



**exxaro**

**POWERING POSSIBILITY**

**Exxaro Resources Limited**

Tax report

for the year ended 31 December 2021

## Overview

Exxaro uses the International Integrated Reporting Council's Integrated Reporting Framework 2021 (<IR> Framework), as well as the Global Reporting Initiative Standard 207:Tax 2019 ("GRI207") for public reporting on tax, to demonstrate value creation and transparency to our stakeholders.

This report discusses Exxaro's approach to tax, tax risk management (TRM), tax governance, and how we engage with our stakeholders. Exxaro also wishes to demonstrate how our taxes align with our sustainability commitments and give context to our financial reporting performance.

In this voluntary report, we wish to:

- Show the contribution we make in the countries where we operate
- Promote confidence and credibility in our tax practices
- Enable stakeholders to make informed judgements
- Support the development of socially desirable tax policy

Tax transparency allows us to demonstrate that our tax affairs are conducted in accordance with tax law and ethical business practices. Providing information that complies with recommended standards ensures that we are transparent beyond mandatory legislative requirements.

 This report should be read together with Exxaro's 2021 integrated report, available at [www.exxaro.com](http://www.exxaro.com).



### CONNECT WITH US

We encourage and welcome feedback on our reporting suite from our stakeholders. Please send any comments or suggestions to:

**Malusi Buthelezi**

*Manager: Integrated reporting and ESG*

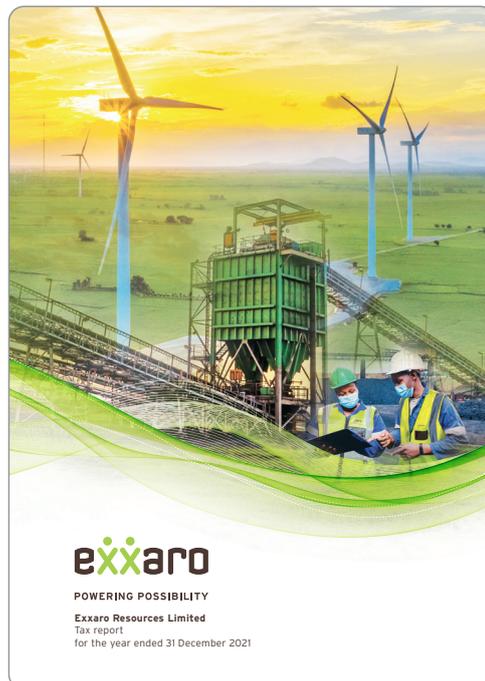
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 *Disclaimer: Photographs of people without masks were either taken pre-COVID-19 or in full compliance with health and safety protocols. With thanks to Stefanie De Beer, Line of Sight Photography, for Cennerg's windfarm photographs used in our integrated and ESG reports.*



### NAVIGATING THIS REPORT

We use icon to show:

#### Detailed disclosure and further reading



Read more online at  
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Read more within  
this report

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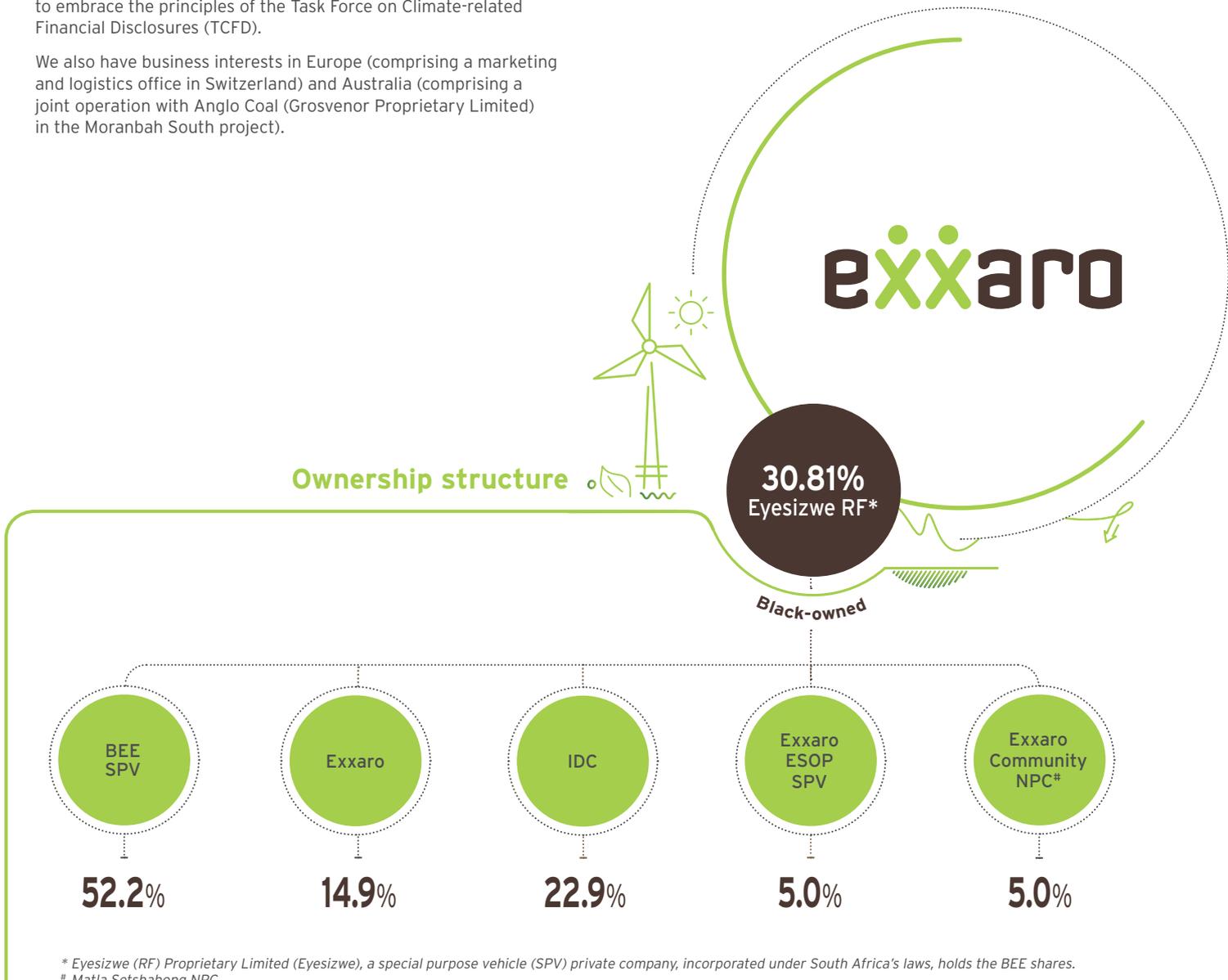
# About Exxaro

Exxaro has two decades of experience in mining, energy and ESG.

**We have a diversified asset portfolio comprising interests primarily in coal, a growing renewable energy solutions business and equity-accounted investments in ferrous (iron ore) and zinc. We have plans to invest and diversify into manganese, bauxite and copper.**

We are among the top five coal producers in South Africa. Hence, we understand the importance and ambition of being carbon neutral and achieving net zero carbon by 2050, and strive to be an active participant in the just transition to a low-carbon economy. We have started incorporating renewable energy solutions into our business portfolio, as evidenced by our 100% ownership of Cennergi since 1 April 2020. Exxaro is also proud to embrace the principles of the Task Force on Climate-related Financial Disclosures (TCFD).

