FINANCIAL REVIEW CONTINUED

Notes to the condensed consolidated financial statements continued

for the year ended 30 September 2018

18. Provisions

Provision for rehabilitation

	2018			2017		
	Restoration US$'000	Decommis-sioning US$'000	Total provision US$'000	Restoration US$'000	Decommis-sioning US$'000	Total provision US$'000
Opening balance	3 962	2 961	6 923	2 343	2 264	4 607
Recognised in profit or loss	1 693	–	1 693	1 340	–	1 340
Capitalised to mining assets and infrastructure	–	3 922	3 922	–	451	451
Business combination (note 21)	76	57	133	–	–	–
Unwinding of discount	529	212	741	269	225	494
Exchange differences	(339)	(439)	(778)	10	21	31
Closing balance	5 921	6 713	12 634	3 962	2 961	6 923

The Group has a legal obligation to rehabilitate the mining area, once the mining operations cease. The provision has been calculated based on total estimated rehabilitation costs, discounted back to their present values. The pre-tax discount rates are adjusted annually and reflect current market assessments. These costs are expected to be utilised mostly towards the end of the life of mine and associated infrastructure, which is currently estimated to be within 15 years. The provision is determined using commercial closure cost assessments and not the inflation adjusted Department of Mineral Resources published rates as were used during 2017.

The table below illustrates the movement in the provision as a result of mining operations, changes in variables and adopting commercial rates in comparison to the previously used Department of Mineral Resources rates.

	Opening balance US$'000	Mining operations US$'000	Changes in variables US$'000	Commercial rates US$'000	Exchange differences US$'000	Closing balance US$'000
30 September 2018						
Provision for restoration	3 962	1 839	882	(423)	(339)	5 921
Provision for decommissioning	2 961	(597)	368	4 420	(439)	6 713
	6 923	1 242	1 250	3 997	(778)	12 634

The current estimated rehabilitation cost to be incurred mostly at the end of the life of mine taking escalation factors into account is US$21.8 million (2017: US$13.7 million). The estimate was calculated by an independent external expert.

In determining the amounts attributable to the rehabilitation provisions at 30 September 2018, management used a discount rate of 9.4% (2017: 8.6%) which represents the rate associated to a 10-year and longer daily average yield based on South African government bonds (2017: R186 government bond of South Africa), estimated rehabilitation timing of 15 years (2017: 18 years) and an inflation rate of 6.3% (2017: 4.5%).

An insurance company has provided a guarantee to the Department of Mineral Resources to satisfy the legal requirements with respect to environmental rehabilitation and the Group has pledged as collateral its investments in interest-bearing debt instruments to the insurance company to support this guarantee.