

Accounting policies

Statement of compliance

The consolidated financial statements and the separate financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS), and interpretations of those standards, as adopted by the International Accounting Standards Board (IASB) and applicable legislation, and in accordance with the requirements of the Companies Act of South Africa.

The following accounting standards, interpretations and amendments to published accounting standards which are relevant to the Group but not yet effective, have not been adopted in the current year:

- IAS 1 – relating to the presentation of financial statements (effective for annual periods commencing on or after 1 January 2009)

Revised IAS 1 introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income may be presented in either a single statement of comprehensive income (effectively combining both the income statement and all non-owner changes in equity in a single statement), or in an income statement and a separate statement of comprehensive income. Revised IAS 1, which becomes mandatory for the Group's 2009 consolidated financial statements, is expected to have a significant impact on the presentation of the consolidated financial statements.

- IAS 23 – borrowing costs amendment – relating to the capitalisation of interest (effective for annual periods commencing on or after 1 January 2009)

The revised version of IAS 23 generally requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Also, it does not permit the option of immediately recognising all borrowing costs as an expense, which was the benchmark treatment in the previous version of the standard. The Group will apply the amended standard from 1 January 2009, but it is not expected to have any material impact on the accounts of the Company or the Group.

- IAS 27 – accounting for ownership changes in a subsidiary (effective for annual periods commencing on or after 1 July 2009)

Amended IAS 27 requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.

- IAS 32 – puttable financial instruments and obligations arising on their liquidation (effective for annual periods commencing on or after 1 January 2009)

Amendments to IAS 32 require puttable instruments, and instruments that impose on the entity an obligation to deliver to another party a *pro rata* share of the net assets of the entity only on liquidation, to be classified as equity if certain conditions are met. The amendments, which become mandatory for the Group's 2009 consolidated financial statements, with retrospective application required, are not expected to have any impact on the consolidated financial statements.

- IFRS 2 – amendment to share-based payment – vesting conditions and cancellations (effective for annual periods commencing on or after 1 January 2009)

The amendment clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the Group's 2009 consolidated financial statements, with retrospective application. The Group has not yet determined the potential effect of the amendment.

- IFRS 3 – relating to revision of the standard on business combinations (effective for annual periods commencing on or after 1 July 2009)

Revised IFRS 3 business combinations (2008) incorporates the following changes that are likely to be relevant to the Group's operations:

- the definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations;
- contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss;
- transaction costs, other than share and debt issue costs, will be expensed as incurred;
- any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss; and
- any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and, therefore, there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

- IFRS 8 – relating to the reporting of operating segments (effective for annual periods commencing on or after 1 January 2009)

IFRS 8 operating segments introduces the "management approach" to segment reporting. IFRS 8, which becomes mandatory for the Group's 2009 consolidated financial statements, will require a change in the presentation and disclosure of segment information based on the internal reports regularly reviewed by the Group's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segmental information in respect of its business and geographical segments (see note 31). Under the management approach, the Group will present segment information in respect of mining solutions, specialty chemicals, property, specialty fibres and Group services.

Basis of measurement

The consolidated financial statements and the separate financial statements have been prepared on the going concern basis using the historical cost convention, except for financial instruments at fair value through profit or loss, available-for-sale-financial assets, derivative instruments and liabilities for cash-settled share-based payment arrangements which are measured at fair value.

Functional and presentation currency

The consolidated financial statements and the separate financial statements have been prepared in South African rand, which is the Company's functional currency. All the financial information has been rounded to the nearest million of rand, except where otherwise stated.

Significant accounting policies

The significant accounting policies of the Group as set out herein have been applied consistently throughout the Group and are consistent with those followed in the previous year in all material respects, except as otherwise stated.

Certain comparative amounts for the previous year have been reclassified for the current year's presentation. In addition, the comparative income statement and cash flow statement for 2007 have been re-presented as a result of the Group's decision to retain SANS Technical Fibers, USA as a continuing operation for the foreseeable future. The operation was presented as a discontinued operation in 2007.

Accounting policies (continued)

Basis of consolidation

Subsidiaries

Subsidiaries are those entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain economic benefits from its activities.

