expectancy. The sensitivity analysis below has been provided by local actuaries on an approximate basis based on changes in the assumptions occurring at the end of the year, assuming that all other assumptions are held constant and the effect of all interrelationships is excluded.

The impact on the retirement benefit obligations can be analysed as follows:

Rand million	2021	2020
Discount rate – 0.5% decrease	(23)	(24)
Inflation rate – 0.5% increase	(23)	(26)
Life expectancy – increase by 1 year	(17)	(17)

Actuarial assumptions are set after consultation with independent experts and before the valuations of the plan obligations are completed. While management believes the assumptions used are appropriate, a change in the assumptions used would impact the profit or loss and OCI of the Group.

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30. DEFERRED TAX

The Group has recognised deferred tax assets and liabilities based on the underlying nature of various transactions throughout the year, and the related tax treatment, which may be different to the accounting treatment thereof.

Accounting policy

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable income will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill or of an asset or liability in a transaction (other than in a business combination) that affects neither taxable income nor accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, joint arrangements and associates except where the Group can control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and is adjusted to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to OCI or to equity, in which case the deferred tax is recognised in the same way.

Deferred tax assets and liabilities are offset by legal entity and the Group intends to settle its current tax assets and liabilities on a net basis by legal entity.

Deferred tax assets

The movement in the deferred tax assets can be analysed as follows:

Rand million	Notes	**2021**	2020
Balance at the start of the reporting period		*****	–
Credited to profit or loss	10	**384**	*
Charged to other comprehensive loss	10	**(6)**	–
Balance at the end of the reporting period		**378**	*

* Represents amounts less than R1 million.

The Group has a significant amount of unredeemed capital deductions (and previously assessed losses – collectively the 'available tax losses') available in TOPL, based on historical loss-making operations within this entity. No deferred tax asset has previously been raised on these available tax losses based on the expected future taxable income that would have been available to utilise these losses against in TOPL.

For the year ended 31 December 2021, TOPL has returned to profitability on the back of a stronger Benchmark coal price environment, as well as an optimised sales mix to ensure that higher margin products were sold where possible to mitigate the impact of the continued poor rail performance. The assessed losses within TOPL have been fully utilised in the year ended 31 December 2021.

As a result of the significant improvement in the Benchmark coal price throughout 2021 and key operational efficiencies realised by the Group, there has been a significant improvement in the operating results of TOPL for the year ended 31 December 2021. However, due to specific requirements in the tax legislation applicable to mining companies in South Africa, a large portion of the unredeemed capital deductions is ring-fenced to specific mines and specific activities. Unredeemed capital deductions on old order mines can only be utilised against taxable mining income generated by these mines and is not available for use against newer mines developed by the Group. As the old order mines are generally reaching the end of their lives, they are also our higher-cost operations, and are impacted by our decision to curtail production in relation to the rail constrained environment as detailed in note 7.

On this basis, although TOPL is now forecasted to generate healthy future taxable income, it is unlikely that all of the available unredeemed capital deductions will be utilised in relation to the higher-cost and older operations of TOPL. The portion of these unredeemed capital deductions which the Group expects to utilise was assessed using the approved budget data and LOM cash flow models utilised for the impairment of assets as a starting point, adjusted for specific known factors as appropriate. As a result, the Group did not recognise deferred tax assets of R1,177 million (2020: R1,588 million) relating to the available tax losses.

The deferred tax assets recognised in the statement of financial position can be analysed as follows:

Rand million	2021	2020
Provisions	1,829	1,894
Retirement benefit obligations	127	127
Tax losses	1	–
Other temporary differences	(1)	77
Share-based payments	(1)	(18)
Fair value adjustments	(98)	(56)
Capital allowances in excess of depreciation	(577)	(1,228)
Environmental rehabilitation trusts	(902)	(796)
Total deferred tax assets	**378**	*

* Represents amounts less than R1 million.

The deferred tax credited to the statement of profit or loss and other comprehensive income can be analysed as follows:

Rand million	2021	2020
Provisions	(65)	–
Retirement benefit obligations	7	–
Tax losses	1	–
Other temporary differences	(78)	–
Share-based payments	17	–
Fair value adjustments	(43)	–
Capital allowances in excess of depreciation	427	–
Environmental rehabilitation trusts	(106)	–
Impairment losses	224	–
Deferred tax credited to profit or loss	384	–
Deferred tax charged to other comprehensive loss	(6)	–
Deferred tax credited to total comprehensive income	**378**	–

Deferred tax liabilities

The movement in the deferred tax liabilities can be analysed as follows:

Rand million	Notes	2021	2020
Balance at the start of the reporting period		(581)	(660)
Acquired through Internal restructure		(385)	1
(Charged)/credited to profit or loss	10	(434)	76
Credited to other comprehensive loss	10	–	2
Balance at the end of the reporting period		**(1,400)**	(581)

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30. DEFERRED TAX CONTINUED

Deferred tax liabilities continued

The deferred tax liabilities recognised in the statement of financial position can be analysed as follows:

Rand million	2021	2020
Capital allowances in excess of depreciation	(1,788)	(757)
Other temporary differences	(68)	(6)
Environmental rehabilitation trusts	(19)	(10)
Tax losses	240	303
Provisions	235	141
Fair value adjustments	–	(254)
Share-based payments	–	2
Total deferred tax liabilities	(1,400)	(581)

The deferred tax (charged)/credited to the statement of profit or loss and other comprehensive income can be analysed as follows:

Rand million	2021	2020
Capital allowances in excess of depreciation	(610)	54
Other temporary differences	(60)	(7)
Environmental rehabilitation trusts	(3)	–
Tax losses	(63)	–
Provisions	2	24
Fair value adjustments	302	3
Share-based payments	(2)	2
Deferred tax (charged)/credited to profit or loss	(434)	76
Deferred tax credited to other comprehensive loss	–	2
Deferred tax (charged)/credited to total comprehensive income	(434)	78

EQUITY

31. STATED CAPITAL

Thungela has one class of authorised and issued shares, being ordinary shares. The shares were issued on completion of the Demerger, and began trading on the JSE and LSE from 7 June 2021.

Accounting policy

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Where any group entity purchases Thungela's issued shares, reflected as treasury shares for the Group, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the shareholders of the Group, until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the shareholders of the Group.

The stated capital issued by the Group can be analysed as follows:

Number of shares	**2021**	2020
Authorised		
Ordinary no par value shares	10,000,000,000	–
Issued		
Ordinary no par value shares	136,311,808	–
Reconciliation of shares in issue		
Shares in issue at the start of the reporting period	–	–
Issue of ordinary no par value shares	136,311,808	–
Shares in issue at the end of the reporting period	136,311,808	–
Adjusted for:		
Treasury shares held by Group companies	(2,712,606)	–
Net shares in issue at the end of the reporting period	133,599,202	–

Rand million	**2021**	2020
Balance at the start of the reporting period	–	–
Issue of ordinary no par value shares	10,041	–
Balance at the end of the reporting period	10,041	–
Adjusted for:		
Treasury shares held by Group companies	(183)	–
Net balance at the end of the reporting period	9,858	–

As detailed in note 2A, although Thungela is considered a continuation of the SACO Group, the Company was only incorporated in January 2021, and issued shares in June 2021. The capital structure of Thungela reflects the structure of the legal entity, and thus no shares are reflected as issued for the Group until 2021. The value of the SACO Group was reflected in the merger reserve from the start of the earliest comparative period presented until the date the shares were legally issued, when it was transferred into stated capital.

For the purpose of determining the WANOS in each reporting period, Thungela has applied judgement in determining how many shares were issued in substance for no corresponding increase in the economic value of the Group. Of the total stated capital of R10,041 million issued in June 2021, R5,466 million was received in cash from ASA. The issue of these 74,201,626 shares (as a proportion of the total shares issued based on the proportion of cash consideration to total consideration received) reflect a direct increase in the economic value of the Thungela Group. The remaining stated capital issued amounting to R4,575 million (reflective of 62,110,182 shares, as a proportion of non-cash consideration to total consideration received) is considered in substance to have been issued in consideration for the pre-existing SACO Group. The WANOS has been calculated to reflect the issue of these shares as if it occurred at the start of the earliest comparative period presented.

In the year ended 31 December 2021 2,712,606 treasury shares were purchased by subsidiaries of the Group at an average price of R67.42 per share in relation to share awards granted as disclosed in note 32. The purchase was made in terms of Thungela's MOI and the shares are held in separate broker accounts of the Group for employees in terms of the rules of the Thungela share plan until vesting date.

The shareholder approved at the AGM held prior to the Demerger and listing of Thungela, that the unissued shares be placed under the control of the board at their discretion. The approval is subject to compliance with the MOI, the Companies Act of South Africa and the JSE Listings Requirements, and this authority is valid for the shorter of 15 months or until the next AGM. For the year ended 31 December 2021, no shares have been issued in terms of this authority.

32. SHARE-BASED PAYMENT TRANSACTIONS

The Group operates equity settled shared-based payment arrangements which allow certain employees of the Group to receive Thungela shares. Prior to the Demerger, the employees of the Group were entitled to receive Anglo American shares under equity settled share-based payment arrangements.

Accounting policy

The Thungela share plan consists of two components:

- the award of Conditional shares, the vesting of which is conditional upon the fulfilment of certain Performance conditions and an Employment condition as approved by the Thungela remuneration and nomination committee
- the award of Forfeitable shares, the vesting of which is subject to an Employment condition as approved by Thungela remuneration and nomination committee.

All share awards are issued for no consideration, with no exercise or strike price applicable on the vesting date, and each share award will convert into one ordinary share in Thungela on vesting.

The Thungela share plan is accounted for as an equity settled share-based payment arrangement and the grant date fair value of the awards is recognised as an expense, with a corresponding increase in equity, over the vesting period. The amounts recognised as expenses are adjusted to reflect the number of awards that are expected to vest based on the likely outcomes of the non-market Performance conditions and the Employment conditions.

For Conditional share awards, which are subject to market and non-market vesting conditions, the fair value is determined using a Monte Carlo model at the grant date, taking into account the market vesting conditions. For Forfeitable share awards which are subject to non-market vesting conditions only, the fair value is determined based on the unconditional fair value of the shares at the grant date.

Employees participating in the Conditional share awards are also entitled to receive additional share awards in lieu of dividends declared on Thungela shares over the vesting period, which are added to the total number of Conditional shares awarded and subject to the same vesting conditions. The dividend equivalent share awards are added to the total number of shares subject to vesting, and expensed on the same basis.

Employees participating in the Forfeitable share awards are entitled to dividends paid on Thungela shares on the dividend payment dates throughout the vesting period. Should the awards be forfeited, dividends already paid to employees will not be required to be paid back to the Group.

The early vesting of share awards is permitted at the discretion of the Thungela remuneration and nomination committee based on reasons deemed as constituting 'good leaver' status as set out in the rules governing the Thungela share plan.

The aggregate number of shares which may be allocated under the Thungela share plan may not exceed 6,815,590 shares, which equates to 5.0% of the number of issued shares of Thungela. At 31 December 2021, a total of 2,712,606 shares were utilised, leaving 4,102,984 shares available for utilisation in relation to future grants.

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32. SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

Thungela share plan

The share awards that have been granted to eligible employees consist of the Thungela 2021 LTIP awards as approved by the Thungela remuneration and nomination committee and the Thungela Milestone awards as approved by the Anglo American remuneration committee as part of the Demerger.

Thungela 2021 LTIP awards – Conditional share awards

The Thungela 2021 LTIP awards were granted on 16 November 2021, in relation to performance for the year ended 31 December 2020. Thungela employees did not participate in the Anglo American 2021 LTIP awards on the basis of the expected Demerger of the Group. These awards will vest on 16 November 2024 in accordance with the achievement of specific Performance conditions over a performance period starting 1 January 2021 and ending 31 December 2023. Once vested, these awards are subject to a further two-year holding period for executive directors and prescribed officers only.

The weighted average of the vesting outcomes for each measure will determine the overall vesting percentage for the awards. This will be applied to the number of awards granted on the vesting date. The Performance conditions and their weightings, that are applied at the vesting date are as follows:

Condition	Weighting (%)	Market vs non-market condition
Relative TSR peer (Local)	7.5	Market
Relative TSR peer (Global)	7.5	Market
Carbon emissions	10	Non-market
Cash margin per export saleable tonne	20	Non-market
Dividend yield	10	Non-market
Inclusion and diversity	10	Non-market
Life of business	15	Non-market
Lifex capital intensity	10	Non-market
Water usage – fresh water import	2.5	Non-market
Water usage – potable water usage	2.5	Non-market
Water usage – water reuse/recycle	2.5	Non-market
Water usage – water treatment	2.5	Non-market

Achievement of the non-market conditions will be determined independently of the market Performance conditions.

Thungela Milestone awards – Forfeitable share awards

In order to incentivise, reward and retain the CEO and CFO in preparation for the Demerger, and to stabilise the business post the Demerger, a retention award of 899,658 shares and 449,829 shares was granted to the CEO and CFO respectively – referred to as the Thungela Milestone awards. The Thungela Milestone awards were granted on 11 November 2021 and give the CEO and CFO the right to obtain a number of ordinary shares in Thungela, subject to satisfying the Employment condition. The awards carry voting rights and the employees are entitled to dividends paid on Thungela shares throughout the vesting period.

Should the Employment condition be achieved, the awards shall vest in two equal tranches on 4 June 2022, and 4 June 2023, being the first and second anniversary of the Demerger becoming effective. There are no Performance conditions attached to the Thungela Milestone awards.

The number of share awards granted in terms of the Thungela share plan can be analysed as follows:

			2021
Number of awards	Thungela 2021 LTIP awards	Thungela Milestone awards	Total
Awards granted in the reporting period	1,363,119	1,349,487	2,712,606
Balance at the end of the reporting period	**1,363,119**	**1,349,487**	**2,712,606**

The inputs used in the measurement of the fair values at grant date for awards granted in terms of the Thungela share plan are as follows:

	Thungela 2021 LTIP awards	Thungela Milestone awards – tranche 1	2021 Thungela Milestone awards – tranche 2
Grant date	16 November	11 November	11 November
Fair value at grant date (Rand)	60.46	62.92	62.92
Share price at grant date (Rand)	60.82	62.92	62.92
Expected volatility (%)	45	–	–
Expected life (years)	2.5	0.7	1.7
Expected dividend yield (%)	15	42	21

Expected volatility is based on historic volatilities using a proxy company over a period of time commensurate with the expected life of the Thungela 2021 LTIP awards given the short time that the Thungela shares have been listed.

