



**exxaro**

**POWERING POSSIBILITY**

**Exxaro Resources Limited**  
Integrated report 2019



www.exxaro.com



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## HOW IT WORKS

- Step 1: Download the free LAYAR app for iPhone or Android.
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- Step 3: View the interactive content.




## About Exxaro

### Our purpose: to power better lives in Africa and beyond

Exxaro is among the top five coal producers in South Africa with a diversified commodity portfolio, a quality coal resource base, including the only producing mine in the coal-rich Waterberg region, Grooteegeluk, which is acknowledged as one of the largest integrated mining and beneficiation operations globally.

The company is also a constituent of the JSE's Top 40 Index and among the top 30 in the FTSE/JSE Socially Responsible Investment Index.

Coal is the core commodity of our business for now. However, we understand the nature of opportunities in the fossil-fuel sector and changing global imperatives. This understanding has underpinned the determination of our strategic direction as we end this second decade and will define our course into the next decade to 2030.

The report presents Exxaro's strategic choices and performance during 2019.  Please also visit our website for historical performance and our interactive experience.

#### FEEDBACK

We welcome feedback from stakeholders. Please send your suggestions to:

#### Hanno Olinger

Manager: Integrated reporting and ESG  
Tel: +27 12 307 3359  
Mobile: +27 83 609 1094  
Fax: +27 12 307 5327  
Email: [hanno.olinger@exxaro.com](mailto:hanno.olinger@exxaro.com)  
[www.exxaro.com](http://www.exxaro.com)



#### HOW TO NAVIGATE THIS REPORT

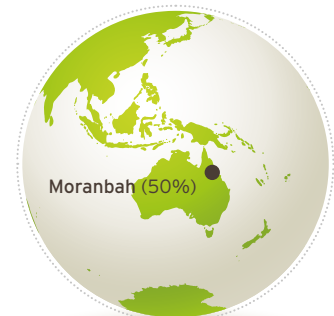
GRI elements in the integrated report are cross-referenced for a fuller perspective.

 Read more online  Further reading in this report

# In this report you will see a few hashtags. We will be using these throughout the year when we are sharing news about a topic, making it easier to follow us on social media and stay tuned to our activities during the year.



#### AUSTRALIA



..... Project

— Mine

- 1 Arnot
- 2 Belfast
- 3 Dorstfontein (75%)
- 4 Forzando (87%)
- 5 Grooteegeluk
- 6 Leeuwpán
- 7 Mafube
- 8 Matla
- 9 Thabametsi
- 10 Tumelo (49%)

## About this report

Exxaro's integrated report 2019 includes a summary of the most material information contained in the environmental, social and governance (ESG) report 2019 and the consolidated Mineral Resources and Mineral Reserves report 2019.

We aim to consistently benchmark our performance against global best practice and hence voluntarily endorsed the Sustainable Development Goals (SDGs).

### Scope and boundary

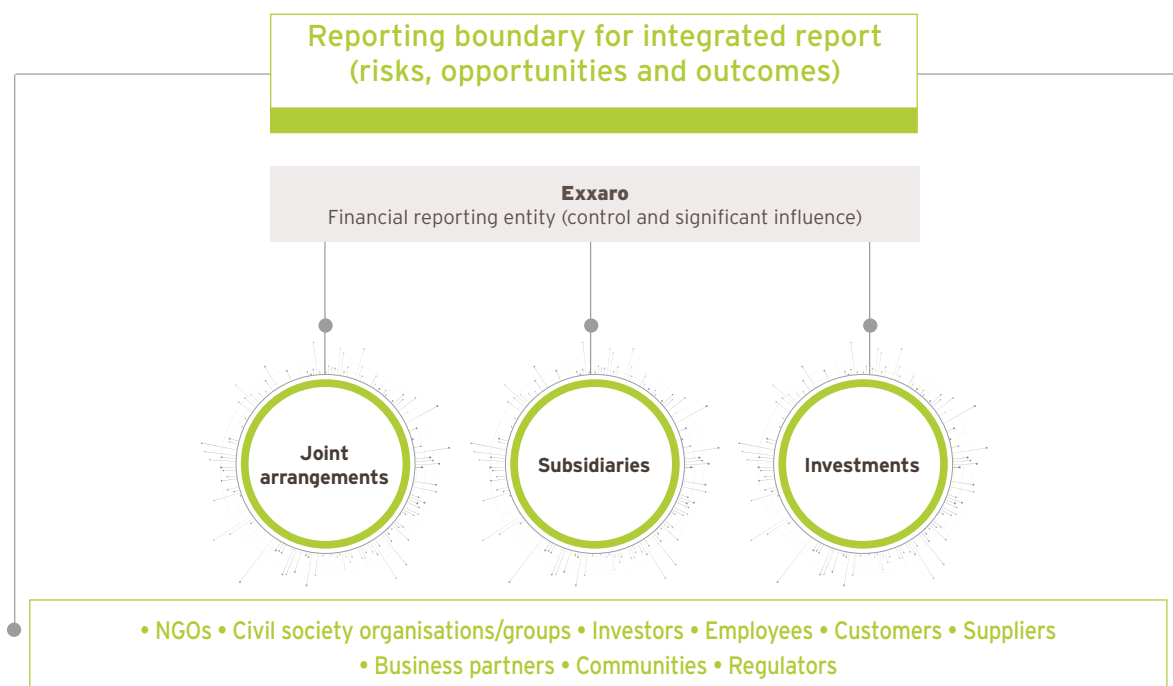
For completeness, the suite of reports for 2019, published on the Exxaro website ([www.exxaro.com](http://www.exxaro.com)), should be read in conjunction.