We also have business interests in Europe (comprising a marketing and logistics office in Switzerland) and Australia (comprising a joint operation with Anglo Coal (Grosvenor Proprietary Limited) in the Moranbah South project).



\* Eyesizwe (RF) Proprietary Limited (Eyesizwe), a special purpose vehicle (SPV) private company, incorporated under South Africa's laws, holds the BEE shares.  
 # Matla Setshabong NPC.

# Tax approach

Exxaro believes in sustainable value creation, enabled by carefully considering the relationship between the capitals it uses and affects. These capitals include: natural, social and relationship, manufactured, human, intellectual and financial, and have been integrated into Exxaro's business model and strategy. Exxaro continuously strives to positively contribute to and negate any adverse impacts on these capitals. This ensures sustained success and fosters a more sustainable operating environment for Africa and beyond.

Taxation is an integral part of our business strategy as tax is the natural outflow of each business decision. Our approach to tax is to support and contribute to these sustainable value creation goals by:

- Complying with tax laws as accurately and timeously as possible
- Applying good corporate governance and sound business practices
- Effectively managing our tax risks with continuous assessment and mitigation
- Paying our tax liabilities accurately and on time
- Building relationships of trust and transparency with our stakeholders
- Ensuring that material and complex tax transactions are supported by sound technical opinions
- Ensuring that we maintain documentary evidence of tax filings and tax positions
- Reporting and correcting material inadvertent errors, non-disclosures and failures of controls immediately to regulatory authorities and/or our overseeing function (executive committee and/or audit committee),
- Using opportunities to minimise tax liabilities within the parameters of tax law
- Protecting Exxaro against financial loss and reputational damage

## DEALING WITH TAX AUTHORITIES

Exxaro maintains good relationships with the Revenue authority in the jurisdictions in which we operate in. Exxaro applies for rulings where tax legislation is uncertain, and we endeavour to attend to tax information requests and audits from the South African Revenue Service ("SARS") in a comprehensive and timely manner. In the 2021, SARS officers conducted a business review of Exxaro's coal business in which we shared specific requested information, and discussed the future outlook of our coal business.

Over the past four years, we have had challenges in resolving audits of diesel rebate claims. Although diesel rebates fall within the Customs and Excise Act, 1964 (Act 91 of 1964), SARS administers the claims. Significant progress was made in this regard during 2021. We have managed to finalise the audits for Exxaro Coal Proprietary Limited (Exxaro Coal). The Exxaro Coal Mpumalanga Proprietary Limited (Exxaro Coal Mpumalanga) audit for the period ending November 2018 was also finalised in 2021. A second diesel rebate audit of Exxaro Coal Mpumalanga for the subsequent period ending February 2021 will commence in February 2022.

Exxaro has met with the diesel rebate audit team bi-weekly for the past few months to attend to SARS queries and information requests in a timely manner, and to ensure that audits progress within acceptable time periods. Refer to page 6  for details of SARS audits during 2021. Unfortunately, audited value-added tax (VAT) refunds were not being paid by SARS and Exxaro had to institute legal action in terms of section 11(4) of the Tax Administration Act, 2011 (Act 28 of 2011). SARS was willing to resolve the matter without further legal intervention and although the majority of the outstanding VAT refunds were paid, the parties are still in process of resolving differences and interest to be paid by SARS.

In prior years, we commented on the litigation processes of Mafube Coal Mining Proprietary Limited (Mafube), Exxaro's 50% joint venture (JV) with Thungela Resources Limited (Thungela Resources), regarding additional mineral and petroleum resources royalties assessments by SARS, amounting to R190 million plus penalties of R19 million (Exxaro exposure: R105 million). On 18 December 2020, Mafube filed its Rule 32 statement (detailing grounds for appeal) at the Registrar of the Tax Court and SARS. Mafube is now preparing its discovered documents file. SARS has not submitted its discovered documents file to date. The process is ongoing.

In 2021 SARS has queried the deductibility of Exxaro Coal's stock provisions in terms of section 22(1) of the Income Tax Act as well as losses incurred by Tshikondeni mine for rehabilitation totalling R165 million (tax effect: R46 million). Exxaro is confident that the deductions can be defended in terms of relevant tax law. Exxaro awaits the outcome of the SARS audit. Full provision has been made in the financial results in terms of IFRIC23.

## PUBLIC POLICY ADVOCACY

Exxaro participates in local tax reform and the development of effective tax systems through tax workgroups of the Minerals Council South Africa. Exxaro's tax manager is also an executive team member of the South African Institute of Taxation mining group. During the development of the carbon tax and mining royalties tax legislation, Exxaro actively participated in industry working groups and responded to proposed draft legislation. Exxaro will continue to play an active role in the industry and be involved in the relevant discussions as they arise in the future.

## TAX HAVENS

Tax havens are countries or jurisdictions offering certain tax benefits such as lower tax rates, credit mechanisms or deductions resulting in limited or no tax levying on certain profits. Switzerland is generally considered a tax haven due to its low corporate tax rate of 8.5%. Additional cantonal and municipal rates can increase the maximum corporate tax rate (including federal, cantonal and communal taxes) to a maximum of 21.6%.

Exxaro has a logistics and marketing office in Zug, Switzerland, Exxaro International Trading AG (EITAG). Zug is considered a trading hub for various commodities, including coal. The reason for Exxaro operating in Zug is based on sound business principles. Exxaro does not derive a tax benefit from operating in Switzerland. Although Exxaro pays 12% corporate tax in Switzerland (federal and cantonal taxes combined), the company's profits are imputed in the income of ROCSI Holdings Proprietary Limited in terms of section 9D of the Income Tax Act, 1962 (Act 58 of 1962) (Income Tax Act).

 For more information, please refer to the country-by-country section of this report.

## TAX INCENTIVES

Exxaro contracts a specialist service provider to assist the group in maximising tax incentives provided by government either through special allowances in terms of the Income Tax Act or incentive programmes offered by the national departments of Science and Technology, Mineral Resources and Energy, and Trade, Industry and Competition. We are in the process of sourcing a new supplier in terms of our supply chain policies and procedures.

In prior years, Exxaro has benefited from the following allowances in terms of the Income Tax Act:

- Industrial policy project grants in terms of section 12(l)
- Research and development allowances in terms of section 11D
- Learnership allowances in terms of section 12H
- Energy efficiency allowances in terms of section 12L

Exxaro recognises the value of its human capital and continues to invest in training. Grooteegeluk and Matla claimed learnership allowances for 281 new registered learners during 2021 and another 86 learners completed their training agreements. Total learnership allowances amounting to R15.5 million were claimed by these mines, resulting in a total tax saving of almost R4.3 million. For more information see ESG report: People section

No other incentives were claimed as deductions in calculating the taxable income of the relevant taxpayers in 2021.

In support of Exxaro's sustainability goals to continue lowering its energy consumption, Exxaro will again pursue the benefits of energy efficiency allowances offered in terms of the Income Tax Act. A new service provider will be appointed to verify claims. For more information on Exxaro's climate change response/ decarbonisation strategy, refer to our ESG report "Climate Change" and Energy Management sections.

## STAKEHOLDER ENGAGEMENT

Honest and transparent engagements with stakeholders on tax matters are summarised below.