Anglo American share plans

Anglo American operated a number of employee share plans, which Thungela employees were eligible for prior to the Demerger, including the Anglo American BSP and the Anglo American LTIP. Awards under the Anglo American share plans were in the form of either conditional share awards or forfeitable share awards.

Participants in the Anglo American share plans who moved to Thungela were treated, for the purposes of their Anglo American share plan awards, as leaving employment as 'good leavers' on completion of the Demerger. As such, and subject to the award terms, the Anglo American remuneration committee determined that all awards under the Anglo American share plans held by participants who moved to Thungela vested on completion of the Demerger. Awards under the Anglo American BSP vested in full in accordance with their terms. Awards under the Anglo American LTIP vested as to a portion that reflects the time elapsed from the grant date of the awards to the completion of the Demerger and an assessment, on a basis determined by the Anglo American remuneration committee, of the extent to which the Performance conditions had been met.

Anglo American BSP

Awards under the Anglo American BSP were accelerated and vested in full on completion of the Demerger. The accelerated portion of the 2019 Anglo American BSP awards (based on the performance for the year ended 31 December 2018) amounting to R18 million, the accelerated portion of the 2020 Anglo American BSP awards (based on the performance for the year ended 31 December 2019), amounting to R41 million, and the accelerated portion of the 2021 Anglo American BSP awards (based on the performance for the year ended 31 December 2020), amounting to R51 million, vested in full. The effect of the acceleration of the vesting period resulted in a total charge to the statement of profit or loss and other comprehensive income amounting to R110 million, which has been recognised within restructuring costs and termination benefits. These awards were settled in Anglo American shares held by Thungela before the Demerger and included in financial asset investments per note 22.

Anglo American LTIP

Awards under the Anglo American LTIP vested in proportion to the time elapsed from the grant date to the completion of the Demerger, at an assumed performance level as determined by the Anglo American remuneration committee. In respect of the early settlement of the 2019 grants (based on the performance for the year ended 31 December 2018) and the 2020 grants (based on the performance for the year ended 31 December 2019), an amount of R28 million has been expensed on the basis that the grants under the Anglo American LTIP vested as to a portion that reflects the time elapsed from grant date to the completion of the Demerger, however, these costs were previously not included in the Group results based on an allocation of expenses from Anglo American. This cost has been recognised within restructuring costs and termination benefits. No grant was made in 2021 in relation to the performance for the year ended 31 December 2020 under the Anglo American LTIP.

Anglo American Retention awards

In order to incentivise, reward and retain the CEO and the CFO in the preparation for the Demerger, Anglo American granted a retention award to the CEO over 449,829 Thungela shares and a retention award to the CFO over 231,730 Thungela shares. These retention awards were contingent on the recipient remaining in employment with the Anglo American Group until the Demerger was completed. The shares were granted by Anglo American on 1 June 2021 and vested in full on 4 June 2021, using Thungela shares they received as part of the Demerger. The value of this award, amounting to R49 million has been recognized as a direct equity contribution from Anglo American as the parent at the time of the transaction.

32. SHARE-BASED PAYMENT TRANSACTIONS CONTINUED

The number of share awards granted in terms of the Anglo American share plans can be analysed as follows:

Number of awards	2021 LTIP and BSP awards	2021 Retention awards[1]	2021 Total	2020 LTIP and BSP awards
Balance at the start of the reporting period	**523,369**	**–**	**523,369**	87,702
Acquired through Internal restructure	**–**	**–**	**–**	491,736
Granted during the reporting period	**236,748**	**681,559**	**918,307**	11,345
Vested during the reporting period	**(608,986)**	**(681,559)**	**(1,290,545)**	(64,671)
Forfeited during the reporting period	**(151,131)**	**–**	**(151,131)**	(2,743)
Balance at the end of the reporting period	**–**	**–**	**–**	523,369

[1] These awards were granted by Anglo American and settled using Thungela shares.

The fair value of the LTIP plans has been measured using a Monte Carlo simulation taking into account the TSR Performance conditions.

The inputs used in the measurement of the fair values at grant date for awards granted in terms of the Anglo American share plan were as follows:

	2021 LTIP and BSP awards	2021 Retention awards[1]	2020 LTIP and BSP awards
Grant date	**12 March**	**1 June**	6 May
Fair value at grant date (Rand)	**623.33/531.95**	**71.50**	292.51
Share price at grant date (Rand)	**609.25**	**–**	391.37
Expected volatility (%)	**35**	**–**	35
Expected life (years)	**3**	**–**	3
Expected dividend yield (%)	**3.5**	**–**	3.5

[1] These awards were granted by Anglo American and settled using Thungela shares.

Expected volatility is based on historic volatilities over a period of time commensurate with the expected life of the LTIP awards.

The amounts recognised in the statement of profit or loss and other comprehensive income in relation to the Thungela share plan and the Anglo American share plan can be analysed as follows:

Rand million	2021	2020
Thungela 2021 LTIP awards	**3**	–
Thungela Milestone awards	**14**	–
Anglo American BSP	**131**	2
Anglo American LTIP	**28**	–
Anglo American Retention awards	**49**	–
Total share-based payment expenses included in employee costs	**225**	2
Less: Amounts included in restructuring costs and termination benefits	**(138)**	–
Net share-based payment expenses included in employee costs	**87**	2

33. DIVIDENDS

The Group has not paid dividends to shareholders in the reporting period.

Accounting policy

Dividends are recognised in the period in which the dividends are declared directly in the statement of changes in equity. Dividends proposed or declared subsequent to the reporting date are not recognised as dividends paid in the reporting period.

Treasury shares are held by subsidiaries in respect of awards granted in terms of the Thungela share plan as detailed in note 32. Dividends declared on shares held in relation to the Forfeitable share awards are paid to the employees on payment date. Dividends declared on shares held in relation to the Conditional share awards will be paid to the subsidiary holding the share in line with the rules of the Thungela share plan.

Dividend policy

Any dividend proposed by the board in respect of any financial period will be dependent on and influenced by, among other considerations, the Group's operating results, financial condition, investment strategy, capital requirements and strategic initiatives. The Group will seek to ensure that there is sufficient cash available and cash is generated by the Group in order to fund sustaining capital expenditure and selective life extension opportunities without resorting to excessive leverage, recognising the nature of the Group's assets and single commodity price exposure.

The Group's dividend policy is to target a dividend pay-out of a minimum of 30% of Adjusted operating free cash flow. The board is committed to delivering attractive shareholder returns, while maintaining disciplined capital allocation. Therefore, in any given financial year, the Group might declare dividends above the targeted minimum 30% pay-out ratio, subject to the board being satisfied that subsequent to the dividend declaration, the Group has adequate balance sheet flexibility and sufficient funding available to withstand market and coal price volatility.

The Thungela board believes it is appropriate to maintain a liquidity buffer of between R5,000 million and R6,000 million during and following periods of stronger market conditions, and all else being equal, between R2,000 million and R3,000 million during and following periods of weaker market conditions.

Dividend declaration

The board declared a final gross ordinary dividend of R18 per share from retained earnings, which will be paid in May 2022.

34. NON-CONTROLLING INTERESTS

There are various non-controlling interests held throughout the Group, as further detailed in note 37. The material non-controlling interests are considered to be held in AAIC and in Butsanani Energy, including their investment in RMC, on the basis of the contribution of these entities to the Group.

Accounting policy

Non-controlling interests represent the profit or loss, OCI and equity in a subsidiary not attributable, directly or indirectly, to the equity shareholders of the Group.

For non-wholly owned subsidiaries, non-controlling interests are presented in equity separately from the equity attributable to shareholders of the Group. Profit or loss and OCI is attributed to the shareholders of the Group and to non-controlling interests, even if this results in the non-controlling interests having a negative balance.

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34. NON-CONTROLLING INTERESTS CONTINUED

The material non-controlling interests can be analysed as follows:

			2021			2020
Rand million	AAIC	Butsanani Energy	Total	AAIC	Butsanani Energy	Total
Profit/(loss) for the reporting period attributable to non-controlling interests	463	46	509	(32)	–	(32)
Other comprehensive loss attributable to non-controlling interests	(1)	–	(1)	(2)	–	(2)
Equity attributable to non-controlling interests	1,983	(82)	1,901	1,522	(127)	1,395

The summarised financial information of the entities in which material non-controlling interests are held can be analysed as follows:

			2021			2020
Rand million	AAIC	Butsanani Energy	Total	AAIC	Butsanani Energy[1]	Total
Statement of profit or loss and other comprehensive income						
Revenue	6,301	1,014	7,315	3,750	–	3,750
Profit/(loss) for the reporting period	1,339	76	1,415	(2,666)	–	(2,666)
Total comprehensive income/(loss) for the reporting period	1,334	76	1,410	(2,674)	–	(2,674)
Statement of financial position						
Non-current assets	6,232	318	6,550	6,011	304	6,315
Current assets	1,631	217	1,848	1,124	214	1,338
Non-current liabilities	(9,438)	(395)	(9,833)	(9,837)	(303)	(10,140)
Current liabilities	(992)	(203)	(1,195)	(1,203)	(354)	(1,557)
Net assets/(liabilities)	(2,567)	(63)	(2,630)	(3,905)	(139)	(4,044)
Statement of cash flows						
Cash flows from operating activities	1,975	221	2,196	164	–	164
Cash flows from investing activities	(779)	(26)	(805)	(606)	–	(606)
Cash flows from financing activities	(1,185)	(194)	(1,379)	430	–	430
Net increase/(decrease) in cash and cash equivalents	11	1	12	(12)	–	(12)

[1] Control of Butsanani Energy was obtained through the Internal restructure on 31 December 2020, and so no results from operations have been included for the year ended 31 December 2020.

OTHER INFORMATION

35. COMMITMENTS

The Group is subject to a number of commitments which have not been accounted for at the reporting date, as services have not yet been received for these commitments.

The Group's commitments can be analysed as follows:

			2021
Rand million	**Contracted but not provided**	**Rail commitments**	**Total**
Due within 1 year	**592**	**2,846**	**3,438**
Between 1 and 2 years	**–**	**2,995**	**2,995**
Between 2 and 5 years	**–**	**789**	**789**
Total commitments	**592**	**6,630**	**7,222**

			2020
Rand million	Contracted but not provided	Rail commitments	Total
Due within 1 year	507	2,749	3,256
Between 1 and 2 years	–	2,885	2,885
Between 2 and 5 years	–	3,823	3,823
Total commitments	507	9,457	9,964

Contracted but not provided

Commitments contracted but not provided for are related to capital projects which have been contracted for at the reporting date, but for which goods and services have not been received.

Rail commitments

Rail commitments are related to the existing rail entitlement agreement with TFR, where the Group has committed to a minimum annual quantity of tonnes railed until the contract comes to an end in 2024. Budgeted railed volumes are in excess of committed volumes. The contractual commitment is not impacted by the sustained poor performance by TFR.

36. RELATED PARTY TRANSACTIONS

The Group has a number of related party relationships with other companies and individuals. The following related party relationships have been identified at the Group, and transactions with these related parties are assessed on a consistent basis.

Direct subsidiaries

South Africa Coal Operations Proprietary Limited

Indirect subsidiaries

Thungela Operations Proprietary Limited
Anglo American Inyosi Coal Proprietary Limited
Butsanani Energy Investment Holdings Proprietary Limited
Rietvlei Mining Company Proprietary Limited
Ingagane Colliery Proprietary Limited
Springfield Collieries Limited
Thungela Inyosi Coal Sercurityco Proprietary Limited
Newshelf 1316 Proprietary Limited
Main Street 1756 (RF) Proprietary Limited
Blue Steam Investments Proprietary Limited

Indirect joint operations

Mafube Coal Mining Proprietary Limited
Phola Coal Processing Plant Proprietary Limited
Pamish Investments No. 66 Proprietary Limited

Indirect associates

Richards Bay Coal Terminal Proprietary Limited
Colliery Training College Proprietary Limited

Indirect trusts

Nkulo Community Partnership Trust
SACO Employee Partnership Plan Trust
Anglo American Thermal Coal Environmental Rehabilitation Trust
Mafube Rehabilitation Trust

Other related parties

Anglo American Group

Directors (note 39)

July Ndlovu (chief executive officer)
Deon Smith (chief financial officer)
Sango Ntsaluba (chairman)
Ben Kodisang#
Kholeka Mzondeki#
Thero Setiloane#
Seamus French*

Independent non-executive
* Non-executive

Prescribed officers (note 39)

Johan van Schalkwyk
Carina Venter
Lesego Mataboge
Leslie Martin
Mpumi Sithole
Bernard Dalton

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For the year ended 31 December 2021

36. RELATED PARTY TRANSACTIONS CONTINUED

The Group entered into various sale and purchase transactions with related parties in the ordinary course of business. These transactions were subject to terms that are no less, nor more favourable than those arranged with independent third parties. Although the Demerger was effective from 4 June 2021, and Anglo American no longer holds a substantial interest in the Group, transactions with Anglo American are still considered to be related party transactions in the reporting period. A number of agreements were signed with Anglo American prior to the Demerger in order to support the operations of Thungela in the medium-term post Demerger, and so transactional activity is expected to continue.