As with the ESG report, the content of this integrated report is guided by:

- Our materiality determination process
- Legislative and regulatory requirements, including the Companies Act, 2008 (Act 71 of 2008), as amended (Companies Act)

- JSE Limited Listings Requirements
- Broad-based Socio-economic Empowerment Charter for the Mining and Minerals Industry 2018 (Mining Charter III)
- Global best-practice standards, specifically the International Integrated Reporting Council (IIRC) framework for integrated reporting, the United Nations Global Compact (UNGC), the latest Global Reporting Initiative (GRI) guidelines (Standards) and the King Report on Governance for South Africa 2016 (King IV™)

Our integrated report includes limited information on operations where we do not have management control but hold a significant equity interest or joint control, namely Cennergi Proprietary Limited (renewable energy) and Sishen Iron Ore Company Proprietary Limited (SIOC, a subsidiary of Kumba Iron Ore Limited).



### Integrated thinking and the six capitals

We believe that sustainable value creation is enabled through careful consideration of the relationship between the capitals that we use or affect. We aim to enhance our positive effects and minimise our negative impacts on all six capitals, identified by the IIRC, to ensure the sustained success of our organisation while fostering a more sustainable operating environment for all.

We thus aim to unpack our progress in this regard, as well as demonstrate our prospects going forward in this integrated report.

✚ The links between these capitals, matters of significance to the business, related risks, the SDGs, our strategy and business model as well as our engagements with stakeholders is illustrated on page 8.

The six capitals we use and affect are:

Natural	Social and relationship	Manufactured	Human	Intellectual	Financial



## Exxaro's alignment to the SDGs

Exxaro is committed to contributing positively to the achievement of the United Nations Sustainable Development Goals (SDGs).

To this end, in South Africa, we participate in the National Business Initiative to align the 17 SDGs with the country's National Development Plan. Exxaro is committed, through its strategy, to supporting the country in the implementation of the National Development Plan and the most material SDGs.

We employ leading practices in upholding the most material SDGs for our business to leave a lasting net positive impact.

Exxaro as a mining company and in line with its purpose to power possibilities, will intentionally focus on the following SDGs:

 <p>Ensure healthy lives</p>	 <p>Provide quality education and lifelong learning</p>	 <p>Empower girls and women to achieve gender equality</p>	 <p>Generate and secure sustainable, clean energy</p>	 <p>Create jobs, sustainable livelihoods and equitable growth</p>
 <p>Make our local communities inclusive, safe, resilient and sustainable</p>	 <p>Manage natural resource assets sustainably</p>	 <p>Combat climate change and mitigate its impacts</p>	 <p>Protect our environment and minimise biodiversity loss</p>	 <p>Ensure good governance, effective institutions, and stable and peaceful societies</p>

To date, Exxaro has worked to embed integrated thinking in terms of the six capitals into its business operations and strategy. In the year ahead, our focus will be on mapping our refreshed strategy and strategic objectives to the relevant SDGs that present the greatest opportunity for positive impact. We will then focus on embedding these goals within our business.




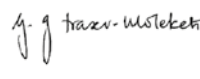








## Board responsibility

The board acknowledges its responsibility for the integrity of Exxaro's suite of reports.

As the process of integrated reporting evolves, we apply our collective mind to the preparation and presentation of information in this report, guided by the International Integrated Reporting <IR> Framework.

Continuous efforts are made to incorporate best practice and improve our level of reporting, including an independent assessment of key aspects of sustainability reporting and disclosure by PwC.

The board believes that this integrated report addresses all material matters, offering a balanced view of the group's strategy and business model in relation to Exxaro's ability to create value in the short, medium and long term in terms of the capitals.

<b>J van Rooyen</b> <i>Independent chairman</i> 	<b>MDM Mgojo</b> <i>Chief executive officer</i> 	<b>PA Koppeschaar</b> <i>Finance director</i> 	<b>GJ Fraser-Moleketi</b> <i>Lead independent non-executive director</i> 	<b>VZ Mntambo</b> <i>Non-executive director</i> 	<b>V Nkonyeni</b> <i>Independent non-executive director</i> 
<b>EJ Myburgh</b> <i>Independent non-executive director</i> 	<b>PCCH Snyders</b> <i>Independent non-executive director</i> 	<b>L Mbatha</b> <i>Director (development practitioner)</i> 	<b>A Sing</b> <i>Independent non-executive director</i> 	<b>MJ Moffett</b> <i>Independent non-executive director</i> 	<b>LI Mophatlane</b> <i>Independent non-executive director</i> 

20 April 2020

## Certificate by group company secretary

In terms of section 88(2)(e) of the Companies Act, I, SE (Saret) van Loggerenberg, in my capacity as group company secretary confirm that, to the best of my knowledge, for the year ended 31 December 2019, Exxaro Resources Limited (Exxaro) has filed with the Companies and Intellectual Property Commission all such returns and notices as required of a public company in terms of the Companies Act and that all such returns and notices appear to be true, correct and up to date.