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included from the dates control commenced and up to the dates control ceased. Intergroup transactions and balances between Group entities, as well as any unrealised income and expenditure arising from such transactions, are eliminated on consolidation. Minority interests in the net assets of subsidiaries are identified separately from the Group's equity therein.

Joint ventures

Joint ventures are those entities in respect of which there is a contractual agreement whereby the Group and one or more other venturers undertake an economic activity, which is subject to joint control.

The Group's participation in joint ventures is accounted for using the proportionate consolidation method by including its share of the underlying assets and liabilities and income statement items with items of a similar nature on a line-by-line basis from the dates of their acquisition until their disposal. Intergroup transactions and balances between Group entities are eliminated on proportionate consolidation to the extent of the Group's interest in the joint venture.

Associates

An associate is an entity in which the Group holds an equity interest, over which the Group has significant influence and is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the associate but is not control or joint control over those policies. Significant influence is presumed to exist when the Group holds between 20 and 50 per cent of the voting power of another entity.

The post-acquisition results of associate companies are accounted for in the consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date that significant influence ceases. Where a Group entity transacts with an associate of the Group, unrealised profits are eliminated to the extent of the Group's interest in the associate.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures in the separate financial statements are recognised at cost less impairment losses.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operation that has been disposed of or is classified as held for sale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When the operation is classified as a discontinued operation, the comparative income statement and cash flow statement are re-presented as if the operation had been discontinued from the start of the comparative period.

Goodwill

The excess of cost of business combinations over the net value of identifiable assets, liabilities and contingent liabilities at acquisition is capitalised as goodwill in the Group financial statements and is stated at cost less accumulated impairment losses. Goodwill is not amortised. Goodwill of associates is included in the carrying amount of the relevant associate. Goodwill acquired in a business combination for which the agreement date was before 31 March 2004 was previously amortised on a systematic basis over its estimated useful life.

The accumulated amortisation previously raised has been set off against the cost. On disposal of a subsidiary, associate, jointly controlled entity or business unit to which the goodwill was allocated on acquisition, the amount attributable to such goodwill is included in the determination of the profit or loss on disposal.

If, on a business combination, the fair value of the Group's interest in the identifiable assets and liabilities exceeds the cost of acquisition, this excess is recognised in the income statement immediately.

Deferred tax

A deferred tax asset is the amount of income tax recoverable in future periods in respect of deductible temporary differences, the carry forward of unused tax losses and unused tax credits. A deferred tax liability is the amount of income tax payable in future periods in respect of taxable temporary differences.

Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The tax base of an asset is the amount that is deductible for tax purposes if the economic benefits from the asset are taxable, or is the carrying amount of the asset if the economic benefits are not taxable. The tax base of a liability is the carrying amount of the liability less the amount deductible in respect of that liability in future periods.

Deferred tax is provided for using the balance sheet method providing for temporary differences between the carrying values of assets and liabilities for accounting purposes and their corresponding values for tax purposes. Deferred tax is also provided for on tax losses. No deferred tax is provided for on temporary differences relating to the initial recognition of goodwill; the initial recognition (other than in a business combination) of an asset or a liability to the extent that neither accounting nor tax profit is affected on acquisition; and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

A deferred tax asset is only recognised to the extent that it is probable that future taxable profits will be available against which the associated unused tax losses and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets are reviewed at each reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authority on the same taxable entity.

Deferred tax is measured at rates that have been enacted or substantially enacted at the balance sheet date.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of an asset. The cost of self-constructed assets includes the cost of materials and direct labour and any other costs directly attributable to bringing the asset into a working condition for its intended use, as well as gains and losses on qualifying cash flow hedges and borrowing costs attributable to that asset. Depreciation is provided on property, plant and equipment, other than land, on the straight-line basis at rates which will write off the assets over their estimated useful lives. Assets under construction are not depreciated until they are brought into use for the first time. Depreciation methods, useful lives and residual values are reviewed at each reporting date.

Accounting policies (continued)

The estimated useful lives are as follows:

- buildings 5 to 56 years
- plant and equipment 3 to 30 years
- furniture and fittings 3 to 15 years
- computer equipment 3 to 10 years
- motor vehicles 3 to 12 years

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

Gains and losses on disposals of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amounts of the items sold and are recognised in the income statement.

Specific plant spares are valued at cost and are depreciated over the estimated useful lives of the plants to which they relate.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The cost of maintaining property, plant and equipment is recognised in the income statement.