Transactions and balances with related parties

The transactions with related parties in the reporting period, and outstanding balances at the reporting date, can be analysed as follows:

Rand million	Notes	2021	2020
Loans to related parties			
Zimele[1]		**29**	30
Pamish[2]		**18**	–
RBCT[3]	14	**43**	68
Loans from related parties			
Anglo American[4]	23	**–**	(361)
Derivative asset – capital support			
Anglo American[5]	24	**347**	–
Trading balances			
Trade and other receivables[6]	19	**2,569**	1,877
Trade and other payables[7]		**(55)**	(318)
Transactions recognised in the statement of profit or loss and other comprehensive income			
Anglo American			
Export revenue	4	**22,813**	2,943
Expenses for services provided	5	**(605)**	(57)
Fair value loss on derivative asset – capital support		**(569)**	–
RBCT			
Expenses for services provided[8]		**(391)**	–

1 The loan to Zimele is granted for purposes of funding small business enterprises. The loan is non-interest bearing and has no fixed repayment terms.
2 The loan to Pamish earns interest at prime plus 3.0% and has a repayment term of 18 months commencing from January 2022.
3 The loan to RBCT is deemed part of the equity investment in RBCT as detailed in note 14.
4 The loan from Anglo American was settled in full as part of the Demerger. The loan was interest bearing, accrued interest at rates between 5.2% – 5.6% (2020 5.4%) and had no fixed repayment terms.
5 Derivative asset – Capital support represents the value of the Capital support agreement entered into with ASA. Refer to note 24 for further detail.
6 Trade and other receivables include trade receivables for export sales to AAML and insurance prepayments at 31 December 2020. The payment terms relating to trade receivables from AAML is 15 days from the date of the invoice.
7 Trade and other payables are due within one year, consistent with the external trade and other payables.
8 The services are rendered from RBCT to Mainstreet 1756 and TOPL, and are consistent with services rendered to these entities prior to the Internal restructure.

Transactions with key management are disclosed in note 39. No transactions have been entered into with key management, other than as disclosed in that note.

37. INVESTMENTS IN SUBSIDIARIES, JOINT OPERATIONS AND ASSOCIATES

The Group has a number of investments in subsidiaries, joint operations and associates. A number of changes in the investments held were undertaken as part of the Internal restructure as detailed in note 2A. The investment in associates is disclosed in note 14.

Accounting policy

Investments in subsidiaries

The results of subsidiaries are consolidated for the duration of the period in which the Group exercises control over the subsidiary. All intercompany transactions and resultant profits or losses between group companies are eliminated on consolidation. Where necessary, accounting policies for subsidiaries are changed to ensure consistency with the policies adopted by the Group. If it is not practical to change the policies, the appropriate adjustments are made on consolidation to ensure consistency within the Group.

The Company carries its investments in subsidiaries at cost, including transaction costs less accumulated impairment losses.

Investments in joint operations

Joint arrangements are arrangements in which the Group shares joint control with one or more parties. Joint control is the contractually agreed sharing of control of an arrangement and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control. Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement.

Joint arrangements that are not structured through a separate vehicle are always joint operations. Joint arrangements that are structured through a separate vehicle may be either joint operations or joint ventures depending on the specific facts and circumstances of the arrangement. In these cases, consideration is given to the legal form of the separate vehicle, the terms of the contractual arrangement and, when relevant, other facts and circumstances. When the activities of an arrangement are primarily designed for the provision of output to the parties, and the parties are substantially the only source of cash flows contributing to the continuity of the operations of the arrangement, this indicates that the parties to the arrangements have rights to the assets and obligations for the liabilities.

The joint arrangements, Mafube Coal Mining, Phola and Pamish are accounted for as joint operations. These arrangements are primarily designed for the provision of output to the parties sharing joint control, indicating that the parties have rights to substantially all the economic benefits of the assets. The liabilities of the arrangements are in substance satisfied by cash flows received from the parties; this dependence indicates that the parties effectively have obligations for the liabilities. It is primarily these facts and circumstances that give rise to the classification as joint operations.

The Group accounts for joint operations by recognising our share of the assets, liabilities, revenue and expenses of the joint operation, including our share of such items held or incurred jointly.

37. INVESTMENTS IN SUBSIDIARIES, JOINT OPERATIONS AND ASSOCIATES CONTINUED

The investments in other entities held by the Group can be analysed as follows:

Legal entity name	Nature of business	Operation	Shareholding
Subsidiaries			
South Africa Coal Operations Proprietary Limited[1]	Investment holding company		90%
Thungela Operations Proprietary Limited[2]	Mining company		100%
	Mining operation	Isibonelo	
	Mining operation	Goedehoop	
	Mining operation	Greenside	
	Mining operation	Khwezela	
Anglo American Inyosi Coal Proprietary Limited	Mining company		73%
	Mining operation	Zibulo	
Butsanani Energy Investment Holdings Proprietary Limited[2]	Investment holding company		67%
Rietvlei Mining Company Proprietary Limited[2,3]	Mining company		51%
	Mining operation	Rietvlei	
Ingagane Colliery Proprietary Limited[4]	Dormant		100%
Springfield Collieries Limited	Dormant		100%
Thungela Inyosi Coal Sercurityco Proprietary Limited	Dormant		100%
Newshelf 1316 Proprietary Limited	Dormant		100%
Blue Steam Investments Proprietary Limited	Dormant		100%
Main Street 1756 (RF) Proprietary Limited[2]	Investment holding company		100%
Joint operations			
Mafube Coal Mining Proprietary Limited[5]	Mining company		50%
	Mining operation	Mafube	
Phola Coal Processing Plant Proprietary Limited[6]	Mining company		50%
	Processing operation	Phola	
Pamish Investments No. 66 Proprietary Limited[7]	Mining company		49%
	Processing operation	Pamish plant	
Associates			
Richards Bay Coal Terminal Proprietary Limited[2,8]	Port logistics	Richards Bay Coal Terminal	23%
Colliery Training College Proprietary Limited[9]	Training provider for companies in the mining industry		23%
Trusts			
Nkulo Community Partnership Trust[10]	Community Trust		100%
SACO Employee Partnership Plan Trust[10]	Employee Trust		100%
Anglo American Thermal Coal Environmental Rehabilitation Trust	Rehabilitation Trust		100%
Mafube Rehabilitation Trust[5]	Rehabilitation Trust		50%

1 Thungela purchased 100% of the shares in SACO on 1 June 2021 as part of the Internal restructure. The Thungela Group is considered a continuation of the SACO Group, and has adopted the financial history of SACO on the acquisition. Thungela sold 10% of its interest in SACO to the SACO Employee Partnership Plan Trust and the Nkulo Community Partnership Trust on 2 June 2021, which are controlled by the Group. Effectively, Thungela owns 100% of SACO.
2 Acquired as part of the Internal restructure with effect from 31 December 2020.
3 Butsanani Energy legally owns 51% of RMC. However, Butsanani Energy economically owns only 45% of RMC. Effectively, Thungela owns 34% of RMC.
4 The Group has applied for Ingagane to be liquidated. Subsequent to the reporting date, the notice of liquidation has been served.
5 Acquired as part of the Internal restructure with effect from 31 March 2021.
6 The interest in Phola is held through AAIC. Effectively Thungela owns 37% of Phola.
7 The interest in Pamish was acquired on 30 November 2021 and is held through TOPL. Refer to note 16 for further details.
8 The interest in RBCT is held through Mainstreet 1756.
9 The investment in Colliery Training College is considered immaterial to the Group and has not been equity accounted.
10 Refer to note 2A for further detail relating to the Trusts.

The place of business and county of incorporation for all subsidiaries, joint operations, associates and trusts is South Africa.

38. EVENTS AFTER THE REPORTING PERIOD

The Group monitors activity between the end of the reporting period and the date of the approval of the consolidated and separate annual financial statements to ensure that any events that may impact the Group are considered.

Accounting policy

The Group assesses relevant events, that occur between the end of the reporting period until the consolidated and separate annual financial statements are authorised for issue. An assessment will be performed to determine if the event is an adjusting or non-adjusting event, and adjustments or disclosure may be made if required.

Kromdraai environmental incident

On 14 February 2022, an uncontrolled release occurred at Khwezela's Kromdraai site which resulted in the discharge of mine-impacted water into the Kromdraaispruit. This water source feeds into the Wilge river and the Upper Olifants river catchment. This event has been classified as a level 4 environmental incident. The first phase of corrective measures to mitigate the impacts of the environmental incident has been successfully completed. Thungela will continue with water monitoring requirements, screening for possible residual waste and will work with the Mpumalanga Tourism and Park Agency should further clean-up operations be required. The next phase of the remediation is underway with a risk assessment being performed to define all impacts of the incident. This incident has to date had a minimal impact on the ongoing operations of the Group, as the site in question was previously closed and the ongoing treatment of water on the site has been included in the Environmental provisions detailed in note 27. However, the situation will continue to be closely monitored.

Change in corporate tax rate

On 23 February 2022, the South African corporate tax rate was reduced from 28% to 27% with effect from 1 January 2023, which will impact the amount of tax paid by the Group in future.

Dividend declaration

The board declared a final gross ordinary dividend of R18 per share from retained earnings. This represents a total dividend payment of R2,454 million to shareholders, amounting to 63% of Adjusted operating free cash flow generated in the reporting period.

The dividend will be paid in May 2022.

REMUNERATION

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39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION

The remuneration of the directors and prescribed officers has been approved by the Thungela remuneration and nomination committee.

Details regarding the directors' direct and indirect interests in Thungela shares are disclosed in the Directors' report on page 20.

Executive directors and prescribed officers

The remuneration of the executive directors and prescribed officers can be analysed as follows:

Rand thousand	Basic salary	Retirement and benefits[1]	Other[2]	STI Cash[3]
Executive directors				
J Ndlovu	7,340	1,152	30	5,059
GF Smith	4,368	709	27	2,537
Total executive directors' remuneration	11,708	1,861	57	7,596
Prescribed officers				
JPD van Schalkwyk	3,406	612	24	1,995
L Martin	3,070	519	43	1,782
LE Mataboge	2,228	384	22	1,294
N Sithole	2,217	360	122	1,287
C Venter	2,184	346	130	1,268
BM Dalton (appointed 1 April 2021)	2,045	330	16	1,195
Total prescribed officers' remuneration	15,150	2,551	357	8,821

1 Retirement and benefits include pension fund contributions, medical aid contributions and other allowances.
2 Other payments such as UIF, leave encashments and long service awards.
3 Thungela cash component of the STI which is attributable to the 2021 financial year, but to be paid in the 2022 financial year.
4 Thungela's deferred bonus component of the STI which is attributable to the 2021 financial year, but awarded in the 2022 financial year.
5 The value of the Anglo American LTIPs which vested in the 2021 financial year due to the Demerger from Anglo American.
6 Anglo American Retention awards granted in June 2021, as set out in the PLS. These are reflected in full on award at the listing price because no company performance conditions are applicable.
7 The value of the Thungela shares provided for Anglo American shares held under the BSP under the rules of the Demerger grossed up to pre-tax values. This category also includes the vesting of a retention award for Johan van Schalkwyk and a sign-on award to Bernard Dalton.

Rand thousand	Basic salary	Retirement and benefits[1]	Other[2]	STI Cash[3]
Executive directors				
J Ndlovu	6,971	1,066	25	2,820
GF Smith	3,710	598	98	1,411
Total executive directors' remuneration	10,681	1,664	123	4,231
Prescribed officers				
JPD van Schalkwyk	2,968	609	20	1,001
L Martin	2,694	453	136	908
LE Mataboge	2,083	347	19	702
N Sithole	2,043	327	101	689
C Venter (appointed 1 April 2020)	1,485	259	19	501
Total prescribed officers' remuneration	11,273	1,995	294	3,801

1 Retirement and benefits include pension fund contributions, medical aid contributions and other allowances.
2 Other payments such as UIF, leave encashments and long service awards.
3 The Anglo American cash component of the STI which is attributable to the 2020 financial year, but awarded in the 2021 financial year.
4 The Anglo American BSP awards were all attributable to the 2020 and previous financial years and they were settled in the 2021 financial year due to the Demerger.
5 The value of the Anglo American LTIPs which vested in the 2020 financial year attributable to employment as an executive director or prescribed officer of the Coal South Africa business unit of Anglo American.

2021

STI Deferred Bonus[4]	Anglo American BSP	Anglo American LTIP[5]	Anglo American Retention awards[6]	Other LTIs[7]	Total remuneration
2,556	–	24,846	33,737	100	74,820
1,268	–	10,695	17,039	53	36,696
3,824	–	35,541	50,776	153	111,516
998	–	6,736	–	2,926	16,697
891	–	10,695	–	31	17,031
647	–	4,370	–	28	8,973
644	–	4,370	–	25	9,025
634	–	–	–	5	4,567
598	–	–	–	3,999	8,183
4,412	–	26,171	–	7,014	64,476

2020

STI Deferred Bonus	Anglo American BSP[4]	Anglo American LTIP[5]	Anglo American Retention awards	Other LTIs	Total remuneration
–	15,562	–	–	–	26,444
–	12,128	3,730	–	–	21,675
–	27,690	3,730	–	–	48,119
–	4,833	–	–	–	9,431
–	7,481	3,730	–	–	15,402
–	3,551	–	–	–	6,702
–	3,189	–	–	–	6,349
–	609	–	–	–	2,872
–	19,663	3,730	–	–	40,756

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For the year ended 31 December 2021

39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Non-executive directors

Fees for non-executive directors have been approved by the Thungela remuneration and nomination committee. All non-executive directors were appointed in 2021.

The remuneration of the non-executive directors can be analysed as follows:

Rand	2021	2020
Non-executive directors		
SS Ntsaluba	1,602,000	–
BM Kodisang	909,000	–
KW Mzondeki	1,137,833	–
TML Setiloane	943,000	–
SG French	571,102	–
Total non-executive directors' remuneration	5,162,935	–

All non-executive directors' fees were paid to the individuals in their personal capacity. Seamus French donated his remuneration to the communities in which the Group operates.

Share awards granted to executive directors and prescribed officers

Details regarding share awards are disclosed in note 32.