**SE van Loggerenberg**

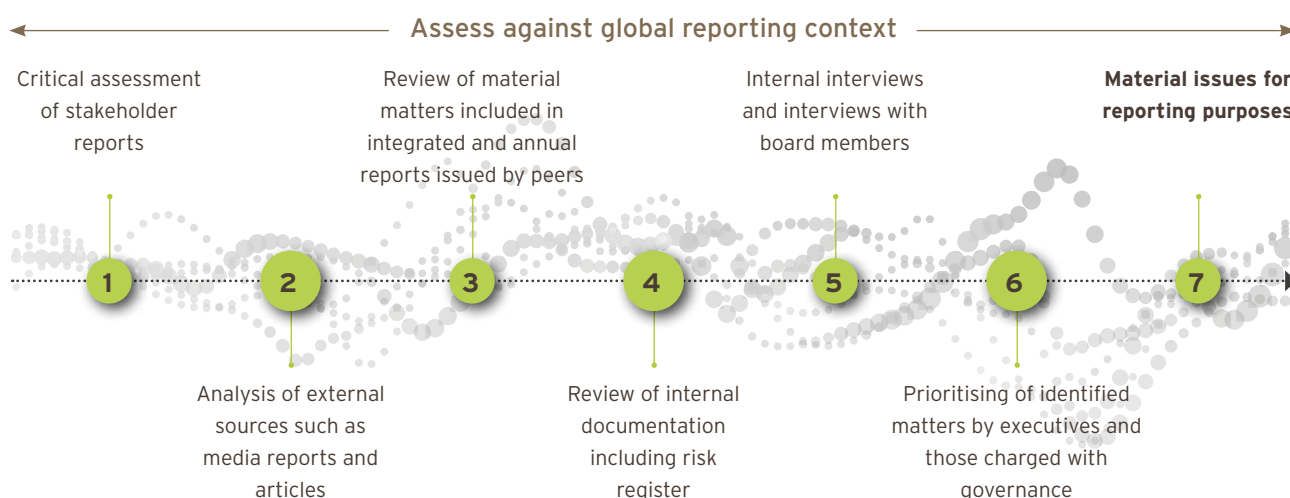
Group company secretary and legal  
Centurion

20 April 2020

## Material matters

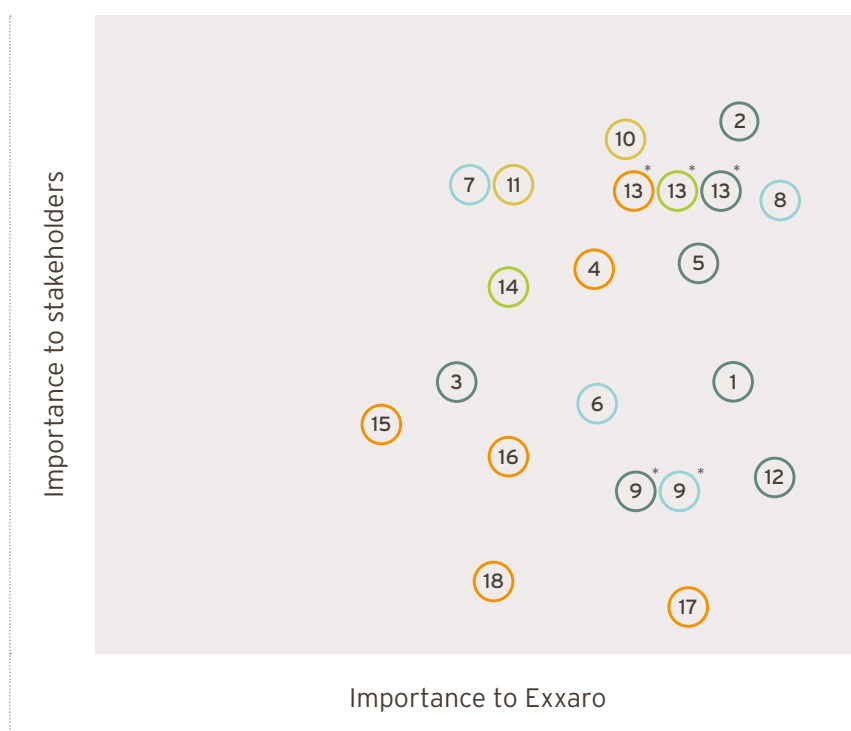
Our integrated report for the period under review has been informed by matters of material significance to Exxaro and our stakeholders. We determined these material matters through a rigorous materiality determination process.

### Materiality determination process



### Our material matters

The identified matters were mapped and grouped under five themes:



#### Broader themes:

- Macro-environment
- Business resilience
- Our people
- Social licence to operate
- Climate change

Detailed performance on material matters provided on pages 42 to 44.

\* Climate change is a systemic issue which prevails across more than one material issue.

