



POWERING POSSIBILITY

Exxaro Resources Limited

Tax report 2020



**POWERING A
CLEAN WORLD**



CONTENTS

- 1 Tax landscape
- 4 Tax risk management
- 6 Tax performance
- 8 Tax governance

ABOUT EXXARO

Exxaro is more than a mining company. Guided by our purpose – powering better lives in Africa and beyond – we are a critical part of the South African economy and strive to be an active participant on the just transition to a low-carbon economy.

Exxaro Resources Limited (Exxaro, the company or the group) is among the top five coal producers in South Africa. Since 2006, Exxaro has become one of South Africa's largest and foremost black-empowered and diversified mining companies.

The group is a constituent of the JSE Limited (JSE) top 40 Index and among the top 30 in the FTSE/JSE Socially Responsible Investment Index. Exxaro is also proud to embrace the principles of the Task Force on Climate-related Financial Disclosures (TCFD).

Based on our position as a major coal supplier in South Africa, we understand the importance of being carbon-neutral. Therefore, we have started incorporating renewable energy solutions into our existing portfolio to reach this milestone by 2050. To this end, Exxaro is pleased to announce the acquisition from Khopoli Investments Limited (Khopoli), wholly owned by Tata Power Company Limited (Tata), of Khopoli's 50% interest in Cennergi Proprietary Limited (Cennergi) for a cash consideration of R1 739 million (excluding price adjustments). As of 1 April 2020, Exxaro therefore assumed 100% ownership of Cennergi.

 Read more about what this acquisition means for Exxaro on page 118 of the 2020 integrated report.



CONNECT WITH EXXARO

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

Tel: +27 12 307 3174

Mobile: +27 83 460 3723

Email: Malusi.Buthelezi@exxaro.com

www.exxaro.com

Follow Exxaro on Facebook, Twitter, Instagram, LinkedIn and YouTube



 *Disclaimer: Photographs of people without masks were either taken pre-COVID-19 or full health and safety protocols were followed as appropriate.*

Navigating this report

We use the following icons throughout our report:



Read more online
www.exxaro.com



Read more in
this report



COVID-19's impact on
our organisation

TAX LANDSCAPE

Exxaro uses the International Integrated Reporting Council's (IIRC) Integrated Reporting <IR> Framework to present tax considerations in creating value over time.

In this report, we discuss Exxaro's oversight of our external environment, key stakeholders, material risks, tax management and governance.

This report should be read together with Exxaro's 2020 integrated report, available online under the investors tab. 

INTERNAL AND EXTERNAL ENVIRONMENT

Taxation is an integral part of our business and the natural outflow of each business decision. It can be managed effectively within the parameters of tax law to support Exxaro's endeavour to create value and apply good corporate governance. Value creation regarding taxation is best understood in terms of external and internal influencing factors.

Regulatory changes and challenges

Carbon tax

South Africa's Carbon Tax Act, 2019 (Act 15 of 2019) (the Carbon Tax Act) and the Customs and Excise Amendment Act, 2019 (Act 13 of 2019) (the Customs and Excise Amendment Act) were effective from 1 June 2019. The Customs and Excise Amendment Act contains provisions for carbon tax revenue collection by the South African Revenue Service (SARS).

Taxpayers may be liable for carbon tax if they are above the threshold for one of the activities listed in Schedule 2 of the Carbon Tax Act. Carbon tax is levied on greenhouse gas (GHG) emissions from fuel combustion, industrial processes and fugitive emissions, as determined by the Department of Environmental Affairs reporting methodology.

Emitters are required to license their activities liable for carbon tax. Payment of this annual environmental levy is due in July every year.

In a strict legal sense, carbon tax is a levy and not a tax. It is an environmental levy, as contemplated in section 54A of the Customs and Excise Act, 1964 (Act 91 of 1964). Carbon tax administration, collection and payment are regulated by the Customs and Excise Act. An amendment to the rules of the Customs and Excise Act was gazetted on 23 December 2019 to provide for carbon tax licensing and registration.