The share awards granted to executive directors and prescribed officers of the Group under the Thungela share plan can be analysed as follows:

Thungela 2021 LTIP awards

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	–	201,962	–	–	201,962
GF Smith	–	84,668	–	–	84,668
Total executive directors' awards	–	286,630	–	–	286,630
Prescribed officers					
JPD van Schalkwyk	–	67,613	–	–	67,613
L Martin	–	63,247	–	–	63,247
LE Mataboge	–	47,458	–	–	47,458
N Sithole	–	46,872	–	–	46,872
C Venter	–	45,109	–	–	45,109
BM Dalton	–	60,162	–	–	60,162
Total prescribed officers' awards	–	330,461	–	–	330,461

Each award converts into one ordinary share in Thungela upon exercise. The vesting of these shares is conditional on the achievement of approved Performance conditions. The awards carry neither a right to dividends nor voting rights, however, participants are entitled to dividend equivalents accrued over the vesting period, to be converted into additional shares and added to the overall number of awards that will vest. The awards are subject to a two-year holding period after vesting. There is no option for cash settlement of the awards.

Thungela Milestone awards

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	–	899,658	–	–	899,658
GF Smith	–	449,829	–	–	449,829
Total executive directors' awards	–	1,349,487	–	–	1,349,487

Each award converts into one ordinary share in Thungela upon exercise. The awards carry both dividend and voting rights. Participants will be entitled to dividends paid on the ordinary shares underlying their awards prior to the exercise date. Should the awards lapse for any reason, dividends already received by participants will not be required to be paid back. Dividends are paid to the award holders on dividend payment dates.

Anglo American Retention awards

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	–	449,829	(449,829)	–	–
GF Smith	–	231,730	(231,730)	–	–
Total executive directors' awards	–	681,559	(681,559)	–	–

In order to incentivise, reward and retain the CEO and the CFO in preparing for the Demerger, Anglo American granted a retention award of 449,829 shares to the CEO and 231,730 shares to the CFO which vested during the year, through ordinary shares in Thungela obtained by Anglo American as part of the Demerger.

Thungela Resources Transitional Shares

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	–	2,151	(2,151)	–	–
GF Smith	–	1,127	(1,127)	–	–
Total executive directors' awards	–	3,278	(3,278)	–	–
Prescribed officers[1]					
JPD van Schalkwyk	–	809	(809)	–	–
L Martin	–	668	(668)	–	–
LE Mataboge	–	594	(594)	–	–
N Sithole	–	534	(534)	–	–
C Venter	–	101	(101)	–	–
Total prescribed officers' awards	–	2,706	(2,706)	–	–

[1] Bernard Dalton did not participate in the award based on his appointment date.

Each award converts into one ordinary share in Thungela upon exercise. These were provided as part of the Demerger agreement whereby every shareholder received one Thungela share for every 10 Anglo American shares held. These shares were granted based on the number of shares held as part of the Anglo American BSP on Demerger.

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39. DIRECTORS' AND PRESCRIBED OFFICERS' REMUNERATION CONTINUED

Share awards granted to executive directors and prescribed officers continued

Anglo American LTIP

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	66,900	–	(39,572)	(27,328)	–
GF Smith	27,400	–	(17,098)	(10,302)	–
Total executive directors' awards	94,300	–	(56,670)	(37,630)	–
Prescribed officers[1]					
JPD van Schalkwyk	20,900	–	(10,598)	(10,302)	–
L Martin	27,400	–	(17,098)	(10,302)	–
LE Mataboge	13,600	–	(6,876)	(6,724)	–
N Sithole	13,600	–	(6,876)	(6,724)	–
Total prescribed officers' awards	75,500	–	(41,448)	(34,052)	–

[1] Carina Venter and Bernard Dalton did not participate in the award based on their appointment dates.

Each award converts into one ordinary share in Anglo American upon exercise. The vesting of these shares is conditional on the achievement of the Performance conditions approved by the Anglo American remuneration committee. Share awards were forfeited as a result of the level of achievement of Performance conditions associated with the grants as well as the pro rata vesting based on the accelerated vesting of these awards on Demerger. Refer to note 32 for further detail.

Anglo American BSP

Number of awards	Opening balance	Granted	Vested	Forfeited	2021 Total
Executive directors					
J Ndlovu	21,374	4,605	(25,979)	–	–
GF Smith	12,986	2,658	(15,644)	–	–
Total executive directors' awards	34,360	7,263	(41,623)		–
Prescribed officers[1]					
JPD van Schalkwyk	6,464	1,633	(8,097)	–	–
L Martin	7,422	1,483	(8,905)	–	–
LE Mataboge	4,802	1,146	(5,948)	–	–
N Sithole	4,218	1,124	(5,342)	–	–
C Venter	–	1,021	(1,021)	–	–
Total prescribed officers' awards	22,906	6,407	(29,313)	–	–

[1] Bernard Dalton did not participate in the award based on his appointment date.

Each award converts into one ordinary share in Anglo American upon exercise. These shares were granted under the Anglo American BSP as Forfeitable shares. These were vested on an accelerated basis under the rules of the Demerger. Refer to note 32 for further detail.

Anglo American LTIP

Number of awards	Opening balance	Granted	Vested	Forfeited	2020 Total
Executive directors					
J Ndlovu	37,700	29,200	–	–	66,900
GF Smith	25,500	11,000	(9,100)	–	27,400
Total executive directors' awards	63,200	40,200	(9,100)	–	94,300
Prescribed officers[1]					
JPD van Schalkwyk	9,900	11,000	–	–	20,900
L Martin	25,500	11,000	(9,100)	–	27,400
LE Mataboge	6,400	7,200	–	–	13,600
N Sithole	6,400	7,200	–	–	13,600
Total prescribed officers' awards	48,200	36,400	(9,100)	–	75,500

[1] Carina Venter and Bernard Dalton did not participate in the award based on their appointment dates.

Each award converts into one ordinary share in Anglo American upon exercise. The vesting of these shares is conditional on the achievement of the Performance conditions as approved by the Anglo American remuneration committee.

Anglo American BSP

Number of awards	Opening balance	Granted	Vested	Forfeited	2020 Total
Executive directors					
J Ndlovu	10,828	10,546	–	–	21,374
GF Smith	14,886	4,726	(6,626)	–	12,986
Total executive directors' awards	25,714	15,272	(6,626)	–	34,360
Prescribed officers[1]					
JPD van Schalkwyk	2,690	3,774	–	–	6,464
L Martin	9,461	3,140	(5,179)	–	7,422
LE Mataboge	2,153	2,649	–	–	4,802
N Sithole	1,889	2,329	–	–	4,218
Total prescribed officers' awards	16,193	11,892	(5,179)	–	22,906

[1] Carina Venter and Bernard Dalton did not participate in the award based on their appointment dates.

Each award converts into one ordinary share in Anglo American upon exercise. These shares were granted under the Anglo American BSP as Forfeitable shares as approved by the Anglo American remuneration committee.

SEPARATE ANNUAL FINANCIAL STATEMENTS OF THUNGELA RESOURCES LIMITED

SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

Rand million	2021
Operating costs[1]	(15)
Loss before tax	**(15)**
Loss for the reporting period	**(15)**
Total comprehensive loss for the reporting period	**(15)**

[1] Operating costs includes non-executive directors' fees, professional fees, insurance costs and other statutory costs.

SEPARATE STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

Rand million	Notes	2021
ASSETS		
Non-current assets		
Investments in subsidiaries	2	6,404
Total non-current assets		**6,404**
Current assets		
Loan to related parties	3	5,924
Cash and cash equivalents		5
Total current assets		**5,929**
Total assets		**12,333**
EQUITY		
Stated capital	4	10,041
Merger reserve	2	2,271
Share-based payment reserve	5	16
Retained losses		(15)
Total equity		**12,313**
LIABILITIES		
Current liabilities		
Loan from related parties	3	20
Trade and other payables		*
Total current liabilities		*****
Total liabilities		**20**
Total equity and liabilities		**12,333**

* Represents amounts less than R1 million.

SEPARATE STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

Rand million	Notes	Stated capital[1]	Merger reserve	Share-based payment reserve	Retained losses	Total equity
Balance at 5 January 2021		–	–	–	–	–
Issue of shares for assumed fair value of SACO		4,575	–	–	–	4,575
Issue of shares for cash		5,466	–	–	–	5,466
Acquired through Internal restructure	2	–	2,271	–	–	2,271
Total comprehensive loss for the reporting period		–	–	–	(15)	(15)
Movements in share-based payment reserve	5	–	–	16	–	16
Balance the end of the reporting period		10,041	2,271	16	(15)	12,313

[1] Note 31 of the consolidated annual financial statements is an integral part of these separate financial statements and details the treatment of the shares issued by the Company.

SEPARATE STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

Rand million	2021
Cash flows from operating activities	
Loss before tax	(15)
Net cash utilised in operating activities	(15)
Cash flows from investing activities	
Loans granted to related parties	(5,466)
Net cash utilised in investing activities	(5,466)
Cash flows from financing activities	
Shares issued for cash[1]	5,466
Proceeds on loans from related parties	20
Net cash generated from financing activities	5,486
Net increase in cash and cash equivalents	5
Cash and cash equivalents at 5 January 2021	–
Net increase in cash and cash equivalents	5
Cash and cash equivalents at the end of the reporting period	5

[1] Note 31 of the consolidated annual financial statements is an integral part of these separate financial statements, and details the treatment of the shares issued by the Company.

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. BASIS OF PREPARATION

The basis of preparation and principal accounting policies are disclosed in the respective notes to the consolidated annual financial statements for the year ended 31 December 2021. The accounting policies are aligned with the consolidated annual financial statements.

As detailed in note 2A of the consolidated annual financial statements Thungela was incorporated on 5 January 2021 as a wholly owned subsidiary of ASA to act as the holding company of the Group. The presentation and disclosure in the separate annual financial statements represents the first annual financial statements of Thungela. For this reason, no comparative information has been disclosed.

2. INVESTMENTS IN SUBSIDIARIES

The Company is the listed holding company of the Thungela Group, and holds investments in SACO and TOPL.

The Company carries its investments in subsidiaries at cost, including transaction costs less accumulated impairment losses.

Internal restructure of the Thungela Group before Demerger

As described in note 2A of the consolidated annual financial statements, an internal restructuring process was undertaken to separate the SA Thermal coal operations and the various non-thermal coal operations within Anglo American in order to prepare the Group for the Demerger. Relevant steps of the Internal restructure impacting the Company are as follows:

- Thungela was incorporated on 5 January 2021 as a wholly owned subsidiary of ASA to act as the holding company of the Group
- the 100% ownership interest in SACO was sold by ASA to Thungela, also at the time of the sale a wholly owned subsidiary of ASA, with effect from 1 June 2021
- the EPP and CPP came into effect and each purchased from Thungela 5.0% of the ordinary shares of SACO respectively, with effect from 2 June 2021, as well as subscribed for the E preference share and C preference share issued by SACO.

Thungela was then demerged from the Anglo American Group with effect from 4 June 2021 through a series of independent steps, which resulted in the Thungela shares being distributed to Anglo American shareholders. Thungela listed on the JSE and the LSE on 7 June 2021.

The transfer of SACO to Thungela is a capital reorganisation as defined in IAS 27 and not a business combination under common control, and Thungela is considered a continuation of the SACO Group. The investment in SACO therefore was recognised at the value of the equity shown in the SACO financial statements at the date of the reorganisation.

The full transaction price can be separated between the value considered to have been paid for the pre-existing SACO business of R4,575 million, and cash paid by Anglo American of R5,466 million. The difference between the equity value of SACO at the date of the reorganisation, being R6,846 million, and the transaction price for the pre-existing business has been recognised in equity as a merger reserve.

Investments in subsidiaries

Thungela holds a 90% investment in SACO as detailed in note 37 of the consolidated annual financial statements. In addition, the investment in TOPL relates to the share-based payment transactions among group entities, as detailed in note 32 of the consolidated annual financial statements. TOPL is considered the employer company in the transactions, with the awards to be settled in Thungela shares.

The investments in subsidiaries can be analysed as follows:

Rand million	2021
Balance at 5 January 2021	–
Direct – SACO	6,388
Acquisition through Internal restructure	6,846
Disposal to EPP and CPP	(458)
Indirect – TOPL	16
Additions relating to Thungela share plan	16
Balance at the end of the reporting period	6,404

The value of the investment in SACO is intrinsically linked to the value of the other operating entities in the Group, being TOPL, Butsanani Energy, Mafube Coal Mining and AAIC, as SACO is the holding company of all operating entities in the Group. On this basis, we have assessed the value of the SACO investment held by Thungela on the basis of the valuations performed on these operating entities to determine whether the investment may be impaired. From the valuations performed, we have not identified an indicator of impairment related to the investment held in SACO by Thungela.

The inputs and assumptions used for the impairment assessment of the investment in SACO are consistent with the details disclosed in note 7 of the consolidated annual financial statements.

3. LOANS TO/(FROM) RELATED PARTIES

The Company has entered into loans with its related parties in order to fund its operations.

Accounting policy

The loan to related parties is initially recognised at fair value and is classified as a debt instrument at amortised cost, as it is held within a business model whose objective is to collect the contractual cash flows and the contractual terms of the asset give rise to cash flows that are solely payments of principal and interest.

At subsequent reporting dates, the loan to related parties is measured at amortised cost less any expected credit losses.

Expected credit losses

The Company assesses on a forward-looking basis the expected credit losses, being the difference between the contractual cash flows and the cash flows that are expected to be received, associated with its assets. The impairment methodology applied depends on whether there has been a significant increase in credit risk of the asset at the reporting date. Increases in the expected credit loss provision are recognised in the statement of profit or loss and other comprehensive income. When a subsequent event causes the amount of the expected credit loss provision to decrease, the decrease is reversed in the same way.

The Company has granted a loan to related parties in relation to the Demerger and funds received from Anglo American as part of the Internal restructure. The loan from related parties relates to expenses paid by TOPL on behalf of Thungela in the normal course of business.

NOTES TO THE SEPARATE ANNUAL FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2021

3. LOANS TO/(FROM) RELATED PARTIES CONTINUED

The loans to/(from) related parties can be analysed as follows:

Rand million	2021
Balance at 5 January 2021	–
Cash movements	5,446
Loan to SACO for proceeds received from Anglo American	5,466
Loan from TOPL	(20)
Non-cash movements	458
Loan to SACO for shares purchased by EPP and CPP	458
Balance at the end of the reporting period	**5,904**
Classified as:	
Loan to related parties – current	5,924
Loan from related parties – current	(20)

The Company entered into various transactions with related parties in the normal course of business. These transactions are undertaken on terms no more or less favourable than those with third parties.