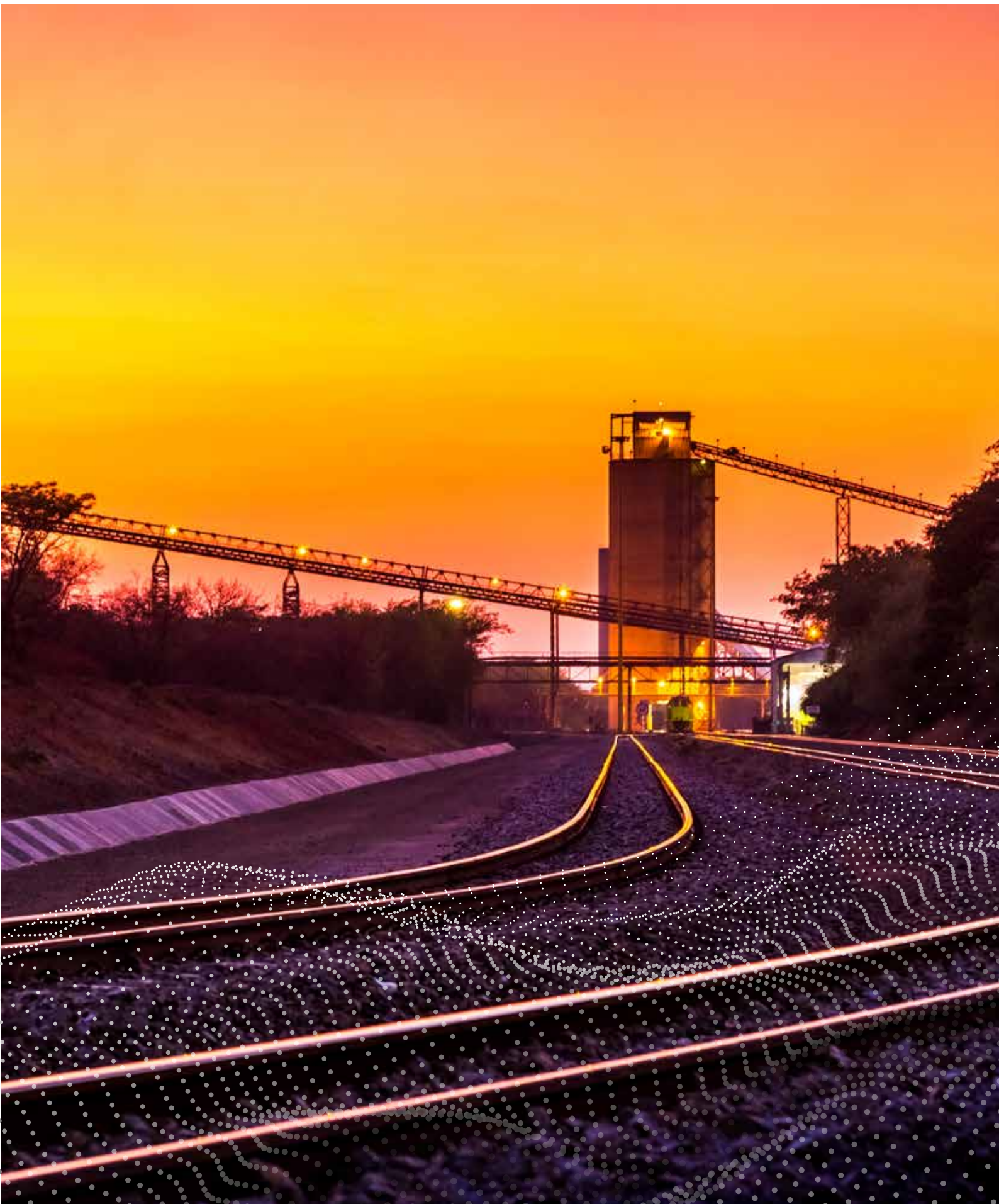
\* Matter falls under more than one theme.

#### Material matters

- 1 Financial resilience
- 2 Key customer dependency
- 3 Cost competitiveness of product
- 4 Product substitution
- 5 Capital project execution and capital allocation
- 6 Workforce culture, diversity and capability/innovation
- 7 Transparency, ethics and integrity
- 8 Safety and health
- 9 Legal and regulatory excellence
- 10 Social unrest
- 11 Supporting job and business creation
- 12 Cyber security
- 13 Climate change\*
- 14 Responsible environmental stewardship
- 15 Country risk (political)
- 16 Price and currency volatility
- 17 Short-term investor/shareholder focus
- 18 Infrastructure access and capacity

#### Stakeholders

Analysts	Industry peers
Communities	Investors
Contractors	Media
Customers	NGOs
Employees	Suppliers
Government	Unions







## Material matters continued

### Changes to our material matters

Material matters are significant in terms of Exxaro's existence and sustainability, and change in relation to our evolving context and business priorities.

It is evident that the nature of our operating context is changing rapidly with sentiment hardening towards companies within the fossil-fuels sector, particularly over the past 12 months. While climate change and related environmental matters have always been of material significance to Exxaro, in the past year, the necessity to elevate this matter to a broader, more prominent theme became apparent.




Theme	Matters of significance	Page in this report	Related risks
<b>Macro-environment</b> 	Product substitution Climate change Country risk Price and currency volatility Short-term investor/shareholder focus Infrastructure access and capacity	86	Eskom systemic risk Exchange rate volatility Commodity price volatility Competition and product substitution Community unrest Cost competitiveness of products
<b>Business resilience</b> 	Financial resilience Key customer dependency Cost competitiveness of product Capital project execution Legal and regulatory excellence Climate change	92	Climate change concerns Loss of social licence to operate Cybersecurity threats Safety and health concerns Cost competitiveness of products Exchange rate volatility Commodity price volatility Competition and product substitution Eskom systemic risk

The challenges faced by Eskom are also cause for material concern as it is a major customer. We have therefore regrouped this matter as we believe that this key customer dependency is a matter to be viewed through the lens of business resilience. We have also grouped capital allocation and capital project execution under the same theme as we believe these matters determine our business resilience.

The material matters in each theme, as well as the related risks, SDGs and impacts or influences of each material matter are outlined in the table below.






