STAKEHOLDER GROUP	KEY CONCERNS AND EXPECTATIONS	OUR RESPONSE
SARS	<ul style="list-style-type: none"> <li>• Non-compliance with tax laws causes reputational damage and financial loss</li> <li>• Capacity constraints due to ongoing SARS audits and information requests</li> <li>• Complex restructuring transactions or sale/acquisition of investments/ assets expose Exxaro to adverse tax consequences</li> <li>• Complicated and regular tax legislation changes pose risks and increase the cost of tax compliance.</li> </ul>	<ul style="list-style-type: none"> <li>• Regular interaction with SARS relationship manager to build trust and support ethical behaviour – guided by the King IV Report on Corporate Governance for South Africa, 2016 (King IV™)* as well as ensuring SARS is administratively compliant and upholds its service charter for refunds and finalisation of audits</li> <li>• Manage tax risks within a board-approved framework</li> <li>• Transparent behaviour with prompt response to requests, audits, voluntary disclosure programmes and detailed tax return submissions</li> <li>• VAT analytics tool identifies incorrect VAT treatments proactively</li> <li>• Regular revision and external audit of transfer pricing policies</li> <li>• Employ qualified people and manage their performance</li> <li>• Engage with expert legal advisers for transactions:               <ul style="list-style-type: none"> <li>– With tax impact above R10 million</li> <li>– Acquisition and sale of investments</li> <li>– Projects in foreign jurisdictions</li> <li>– Group restructuring projects</li> </ul> </li> </ul>
Financial reporting audiences (shareholders and financiers)	<ul style="list-style-type: none"> <li>• Tax reporting does not fairly represent Exxaro's financial position</li> </ul>	<ul style="list-style-type: none"> <li>• Automated tax consolidation tool developed by external tax and information technology (IT) specialists to calculate tax disclosure required by the IAS 12 accounting treatment for income taxes</li> <li>• Qualified professionals manage tax reporting</li> </ul>
Communities	<ul style="list-style-type: none"> <li>• Communities in areas surrounding Exxaro's operations do not benefit from money spent on approved public benefit activities</li> </ul>	<ul style="list-style-type: none"> <li>• A non-profit company (NPC) with section 18A status was established for the benefit of Exxaro employees and communities in areas surrounding Exxaro's operations (senior employees are directors of the NPC to ensure compliance with applicable laws and governance). Exxaro also invests in public benefit activities as listed in the 9th schedule to the Income Tax Act such as social upliftment, education and building critical infrastructure in the communities it operates through the Exxaro Chairman's Fund, The Exxaro Foundation and the Exxaro People Development Initiative.</li> </ul>
Industry	<ul style="list-style-type: none"> <li>• The mining industry's unique challenges and requirements are not considered in the development of tax systems and legislation</li> </ul>	<ul style="list-style-type: none"> <li>• Exxaro actively participate in public policy advocacy through the Minerals Council, SAIT, NBI and BUSA.</li> </ul>

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# Tax approach continued

## PERFORMANCE MANAGEMENT



The group tax manager consults Exxaro's recruitment policies to ensure employees are qualified with the necessary skills and experience for each tax function role and its responsibilities



Exxaro financially supports training and formal postgraduate studies. employees regularly attend courses and seminars



Formal development programmes are in place for tax employees



Personal performance appraisals assess employees' commitment to risk management



Bonus and share option schemes retain tax function employees with rewards for excellent performance and non-performance is addressed by Exxaro's group human resources business unit

## TAX DIGITALISATION

Robotic process automation (RPA) and artificial intelligence assist Exxaro's tax function in becoming a valued strategic partner by improving efficiency and effectiveness. RPA eliminates repetitive, time-consuming manual tasks and mitigates tax risks. The following digital automation projects have been approved and are in different stages of implementation:

- Automation of VAT apportionment calculations
- Monitoring dashboard on tax compliance and administration
- Automated reconciliation of IT14SD (supplementary declaration of income tax, VAT, employees' tax and customs after submission of the company's tax return)

We expect the projects to be completed and tested within the first quarter of 2022.



# Tax governance

## GOVERNANCE OVERSIGHT

Exxaro is committed to complying with the code of corporate practices and conduct set out in King IV. In terms of this code, Exxaro's board and audit committee assume responsibility for managing tax risks and ensuring that Exxaro's tax strategy is aligned with its business strategy. Tax and tax risks are always on the audit committee's agenda. Operationally, the group tax manager is accountable for this function, reporting directly to the group finance director.

The corporate tax function is organisationally and physically separate from the finance function and centralised at Exxaro's head office. In the prior year, the Exxaro corporate tax function was not responsible for tax compliance, control and management of indirect taxes, such as VAT and PAYE, but only acted in an advisory capacity when required. During the second half of 2021, VAT management, control and compliance responsibilities moved to the Exxaro corporate tax function. Previously, the VAT responsibilities were part of the group transactional accounting function. Exxaro employed a dedicated senior tax consultant who will be responsible for VAT.

The group tax manager reviews tax implications of projects presented to the investment review committee and executive management committee to keep the tax function informed of transactions at inception stage, particularly decisions with significant impact. This ensures effective tax planning and TRM for operational cost savings.

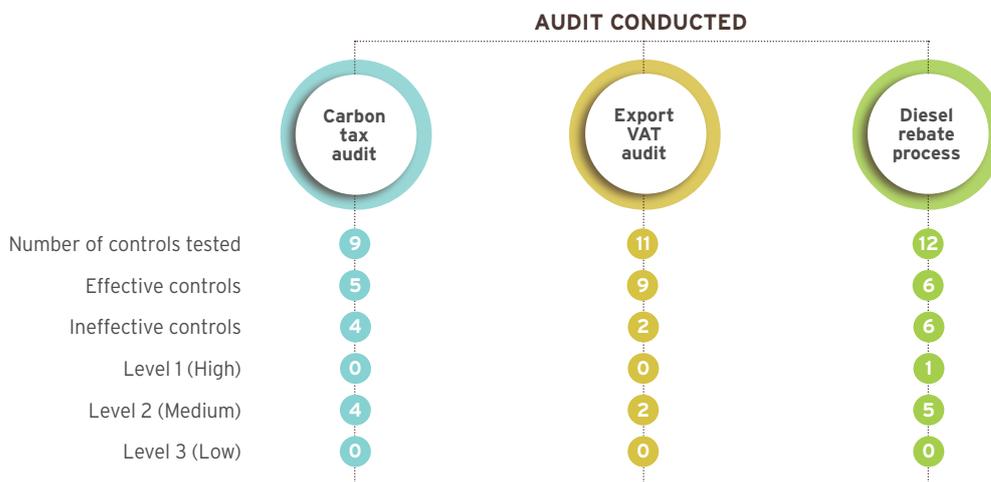
Exxaro's stakeholders can anonymously report any concerns, breaches of Exxaro's ethics code, fraud or misconduct that includes tax matters on an independent platform.

## POLICIES AND CONTROL

The board approved the TRM framework in 2017. The framework was last updated in 2019 and submitted to the board in March 2020. Standard operating procedures for VAT and diesel refunds in terms of the diesel rebate scheme are being developed and will be incorporated in Exxaro's TRM policy in 2022. Standard operating procedures for carbon tax have been completed and will also be incorporated in the new TRM policy. An updated TRM policy will be presented to the board (through the audit committee) for approval in 2022. TRM policy updates have been delayed to incorporate the use of the new tax compliance dashboard, expansion of the existing VAT dashboards, and changes to VAT controls and procedures since the change in the governance of Exxaro's VAT function.