All loans are denominated in South African Rand, interest free, unsecured and have no fixed repayment terms.

There has been no significant increase in the credit risk relating to the loan granted to SACO since the loan was granted. Thus, no expected credit loss has been recognised on the loan due to there being no uncertainty regarding the recoverability of the outstanding amounts, given that the recoverability of this loan is based on the performance of the underlying operating entities in the Group. Thungela has a reasonable expectation that this loan will be settled within one year of the reporting date.

4. STATED CAPITAL

Ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Number of shares	2021
Authorised	
Ordinary no par value shares	10,000,000,000
Issued	
Ordinary no par value shares	136,311,808
Reconciliation of number of shares in issue	
Shares in issue at the start of the reporting period	–
Issue of ordinary no par value shares	136,311,808
Shares in issue at the end of the reporting period	**136,311,808**

Rand million	
Balance at the start of the reporting period	–
Issue of ordinary no par value shares	10,041
Balance at the end of the reporting period	**10,041**

Note 31 of the consolidated annual financial statements for the year ended 31 December 2021 is an integral part of these separate financial statements and details the shares issued by the Company in the current year.

The shareholder approved, at the AGM held prior to the Demerger and listing of Thungela, that the unissued shares be placed under the control of the board at their discretion. The approval is subject to compliance with the MOI, the Companies Act of South Africa and the JSE Listings Requirements. This authority is valid for the shorter of 15 months or until the next AGM. As at 31 December 2021, no shares have been issued in terms of this authority.

5. SHARE-BASED PAYMENT TRANSACTIONS

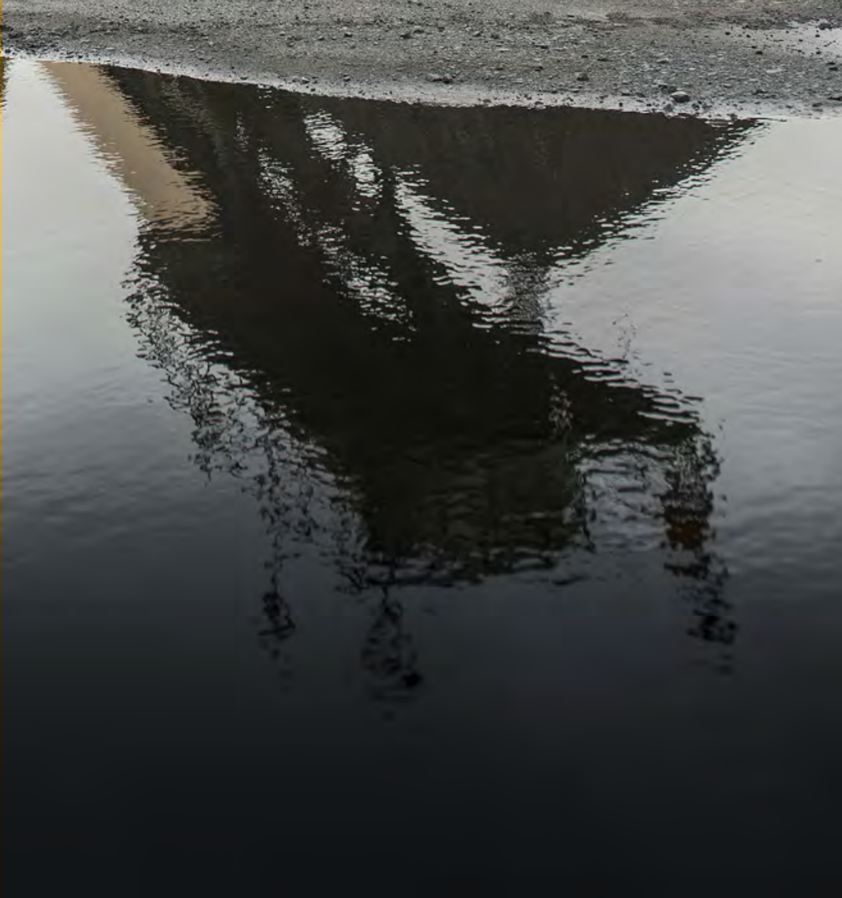
The Group has undertaken a number of share-based payment transactions with its employees through the Thungela share plan in the year ended 31 December 2021. Full details of these transactions have been disclosed in note 32 of the consolidated annual financial statements.

Accounting policy

The expenses relating to share-based payment awards granted during the year in accordance with the Thungela share plan are accounted for in the operating costs of the relevant subsidiaries of the Company on the basis of the subsidiary being the employer of record for the beneficiaries to whom the awards are granted. The share-based payment transactions will be settled using Thungela ordinary shares, either based on shares held in treasury by the Group, or by purchasing Thungela ordinary shares on the market at the vesting date.

In the separate annual financial statements, the value of the share-based payments is considered to be an additional investment in the relevant employer company by Thungela, with the resultant share-based payment reserve recognised in equity.

ANNEXURES



ANNEXURE 1

ALTERNATIVE PERFORMANCE MEASURES

For the year ended 31 December 2021

INTRODUCTION

When assessing and discussing Thungela's reported financial performance, financial position and cash flows, the directors may make reference to APMs of historical or future financial performance, financial position or cash flows that are not defined or specified under IFRS.

These financial measures are usually derived from the consolidated annual financial statements, prepared in accordance with IFRS. Certain financial measures cannot be directly derived from the consolidated annual financial statements as they contain additional information, such as financial information from earlier periods and operational information. The accounting policies applied when calculating APMs are the same as those applied in the consolidated annual financial statements.

Purpose

Thungela uses APMs to improve the comparability of information between reporting periods, either by adjusting for uncontrollable factors or items such as impairments, restructuring costs and other transactions which impact upon IFRS measures or, by aggregating measures, to aid the user of the consolidated annual financial statements in understanding the activity taking place across Thungela's portfolio. The APMs are the responsibility of the Thungela directors and have been assessed consistently in each of the periods presented, except for the changes noted below.

Their use is driven by characteristics particularly visible in the mining sector, being earnings volatility. The market is characterised by significant volatility in earnings driven by movements in macroeconomic factors, primarily the Benchmark coal price and foreign exchange rate. This volatility is outside the control of the Group and can mask underlying changes in performance. As such, when comparing year-on-year performance, Thungela excludes certain items (such as impairments and restructuring costs) to aid comparability.

The APMs should be considered in addition to, and not as a substitute for, or as superior to, measures of financial performance, financial position or cash flows reported in accordance with IFRS. APMs are not uniformly defined by all companies, including those in the Group's industry. Accordingly they may not be comparable with similarly titled measures and disclosures used by other companies.

Consequently, APMs are used by the Group for planning and reporting. A subset is also used by the Group in setting director and management remuneration.

The financial APMs used by Thungela are as follows:

APM	Definition	Adjustments to reconcile to primary statements	Rationale for adjustments
Statement of profit or loss			
Adjusted EBITDA (note A)	Profit/(loss) before net finance costs, tax[1], impairment losses, restructuring costs and termination benefits, depreciation and amortisation and fair value gains/(losses) on derivative assets	• Impairment losses • Restructuring costs and termination benefits • Fair value gains/(losses) on derivative assets[2] • Fair value loss on derivative asset – capital support[3] • Depreciation and amortisation	• Exclude the effect of non-recurring transactions and remeasurements to aid comparability
Adjusted EBITDA margin (note B)	Adjusted EBITDA as a percentage of revenue	• None	• None
Statement of financial position			
Net cash/(debt) (note C)	Cash and cash equivalents less cash held in Trusts and loans and borrowings	• None	• None

[1] The Adjusted EBITDA reconciliation was previously done from operating profit. In order to simply the presentation of the statement of profit or loss and other comprehensive income, the operating profit subtotal was removed from the statement of profit or loss and other comprehensive income. The reconciliation is now done from profit before net finance costs and tax. This has no impact on the Adjusted EBITDA calculated.

[2] Fair value gains/(losses) on derivative assets have been included in the determination of Adjusted EBITDA for the year ended 31 December 2021, as the derivative activity commenced only in the current year.

[3] Fair value loss on derivative asset – capital support has been included in the determination of Adjusted EBITDA for the year ended 31 December 2021, as the derivative was initially recognised in equity.

ANNEXURE 1

ALTERNATIVE PERFORMANCE MEASURES

CONTINUED

For the year ended 31 December 2021

The financial APMs used by Thungela are as follows continued:

APM	Definition	Adjustments to reconcile to primary statements	Rationale for adjustments
Statement of cash flows			
Capex (note 4)	Cash expenditure on property, plant and equipment and intangible assets[1], including the movement on capital creditors in the reporting period	• None	• None
Sustaining capex (note D)	Stay-in-business capex, stripping and development capex and capex on intangible assets[1]	• None	• None
Adjusted operating free cash flow (note E)	Net cash flows from operating activities less sustaining capex	• None	• None
Other APMs			
FOB cost (note F)	Direct cash cost incurred in producing one unit of saleable export product and delivering the product to the vessel for export[2]	• Industrial and domestic revenue • Administrative costs	• To exclude costs incurred not attributable to delivering the coal to the vessel for export
FOB cost per export tonne (note G)	FOB cost calculated per export saleable tonne	• None	• None
Environmental liability coverage (note H)	The percentage of investments held to fund future rehabilitation, decommissioning and water treatment expenditure	• None	• None

[1] Expenditure on intangible assets was not previously included in Capex and Sustaining capex, but is considered part of the capital expenditure incurred to sustain the operations of the Group. There was no expenditure on intangible assets in the year ended 31 December 2020.
[2] The definition of FOB cost has been simplified from the previous definition presented, however, this has had no impact on the calculation of FOB cost.

The APMs used in the consolidated annual financial statements have been reconciled as below:

Rand million (unless otherwise stated)		Notes	2021	2020
A.	**Adjusted EBITDA**			
	Profit/(loss) before net finance costs and tax per the statement of profit or loss and other comprehensive income	5	**7,509**	(124)
	Less – fair value gains on derivative assets	24	**(348)**	–
	Add – fair value loss on derivative asset – capital support	24	**569**	–
	Add – depreciation	13	**989**	406
	Add – amortisation	12	**29**	2
	Add – impairment losses	7	**808**	–
	Add – restructuring costs and termination benefits	8	**422**	2
	Adjusted EBITDA		**9,978**	286
B.	**Adjusted EBITDA margin**			
	Adjusted EBITDA	A	**9,978**	286
	Revenue	4	**26,282**	3,750
	Adjusted EBITDA margin (%)		**38**	7.6
C.	**Net cash/(debt)**			
	Cash and cash equivalents	20	**8,736**	194
	Less – cash held in Trusts	20	**(10)**	–
	Less – loans and borrowings	23	**(63)**	(582)
	Net cash/(debt)		**8,663**	(388)

	Rand million (unless otherwise stated)	Notes	2021	2020
D.	**Sustaining capex**			
	Stay-in-business capex		1,682	308
	Property, plant and equipment	4	1,671	308
	Intangible assets	4	11	–
	Stripping and development capex	4	511	101
	Sustaining capex		2,193	409
E.	**Adjusted operating free cash flow**			
	Cash generated from operating activities		6,116	160
	Sustaining capex	D	(2,193)	(409)
	Adjusted operating free cash flow		3,923	(249)
F.	**FOB cost**			
	Operating costs	5	17,322	3,872
	Less – industrial and domestic revenue	4	(3,469)	(807)
	Less – depreciation	5	(989)	(406)
	Less – amortisation	5	(29)	(2)
	Less – third party commodity purchases	5	(1,380)	–
	Less – commodity purchases from Mafube Coal Mining	5	(137)	–
	Add – inventory production movement	5	1,222	48
	Less – demurrage and other expenses	5	(204)	(78)
	Less – exploration and evaluation	5	(124)	(64)
	Less – foreign exchange gains	5	214	4
	Add – profit on sale of property, plant and equipment	5	8	–
	Less – recharged costs from Anglo American – administration expenses	5	(331)	(9)
	Less – fair value loss on biological assets[1]	17	(3)	–
	Less – other administration expenses	5	(49)	(65)
	FOB cost		12,051	2,493

[1] The fair value loss on biological assets is included in other operating expenses.

	Rand million (unless otherwise stated)	Notes	2021	2020
G.	**FOB cost per export tonne**			
	FOB cost	F	12,051	2,493
	Export saleable production (kt)		14,511	3,101
	FOB cost per export tonne (Rand/tonne)		830	804
H.	**Environmental liability coverage**			
	Environmental provisions	27	6,751	6,184
	Investments held to fund closure activities		3,487	2,883
	Assets held in the environmental rehabilitation trusts	27	3,288	2,880
	Other environmental investments	27	199	3
	Environmental liability coverage (%)		52	47

ANNEXURE 2

GLOSSARY

For the year ended 31 December 2021

A number of terms have been used in the consolidated and separate annual financial statements, using the definitions as detailed below.