		Impact/influences			
Sustainable development goals	Links to strategy	Links to business model	Capitals		Stakeholders
<div><div><div>3</div><div>GOOD HEALTH AND WELL-BEING</div><div></div></div><div><div>4</div><div>QUALITY EDUCATION</div><div></div></div><div><div>5</div><div>GENDER EQUALITY</div><div></div></div><div><div>7</div><div>AFFORDABLE AND CLEAN ENERGY</div><div></div></div><div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div><div><div>11</div><div>SUSTAINABLE CITIES AND COMMUNITIES</div><div></div></div><div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div></div></div><div><div>13</div><div>CLIMATE ACTION</div><div></div></div></div>			Financial		Customers Suppliers Government Communities Employees Contractors Unions NGOs Media Investors Analysts
<div><div><div>7</div><div>AFFORDABLE AND CLEAN ENERGY</div><div></div></div><div><div>8</div><div>DECENT WORK AND ECONOMIC GROWTH</div><div></div></div><div><div>12</div><div>RESPONSIBLE CONSUMPTION AND PRODUCTION</div><div></div></div></div>			Financial		Industry peers Customers Suppliers Government Analysts Investors Communities Employees Unions NGOs

## Material matters continued

	Matters of significance	Page in this report	Related risks
<b>Our people</b> 	Safety and health Workforce culture, diversity and capability/innovation Transparency, ethics and integrity Legal and regulatory compliance Supporting job and business creation	96	Safety and health concerns Loss of social licence to operate
<b>Social licence to operate</b> 	Social unrest Supporting job and business creation	100	Community unrest Loss of social licence to operate
<b>Climate change</b> 	Climate change Responsible environmental stewardship	102	Climate change concerns Loss of social licence to operate



## Impact/influences

Sustainable development goals	Links to strategy	Links to business model	Capitals	Stakeholders
    	✓	✓	Financial  Manufactured  Social and relationship  Intellectual  Human 	Suppliers Government Communities Employees Contractors Unions NGOs
    	✓	✓	Manufactured  Social and relationship  Intellectual  Natural  Human 	Suppliers Government Communities Employees Contractors Unions NGOs Media
    	✓	✓	Financial  Manufactured  Social and relationship  Natural 	Customers Government Communities Employees Contractors Unions NGOs Suppliers Media Investors Analysts

## Understanding our business







Scan the image to view the full story about #creatingvalue in the Kriel community



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#### POWERING OUR PEOPLE

#### KRIEL COMMUNITY CAME TOGETHER TO PLANT TREES IN COMMEMORATION OF ARBOR WEEK.

The children were very excited and enjoyed every minute! With all of the help, a total of 63 volunteers to be exact, it allowed the day to turn out as a successful one! Trees were donated to Kriel High School, Kriel Park, Merlin Park, Bright Sparks Pre-school, Silwerfleur, Shelter Ministries Orphanage, Kosmos Kinderhuis, Thubelihle High School and Thubelihle Primary School. I would just like to thank all of the companies, schools and community members involved.

"Thank you Exxaro Matla Coal for sponsoring 40 Wild Olive and Vaderlandswilg trees, 20 bags of potting soil and 200 bottles of water. Without your help this would not have been possible. Thank you for showing that you care! Thank you Kriel Superspar for sponsoring 120 bottles of water, it quenched the thirst of many volunteers," said Michelle Robinson, a club leader at the Land Service Movement in Kriel, Mpumalanga which is an environmentally orientated youth movement.

#creatingvalue



## Chairman's statement



Jeff van Rooyen  
Chairman

### Introduction

In my 2018 integrated report statement, I wrote that my expectations for 2019, at a macro-level, would be more of the same in terms of trade wars and Brexit-related events. To a large extent, this was so. However, there was much I could not have anticipated.

What I did not foresee was the forceful rise in negative sentiment towards fossil fuels during the year, especially towards coal as an energy input and its contribution to carbon emissions and climate change, which has presented an existential crisis and impact on life as we know it. Nor could anyone of us have foreseen the massive economic and social impact of COVID-19.

We have responded to the COVID-19 crisis by contributing R20 million to the Solidarity Fund to support government's drive to bolster its health response and to augment both the private and public healthcare sector, humanitarian efforts and to enhance the work of the fund for awareness on behavioural change to "flatten the curve". Our own efforts at operations, which have functioned at approximately 50% capacity as an essential service, have thus far proven effective at preventing infections among our employees.

In such volatile and uncertain times, it is critical that we work both as individuals and collectively to ensure sustainable development. Exxaro was founded with a singular purpose -

to power better lives in Africa and beyond. Since its founding, Exxaro has lived up to and exceeded that promise. Like any business that competes to win, Exxaro has taken many successful actions, while others have served as opportunities to learn and sharpen its focus. At no point, however, has Exxaro lost sight of its purpose to serve its stakeholders - shareholders, employees, communities, partners and society at large.

This drastic shift in sentiment has prompted us to sharpen our strategic resolve.

### Responding strategically to our context

With careful consideration of the future prospects that the reality of climate change presents to coal-mining companies, Exxaro has sought to re-evaluate its strategic direction. We have done this through a process of robust engagement with a broad spectrum of stakeholders to enable the development of a strategy that will support the global ambition of transitioning to a low-carbon economy while seeking to meet immediate

# THE WORLD IS AT A CROSSROADS.

More and more people understand that dramatic statements about our global future are justifiable.

energy needs, thereby rewarding shareholders for their confidence in our decision-making abilities and capital allocation.

We were well aware that the horizon for our coal business was limited when we embarked on our Business of Tomorrow strategy in 2018 with a view to responsible investment in mining, energy, water and food production. After engagements with investors and other key stakeholders, it became clear that we needed to refine our focus.

Diversification is our carefully chosen course, which we will navigate by maximising our existing portfolio with considerable knowledge of the coal-mining landscape. Any new ventures we undertake must be scalable to ensure that we are able to deliver a beneficial return on the investment within three to five years. In this regard, we have also decided to cease all further investments in our Business of Tomorrow programme, which was based on acquiring start-up companies and scaling them over time. Instead, our strategic approach going forward will see us focus our efforts on building a second core business in the energy space at scale.