We submitted applications for five licences in July 2020 for the following legal entities in Exxaro's group of companies:

- Exxaro Coal Proprietary Limited (EC)
- Exxaro Coal Mpumalanga Proprietary Limited (ECM)
- Forzando Coal Mines Proprietary Limited (Forzando)
- Dorstfontein Coal Mines Proprietary Limited (Dorstfontein)
- Exxaro FerroAlloys Proprietary Limited (FerroAlloys)

FerroAlloys and ECM received their licences in February 2021 only and therefore, carbon tax payments of R2 million could not be made for ECM's underground Matla mine on 29 October 2020. The liability was accrued in the financial results. As FerroAlloys' carbon emissions were below the payment threshold for the 2019 tax year, no payment was due in 2020. Carbon tax payments of R1.3 million for Forzando and Dorstfontein were made in 2020 relating to the 2019 tax year. EC only has opencast mines with a zero emissions factor, as established by the intergovernmental Panel on Climate Change. As such, no carbon tax payments were due in 2020.

Carbon tax accrual for the 2020 assessment, is R5.5 million and is payable on 29 July 2021.

Royalty taxes

Minerals royalty payments and submissions were filed manually in 2020 as the SARS e-filing platform did not launch in 2020.

In 2018, Mafube Mining Proprietary Limited (Mafube), a 50/50 joint venture with Anglo American, received an additional assessment of R280 million for royalties, including interest and penalties. Mafube objected to the assessment, but SARS disallowed the objection. An Alternate Dispute Resolution process did not address the above and Mafube therefore lodged an appeal on 19 June 2019. In December 2019, SARS indicated that they were willing to negotiate a settlement, which Mafube declined. The grounds of appeal was lodged on 9 November 2020 and a court date is now awaited.

Diesel refunds

After more than three years, EC and ECM diesel rebate refunds have not been finalised. SARS issued a letter of intent at the end of 2020, notifying EC of its intention to disallow the claim of approximately R434 million. SARS granted EC an extension to submit additional documentation to support the claim. SARS also requested a second visit to EC operations, which was scheduled for 14 January 2021 but was postponed due to stricter COVID-19 regulations. EC appointed advisers to assist in compiling the documentation to support the claim. They are confident that the claim is defensible.

SARS also requested further information from ECM and a visit to Matla in December 2020. ECM is compiling the requested information. The mine visit was scheduled for 14 January 2021 but was postponed due to COVID-19 restrictions. To overcome the COVID-19 restrictions various virtual meetings were held with SARS where presentations were made explaining the mining operations.

Separation of the diesel refunds from the value added tax (VAT) system will be completed in the 2021 tax year. Outstanding diesel refunds complicate tax compliance and put significant pressure on cash flow.

COVID-19 concessions

Tax measures were introduced on 29 March 2020 in response to the economic impact of COVID-19. The concessions help compliant businesses retain cash flow and provide incentives to retain their lower-income employees. However, economic conditions worsened and as a result, the minister of finance provided a second set of measures to assist taxpayers through the pandemic.

Exxaro benefited from the following relief measures:

- During 2020 Exxaro made a R20 million donation to the Solidarity Fund. An additional 10% deduction stemming from the donation could be claimed by Exxaro Resources Ltd (ERL). ERL was unable to claim the full benefit of the R20 million donation in 2020 assessment due to low taxable income. ERL is able to carry forward the unused portion to subsequent years
- The first carbon tax payment deadline was moved from 31 July 2020 to 31 October 2020. SARS also allowed electronic submission of carbon tax licensing documents
- A four-month payment holiday for skills development levies was granted in May 2020
- Implementation of certain of the 2020 budget measures was postponed until at least 1 January 2022. This includes restrictions on assessed losses and interest expense deductions

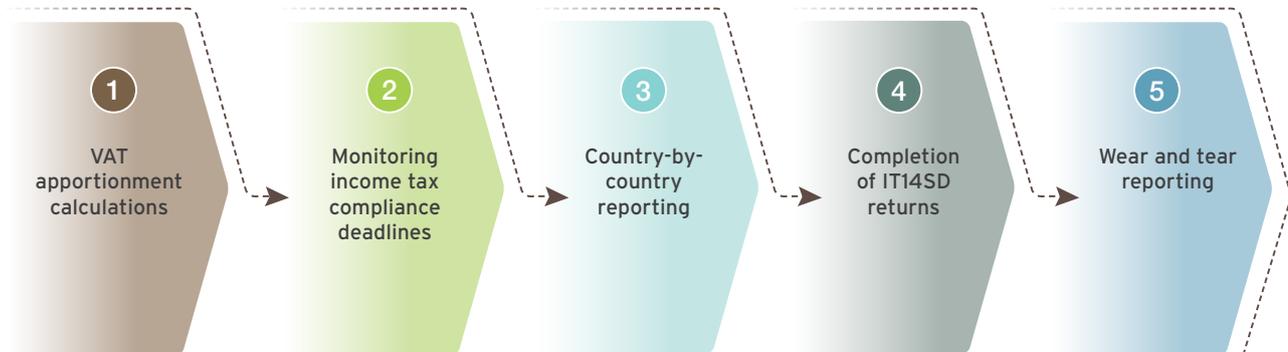
Exxaro also considered other COVID-19 relief measures including the deferral of employees' tax liabilities and provisional income tax payments for its smaller operations falling under the R100 million gross income threshold. The company decided not to opt for these measures since the administrative challenges would have outweighed their benefits.