Investment properties

Certain of the Group's land, which was originally acquired as an item of property, plant and equipment and which was subsequently determined to be surplus to the Group's requirements, is included at deemed cost on transition to IFRS. The deemed cost was at values determined by sworn appraisers in a period prior to the implementation of IFRS. The basis of the valuation was open market value at the time and the surplus over original cost was taken to non-distributable reserves. When such land is eventually sold to third parties, the proportion of the non-distributable reserve relating to that land is transferred to distributable reserves. Investment properties comprising properties surplus to the Group's requirements, and leased to third parties, are stated at cost less accumulated depreciation and impairment losses. Land is not depreciated and buildings are estimated to have useful lives of 20 years.

Assets classified as held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered principally through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter, the assets (or disposal groups) are measured at the lower of their carrying amount and the fair value less costs to sell.

Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a *pro rata* basis except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefits and investment property, which continue to be measured in accordance with the Group's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on remeasurement are recognised in the income statement.

Gains are not recognised in excess of any cumulative impairment losses.

Impairment

Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

Non-financial assets

The carrying amounts of the Group's non-financial assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of its fair value, less costs to sell, and its value in use. Value in use is estimated taking into account future cash flows, forecast market conditions and the expected lives of the assets. An impairment loss is recognised whenever the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement. Subsequent to the recognition of an impairment loss, the depreciation charge for the asset is adjusted to allocate its remaining carrying value, less any residual value, over its remaining useful life.

Impairment losses recognised in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then to reduce the carrying amount of the other assets of the cash-generating unit.

An impairment loss is reversed only to the extent that the carrying amount of the asset or cash-generating unit does not exceed the net carrying amount that would have been determined if no impairment loss had been recognised. A reversal of an impairment loss is recognised in the income statement.

Goodwill and the cash-generating units to which it has been allocated are tested for impairment on an annual basis even if there is no indication of impairment. Impairment losses on goodwill are not reversed.

Inventories

Inventories of raw and packing materials, products and intermediates and merchandise are carried at cost using the first-in-first-out (FIFO) method.

The cost of products, intermediates and merchandise comprises raw and packing materials, manufacturing costs, depreciation and an appropriate allocation of production overheads. Costs may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases.

Accounting policies (continued)

Spares not specific to particular plants and stores are carried at weighted average cost.

Property developments include the cost of properties acquired for resale and development costs.

In all cases inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses, taking into account obsolescence.

Provisions

A provision is recognised when the Group has a present legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will occur and where a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Non-current provisions are determined by discounting the expected future cash flows to their present value at a pre-tax rate that reflects current market assessment of the time value of money.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Environmental remediation

A provision for environmental remediation is recognised in accordance with the Group's environmental policy and applicable legal requirements. The adequacy of the provision is reviewed annually at the balance sheet date against changed circumstances, legislation and technology.

Revenue

Revenue comprises net invoiced sales of goods and services to customers, after cash and early settlement discounts and rebates, and excluding value-added tax; rental income from investment properties; and sales of property that is surplus to the Group's requirements.

Revenue in respect of goods and services sold is recognised when the significant risks and rewards of ownership have been transferred to the purchaser, when delivery has been made and title has passed, when the amount of the revenue and the related costs can be measured reliably and recovery of the sales consideration is probable.

Revenue in respect of rentals received from leasing activities is recognised on a straight-line basis over the period of the lease, where fixed escalation clauses apply, and when there is a reasonable expectation that recovery of the lease rental is probable. Where no fixed escalation clauses are applicable to a lease, rental income is recognised in the period in which it is due by the lessee.

Revenue in respect of property transactions is recognised when there is a binding, unconditional sale agreement. Agreements are unconditional only when the purchase price is covered, in full, by either cash deposited with the conveyancing attorney or by means of a guarantee from an acceptable bank in favour of the Company and when servicing arrangements and costs are substantially finalised.

Foreign currencies

Foreign currency translations

Transactions in foreign currencies are translated into the functional currencies of each entity within the Group at the rates of exchange ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated into the functional currency of the entity concerned at the rates of exchange ruling at the dates that fair value was determined.

Gains or losses arising on exchange differences are credited to or charged against income. Costs associated with forward cover contracts linked to borrowings are included in financing costs.