## Internal audits

Our internal auditors conducted the following internal audits during 2021. The results of the audits are listed below. All internal audit findings were cleared by 31 December 2021. Standard operating procedures were adjusted to address internal control deficiencies.



Each internal audit finding is classified as Level 1, Level 2 or Level 3.

The group tax manager is responsible for implementing and monitoring compliance with controls and procedures prescribed by the framework as well as identifying, analysing and evaluating the impact of events and associated risks on the group's strategic objectives.

Our board, audit committee, executive management, and other internal and external stakeholders, are informed about TRM activities. Stakeholder expectations and requirements, as well as Exxaro's open and transparent reporting objective, drive risk reporting.

The group tax manager provides quarterly and bi-annual reports to the audit committee on:

- Status of compliance with income tax filing to local and offshore tax authorities
- Status of significant tax disputes, audits and inquiries by authorities
- Significant tax developments affecting the business
- Significant tax risks identified (graded as likely to occur, with a tax impact above R10 million, where controls are inadequate to mitigate identified risks)
- The tax effect of material transactions such as acquisitions and disposals of assets, investments and businesses

Exxaro maintains transfer pricing policies for offshore transactions with connected parties. In addition to applying the local tax laws of the jurisdictions in which we operate, we follow the OECD's principles on transfer pricing and other international tax matters to ensure we pay tax in the jurisdictions in which we operate.

Our tax function upholds group document retention policies and uses the SARS e-filing system as an additional document database.

## ASSURANCE

Exxaro mitigates tax risk by four lines of defence:

- Line of defence 1: Daily operational management and controls
- Line of defence 2: Executive committee and audit committee oversee operational management
- Line of defence 3: Internal and external assurance of TRM on an ad hoc or rotational basis for objective, independent appraisal of the framework and processes
- Line of defence 4: SARS performs ad hoc audits to ensure compliance with relevant tax legislation

# Tax governance continued

## Level 1 – High

- Observations which could cause material financial, regulatory or reputational risk at a Company level.
- Deviations from the Exxaro's approved Code of Ethics.
- Material deviations from the Exxaro's approved policies.
- Multiple individual control failures which could result in multiple control objectives / risks not being appropriately mitigated.

## Level 2 – Medium

- Observations which could cause material financial, regulatory or reputational risk at business unit level.
- Material deviations from the business unit approved policies.
- Individual control failures which could result in a single control objective/risk not being appropriately mitigated.

## Level 3 – Low

"Housekeeping" matters which require management action in the normal course of business.

The level 1 finding for the diesel rebate process was largely due to uncertainty around the logbook requirements as SARS' regulations are uncertain and continuously changing.

Based on the outcome of internal audit processes and SARS' audits, the disallowance of diesel rebate claims has been identified as Exxaro's top tax risk. The most recent diesel rebate audit, concluded in December 2021, showed an improvement from 20% to only 2% of diesel rebates disallowed by SARS. The risk has been discussed extensively at executive management meetings and reported to the audit committee. Refer to treatments discussed under material tax risks.

## SARS audits

The following SARS audits were conducted during 2021.

LEGAL ENTITY	TAX TYPE	PERIOD AUDITED	STATUS OF AUDIT	RESULT OF AUDIT
Exxaro Coal	Diesel rebates	June 2015 to November 2018	Completed	R49 million in claims disallowed (R10 million interest paid)
Exxaro Coal	Diesel rebates	December 2018 to February 2021	Completed	R11 million claims forfeited (R3.7 million interest and penalties levied)
Exxaro Coal	Income tax	2018 Year-of-assessment	In progress	Information submitted (await response from SARS)
Exxaro Coal	VAT	January 2016 to October 2018	Completed	Additional assessment of R4.7 million plus R1.2 million penalties
Exxaro Coal Mpumalanga	Diesel rebates	June 2015 to November 2018	Completed	R34 million in claims disallowed (R22 million interest and penalties paid)
Exxaro Coal Mpumalanga	Diesel rebates	December 2018 to February 2021	In progress	Information was submitted to SARS on 31 January 2022

## OPEN YEARS OF ASSESSMENTS

The following tax years are open to SARS for assessment. Income tax filings to the SARS prescribe after 3 years in terms of the Tax Administration Act and 5 years in terms of Swiss tax legislation.

ENTITY	OPEN YEARS OF ASSESSMENT
<b>Major subsidiaries</b>	
Exxaro Coal	<b>2017 to 2020</b>
EITAG	<b>2016 to 2020</b>
<b>Material to the group</b>	
Exxaro Coal Mpumalanga	<b>2017 to 2020</b>
Exxaro Resources	<b>2018 to 2020</b>
Amakhala Emoyeni Renewable Energy Project 1 Proprietary Limited (Amakhala)	<b>2018 to 2020</b>
Tsitsikamma Community Wind Farm Proprietary Limited (Tsitsikamma)	<b>2018 to 2020</b>

Only entities classified as major subsidiaries or material to the Exxaro group have been listed. A major subsidiary represents 25% or more of total assets or revenue of the consolidated group results (JSE Listings Requirements service issue 25). Material entities do not meet the 25% criteria but this is material to the group.

# Tax risk management

## FRAMEWORK

Exxaro's enterprise risk management (ERM) framework considers today's uncertain operating environment in effective risk management to achieve our strategic objectives. Embedding risk management in existing processes is important for informed decisions and proactive planning. An effective approach to uncertainty and stakeholder expectations requires focus on TRM.

TRM includes operational risk management techniques, regulatory requirements for transparency and disclosure, a restrictive mindset in tax planning and focus on good corporate governance. It is a proactive, systematic analysis of possible unwanted events and responses (including controls and treatment plans) rather than a reactive mechanism for detected events.

TRM is part of Exxaro's ERM structure to ensure the tax function's independence.

## PHILOSOPHY AND RISK APPETITE

**Exxaro strives to create sustainable value for all stakeholders through operational efficiency, continuous improvement and regulatory compliance.**

In line with Exxaro's ERM philosophy, business strategy and objectives, our tax function's TRM creates value, protects the group against loss, and ensures effective tax planning, compliance with tax legislation and appropriate financial reporting within acceptable risk parameters.

Although Exxaro views tax planning as a legitimate business lever within the parameters of tax legislation, Exxaro has zero tolerance for evading any tax liability or facilitating the evasion of any tax liability on behalf of a third party. Exxaro has no appetite for transactions that have no valid commercial purpose other than obtaining a tax benefit. Exxaro has a low appetite for arrangements that could be to the detriment of the organisation in the event of external disclosure. Exxaro avoids tax practices that are misaligned with its approach to tax and tax strategy.

## TAX RISK REPORTING

It is important to keep the board, the audit committee, executive management, and other internal and external stakeholders, abreast of TRM activities. Risk reporting is driven by stakeholder expectations and requirements, as well as Exxaro's objective to report openly and transparently.

The following TRM information will be reported.