We could not fast track VAT refunds by SARS, as the relief measure was only available to smaller VAT vendors. Exxaro could also not benefit from the additional subsidies under the Employment Tax Incentive because our employees do not fall in the "below R6 500" earnings bracket.

TAX LANDSCAPE continued

Tax digitalisation

Robotic process automation (RPA) and artificial intelligence (AI) are assisting the Exxaro tax function to become a valued strategic partner by improving efficiency and effectiveness. RPA eliminates repetitive, time-consuming manual tasks. Plans for digitally automating the tax function include, among others:



We engaged with leading experts in this field to understand the costs of implementing these solutions and the processes involved to implement. Funds are budgeted for 2021 to implement certain of these projects.

Exxaro's offshore tax structure

Exxaro is a multinational enterprise and as such, we submit master and local files as well as a country-by-country report to SARS.

We have business interests in Switzerland (marketing coal) and Australia (prospecting operations at Moranbah), and equity-accounted investments in China (Chifeng Kumba Hongye Zinc Company Limited) and Israel (LightApp Technologies Limited).

As a result Exxaro reports these offshore entities as controlled foreign companies and imputes their income in terms of section 9D of the Income Tax Act, 1962 (Act 58 of 1962):

- Exxaro International Trading AG (EITAG) (Switzerland)
- Exxaro Base Metals China Limited (Hong Kong) – liquidated in 2020
- Exxaro Australia Holdings Proprietary Limited – previously Exxaro Australia Iron Holdings Proprietary Limited
- Exxaro Australia Proprietary Limited



TAX LANDSCAPE continued

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"> • Non-compliance with tax laws causes reputational damage and financial loss • Capacity constraints due to ongoing SARS audits and information requests • Complex restructuring transactions or sale/acquisition of investments/assets expose Exxaro to adverse tax consequences • Complicated and regular tax legislation changes pose risks 	<ul style="list-style-type: none"> • 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™)* • Manage tax risks within a board-approved framework • Transparent behaviour with prompt response to requests, audits, voluntary disclosure programmes and detailed tax return submissions • VAT analytics tool identifies incorrect treatments • Regular revision and external audit of transfer pricing policies • Use Tax Ombud to ensure SARS is administratively compliant and upholds service charter for refunds and finalising audits • Employ qualified people and manage their performance • Engage with expert legal advisers for transactions: <ul style="list-style-type: none"> – With tax impact above R10 million – Acquisition and sale of investments – Projects in foreign jurisdictions – Group restructuring projects
Financial reporting audiences (shareholders and financiers)	<ul style="list-style-type: none"> • Tax reporting does not fairly represent Exxaro's financial position 	<ul style="list-style-type: none"> • Automated tax consolidation tool developed by Deloitte to calculate tax disclosure required by IAS 12 accounting treatment for income taxes • Qualified professionals manage tax reporting
Communities	<ul style="list-style-type: none"> • Communities in the surrounding areas where Exxaro operates are not benefiting from money spent on approved public benefit activities 	<ul style="list-style-type: none"> • A non-profit company (with section 18A status) was established in the prior year for the benefit of Exxaro employees and communities in the surrounding areas where Exxaro operates. Senior employees are directors of the non-profit company (NPC) to ensure compliance with applicable laws and governance

* Copyright and trademarks are owned by the Institute of Directors in South Africa NPC and all of its rights are reserved.

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 tax risk management (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.

Exxaro views tax planning as a legitimate business lever within the parameters of tax legislation.