Foreign operations

The financial statements of foreign operations within the Group are translated into South African rand as follows:

- assets, including goodwill, and liabilities at the rates of exchange ruling at the balance sheet date;
- income, expenditure and cash flow items at the weighted average rate of exchange during the accounting period;
- differences arising on translation are recognised directly in equity and disclosed under the foreign currency translation reserve in non-distributable reserves;
- when a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to the income statement; and
- differences arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity in the foreign currency translation reserve.

Financial instruments

Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity securities, accounts receivable, cash and cash equivalents, loans and borrowings, and accounts payable.

Derivative financial instruments

The Group uses derivative financial instruments including currency and interest rate swaps, forward rate agreements and forward exchange contracts to manage its exposure to foreign exchange, interest rate and commodity price risks arising from operational, financing and investment activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Financial instruments are recognised initially at fair value plus, for investments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition these instruments are measured as set out below.

Investments

Listed investments classified as financial assets at fair value through profit and loss are carried at market value, calculated by reference to securities exchange prices ruling at the close of business on the balance sheet date. Changes in the market value are taken to the income statement.

Unlisted investments classified as available-for-sale financial assets are stated at fair value. Changes in fair value are taken directly to equity unless there is objective evidence that the asset is impaired, in which event the impairment loss is recognised in the income statement. Fair value, for this purpose, is a value arrived at by using appropriate valuation techniques. When an instrument is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Accounting policies (continued)

Accounts receivable

Accounts receivable are measured at amortised cost, using the effective interest method, after providing for impairment losses.

Cash and cash equivalents

Cash and cash equivalents are stated at fair value.

Financial liabilities

Financial liabilities are measured at fair value plus transaction costs with changes in fair value being included in the income statement.

Derivative instruments

Derivative instruments are measured at fair value with changes in fair value being included in the income statement, other than derivatives designated as cash flow hedges.

Offset

If a legally enforceable right currently exists to set off recognised amounts of financial assets and liabilities, which are in determinable monetary amounts, and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously, the relevant financial assets and liabilities are offset.

Hedge accounting

If a fair value hedge meets the conditions for hedge accounting, any gain or loss on the hedged item attributable to the hedged risk is included in the carrying amount of the hedged item and recognised in the income statement.

If a cash flow hedge meets the conditions for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

If an effective hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, the associated gains or losses recognised in equity are transferred to the income statement in the same period in which the asset or liability affects the income statement.

If the hedge of a forecast transaction subsequently results in the recognition of an asset or liability, the associated gains or losses recognised in equity are included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued on a prospective basis when the hedge no longer meets the hedge accounting criteria (including when the hedge becomes ineffective); when the hedge instrument is sold, terminated or exercised; when, for cash flow hedges, the forecast transaction is no longer expected to occur; or when the hedge designation is revoked. Any cumulative gain or loss on the hedging instrument for a forecast transaction is retained in equity until the transaction occurs, unless the transaction is no longer expected to occur, in which case it is transferred to the income statement.

Investment income

Interest income is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable. Dividend income from investments is recognised when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs (net of investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets) directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Research and development costs

Research costs are written off in the income statement in the year in which they are incurred. Development costs are reviewed on an ongoing basis and are capitalised if they can be measured reliably, result in an asset that can be identified and it is probable that the asset will generate future economic benefits. Development costs are expensed in the income statement if they do not qualify for capitalisation. If a project is abandoned during the development stage, the total accumulated expenditure is written off in the income statement. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Leases

Finance leases

Leases that transfer substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired in terms of finance leases are capitalised at the lower of fair value and the present value of the minimum lease payments at the inception of the lease, and depreciated over the shorter of the lease term and the estimated useful life of the asset unless it is reasonably certain that the Group will retain ownership by the end of the lease term. Lease payments are allocated using the effective interest rate method to determine the lease finance cost, which is charged against profit or loss over the lease period, and the capital repayment, which reduces the finance lease liability to the lessor.

Operating leases

All other leases are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Employee benefits

Short-term employee benefits

The cost of all short-term employee benefits is recognised in the income statement during the period in which the employee renders the related service.