TYPE OF INFORMATION	REPORTING RESPONSIBILITY	TIMING	FORMAT OF THE REPORT	FORUM FOR DISCUSSION AND EVALUATION
The initial formal TRM framework	Group tax manager assisted by tax risk champion	Once off	TRM framework	Chief risk officer and chief financial officer
Feedback on the effectiveness of the TRM process	Internal audit department	Ad hoc	Internal audit reports	Audit committee
Feedback on changes to the TRM process	Group tax manager and tax risk champion	Significant changes are reported on an ad hoc basis	TRM memorandum	Chief risk officer
Identification of new risks with a residual risk factor grading greater than 10% (I>=36%, L>=60% and C<=45%)	Group tax manager and tax risk champion	Annual	As prescribed by the ERM framework	Chief risk officer
Unwanted events with an impact factor greater than 35%	Group tax manager and tax risk champion	Quarterly	Audit committee report	Executive and audit committee

# Tax risk management continued

## MATERIAL TAX RISK, OPPORTUNITY AND STRATEGIC RESPONSE

Relevant tax matters are identified by considering:

- Our business risks and opportunities (IR page 44)
- Our stakeholder engagements (IR page 44) and Stakeholder Management (ESG page 44)

Risk can be defined as the probability of an event happening that will impact your objectives and it can be quantified as the:

- Likelihood of an event occurring and the impact thereof

**Inherent risk** does not consider any controls (except baseline controls, which are intrinsic to the hazard).

**Residual risk** is where the likelihood is reduced by controls that address the root cause and/or the trigger/driver of the unwanted event and, where the impact is reduced by controls, minimising those impacts.

Risks are prioritised based on inherent risk, a predetermined risk appetite, the likelihood of the matter arising and its impact on value creation. Exxaro's top four material tax risks are discussed below.

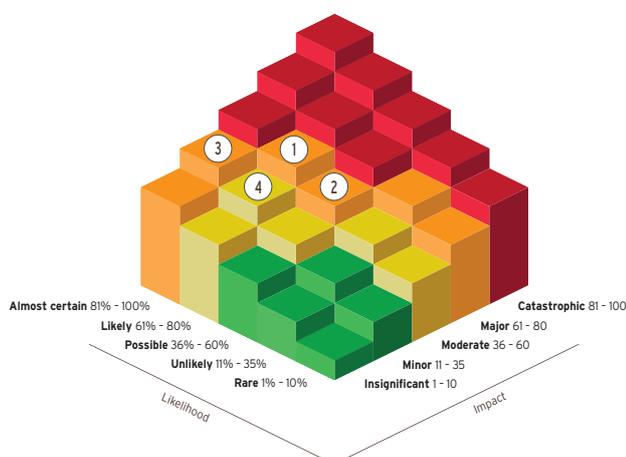
These risks have been rated using the following impact scales below which have been approved by the board in Exxaro's TRM policy. The impact scales for tax were specifically reduced from those set in terms of Group ERM in line with Exxaro's reduced appetite for tax risks.

### IMPACT SCALE

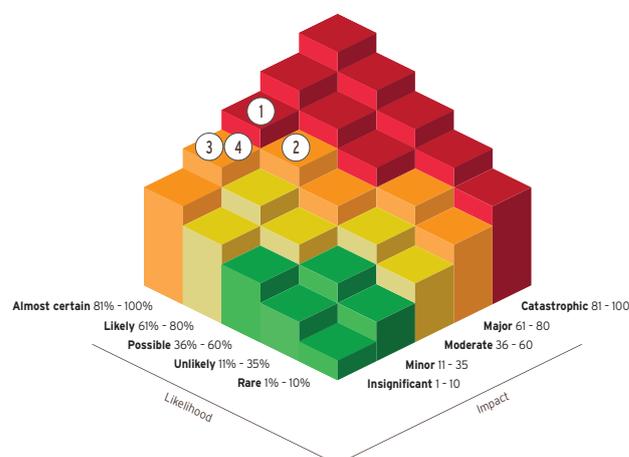
Description	Indicator	% Risk factor
Catastrophic	Tax impact > R75 million	81 to 100
Major	Tax impact >R50 million to R75 million	61 to 80
Moderate	Tax impact >R10 million to R50 million	36 to 60
Minor	Tax impact >R5 million to R10 million	10 to 35
Insignificant	Tax impact <= R5 million	<10

The outcome of the ratings were as follows.

### RESIDUAL RISK



### INHERENT RISK



## 1. DIESEL REBATE CLAIMS DISALLOWED

<b>Drivers</b> Exxaro is unable to provide supporting logbooks to satisfy SARS' requirements to substantiate its diesel rebate claims SARS has published draft regulations entailing significant changes to the diesel rebate system but these regulations have not been promulgated to date	<b>Strategic performance KPIs</b> Core operating profit
<b>Impacts</b> Financial losses  Cash flow constraints  Reputational damage  Prolonged audit processes  Capacity constraints on tax personnel to deal with increased audits rather than focus on value-add initiatives	<b>Treatments</b> Bi-weekly meetings with SARS to understand requirements and keep audits on track An external service provider (a team of 25 people with extensive knowledge and specialised software) was appointed to assist in compiling logbooks and supporting documentation to finalise outstanding SARS audits The external service provider provides training to Exxaro personnel at the mines Grootegeeluk mine is in the process of creating an IT platform where information and proof from different systems are collated to substantiate claims The internal auditors were requested to include the diesel rebate claim process at Exxaro's new Belfast mine in their audit plan (refer to internal audit results) Exxaro completed the process to appoint a fuel management service provider that can address SARS logbook requirements in February 2022
<b>Lines of defence</b>	1, 2, 3 and 4
<b>Risk trend</b>	Reduced

## 2. NEGATIVE TAX ADJUSTMENTS DUE TO INABILITY TO SUPPLY DOCUMENTARY EVIDENCE

<b>Drivers</b> Documentary evidence is not available as documents are retained for seven years in line with the Companies Act, 2008 (Act 71 of 2008), as amended (Companies Act) but SARS requests older information	<b>Strategic performance KPIs</b> Core operating margin
<b>Impacts</b> Financial losses  Reputational damage Increased audits by SARS Capacity constraints on tax personnel to deal with increased audits rather than focus on value-add initiatives	<b>Treatments</b> Adherence to SARS requirements for tax submissions to ensure return prescription periods do not exceed the seven-year documentation retention period
<b>Lines of defence</b>	1 and 4
<b>Risk trend</b>	Increased

# Tax risk management continued

## 3. UNDERSTATEMENT PENALTIES FOR NON-COMPLIANCE

<b>Drivers</b> The scope of "prejudice" defined by the Tax Administration Act, 2011 (Act 28 of 2011) (Tax Administration Act) is broad with potential for inadvertent errors and non-disclosure	<b>Strategic performance KPIs</b> Core operating margin
<b>Impacts</b> Financial losses Reputational damage Loss in stakeholder confidence	<b>Treatments</b> Group tax manager conducts detailed reviews of SARS submissions Automation of income tax return packs VAT dashboard that indicates potential VAT errors for proactive follow-up Automation of IT14SD reconciliation Automation of VAT apportionment calculation
<b>Lines of defence</b>	1 and 2
<b>Risk trend</b>	Decreased