MATERIAL TAX RISK, OPPORTUNITY AND STRATEGIC RESPONSE

Relevant tax matters are identified by considering:

- Risk and opportunity arising from external influences (📄 page 71 of the integrated report)
- Key expectations raised by stakeholders (📄 page 62 of the integrated report)
- Our enterprise risk management process (📄 page 66 of the integrated report)

These are prioritised based on inherent risk, a predetermined risk appetite and the likelihood of the matter arising and its impact on value creation. Exxaro's top five material tax risks and opportunities are discussed on the following page.

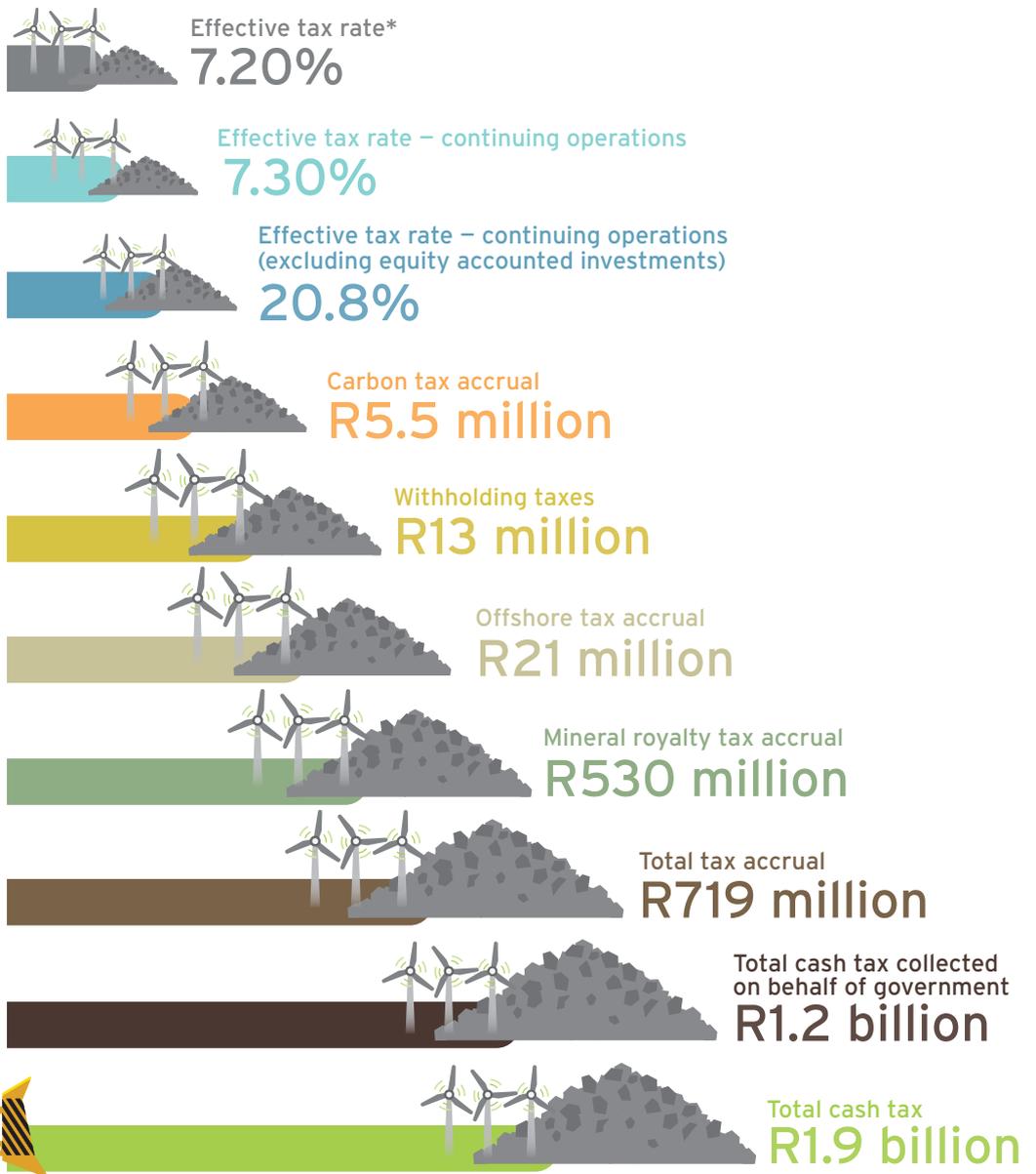


TAX RISK MANAGEMENT continued

Ranking	Risk	Context	Strategic treatment
1	Diesel rebate audits	<ul style="list-style-type: none"> • Uncertainty about SARS compliance requirements for diesel rebates threatens payment of refunds • Prolonged audits by SARS for unreasonable periods 	<ul style="list-style-type: none"> • Continuous engagement with SARS to understand requirements • Service provider helps collate and update information to meet SARS requirements • Meetings with senior legal representatives to ensure Exxaro acts in line with the legal framework
2	Understatement penalties	<ul style="list-style-type: none"> • Scope of “prejudice” definition in Tax Administration Act is broad with potential for inadvertent errors • Understatement penalties are severe even if there is no financial loss for SARS due to taxpayer disclosure errors • SARS penalties for incorrect annual financial statements (AFS) disclosures and late issuance of AFS 	<ul style="list-style-type: none"> • Group tax manager conducts detailed reviews of submissions to SARS • Automation of tax return pack avoids errors and tax consultants are involved in day-to-day business operations • AFS completed in terms of latest international financial reporting standards with reviews by senior management and directors • Issuance of AFS adheres to corporate financial reporting calendar