Exxaro is in a favourable position with profitable operations and a strong balance sheet, including a substantial dividend from our passive investment in Sishen Iron Ore Company Proprietary Limited (SIOC) every year. However, we will carefully assess all ventures against our purpose and long-term strategic ambitions.

## Positioning our business for growth

For a reinvention journey to reach its intended milestones, there needs to be a shift in mindset. Exxaro will reinvest in appropriately skilled people. As such, we are currently mapping the organisation's capabilities and will recruit accordingly – drawing not only from the South African pool of expertise but also from insights available in the energy field abroad. By introducing diverse stakeholder perspectives, we will be more alert to opportunities in the rest of Africa and beyond. At the same time, we will strengthen our existing human resources to ensure that our current employees are leading the way.

Furthermore, we recognise that unique skill sets are required to lead the business forward in response to climate change and the fourth industrial revolution. As with every company across sectors, Exxaro is affected by modernisation. We have responded by embracing technology, thanks largely to our CEO Mxolisi Mgojo, whose leadership keeps the company at the forefront of efficiency-enhancing measures in the mining

sector. One only has to look at progress made by our Belfast mine for evidence (➕ see page 91 for details).

Gratitude should also be extended to Exxaro's energetic executive committee members who contribute immensely to the safe development of the company and delivery of satisfactory results despite the difficult operating environment.

## Looking ahead

The world is at a crossroads. More and more people understand that dramatic statements about our global future are justifiable. The role we seek for ourselves is that of stewards; of our investors' trust and financial resources, stewards of a sustainable business, and stewards of a sustainable South Africa.

Look closely at our mining enterprises today, at the strategy behind our divestments, at our measured steps toward building a renewable energy base and we are confident that you will see a company capable of producing better lives into the future.

Much is anticipated during this decade – politically and economically. With two local and national government elections scheduled, we can expect that the politics of our country will have an impact on the expected outcomes of the 2030 National Development Plan. The ambition to reduce emissions will intensify as the outlines of the path to net zero by 2050 become clearer. Furthermore, the combined effects of the lockdown in response to COVID-19 and the sovereign downgrade on the economy will be dire and hence demand resolute and collaborative action among government, business and civil society to support economic recovery and improved societal morale to shorten the path to investment grade status.

Given the prospects for Exxaro and our efforts towards investing in the future, we are confident that we will remain a resilient and responsive business, continuing to provide tangible returns to all our stakeholders.