Accruals for employee entitlements to salaries, performance bonuses and annual leave represent the amount of the Group's present obligation as a result of employees' services provided to the balance sheet date. Accruals have been calculated at undiscounted amounts based on current salary rates.

Retirement benefits

The Group provides defined-contribution and defined-benefit funds for the benefit of employees, the assets of which are held in separate funds. These funds are financed by payments from employees and the Group, taking account of recommendations of independent actuaries.

Defined-contribution plans

A defined-contribution plan is a post-retirement benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined-contribution pension plans are recognised in the income statement as incurred.

Accounting policies (continued)

Defined-benefit plans

A defined-benefit plan is a post-retirement benefit other than a defined-contribution plan.

The Group's net obligation in respect of defined-benefit plans is determined using the projected unit credit method. Actuarial valuations are conducted every three years and interim adjustments to those valuations are made annually.

The difference between the present value of the Group's defined-benefit obligations and the fair value of plan assets represents an actuarial gain or loss. Actuarial losses are recognised immediately in the income statement. Actuarial gains are only recognised to the extent that the Company has a legally enforceable right thereto. To the extent that there is uncertainty as to the entitlement to a surplus, no asset is recognised.

Post-retirement medical aid benefits

The Group provides post-retirement healthcare benefits to certain of its retirees. The present value of the post-retirement medical aid obligations is actuarially determined annually on the projected unit credit method. Actuarial gains and losses are recognised immediately in the income statement.

Equity compensation benefits

In respect of options granted after 7 November 2002, the fair value of the options is measured initially at grant date and recognised in the income statement over the vesting period with reference to the costs determined in accordance with the binomial option pricing model. The Group has also granted cash-settled share appreciation rights to certain employees under an equity-based incentive scheme. The fair value is measured at the grant date using the binomial option pricing model and recognised in the income statement over the vesting period with a corresponding increase in liabilities. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised in the income statement.

Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement age.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of prior years.

Dividends

Dividends are recognised as a liability when declared and are included in the statement of changes in equity. Secondary tax on companies in respect of such dividends is recognised as a liability when the dividends are recognised as a liability and is included in the tax charge in the income statement.

Segmental reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Inter-segmental transactions are made on an arm's length basis.

On a primary segmental basis, the Group is organised as follows:

- mining solutions, comprising mainly the manufacture of explosives and initiating systems used by the mining industry;
- specialty chemicals, comprising niche-orientated small- to medium-sized businesses marketing specialty chemicals to a broad range of industries;
- specialty fibres, comprising mainly the manufacture of nylon yarns used for industrial purposes; and
- property, comprising mainly the realisation of surplus land and property assets of the Group.

On a secondary segmental basis, the geographical locations of the Group's activities have been identified.

The basis of segmental reporting is representative of the internal structure used for management reporting.

Judgements made by management and sources of estimation uncertainty

The preparation of the financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Certain accounting policies have been identified as involving particularly complex or subjective judgements or assessments, as follows:

Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable income will be available in future against which they can be utilised. Future taxable profits are estimated based on business plans which include estimates and assumptions regarding economic growth, interest, inflation and tax rates and competitive forces.

Environmental remediation

Estimating the future costs of environmental and rehabilitation obligations is complex and requires management to make estimates and judgements because most of the obligations will be fulfilled in the future and contracts and laws are often not clear regarding what is required. The resulting provisions are further influenced by changing technologies and political, environmental, safety, business and statutory considerations. As explained in note 13 to the financial statements, the Group has to apply judgement in determining the environmental remediation provision. The provision may need to be adjusted when detailed characterisation of the land is performed.

Asset lives and residual values

Property, plant and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programmes are taken into account. Residual value assessments consider issues such as current market conditions, the remaining useful life of an asset and disposal values.

Post-retirement benefit obligations

Post-retirement defined benefits are provided for certain existing and former employees. Actuarial valuations are based on assumptions which include employee turnover, mortality rates, the discount rate, the expected long-term rate of return of retirement plan assets, healthcare inflation cost and rates of increase in compensation costs. The net present value of current estimates for post-retirement medical aid benefits have been discounted to their present value at 7,9 per cent per annum (2007 – 9 per cent) being the estimated investment return assuming the liability is fully funded. Medical cost inflation of 5,8 per cent per annum has been assumed (2007 – 6,3 per cent). See note 30 to the financial statements.