3	Tax clearance certificates	<ul style="list-style-type: none"> • Companies suffer cash flow constraints • State-owned entities use different government systems to check supplier’s tax status – misalignment leads to non-compliance • Diesel rebate audits are not finalised resulting in the SARS VAT system showing short payments by taxpayer leading to non-compliance 	<ul style="list-style-type: none"> • Maintain good relationships with dedicated SARS relationship officers and large business centre for prompt response when system fails • Investigating alternative systems to comply with SARS requirements for diesel refunds
4	Disposal and acquisition of investments	<ul style="list-style-type: none"> • Understanding tax effects of complex transactions 	<ul style="list-style-type: none"> • Tax function signs off submissions to investment review committee and executive committee decisions on capital expenditure • Expert legal advice for complex restructuring transactions
5	Document retention	<ul style="list-style-type: none"> • Negative tax adjustments as documents are retained for seven years in line with Companies Act, 2008 (Act 71 of 2008) (Companies Act) but SARS requests older information 	<ul style="list-style-type: none"> • Adhere to SARS requirements for tax submissions to ensure return prescription periods do not exceed seven-year document retention period

TAX PERFORMANCE

STATISTICS



* Refer to the tax rate reconciliation on page 8.

TAX PERFORMANCE continued

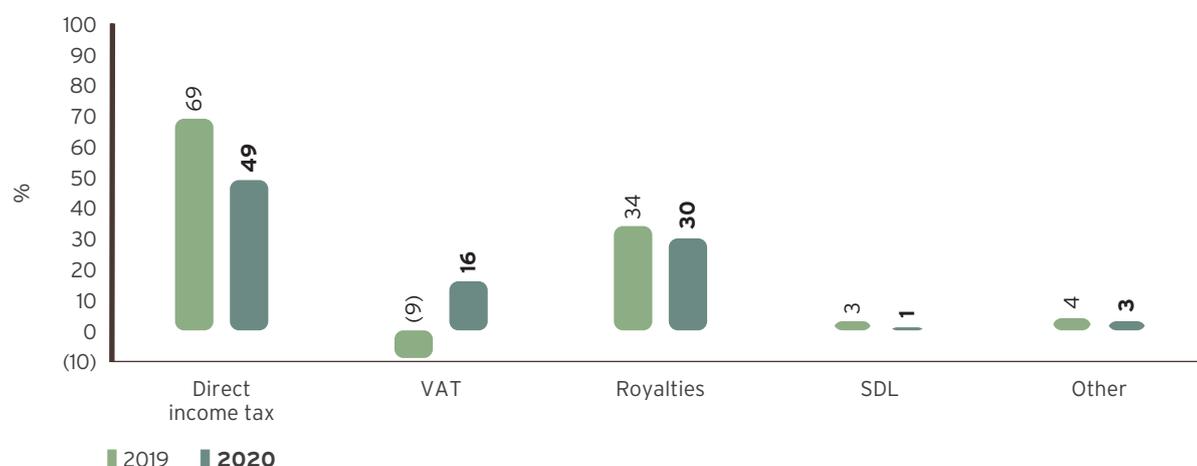
Total tax contribution paid

	2020 (Rm)	2019 (Rm)
Payments to government (taxation contribution)	1 947	1 693
Direct taxes per country	953	1 163
South Africa	938	1 138
Switzerland	15	25
Indirect taxes	326	(139)
VAT	312	(155)
Levied on purchases of goods and services	(3 379)	(3 572)
Charged on turnover	3 691	3 417
Dividend withholding tax – local	0	1
Dividend withholding tax – Switzerland	13	13
Securities transfer tax	1	2
Levies paid to government	668	669
Rates and taxes	21	22
Mineral and petroleum resources royalty	590	568
Workmen's Compensation Fund	17	20
Unemployment Insurance Fund	12	13
Carbon tax	1	0
Skills development levy	27	46