**Jeff van Rooyen**  
Chairman

20 April 2020

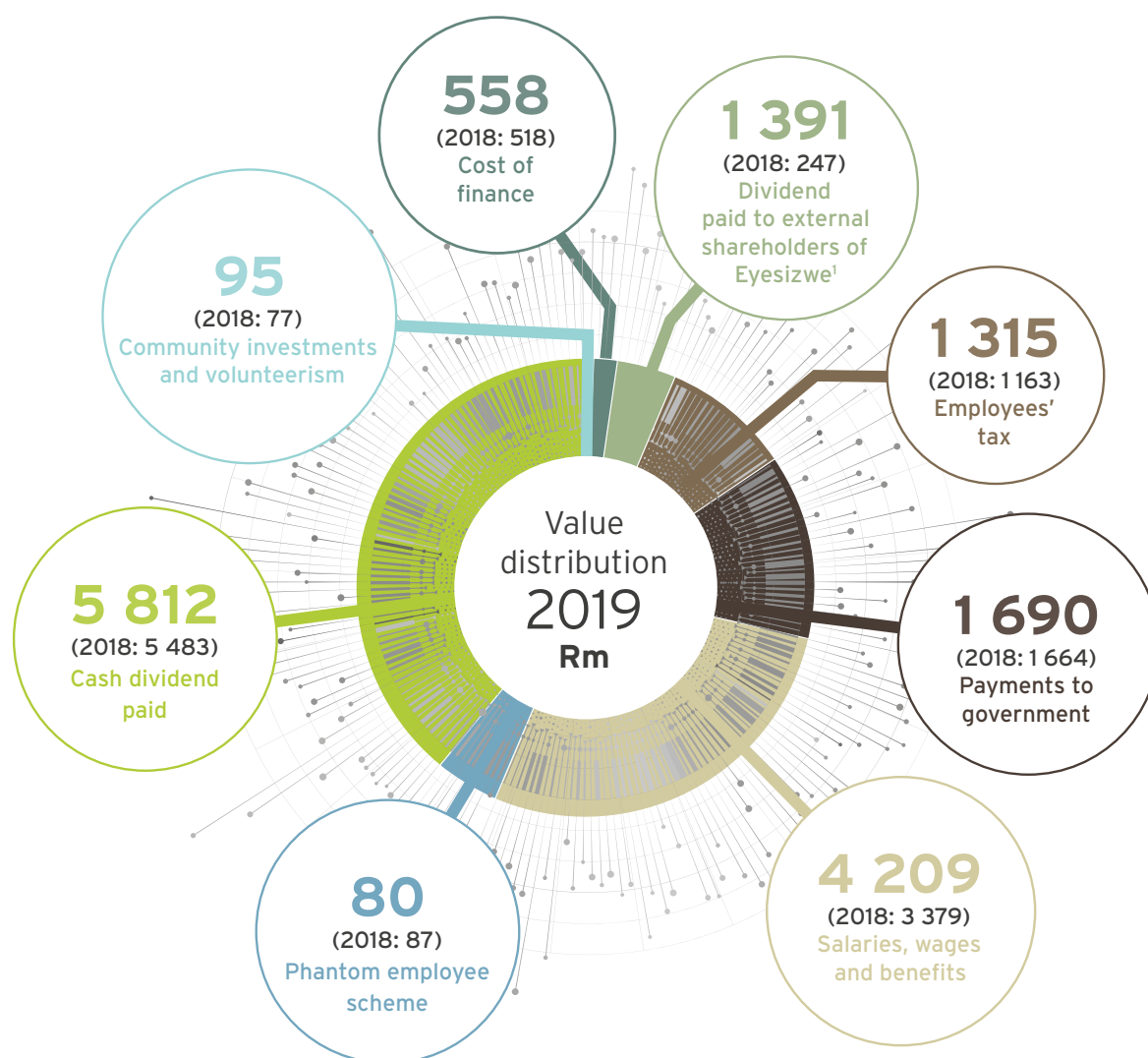
## Year in review

### Value creation

To illustrate value creation over time, Exxaro uses the six categories of capital identified by the IIRC: natural, human, social and relationship, manufactured, financial and intellectual.

+ In all of our activities, we manage the capitals responsibly to ensure maximum benefit for all stakeholders, as outlined in our business model on page 32.

+ Adding value to each capital, and managing the trade-offs, supports our social licence to operate (page 48).



Value distribution (Rm)

2019		2018
95	Community investments and volunteerism	77
1 391	Dividend paid to external shareholders of Eyesizwe	247
1 315	Employees' tax	1 163
1 690	Payments to government: taxation contribution	1 664
4 209	Salaries, wages and benefits	3 379
558	Cost of finance	518
5 812	Cash dividend paid	5 483
80	Phantom employee scheme	87

<sup>1</sup> Eyesizwe (RF) Proprietary Limited.



## Strategic performance and key outcomes in 2019

Natural capital	Trend	Target	2019	2018	2017
Reportable environmental incidents (levels 2 and 3)	↑	0	0 x level 2	7 x level 2	1 x level 2
Carbon intensity (scope 1) (kt CO <sub>2</sub> e)	↑	Actual for previous year less 5%	7% improvement	12% improvement	17.7% improvement
Carbon intensity (scope 2) (kt CO <sub>2</sub> e)	↑	Actual for previous year less 5%	2% improvement	(0.01%)	5% improvement
Water intensity (kL/run of mine)	↑	0.20	0.10	0.11	0.18
Rehabilitation funding adequacy of commercial mines, including guarantees (%)	↑	80% to 100%	68	–	–

### R4.4 billion

Our employees enjoy the largest share of value created from earnings as well as investments in development

### 2 316 cps

Shareholders receive a return on their investment through dividends

### Human capital

Fatalities	↑	0	0	0	1
Lost-time injury frequency rate (LTIFR)	→	0.11	0.12	0.12	0.12
Occupational health incident frequency rate (OHIFR)	↑	0.31	0.24	0.33	0.33
Skills provision (% of appointment from within)	↓	60.0	47.9	52.4	56.1

### R15.6 billion

Suppliers and contractors are supported by our procurement of consumables, services and capital goods

### R1.7 billion

Governments of countries in which we operate and invest receive taxes and royalty payments

### Social and relationship capital

B-BBEE contribution level	↑	1	2	5	6
Black ownership (%)	→	30	30	30	30
Social and labour plans (SLP) project delivery (time variance) (%)	↓	0	(11)	12	(15)
SLPs project delivery (cost variance) (%)	↓	0	(58)	(8)	(15)

### 28% ROCE

Providers of finance receive a return on their investment

### R170.7 million

30 enterprises were granted loans and grant funding

### Manufactured capital

Capital project delivery measure (time variance) (%)	↓	0	5 (behind)	0.1 (behind)	(0.17) (behind)
Capital project delivery measure (cost variance) (%)	↓	0	3.1 (within budget)	0 (on target)	1.0 (saving)

### R5.8 billion

We reinvest in the growth of our coal business: R2.2 billion sustaining capital and R3.6 billion expansion capital

### Financial capital

Core operating margin (%)	↓	20	15	29	32
Annualised return on capital employed (ROCE) <sup>1</sup> (%)	↑	>20	28	23	23
Annual core HEPS <sup>2</sup> (cents per share short term target)	↑	–	2 354	2 159	2 011
Net debt to annualised EBITDA <sup>3</sup> (times)	↓	<1.5	1.0	0.6	–

<sup>1</sup> 2017 is restated (🔄) refer to group annual financial statements at <https://www.exxaro.com/investor/integrated-reports2019/index.php>.

<sup>2</sup> HEPS is headline earnings per share

<sup>3</sup> EBITDA is net operating profit before interest, tax, depreciation, amortisation, impairment charges/reversals and net loss or gain on the disposal of assets and investments (including translation differences recycled to profit or loss).

# Business structure and ownership

## Group profile

Exxaro is one of the largest and foremost black-empowered, South Africa-based diversified resources companies.

Formed in 2006, Exxaro's pedigree and skills were, however, built over decades as a company rooted in South Africa and respected by its peers for its innovation, ethics and integrity.

Our asset portfolio includes interests in coal, titanium dioxide ( $\text{TiO}_2$ ), ferrous and energy (wind) markets. Exxaro is a 30% black-empowered and listed company on the JSE's Top 40 index, a constituent of the FTSE4Good Index and a Top 30 member of the FTSE/JSE Responsible Investment index.