## 4. CASH FLOW CONSTRAINTS DUE TO INABILITY TO OBTAIN TAX CLEARANCE CERTIFICATES

<b>Drivers</b> Inability to obtain tax clearance certificates results in delayed receipt of income from customers State-owned entities use different systems to check supplier tax status and not the SARS e-filing system	<b>Strategic performance KPIs</b> Core operating margin
<b>Impacts</b> Financial losses due to increased interest charges Increased burden on Treasury function to plan cash flows	<b>Treatments</b> A tax compliance dashboard is being developed and implemented to, inter alia, alert Exxaro to tax status changes on e-filing Maintain good relationships with dedicated SARS relationship officers and large business centre to resolve issues Timely submission of returns to stay compliant Exxaro changed its method of paying its VAT liabilities (diesel rebates are no longer considered in its calculation of its VAT liabilities, eliminating possible non-compliance due to outstanding tax debts)
<b>Lines of defence</b>	1
<b>Risk trend</b>	Decreased

# Tax performance

## TOTAL TAX CONTRIBUTION PAID

	2021 (Rm)	2020 (Rm)
Payments to government (taxation contribution)	2 933	1 947
<b>Direct taxes per country</b>	1 308	953
South Africa	1 289	938
Switzerland	19	15
<b>Indirect taxes</b>	787	326
VAT	775	312
Levied on purchases of goods and services	(3 094)	(3 379)
Charged on turnover	3 869	3 691
Dividend withholding tax — local	1	—
Dividend withholding tax — Switzerland	11	13
Securities transfer tax	—	1
<b>Levies paid to government</b>	838	668
Rates and taxes	25	21
Mineral and petroleum resources royalty	733	590
Workmen's Compensation Fund	15	17
Unemployment Insurance Fund	14	12
Carbon tax	2	1
Skills development levy	49	27

## TOTAL TAX CONTRIBUTION COLLECTED ON BEHALF OF GOVERNMENT

	2021 (Rm)	2020 (Rm)
Additional amounts collected by the group on behalf of government	1 404	1 235
Unemployment Insurance Fund	14	12
Pay as you earn (PAYE) tax deducted from remuneration paid	1 390	1 223

### Total tax contribution paid (%)



# Tax performance continued

## EFFECTIVE TAX RATE RECONCILIATION

Exxaro's effective tax rate is calculated as a percentage excluding discontinued operations. The difference in the standard rate of 28% is explained below.

	2021		2020	
	Total (%)	Excluding discontinued operations (%)	Total (%)	Excluding discontinued operations (%)
Standard tax rate	28.0	28.0	28.0	28.0
Capital losses/(gains) <sup>1</sup>	0.9	1.0	(2.1)	(2.1)
Exempt income <sup>2</sup>	(0.1)	(0.1)	(2.6)	(2.5)
Equity-accounted investment income <sup>3</sup>	(14.5)	(16.4)	(18.1)	(18.1)
Prior year adjustments	(0.1)	(0.1)		
Withholding taxes			0.1	0.1
Non-deductible expenditure <sup>4</sup>	(0.7)	0.7	3.5	3.6
Remeasurement of foreign tax rates	(0.2)	(0.2)	(0.3)	(0.3)
(Reinstatement)/derecognition of deferred tax assets <sup>5</sup>	—	—	(1.8)	(1.8)
Imputed income from controlled foreign companies	0.3	0.3	0.5	0.5
<b>Effective tax rate</b>	<b>13.6</b>	<b>13.2</b>	<b>7.2</b>	<b>7.4</b>

**1 Capital disposals for the current year included:**

- A deemed capital gain on the intercompany sale and purchase of the RBCT shares between Exxaro Coal (purchaser) and Exxaro Coal Central (Pty) Ltd (seller) in 2017 as a result of the de-grouping corporate tax rule triggered by the ECC group leaving the Exxaro group of companies.
- Exxaro Resources Ltd.'s ("ERL") loss on the sale of shares in Exxaro Coal Central (Pty) Ltd ("ECC"). A portion of the loss was utilised against the capital gains realised on the sale of the Tronox SA investment.
- Gain on the restructuring of the Chifeng investment and the de-registration of Exxaro International BV and Exxaro Basemetals International BV
- Capital gain on the sale of shares in Tronox SA. The gain was offset against capital losses available from prior years as well as the loss incurred on the sale of the ECC investment (classified as discontinued operations)
- Capital gain on the sale of Tronox Holdings PLC- the gain was exempt in terms of par 64B of the Eight Schedule to the Income Tax Act. (Classified as discontinued operations)
- Sale of ADX

**2 Comprises dividends received by mainly the Exxaro ESOP Trust and the Exxaro Community NPC**

**3 Mainly relates to equity-accounted investment income from Sishen Iron Ore Company Proprietary Limited (SIOC), a subsidiary of Kumba Iron Ore Limited (Kumba Iron Ore).**

Note: The prior-year effect of equity-accounted investment income on the tax rate for operations excluding discontinued operations has changed from a reduction of 18.2% (reported in the prior year) to a reduction of 18.1% on the tax rate This change is due to a restatement of discontinued operations in the prior year. Please refer to note 19.1 in the Group Financial statements.

**4 Expenses not deductible for tax purposes mainly included:**

- Rehabilitation fund assets acquired by Exxaro Coal and Exxaro Coal Mpumalanga from ERL. ERL received the rehabilitation funds as part of the divestment of the ECC operations. A deferred tax liability has been raised on the acquired rehabilitation fund assets.
- Professional fees (Consulting and legal), ESD grants as well as SARS penalties and interest on diesel rebate claims disallowed.
- Distribution to beneficiaries of Exxaro ESOP trust

These expenses have been partly offset by:

- Long-term incentive plan payments claimed
- The realisation of foreign currency translation reserve on the deregistration of Exxaro International BV and Exxaro Basemetals International BV.

**5 In the prior year, a deferred tax asset has been recognised on assessed capital losses from Exxaro Resources in anticipation of the sale of Tronox investments. This asset has been realised in the current year.**

### Reconciliation of tax accrual to cash tax paid (Rm)



# Country-by-country information

Exxaro Resources, as the ultimate parent and reporting entity, is responsible for the preparation and submission of the country-by-country (CbC) report for the Exxaro group in South Africa. The master file has been prepared in accordance with commentary in chapter V of the 2017 Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by the Organisation for Economic Cooperation and Development, and in line with the requirements of the public notice published by SARS for the submission of the CbC report, master file and local file by persons specified therein.

Exxaro is a diversified resources group with business interests in South Africa, Switzerland, Peoples Republic of China, Australia and Israel. Exxaro divested from its shareholding in Tronox which had business interests in the USA, UK and several other countries.

Exxaro is among the top five coal producers in South Africa with a diversified commodity portfolio. The asset portfolio includes investments in iron ore, ferrous and residual base metals. In line with its focus on renewable energy creation and reduction of carbon intensity, Exxaro purchased the remaining 50% in its Cennergi investment from Tata Power Company Limited in 2020.

The products under Exxaro's key business areas are discussed below.

## KEY BUSINESS AREAS

### Coal

The coal business remains the primary driver of Exxaro's revenue. Its extensive coal asset base is a key differentiator and critical part of how the group creates value for its stakeholders despite headwinds against coal.

Exxaro operated eight mines, of which four were underground, in South Africa. During 2021, Exxaro disposed of its investment in ECC, leaving five operating mines:

- Belfast
- Grooteegeluk Complex
- Leeuwpan (Exxaro is busy with the divestment process of this mine)
- Matla
- Mafube (50% JV with Thungela Resources)

The coal business produces thermal, metallurgical and coking coal. Internationally, coal is sold to EITAG for the export market. For the domestic market, it is sold mainly to Eskom and ArcelorMittal SA Limited. Thermal coal is mainly supplied to cement producers and power generation companies.