Total tax contribution collected on behalf of government

	2020 (Rm)	2019 (Rm)
Additional amounts collected by the group on behalf of government	1 235	1 328
Unemployment Insurance Fund	12	13
Pay as you earn (PAYE) tax deducted from remuneration paid	1 223	1 315

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.

	2020	2020	2019	2019
	Total (%)	Excluding discontinued operations (%)	Total (%)	Excluding discontinued operations (%)
Standard tax rate	28.0	28.0	28.0	28.0
Capital gains, special allowances and exempt income ¹	(4.7)	(4.6)	(5.5)	(1.1)
Equity-accounted investment income ²	(18.1)	(18.2)	(11.9)	(14.7)
Prior year adjustments ³			(1.2)	(1.4)
Withholding taxes	0.1	0.1	0.1	0.1
Non-deductible expenditure ⁴	3.5	3.6	1.5	1.0
Other non-taxable receipts and tax deductions ⁵			(3.0)	(2.6)
Remeasurement of foreign tax rates	(0.3)	(0.3)	(0.3)	(0.3)
(Re-instatement)/derecognition of deferred tax assets ⁶	(1.8)	(1.8)	1.3	1.6
Imputed income from controlled foreign companies	0.5	0.5	0.3	0.3
Effective tax rate	7.2	7.3	9.3	10.9

¹ Deemed sale of Cennergi JV and the sale of Ermelo JV. Also includes contributions received by Exxaro ESOP Trust and donations received by the Exxaro Community NPC, a tax exempt institution as well as dividend income.

² Mainly due to a significant increase in equity accounted investment income from SIOC.

³ Dispute relating to imputed s.9D income from controlled foreign companies were settled with SARS in the prior year.

⁴ Due to impairments of Curapipe and AgriProtein (ITGH) as well as the remeasurement of the EMJV indemnification asset.

⁵ In the prior year this mostly related to a fair value adjustment of the Exxaro Coal Central contingent consideration and significant actual share based payments claimed.

⁶ A deferred tax asset has been recognised on assessed capital losses from Exxaro Resources Ltd in anticipation of the sale of Tronox shares. In the prior year, only half of the available loss was recognised as a deferred tax asset.

Country-by-country reporting: current tax accrual expense

	Switzerland	Australia	South Africa	Total
Income tax (Rm)	21		685	706
Dividend withholding tax (Rm)			13	13
Total (Rm)	21		698	719
Effective tax rate (%)	11		7	7
Statutory tax rate (%)	9	30	28	28

IFRIC 23 Uncertain tax positions

No known uncertain tax positions related to income tax were recorded in the 2020 financial year.

TAX GOVERNANCE

GOVERNANCE OVERSIGHT

Exxaro is committed to complying with the code of corporate practices and conduct set out King IV™. In terms of King IV™, Exxaro is responsible for risk management governance, including TRM.

Our board and audit committee manage tax risks. 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 is centralised at Exxaro's head office. It is not responsible for tax compliance, control and management of indirect taxes such as VAT and PAYE, but advises when required.

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.

TAX GOVERNANCE continued

Policies and controls

The board approved the TRM framework in 2017. Significant changes are reported as required and the framework is regularly updated. It was last updated in 2019 and submitted to the board in March 2020. No significant amendments were made other than organisational reporting lines disclosed in the prior year.

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

Assurance

We conduct internal and external assurance of TRM on an ad hoc or rotational basis for objective, independent appraisal of the framework and processes.

Our internal auditors reported no audit findings when evaluating the tax return and reporting pack during the year.

Performance management

Exxaro undertakes the following performance management initiatives:



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 also financially supports training and formal postgraduate studies. Employees regularly attend courses and seminars.



Formal development programmes are in place for all tax staff.



Personal performance appraisals assess employees' commitment to risk management.



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

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.

exxaro

POWERING POSSIBILITY

www.exxaro.com