Term used	Definition
AAIC	Anglo American Inyosi Coal Proprietary Limited
AAML	Anglo American Marketing Limited
AASA	Anglo American South Africa Proprietary Limited
AASAF	Anglo American South Africa Finance Limited
ACSSA	Anglo Corporate Services South Africa Proprietary Limited
AGM	Annual general meeting
Anglo American	The Anglo American plc Group, and its subsidiaries
AOPL	Anglo Operations Proprietary Limited, also referred to as TOPL
APM	Alternative performance measure
ASA	Anglo South Africa Proprietary Limited
ASAC	Anglo South Africa Capital Proprietary Limited
Benchmark coal price	Benchmark price reference for 6,000kcal/kg thermal coal exported from the Richards Bay Coal Terminal
BSP	Bonus share plan
Butsanani Energy	Butsanani Energy Investment Holdings Proprietary Limited
Capital support agreement	The agreement concluded between ASA and Thungela regulating the terms and conditions upon which ASA will support the thermal coal sales of the Group
Carbon Tax Act	Carbon Tax Act 15 of 2019
CA (SA)	Chartered Accountant South Africa
CEO	Chief executive officer
CFO	Chief financial officer
CGU	Cash generating unit
CIPC	Companies and Intellectual Property Commission
Circular 1/2021	Circular 1/2021: Headline earnings issued by SAICA detailing the requirements for determining headline earnings
Coal Reserves	Modified indicated and measured Coal Resources, including consideration of modifying factors that affect extraction. This represents the economically extractable material
Coal Resources	The in-situ coal for which there are reasonable prospects for eventual economic extraction
CODM	Chief operating decision maker
Colliery Training College	Colliery Training College Proprietary Limited
Conditional shares	Shares or share awards granted to participants under the Thungela share plan which are subject to certain Performance conditions and Employment conditions
CPP	The Nkulo Community Partnership Trust, also referred to as the Community Partnership Plan
Customs and Excise Act	Customs and Excise Act 91 of 1964
DFFE	Department of Forestry, Fisheries and Environment
Demerger	The process to separate Thungela from Anglo American, as fully described in the PLS
DMRE	Department of Mineral Resources and Energy
EBITDA	Earnings before interest, tax, depreciation and amortisation
Employment condition	The conditions of employment to be satisfied in order for awards under the Thungela share plan to vest on the vesting date
Employment period	A specified period of employment over which the Employment conditions must be met
Environmental provisions	The Group's obligations to undertake decommissioning, rehabilitation, remediation, closure and ongoing post-closure monitoring activities when environmental disturbances are caused by the development or ongoing production of a mining property, as well as the decommissioning of infrastructure established on the operating sites
EPP	The SACO Employee Partnership Plan Trust, also referred to as the Employee Partnership Plan
EPS	Earnings per share

Term used	Definition
FCA	The Financial Conduct Authority of the UK or its successor from time to time
FIFO	First in, first out
FOB	Free on board
Forfeitable shares	Shares or share awards granted to participants pursuant to the Thungela share plan, the vesting of which is subject to the fulfilment of an Employment condition over the Employment period
FSMA	The UK Financial Services and Markets Act 2000 (as amended from time to time)
FVOCI	Fair value through other comprehensive income
FVPL	Fair value through profit or loss
Group	Thungela and its subsidiaries, joint arrangements and associates
HEPS	Headline earnings per share
HFI	Combined carve-out historical financial information of the SA Thermal coal operations
IAS	International Accounting Standard, referencing a specific standard to be applied
IAS 1	Presentation of Financial Statements
IAS 2	Inventories
IAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 12	Income Taxes
IAS 16	Property, Plant and Equipment
IAS 27	Separate Financial Statements
IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 39	Financial Instruments: Recognition and Measurement
IAS 41	Agriculture
IASB	International Accounting Standards Board
IFRS	International Financial Reporting Standards as issued by the IASB and the IFRS interpretations committee (previously known as the IFRIC). When used before a number this references a specific standard to be applied
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 3	Business Combinations
IFRS 4	Insurance Contracts
IFRS 7	Financial Instruments: Disclosures
IFRS 9	Financial Instruments
IFRS 13	Fair Value Measurement
IFRS 15	Revenue from Contracts with Customers
IFRS 16	Leases
IFRS 17	Insurance Contracts
Internal restructure	The internal restructuring of the Group undertaken in preparation for the Demerger, as fully described in note 2A
Invested equity	Amounts which reflect the carrying value of investments by Anglo American in the SA Thermal coal operations combined entities are disclosed as invested equity', as fully described in the PLS published on 8 April 2021
JIBAR	Johannesburg Interbank Average Rate
JSE	Johannesburg Stock Exchange Limited
JSE Listings Requirements	The listings requirements issued by the JSE under the FMA to be observed by issuers of equity securities listed on the JSE
Kcal/kg	kilocalories per kilogram
King IV	The King IV Report on Corporate Governance™ for Southern Africa, 2016 (Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved.)
kt	A measure representing 1,000 tonnes
LOM	Life of mine

ANNEXURE 2

GLOSSARY CONTINUED

For the year ended 31 December 2021

Term used	Definition
LOM plan	A design and financial/economic study of an existing operation in which appropriate assessments have been made of existing geological, mining, social, governmental, engineering, operational, and all other modifying factors, which are considered in sufficient detail to demonstrate that continued extraction is reasonably justified
LSE	London Stock Exchange
LTI	Long-term incentive
LTIP	Long-term incentive plan
Mafube Coal Mining	Mafube Coal Mining Proprietary Limited
Mainstreet 1756	Main Street 1756 (RF) Proprietary Limited
MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse and the delegated acts, implementing acts, technical standards and guidelines thereunder as modified and as such legislation forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018, and as modified by UK domestic law from time to time
Medical Schemes Act	Medical Schemes Act 131 of 1998
Mintek	Mintek is South Africa's national mineral research organisation and is one of the world's leading technology organisations specialising in mineral processing, extractive metallurgy and related areas
MOI	Memorandum of incorporation
MPRDA	The South African Mineral and Petroleum Resources Development Act 28 of 2002
MRD	Mineral residue deposit
Mt	Million tonnes
Mtpa	Mt per annum
Nasonti Coal	Nasonti Coal Proprietary Limited
Nasonti Group	Nasonti Trust including wholly owned subsidiaries Nasonti Technical and Nasonti Coal
Nasonti Technical	Nasonti Technical Services Proprietary Limited
National Environmental Management: Air Quality Act	National Environmental Management: Air Quality Act 39 of 2004
NEMA	The South African National Environmental Management Act 107 of 1998 (as amended from time to time)
NRV	Net realisable value
OCI	Other comprehensive income
OFCF	Operating free cash flow
Offtake agreement	The offtake agreement between the Company, TOPL and AAML, dated 6 March 2021
Pamish	Pamish Investments No. 66 Proprietary Limited
Pension Fund Act	Pension Fund Act 24 of 1956
Performance condition	A performance condition to be satisfied in order for Conditional awards to vest under the Thungela share plan
Phola	Phola Processing Plant Proprietary Limited
PLS	Combined prospectus and pre-listing statement of Thungela, published on 8 April 2021
Pro forma financial information	The Pro forma consolidated statements of profit or loss for the years ended 31 December 2021 and 31 December 2020, along with supporting Pro forma analyses of profit/(loss) before net finance costs and tax and Pro forma APMs
Proved and Probable Coal Reserves	Proved Coal Reserves are modified measured Coal Resources, including consideration of modifying factors that affect extraction. It is the economically extractable material. Probable Coal Reserves are modified indicated or measured Coal Resources, including consideration of modifying factors that affect extraction
RBCT	Richards Bay Coal Terminal Proprietary Limited
RCF	Revolving credit facility in place to manage the funding required for the operations of AAIC
RMC	Rietvlei Mining Company Proprietary Limited

Term used	Definition
ROM	Run of mine, representing the product extracted from mining operations before it is processed into saleable product
SACO	South Africa Coal Operations Proprietary Limited
SACO Group	SACO and its subsidiaries, joint arrangements and associates
SAICA	South African Institute of Chartered Accountants
SAMREC Code	South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2016 Edition
SARS	The South African Revenue Service
SA Thermal coal operations	Anglo American's South African thermal coal operations which were the subject of the Demerger, as defined in the PLS
Secondary index price	Benchmark price reference for 6000kcal/kg thermal coal at point of discharge in Northwest Europe
STI	Short-term incentive
The Companies Act of South Africa	The Companies Act 71 of 2008 (as amended)
TFR	Transnet Freight Rail, a division of Transnet SOC Limited
Thungela or the Company	Thungela Resources Limited
Thungela share plan	The long-term share incentive plan adopted by Thungela to attract, retain, incentivise and reward high-calibre employees
TOPL	Thungela Operations Proprietary Limited (known as AOPL until the name was formally changed on 1 March 2022)
Trusts	The EPP and CPP collectively
TSR	Total shareholders' return
UIF	Unemployment insurance fund
UK	The United Kingdom of Great Britain and Northern Ireland
UK Disclosure Guidance and Transparency Rules	The rules relating to the disclosure of information made in accordance with section 73A(3) of FSMA
UK Listing Rules	The listing rules relating to admission to the UK Official List made under section 73A(2) of FSMA
USD	United States Dollar
VAT	Value added tax
VIU	Value in use
WANOS	Weighted average number of shares outstanding
ZAR	South African Rand
Zimele	Anglo American Zimele Loan Fund Proprietary Limited

ANNEXURE 3

PRO FORMA FINANCIAL INFORMATION

For the year ended 31 December 2021

TO THE DIRECTORS OF THUNGELA RESOURCES LIMITED
REPORT ON THE ASSURANCE ENGAGEMENT ON THE COMPILATION OF THE PRO FORMA FINANCIAL INFORMATION OF THUNGELA RESOURCES LIMITED PRESENTED IN THE ANNUAL FINANCIAL STATEMENTS

We have completed our assurance engagement to report on the compilation of the Pro forma financial information of Thungela Resources Limited (the 'Group' or 'Thungela') by the directors. The Pro forma financial information, as set out in Annexure 3 of the audited consolidated annual financial statements of Thungela for the year ended 31 December 2021 (the 'Document'), consists of the Pro forma consolidated statement of profit or loss for the year ended 31 December 2021 and the Pro forma consolidated analysis of profit before net finance costs and tax for the year ended 31 December 2021 and related notes. The applicable criteria on the basis of which the directors have compiled the Pro forma financial information are specified in the JSE Listings Requirements and described in the Document.

The Pro forma financial information has been compiled by the directors to illustrate the impact on Thungela had the Internal restructure (ie the separation of the SA Thermal coal operations and the various non-thermal coal operations within Anglo American) taken place at the start of the reporting period. As part of this process, information about the Company's financial performance has been extracted by the directors from the Group's financial statements for the year ended 31 December 2021, on which an audit report has been published.

DIRECTORS' RESPONSIBILITY

The directors of the Group are responsible for compiling the Pro forma financial information on the basis of the applicable criteria specified in the JSE Listings Requirements and described in Annexure 3 of the Document.

OUR INDEPENDENCE AND QUALITY CONTROL

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors, issued by the Independent Regulatory Board for Auditors' (the 'IRBA Code'), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the corresponding sections of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)*.

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

REPORTING ACCOUNTANT'S RESPONSIBILITY

Our responsibility is to express an opinion about whether the Pro forma financial information has been compiled, in all material respects, by the directors on the basis of the applicable criteria specified in the JSE Listings Requirements and described in Annexure 3 of the Document based on our procedures performed.

We conducted our engagement in accordance with the International Standard on Assurance Engagements ('ISAE') 3420, *Assurance Engagements to Report on the Compilation of Pro forma financial information Included in a Prospectus* issued by the International Auditing and Assurance Standards Board. This standard requires that we plan and perform our procedures to obtain reasonable assurance about whether the Pro forma financial information has been compiled, in all material respects, on the basis specified in the JSE Listings Requirements.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Pro forma financial information.

The purpose of Pro forma financial information is solely to illustrate the impact on Thungela had the Internal restructure taken place at the start of the reporting period. Accordingly, we do not provide any assurance that the actual outcome of the Pro forma financial information would have been as presented.

A reasonable assurance engagement to report on whether the Pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the Pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related Pro forma adjustments give appropriate effect to those criteria
- the Pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on our judgement, having regard to our understanding of the nature of the Group, the event or transaction in respect of which the Pro forma financial information has been compiled, and other relevant engagement circumstances.

Our engagement also involves evaluating the overall presentation of the Pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion, the Pro forma financial information has been compiled, in all material respects, on the basis of the applicable criteria specified by the JSE Listings Requirements and described in Annexure 3 of the Document.

PricewaterhouseCoopers Inc.
Director: AJ Rossouw
Registered Auditor
Johannesburg, South Africa
22 March 2022

ANNEXURE 3

PRO FORMA FINANCIAL INFORMATION

CONTINUED

For the year ended 31 December 2021

PURPOSE OF THE PRO FORMA FINANCIAL INFORMATION

The Pro forma financial information has been presented to demonstrate what impact the Internal restructure would have had on the Group had it taken place at the start of the reporting period to achieve comparability of the financial results as detailed in note 2A of the consolidated annual financial statements. The Pro forma financial information excludes any Pro forma impacts arising as a consequence of the Demerger, the Post-balance sheet transactions (as defined in Annexe 6A and 6B of the PLS) and any related agreements as contemplated in the PLS.

The Pro forma financial information is prepared for illustrative purposes only and is the responsibility of the directors of Thungela. Due to the nature of this information, it may not fairly present the Group's results of operations. The Pro forma financial effects have been prepared in accordance with the JSE Listings Requirements, IFRS, the accounting policies adopted by the Group and the revised SAICA guide on Pro forma financial information. The Pro forma financial information for the year ended 31 December 2021 has been reported on by the Group's independent external auditor, and their assurance report on the Pro forma financial information is set out on pages 144 and 145. The Pro forma financial information for the year ended 31 December 2020 agrees to the combined carve-out historical financial information of the SA Thermal coal operations, which was reported on as per Annexe 3A of the PLS.

BASIS OF PREPARATION OF THE PRO FORMA FINANCIAL INFORMATION

The Pro forma financial information has been prepared using accounting policies which are consistent with the accounting policies applied in the preparation of the HFI, as fully described in Annexe 2A and 2B of the PLS, along with the additional accounting policies set out in the audited consolidated annual financial statements for the year ended 31 December 2021, in accordance with IFRS, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council, as well as the notes and assumptions supporting the Pro forma financial information as detailed below.

The Pro forma consolidated statement of profit or loss presented represents the Pro forma effects of the Internal restructure on the consolidated results from operations for the years ended 31 December 2021 and 31 December 2020 respectively, as if the Internal restructure had been effected from the start of the reporting period, and may not be fully reflective of the ongoing operating results of the Group.

The Pro forma financial information presented in relation to Mafube Coal Mining is reflective of the Group's proportionate share of the income and expenses of Mafube Coal Mining.

PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2021

The Pro forma consolidated statement of profit or loss below presents the Pro forma effects of the Internal restructure on the consolidated statement of profit or loss for the year ended 31 December 2021, as if the Internal restructure had been completed with effect from the start of the reporting period, and may not be fully reflective of the ongoing operating results of the Group.

	Column 1	Column 2	Column 3	Column 4	Column 5
Rand million	Thungela	Inclusion of Mafube Coal Mining	Intercompany eliminations	Reversal of interest on loans with Anglo American	Pro forma after the Internal restructure
Revenue	26,282	248	(137)	–	26,393
Operating costs	(17,322)	(192)	137	–	(17,377)
Impairment losses	(808)	–	–	–	(808)
Fair value gains on derivative assets	348	–	–	–	348
Fair value loss on derivative asset – capital support	(569)	–	–	–	(569)
Restructuring costs and termination benefits	(422)	–	–	–	(422)
Profit before net finance costs and tax[1]	7,509	56	–	–	7,565
Net finance costs	–	(4)	–	35	31
Investment income	503	1	–	–	504
Interest expense	(680)	(5)	–	35	(650)
Other financing gains	177	–	–	–	177
Profit before tax	7,509	52	–	35	7,596
Income tax expense	(571)	(16)	–	(10)	(597)
Profit for the reporting period	6,938	36	–	25	6,999
Attributable to:					
Non-controlling interests	509	–	–	–	509
Equity shareholders of the Group	6,429	36	–	25	6,490
Earnings per share					
Earnings per share (cents)					4,774
Headline earnings per share (cents)					5,199
Weighted average number of shares					135,957,450

1 Refer to the Pro forma profit before net finance costs and tax analysis for a detailed analysis of the profit before net finance costs and tax generated by the Group.

PRO FORMA FINANCIAL INFORMATION

CONTINUED

For the year ended 31 December 2021

Notes and assumptions to the Pro forma consolidated statement of profit or loss for the year ended 31 December 2021

Note 1

Column 1 represents the consolidated statement of profit or loss as reported for Thungela for the year ended 31 December 2021, which has been extracted from the audited consolidated annual financial statements for the year ended 31 December 2021 without adjustment.

Note 2

Column 2 represents the statement of profit or loss of Mafube Coal Mining from 1 January 2021 to 31 March 2021, to show the impact on the Group assuming Mafube Coal Mining had been owned by Thungela from the start of the reporting period. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela, through Mafube Coal Mining, and represent the financial results of Mafube Coal Mining from 1 January 2021 until the time it was acquired by Thungela through the Internal restructure on 31 March 2021. The directors are satisfied with the quality of the accounting records.

Note 3

Column 3 represents the elimination of intercompany revenue and costs between Mafube Coal Mining and TOPL in the period before Mafube Coal Mining was owned by Thungela. This revenue was generated in the normal course of business, between 1 January 2021 and the date that Mafube Coal Mining was acquired through the Internal restructure on 31 March 2021. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela, through Mafube Coal Mining. The directors are satisfied with the quality of the accounting records.

Note 4

Column 4 represents the interest accrued on the loan account in TOPL with AASAF for the reporting period, until the date of settlement of the loan on 2 June 2021. For the purposes of preparing the HFI, these loans were treated as part of Invested equity and the interest accrued on them similarly reversed from profit or loss. In order to be consistent with the basis of preparation as included in the HFI, this interest has been reversed for the purposes of presenting the Pro forma consolidated statement of profit or loss for the year ended 31 December 2021. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela for the year ended 31 December 2021. TOPL has utilised its available assessed losses for the year ended 31 December 2021, and thus tax has been calculated on the full amount of the interest reversed.

Note 5

Column 5 represents the cumulative effect of columns 1 to 4 and represents the Pro forma consolidated statement of profit or loss of Thungela for the year ended 31 December 2021.

Note 6

Pro forma headline earnings per share has been calculated using the same remeasurements as detailed in note 11 of the audited consolidated annual financial statements. The adjustments in column 1 to 4 do not contain any transactions which would be considered remeasurements to be adjusted for in the calculation of headline earnings in line with Circular 1/2021.

Note 7

As referred to in note 2A of the audited consolidated annual financial statements for the year ended 31 December 2021, Thungela is considered in substance to be a continuation of the SACO Group from the start of the earliest comparative period presented. Detail is provided in note 31 of the audited consolidated annual financial statements for the year ended 31 December 2021 regarding the treatment of the shares issued by Thungela for the purpose of determining the WANOS for the reporting period. A portion of the shares issued has been regarded in substance as being issued at the start of the earliest comparative period presented. However, for purposes of presenting the Pro forma financial information, it has been assumed that the Internal restructure was completed at the start of the reporting period. On this basis, in determining the WANOS for the purposes of the Pro forma financial information, it has been assumed that all of the 136,311,808 issued shares have been issued at the start of the reporting period rather than applying a time proportionate weighting to the issue of these shares. For the year ended 31 December 2021, a total of 2,712,606 shares were bought by subsidiaries of the Group in relation to share awards made in line with the Thungela share plan. The weighted impact of the purchase of the treasury shares, amounting to 354,358 shares has been deducted from the number of shares assumed to be in issue from the start of the reporting period. The WANOS is thus considered to be 135,957,450.

PRO FORMA CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2020

The Pro forma consolidated statement of profit or loss presents the Pro forma effects of the Internal restructure on the consolidated statement of profit or loss for the year ended 31 December 2020, as if the Internal restructure had been completed with effect from the start of the reporting period, and may not be fully reflective of the ongoing operating results of the Group. The Pro forma consolidated statement of profit or loss has been prepared using the basis of preparation fully described in Annexe 2A and 2B of the PLS published on 8 April 2021 and does not reflect the impact of the Post-balance sheet events defined in Annexe 6A and 6B of that document. The Pro forma consolidated statement of profit or loss presented below agrees to the combined carve-out statement of profit or loss for the year ended 31 December 2020 as presented in the PLS.

	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6
Rand million	Thungela	Inclusion of TOPL	Inclusion of Mafube Coal Mining	Intercompany eliminations	Reversal of interest on loans with Anglo American	Pro forma after Internal restructure
Revenue	3,750	15,651	1,063	(2,210)	–	18,254
Operating costs	(3,872)	(17,784)	(905)	2,210	–	(20,351)
Impairment losses	–	(2,160)	–	–	–	(2,160)
Restructuring costs and termination benefits	(2)	(155)	–	–	–	(157)
(Loss)/profit before net finance costs and tax[1]	(124)	(4,448)	158	–	–	(4,414)
Net finance costs	(314)	(536)	(27)	–	467	(410)
Investment income	3	242	3	(75)	(6)	167
Interest expense	(312)	(773)	(30)	75	473	(567)
Other financing losses	(5)	(5)	–	–	–	(10)
(Loss)/profit before tax	(438)	(4,984)	131	–	467	(4,824)
Income tax credit/(expense)	76	137	(39)	–	(53)	121
(Loss)/profit for the reporting period	(362)	(4,847)	92	–	414	(4,703)
Attributable to:						
Non-controlling interests	(32)	(296)	–	–	38	(290)
Equity shareholders of the Group	(330)	(4,551)	92	–	376	(4,413)
Losses per share						
Losses per share (cents)						(3,237)
Headline losses per share (cents)						(1,860)
Weighted average number of shares						136,311,808

[1] Refer to the Pro forma (loss)/profit before net finance costs and tax analysis for a detailed analysis of the (loss)/profit before net finance costs and tax (incurred)/generated by the Group.

PRO FORMA FINANCIAL INFORMATION

CONTINUED

For the year ended 31 December 2021

Notes and assumptions to the Pro forma consolidated statement of profit or loss for the year ended 31 December 2020

Note 1

Column 1 represents the consolidated statement of profit or loss as reported for Thungela for the year ended 31 December 2020, which has been extracted from the audited consolidated annual financial statements for the year ended 31 December 2021 without adjustment.

Note 2

Column 2 represents the Pro forma statement of profit or loss of TOPL from 1 January 2020 to 31 December 2020 to show the impact on the Group assuming TOPL had been owned by Thungela from the start of the reporting period. This column also includes the impact of the controlling shareholding that the Group holds in Butsanani Energy, which was obtained when combining the 33% held in Butsanani Energy by TOPL, with the 33% held in the entity by SACO. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela and RMC, and represent the financial results of TOPL and Butsanani Energy from 1 January 2020 to 31 December 2020. The directors are satisfied with the quality of the accounting records.

Note 3

Column 3 represents the statement of profit or loss for Mafube Coal Mining from 1 January 2020 to 31 December 2020 to show the impact on the Group assuming Mafube Coal Mining had been owned by Thungela from the start of the reporting period. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela, through Mafube Coal Mining, and represent the financial results of Mafube Coal Mining from 1 January 2020 to 31 December 2020. The directors are satisfied with the quality of the accounting records.

Note 4

Column 4 represents the elimination of intercompany revenue and costs between AAIC, Mafube Coal Mining and TOPL in the period before Mafube Coal Mining and TOPL were owned by Thungela. These transactions were entered into in the normal course of business, between 1 January 2020 and 31 December 2020. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela. The directors are satisfied with the quality of the accounting records.

Note 5

Column 5 represents the interest accrued on the loan accounts in both TOPL and AAIC with AASAF for the year, and the associated tax impact within AAIC. For the purposes of preparing the HFI, these loans were treated as part of Invested equity and the interest accrued on them similarly reversed out of profit or loss. In order to be consistent with the basis of preparation as included in the HFI, this interest has been reversed for the purposes of presenting the Pro forma consolidated statement of profit or loss for the year ended 31 December 2020. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela. The directors are satisfied with the quality of the accounting records. The tax adjustment has been determined based on the interest reversed in AAIC only, as TOPL had sufficient available assessed tax losses to absorb the potential tax impact of the adjustment in that entity.

Note 6

Column 6 represents the cumulative effect of columns 1 to 5 and represents the Pro forma consolidated statement of profit or loss of Thungela for the year ended 31 December 2020. This Pro forma consolidated statement of profit or loss agrees to the combined carve-out statement of profit or loss of the SA Thermal coal operations for the year ended 31 December 2020 as included in the HFI in Annexe 2C of the PLS.

Note 7

In order to determine the Pro forma headline losses in terms of Circular 1/2021, the impact of the impairment losses, and the related tax and non-controlling interest impact, have been added back to the losses attributable to equity shareholders of the Group, as these are remeasurements excluded from headline losses. This results in Pro forma headline losses of R2,535 million, and headline losses per share of 1,860 cents.

Note 8

As referred to in note 2A of the audited consolidated annual financial statements for the year ended 31 December 2021, Thungela is considered in substance to be a continuation of the SACO Group from the start of the earliest comparative period presented. Detail is provided in note 31 of the audited consolidated annual financial statements for the year ended 31 December 2021 regarding the treatment of the shares issued by Thungela for the purpose of determining the WANOS for the reporting period. A portion of the shares issued has been regarded in substance as being issued at the start of the earliest comparative period presented. However, for the purposes of presenting the Pro forma financial information, it has been assumed that the Internal restructure was completed from the start of the reporting period. On this basis, in determining the WANOS for the purposes of the Pro forma financial information, it has been assumed that the shares have been in issue for the full reporting period rather than applying a time proportionate weighting to the issue of these shares. The WANOS is thus considered to be the total number of shares in issue, being 136,311,808.

PRO FORMA CONSOLIDATED PROFIT BEFORE NET FINANCE COSTS AND TAX ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2021

The Pro forma consolidated profit before net finance costs and tax analysis presents the Pro forma effects of the Internal restructure on the consolidated profit before net finance costs and tax analysis for the year ended 31 December 2021, as if the Internal restructure had been completed with effect from the start of the reporting period, and may not be fully reflective of the ongoing operating results of the Group.

	Column 1	Column 2	Column 3	Column 4
Rand million	Thungela	Inclusion of Mafube Coal Mining	Intercompany eliminations	Pro forma after Internal restructure
Revenue	26,282	248	(137)	26,393
Employee costs	(4,112)	(42)	–	(4,154)
Depreciation	(989)	(33)	–	(1,022)
Amortisation	(29)	–	–	(29)
Third party commodity purchases	(1,380)	–	–	(1,380)
Commodity purchases from Mafube Coal Mining[1]	(137)	–	137	–
Consumables used in production[2]	(1,646)	(41)	–	(1,687)
Maintenance expenditure[2]	(2,716)	(46)	–	(2,762)
Production input costs[2]	(2,583)	(31)	–	(2,614)
Inventory production movement	1,222	35	–	1,257
Logistics costs	(3,235)	–	–	(3,235)
Demurrage and other expenses	(204)	–	–	(204)
Increase in expected credit loss provision	(67)	–	–	(67)
Royalties	(394)	(2)	–	(396)
Exploration and evaluation[3]	(124)	–	–	(124)
Exploration expenditure	(27)	–	–	(27)
Evaluation expenditure	(97)	–	–	(97)
Foreign exchange gains	214	–	–	214
Profit on sale of property, plant and equipment	8	–	–	8
Audit fees	(9)	–	–	(9)
Professional fees	(84)	(4)	–	(88)
Learnership and development expenses	(169)	(2)	–	(171)
Temporary staff	(138)	(7)	–	(145)
Recharged costs from Anglo American	(605)	(3)	–	(608)
Administration expenses	(331)	–	–	(331)
Operating expenses	(274)	(3)	–	(277)
Other administration (expenses)/income	(49)	5	–	(44)
Other operating expenses	(96)	(21)	–	(117)
Operating costs	(17,322)	(192)	137	(17,377)
Impairment losses	(808)	–	–	(808)
Fair value gains on derivative assets	348	–	–	348
Fair value loss on derivative asset – capital support	(569)	–	–	(569)
Restructuring costs and termination benefits	(422)	–	–	(422)
Profit before net finance costs and tax	7,509	56	–	7,565

[1] Commodity purchases from Mafube Coal Mining relate to purchases by TOPL in the ordinary course of business prior to the acquisition of Mafube Coal Mining through the Internal restructure on 31 March 2021.