### Ferrous

Exxaro's FerroAlloys ferrosilicon plant supplies superior-quality, gas-atomised and milled ferrosilicon to various customers.

### Iron ore

Exxaro owns 20.62% of SIOC, a leading supplier of high-quality iron ore to the global steel industry and a subsidiary of Kumba Iron Ore.

### Renewable energy

Exxaro owns two windfarms, which deliver power into the Eskom grid. Tsitsikamma has an installed capacity of 95 megawatts (MW) and Amakhala 134 MW.

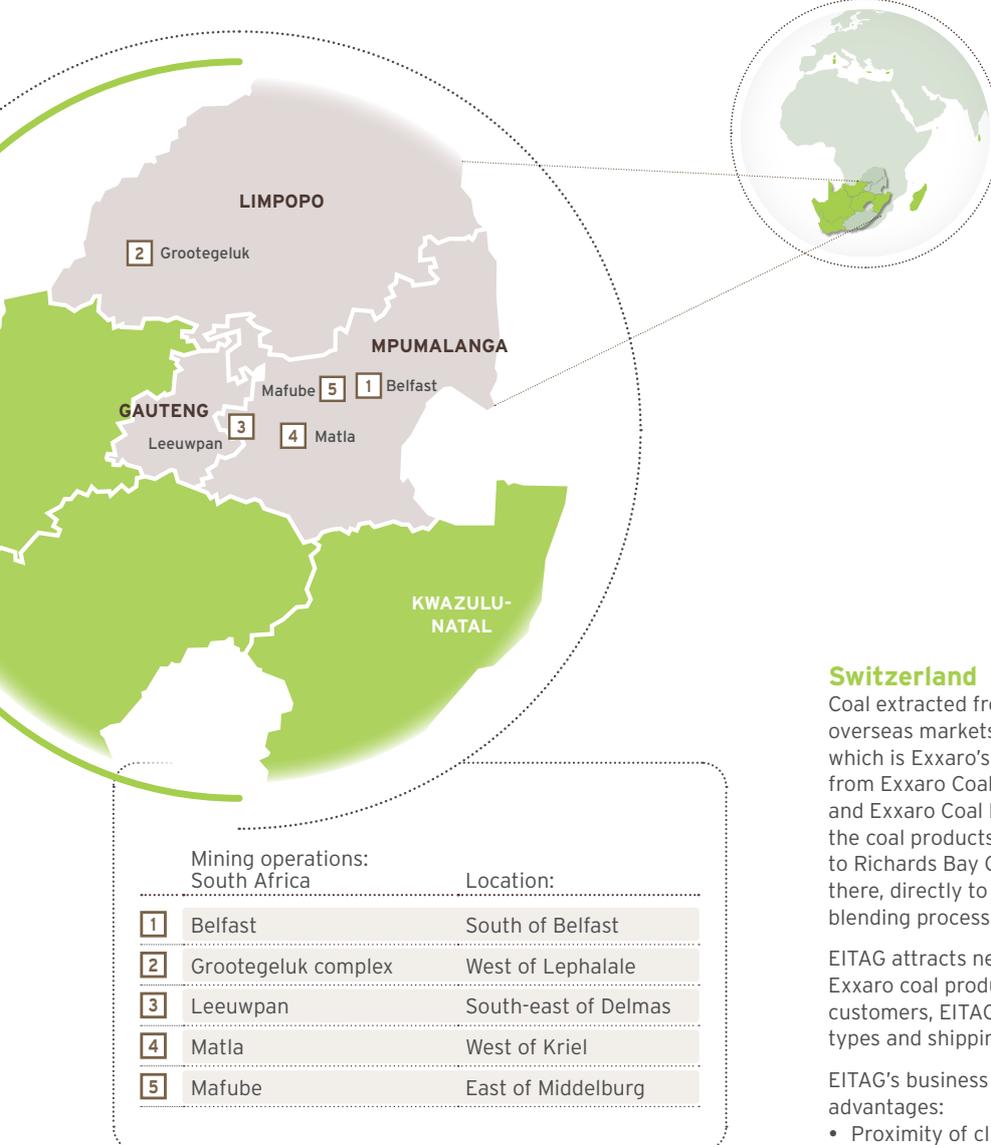
### Base metals

Exxaro has a 26% interest in Black Mountain Mining Proprietary Limited. Black Mountain Mining explores, develop, treat, produce and sell zinc, lead, copper and associated minerals concentrates.



# Country-by-country information continued

## GEOGRAPHICAL PRESENCE



### South Africa

The five mines left in Exxaro's coal portfolio are in the following locations:

- Belfast – south of Belfast
- Grootegeluk Complex – west of Lephalale
- Leeuwan – south-east of Delmas
- Matla – west of Kriel
- Mafube – east of Middelburg

The FerroAlloys ferrosilicon plant is in Pretoria.

The two wind projects are in the Eastern Cape. The Amakhala windfarm is near Cookhouse and Tsitsikamma is near Mfengu community land in Tsitsikamma. Cennergi has offices in Centurion and Gqeberha.

The Exxaro group is headquartered in Centurion.

### Switzerland

Coal extracted from the South African mines is sold into the overseas markets through the Swiss marketing company, EITAG, which is Exxaro's central offshore sales company. EITAG buys coal from Exxaro Coal, ECC (until the divestment on 30 September 2021) and Exxaro Coal Mpumalanga (collectively Exxaro SA) and on-sells the coal products to the ultimate customer. The goods are delivered to Richards Bay Coal Terminal Proprietary Limited (RBCT) and, from there, directly to the foreign client. EITAG is responsible for the coal blending process as well as the RBCT entitlement usage.

EITAG attracts new customers, and develops new markets for Exxaro coal products. Based on the contract concluded with customers, EITAG manages the scheduling of coal volumes, quality types and shipping dates.

EITAG's business strategy is to use the following regional advantages:

- Proximity of clients
- Intelligence gathering
- Product and market knowledge
- Access to ports to facilitate efficient logistics
- Cultural fit with customers

Having a central offshore sales company also ensures the application of consistent policies, and the growth of the Exxaro brand and offshore client base. EITAG has five employees (1 expat employee, 1 local employee and 3 contractors).

### Australia

Exxaro Australia Holdings Proprietary Limited (EAH) is the holding company of the Australian group of companies (the EAH Australian tax group) and does not have any employees. Exxaro Australia Proprietary Limited, a subsidiary of EAH, holds a 50% interest in a JV with Anglo Coal (Grosvenor) Proprietary Limited (Anglo Coal) in the Moranbah project, which is currently an undeveloped coal resource in exploration stage. Anglo Coal manages the project.

The Moranbah project is located in the Queensland district of Australia.

### China

Exxaro holds a minority investment in the Chifeng Hongye Zinc Smelting Co Limited smelting operations, incorporated in the People's Republic of China.

### United Kingdom (UK)

Exxaro owns a 25.86% interest in Insect Technology Group Holdings UK Limited, which is currently in the process of deregistration.

Exxaro disposed of its remaining investment of 10.26% Tronox shares on 2 March 2021.

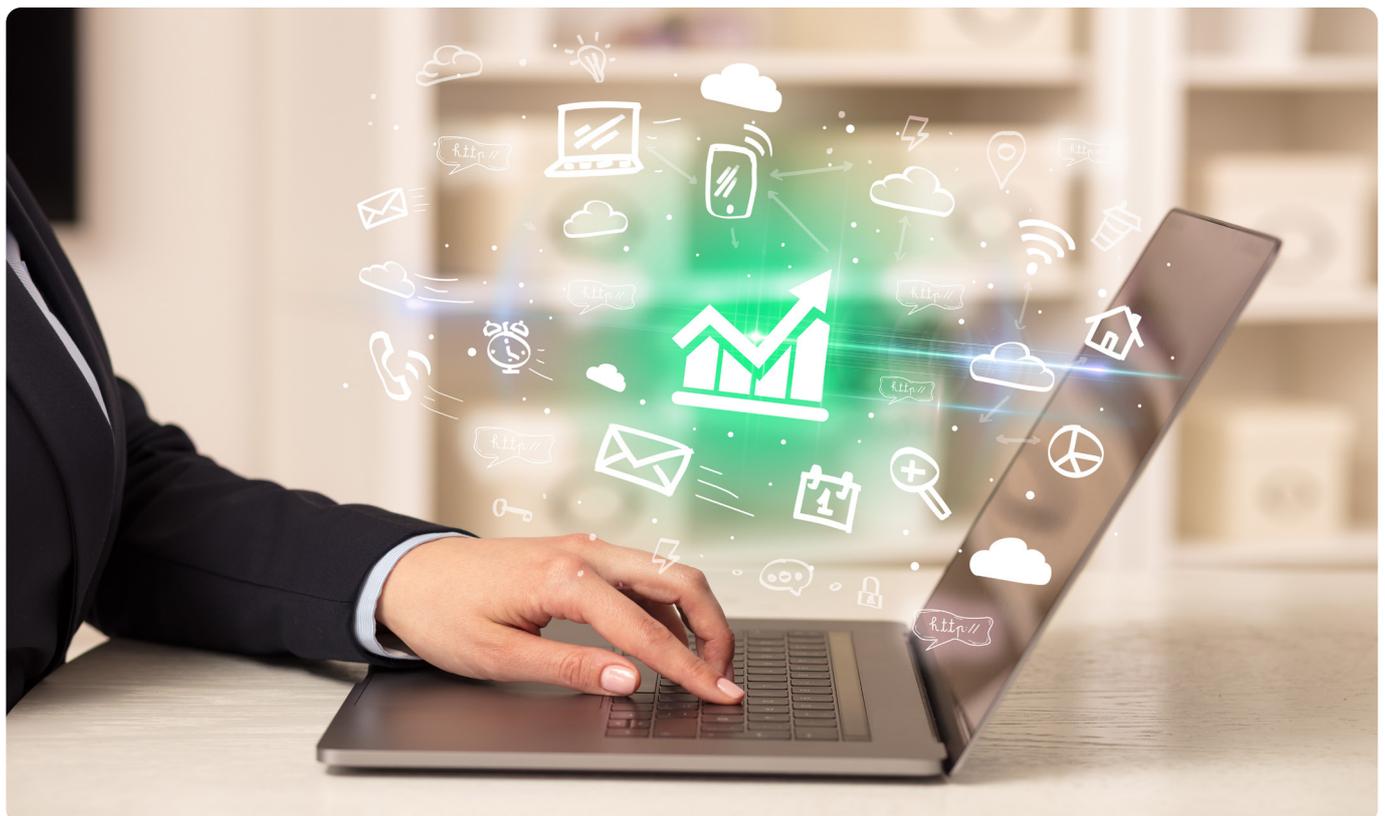
### Israel

Exxaro owns a 28.5% interest in LightApp Technologies Limited.

## SIGNIFICANT INTERCOMPANY TRANSACTIONS

Important service arrangements within the Exxaro group are shown in the table below. During 2021, there were no loans between Exxaro and any of its foreign group companies outside South Africa. Exxaro does not maintain unilateral advance pricing agreements in support of its intercompany transactions, or tax rulings relating to the allocation of income across countries.

SERVICE	SUPPLY ENTITY	SUPPLY COUNTRY	RECEIVING ENTITY	RECEIVING COUNTRY	TRANSFER PRICING POLICY
Sale of coal	ECC, Exxaro Coal and Exxaro Coal Mpumalanga	South Africa	EITAG	Switzerland	Yes
Provision of warehousing, logistics and blending support	Exxaro Coal and ECC	South Africa	EITAG	Switzerland	Yes
Provision of various business and management support services, including but not limited to: <ul style="list-style-type: none"> <li>Financial and accounting services</li> <li>Human resources</li> <li>Legal and insurance services</li> <li>IT, purchasing, business developments, operations and quality assurance</li> <li>Communication and regional management services</li> </ul>	Exxaro Resources	South Africa	Various	South Africa	Not applicable



# Country-by-country information continued

## COUNTRY-BY-COUNTRY REPORTING

2021	Revenue from third-party sales	Revenue from intra-group transactions with other jurisdictions <sup>3</sup>	Net profit/(loss) before tax <sup>5</sup>	Equity-accounted investment income <sup>1</sup>	Corporate tax paid/(received) in cash
<b>South Africa</b>					
Coal	20 572	9 939	7 149	385	1 184
Ferrous	168				(10)
Base Metals			353	352	
Iron ore			9 037	9 037	
Titanium dioxide and pigments <sup>4</sup>			2 271	54	
Renewable energy	1 193		(150)		11
Other	15		102		104
<b>Inter-company sales</b>		(9 939)			
<b>Total</b>	21 948	—	18 762	9 828	1 289
<b>Switzerland</b>					
Coal — EITAG	10 823		204		19
<b>Australia (coal)</b>			(26)		
<b>Israel</b>			16	16	
<b>Grand total</b>	32 771		18 956	9 844	1 308

1. Equity accounted investment income is reflected in the country of incorporation
2. The number of employees include permanent employees. It does not include FTE's and contractors
3. Excludes fees received for administration services delivered by Exxaro Coal (Pty) Ltd head-office.
4. Classified as discontinued operations
5. Equity-accounted investment income is included in net profit/(loss) before taxation

\* Public notice 1117, Government Gazette 41186, dated 20 October 2017, published in terms of section 25 of the Tax Administration Act.

	Corporate tax expense accrued	Dividend withholding tax accrued	Dividend withholding tax paid	Statutory tax rate	Effective tax rate	Total number of employees <sup>2</sup>	Tangible assets
	2 105			28%		6 140	32 117
				28%		82	32
	379			28%			
	26			28%		20	5 553
	36	1	1	28%		502	523
	2 546	1	1	28%			38 225
	24	11	11	12%	12%	2	—
							126
	2 570	12	12		14%	6 745	38 351

### Disclaimer

Opinions expressed herein are, by nature, subjective to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives of Exxaro Resources Limited (the company) to differ materially from those expressed or implied in the forward-looking statements. Financial forecasts and data given herein are estimates based on the reports prepared by experts who, in turn, relied on management estimates. Undue reliance should not be placed on such opinions, forecasts or data. No representation is made as to the completeness or correctness of the opinions, forecasts or data contained herein. Neither the company, nor any of its affiliates, advisers or representatives accepts any responsibility for any loss arising from the use of any opinion expressed or forecast or data herein. Forward-looking statements apply only as of the date on which they are made, and the company does not undertake any obligation to publicly update or revise any of its opinions or forward-looking statements, whether to reflect new data or future events or circumstances. Any forward-looking information has not been audited, reviewed or otherwise reported on by the external auditors.



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