[2] Consumables used in production, maintenance expenditure and production input costs have been re-presented so as to provide a more detailed level of disaggregation of the expenses in line with the underlying nature thereof.

[3] Exploration and evaluation expenditure exclude associated employee costs, which are considered immaterial.

ANNEXURE 3

PRO FORMA FINANCIAL INFORMATION

CONTINUED

For the year ended 31 December 2021

Notes and adjustments to the Pro forma consolidated profit before net finance costs and tax analysis for the year ended 31 December 2021

Note 1

Column 1 represents the consolidated profit before net finance costs and tax analysis as reported for Thungela, which has been extracted from the audited consolidated annual financial statements for the year ended 31 December 2021 without adjustment.

Note 2

Column 2 represents the profit before net finance costs and tax analysis of Mafube Coal Mining from 1 January 2021 to 31 March 2021, to show the impact on the Group had Mafube Coal Mining been owned by Thungela from the start of the reporting period. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela, through Mafube Coal Mining, and represent the financial results of Mafube Coal Mining from 1 January 2021 until the time it was acquired by Thungela through the Internal restructure on 31 March 2021. The directors are satisfied with the quality of the accounting records.

Note 3

Column 3 represents the elimination of intercompany revenue and costs between Mafube Coal Mining and TOPL in the period before Mafube Coal Mining was owned by Thungela. This revenue was generated in the normal course of business, between 1 January 2021 and the date that Mafube Coal Mining was acquired through the Internal restructure on 31 March 2021. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela. The directors are satisfied with the quality of the accounting records.

Note 4

Column 4 represents the cumulative effect of columns 1 to 3 and represents the Pro forma consolidated profit before net finance costs and tax analysis of Thungela for the year ended 31 December 2021.

PRO FORMA CONSOLIDATED (LOSS)/PROFIT BEFORE NET FINANCE COSTS AND TAX ANALYSIS FOR THE YEAR ENDED 31 DECEMBER 2020

The Pro forma consolidated (loss)/profit before net finance costs and tax analysis presents the Pro forma effects of the Internal restructure on the consolidated (loss)/profit before net finance costs and tax analysis for the year ended 31 December 2020, as if the Internal restructure had been completed with effect from the start of the reporting period, and may not be fully reflective of the ongoing operating results of the Group. The Pro forma consolidated (loss)/profit before net finance costs and tax analysis has been prepared using the basis of preparation fully described in Annexe 2A and 2B of the PLS published on 8 April 2021 and does not reflect the impact of the Post-balance sheet events as defined in Annexe 6A and 6B of that document. The Pro forma analysis presented below agrees to the combined carve-out information presented in the PLS, other than certain lines which have been re-presented in line with the disclosure in the consolidated annual financial statements of Thungela.

Rand million	Column 1 Thungela	Column 2 Inclusion of TOPL	Column 3 Inclusion of Mafube Coal Mining	Column 4 Intercompany eliminations	Column 5 Pro forma after the Internal restructure
Revenue	3,750	15,651	1,063	(2,210)	18,254
Employee costs	(827)	(3,386)	(166)	–	(4,379)
Depreciation	(406)	(539)	(113)	–	(1,058)
Amortisation	(2)	(13)	–	–	(15)
Third party commodity purchases	–	(1,287)	–	–	(1,287)
Commodity purchases from Mafube Coal Mining and AAIC[1]	–	(2,210)	–	2,210	–
Consumables used in production[2]	(284)	(1,156)	(148)	–	(1,588)
Maintenance expenditure[2]	(648)	(2,504)	(236)	–	(3,388)
Production input costs[2]	(238)	(2,988)	(120)	–	(3,346)
Inventory production movement	48	(169)	(10)	–	(131)
Logistics costs	(806)	(2,858)	–	–	(3,664)
Demurrage and other expenses	(78)	(152)	–	–	(230)
Royalties	(14)	(45)	(11)	–	(70)
Exploration and evaluation[3]	(64)	(122)	–	–	(186)
Exploration expenditure	–	(29)	–	–	(29)
Evaluation expenditure	(64)	(93)	–	–	(157)
Foreign exchange gains	4	109	–	–	113
Audit fees	(2)	(3)	(1)	–	(6)
Professional fees	(10)	(57)	(6)	–	(73)
Learnership and development expenses	(26)	(129)	(6)	–	(161)
Temporary staff	(6)	(88)	(16)	–	(110)
Recharged costs from Anglo American	(57)	(732)	(13)	–	(802)
Administration expenses	(9)	(440)	(2)	–	(451)
Operating expenses	(48)	(292)	(11)	–	(351)
Other administration (expenses)/income	(65)	282	17	–	234
Other operating expenses	(391)	263	(76)	–	(204)
Operating costs	(3,872)	(17,784)	(905)	2,210	(20,351)
Impairment losses	–	(2,160)	–	–	(2,160)
Restructuring costs and termination benefits	(2)	(155)	–	–	(157)
(Loss)/profit before net finance costs and tax	(124)	(4,448)	158	–	(4,414)

1 Commodity purchases from Mafube Coal Mining and AAIC relates to purchases by TOPL in the ordinary course of business prior to the Internal restructure.
2 Consumables used in production, maintenance expenditure and production input costs have been re-presented so as to provide a more detailed level of disaggregation of the expenses in line with the underlying nature thereof.
3 Exploration and evaluation expenditure exclude associated employee costs, which are considered immaterial.

PRO FORMA FINANCIAL INFORMATION

CONTINUED

For the year ended 31 December 2021

Notes and adjustments to the Pro forma consolidated (loss)/profit before net finance costs and tax analysis for the year ended 31 December 2020

Note 1

Column 1 represents the consolidated loss before net finance costs and tax analysis as reported for Thungela for the year ended 31 December 2020, which has been extracted from the audited consolidated annual financial statements for the year ended 31 December 2021 without adjustment.

Note 2

Column 2 represents the loss before net finance costs and tax of TOPL from 1 January 2020 to 31 December 2020 to show the impact on the Group had TOPL been owned by Thungela from the start of the reporting period. This column also includes the impact of the controlling shareholding that the Group holds in Butsanani Energy, which was obtained when combining the 33% held in Butsanani Energy by TOPL, with the 33% held in the entity by SACO. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela and RMC, and represent the financial results of TOPL and Butsanani Energy from 1 January 2020 to 31 December 2020. The directors are satisfied with the quality of the accounting records.

Note 3

Column 3 represents the profit before net finance costs and tax of Mafube Coal Mining from 1 January 2020 to 31 December 2020 to show the impact on the Group had Mafube Coal Mining been owned by Thungela from the start of the reporting period. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela, through Mafube Coal Mining, and represent the financial results of Mafube Coal Mining from 1 January 2020 to 31 December 2020. The directors are satisfied with the quality of the accounting records.

Note 4

Column 4 represents the elimination of intercompany revenue and transactions between AAIC, Mafube Coal Mining and TOPL in the period before Mafube Coal Mining and TOPL were owned by Thungela. These transactions were entered into in the normal course of business, between 1 January 2020 and 31 December 2020. These adjustments have been extracted without adjustment from the accounting records maintained by Thungela. The directors are satisfied with the quality of the accounting records.

Note 5

Column 5 represents the cumulative effect of columns 1 to 4 and represents the Pro forma consolidated (loss)/profit before net finance costs and tax analysis of Thungela for the year ended 31 December 2020. This Pro forma information agrees to the combined carve-out analysis of the SA Thermal coal operations for the year ended 31 December 2020 as included in the HFI in Annexe 2C of the PLS.

PRO FORMA APMS

The below APMs have been determined using the Pro forma financial information in order to further enhance the comparability of the financial and operating results. Refer to Annexure 1 for full details in relation to the APMs detailed below.

	Rand million (unless otherwise stated)	2021	2020
A.	**Adjusted EBITDA**		
	Profit/(loss) before net finance costs and tax per the Pro forma statement of profit or loss	7,565	(4,414)
	Less – fair value gains on derivative financial assets	(348)	–
	Add – fair value loss on derivative asset – capital support	569	–
	Add – depreciation	1,022	1,058
	Add – amortisation	29	15
	Add – impairment losses	808	2,160
	Add – restructuring costs and termination benefits	422	157
	Adjusted EBITDA	**10,067**	(1,024)
B.	**Adjusted EBITDA margin**		
	Adjusted EBITDA (Rand million)	10,067	(1,024)
	Revenue (Rand million)	26,393	18,254
	Adjusted EBITDA margin (%)	**38**	(5.6)
C.	**FOB cost**		
	Operating costs	17,377	20,351
	Less – industrial and domestic revenue[1, 2]	(3,580)	(3,763)
	Less – depreciation	(1,022)	(1,058)
	Less – amortisation	(29)	(15)
	Less – third party commodity purchases	(1,380)	(1,287)
	Add – inventory production movement	1,257	(131)
	Less – demurrage and other expenses	(204)	(230)
	Less – exploration and evaluation	(124)	(186)
	Less – foreign exchange gains	214	113
	Add – profit on sale of property, plant and equipment	8	–
	Less – recharged costs from Anglo American – administration expenses	(331)	(451)
	Less/Add – fair value (loss)/gain on biological assets[3]	(3)	26
	Less – insurance claim income[4]	–	106
	Less – other administration (expenses)/income	(44)	234
	FOB cost	**12,139**	13,709
D.	**FOB cost per export tonne**		
	FOB cost (Rand million)	12,139	13,709
	Export saleable production (kt)	14,957	16,463
	FOB cost per export tonne (Rand/tonne)	**812**	833

[1] Industrial and domestic revenue for Thungela of R3,469 million, adjusted for revenue from Mafube Coal Mining of R248 million, less intercompany eliminations of R137 million for the year ended 31 December 2021.

[2] Industrial and domestic revenue for Thungela of R807 million, adjusted for industrial and domestic revenue from TOPL, including Butsanani Energy of R4,103 million and revenue from Mafube Coal Mining of R1,063 million, less intercompany eliminations of R2,210 million for the year ended 31 December 2020.

[3] The fair value (loss)/gain on biological assets is included in other operating (expenses)/income.

[4] The insurance claim income is included in operating expenses recharged from Anglo American.

ANNEXURE 4

SHAREHOLDER INFORMATION

For the year ended 31 December 2021

THUNGELA'S PUBLIC AND NON-PUBLIC SHAREHOLDING

An analysis of the share register at 31 December 2021 can be analysed as follows:

Ordinary shares

Shareholder spread	Number of shareholders	% of total shareholders	Number of shares	% of issued share capital
1 to 1,000 shares	48,932	95.32	3,757,716	2.76
1,001 to 10,000 shares	1,743	3.40	5,156,013	3.78
10,001 to 100,000 shares	473	0.92	15,549,949	11.41
100,001 to 1,000,000 shares	157	0.31	48,095,543	35.28
1,000,001 shares and above	27	0.05	63,752,587	46.77
Total	51,332	100.00	136,311,808	100.00

Distribution of shareholders	Number of shareholders	% of total shareholders	Number of shares	% of issued share capital
Banks and nominee accounts	187	0.37	9,392,513	6.89
Brokerage accounts	138	0.27	27,766,133	20.37
Individuals and private trusts	48,431	94.35	18,514,209	13.58
Insurance and assurance companies	299	0.58	1,973,946	1.45
Investment companies	71	0.14	1,388,204	1.02
Mutual funds	556	1.08	41,872,288	30.72
Other corporations	406	0.79	359,306	0.26
Pension and provident funds	799	1.56	18,710,431	13.72
Private corporations	438	0.85	15,536,386	11.40
Sovereign wealth funds	7	0.01	798,392	0.59
Total	51,332	100.00	136,311,808	100.00

Shareholding type	Number of shareholders	% of total shareholders	Number of shares	% of issued share capital
Non-public shareholders				
Directors and prescribed officers	8	0.02	1,767,393	1.30
Treasury shares held by Group Companies	1	0.00	1,363,119	1.00
Public shareholders	51,323	99.98	133,181,296	97.70
Total	51,332	100.0	136,311,808	100.0

MAJOR SHAREHOLDERS

According to the Group's share register at year end, the following beneficial shareholders held shares equal to or in excess of 5.0% of the issued ordinary share capital of the Group:

Beneficial shareholding of more than 5.0%	Number of shares	% of issued share capital
Anglo American[1]	10,855,155	7.96
Government Employees Pension Fund	10,520,984	7.72
Total	21,376,139	15.68

[1] Anglo American's interest in Thungela is held through Tarl Investment Holdings (RF) Proprietary Limited, Epoch Two Investment Holdings (RF) Proprietary Limited and Epoch Investment Holdings (RF) Proprietary Limited.

The 2,712,606 treasury shares held by the Group as detailed in note 31 of the consolidated annual financial statements consist of 1,363,119 shares held in terms of the Thungela 2021 LTIP awards and 1,349,487 shares held by directors of Thungela in terms of the Thungela Milestone awards.

CORPORATE INFORMATION

THUNGELA RESOURCES LIMITED

(incorporated in the Republic of South Africa)
Registration number: 2021/303811/06
JSE share code: TGA
LSE share code: TGA
ISIN: ZAE000296554
Tax No: 9111917259
('Thungela' or 'the Group' or 'the Company')

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Saxonwold
2132

DIRECTORS

Executive

July Ndlovu (CEO)
Gideon Frederick (Deon) Smith (CFO)

Non-executive

Seamus Gerard French (Irish, appointed 4 June 2021)[1]

[1] Seamus G French resigned from Anglo American on 31 December 2021 and will be independent from 1 January 2022.

Independent non-executive

Sango Siviwe Ntsaluba (chairperson, appointed 1 January 2021)
Kholeka Winifred Mzondeki (appointed 9 February 2021)
Thero Micarios Lesego Setiloane (appointed 7 March 2021)
Benjamin Monaheng (Ben) Kodisang (appointed 16 March 2021)

PREPARED UNDER THE SUPERVISION OF

Gideon Frederick (Deon) Smith CA(SA)

GROUP COMPANY SECRETARY

Daniel Francois Klem

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If you have any queries regarding your shareholding in Thungela Resources Limited, please contact the transfer secretaries on:
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