In 2019, Exxaro produced 45.6 million tonnes (Mt) (including buy-ins of 0.3Mt) of coal (2018: 47.8Mt), reflecting contributions from our expanded flagship Grooteegeluk mine. At 31 December 2019, the group had assets of R68.8 billion and a market capitalisation of R47 billion (US\$3.3 billion).

## Our assets

### Coal

#### Core operations

- Largest coal reserves in the country providing a platform for continual investment in our growth
- Largest supplier of energy coal to Eskom and ArcelorMittal SA Limited (ArcelorMittal) while domestically growing projects for export thermal coal
- Grooteegeluk is acknowledged as one of the largest integrated mining and beneficiation operations globally, runs the world's largest coal beneficiation complex and is the only producing mine in the coal-rich Waterberg, adjacent to Eskom's existing Matimba and new Medupi power stations - Grooteegeluk's capacity is expanding by 7% (1.7Mtpa) via the double-stage beneficiation plant (GG6) and new rapid load-out station to enhance the growth of our exports
- Six managed coal operations (including 50% share of Mafube) produced 45.6Mt of thermal and metallurgical coal (down 5% in 2019) - majority of power station coal is supplied to Eskom
- To date 57.2% of the R20 billion capex has been spent on greenfield and brownfield expansion and sustaining projects (+ page 92)
- Mafube joint venture with Anglo South Africa Capital Proprietary Limited in Mpumalanga

### Titanium dioxide

#### Tronox

Titanium dioxide and pigments: 26% direct interest in KZN Sands and Namakwa Sands, as well as 10.38% interest in Tronox Holdings plc, a global leader in mining, production and marketing inorganic minerals and chemicals. In 2017, Exxaro began implementing the strategic disposal of this shareholding. During May 2019, Tronox Holdings plc repurchased 14 000 000 Tronox Holdings plc ordinary shares, for R2.9 billion, from Exxaro after Tronox Limited had redomiciled to the UK.

### Ferrous

#### FerroAlloys

Produces gas-atomised ferrosilicon for use in dense medium separation plants

### Wind energy

50% interest in Cennergi (a 50% joint venture with Tata Power Company Limited). Exxaro has acquired the other 50% owned by Tata Power with effect from 1 April 2020.

IRON ORE



COAL



RENEWABLE  
WIND ENERGY



BASE METALS



+ See footprint on page 17.

20.62%

**Investment portfolio**

SIOC

**Iron ore**

A leading supplier of high-quality iron ore to the global steel industry and a subsidiary of Kumba Iron Ore Limited.

Over  
80%**Coal**

Coal mining comprises the core of Exxaro's operations, which are structured under four legal entities, and are all managed by Exxaro. Exxaro has a 50% joint venture with Anglo (Mafube).

EXXARO

**Ownership structure**30%  
Eyesizwe RF22.9%  
IDC\*\*\*24.9%  
EXXARO52.2%  
BEE SPV84.1%  
Eyesizwe  
Mining  
Investments3.0%  
Eyabantu  
Capital12.9%  
Basadi Ba  
Kopane  
Investments

100%†

Cennergi\*\*

**Renewable wind energy**

Exxaro contributes to national energy supply through Cennergi. Two wind projects in the Eastern Cape reached commercial operation in 2016: Amakhala Emoyeni near Bedford (134MW) and Tsitsikamma Community wind farm on Mfengu community land (95MW).

10.38%

Tronox

**Titanium dioxide and pigments**

26% direct interest in KZN Sands and Namakwa Sands and a 10.38% interest in Tronox Holdings plc.

\* A special-purpose vehicle (SPV) private company, incorporated under the laws of South Africa, holds the black economic empowerment (BEE) shares.

\*\* Acquisition of Tata Power's 50% was effective 1 April 2020.

\*\*\* Industrial Development Corporation.

† 100% once all conditions precedent have been met.

## Coal asset base

### OPERATIONS

1 ARNOT	2 BELFAST	3 DORSTFONTEIN COMPLEX
<b>Location:</b> South of Middelburg <b>Market:</b> Domestic (Eskom) <b>Product:</b> Thermal coal <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 138.5Mt <b>Indicated:</b> 64.3Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> Nil <b>Probable:</b> Nil <b>Mining method:</b> Open-cut and underground <b>Run of mine:</b> 0 <b>Life of mine:</b> 0	<b>Location:</b> South of Belfast <b>Market:</b> Export <b>Product:</b> Thermal coal <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 74.6Mt <b>Indicated:</b> 20.1Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> 42.2Mt <b>Probable:</b> 1.4Mt <b>Mining method:</b> Open-cut <b>Run of mine:</b> 1.1Mt <b>Life of mine:</b> 12 years	<b>Location:</b> North-east of Kriel <b>Market:</b> Domestic and export <b>Product:</b> Thermal coal <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 149.1Mt <b>Indicated:</b> 135.5Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> 46.5Mt <b>Probable:</b> 41.5Mt <b>Mining method</b> Open-cut and underground <b>Run of mine:</b> 3.5Mt <b>Life of mine:</b> 17+ years*

Only mineral assets with Measured and Indicated Resources are illustrated. Inferred Resources are reported in the supplementary consolidated Mineral Resources and Mineral Reserves (CMRR) report.

### OPERATIONS

4 FORZANDO COMPLEX	5 GROOTEGELUK COMPLEX	6 LEEUPPAN
<b>Location:</b> North of Bethal <b>Market:</b> Domestic and export <b>Product:</b> Thermal coal <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 85.5Mt <b>Indicated:</b> 36.3Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> 23.9Mt <b>Probable:</b> 10.7Mt <b>Mining method:</b> Open-cut and underground <b>Run of mine:</b> 2.7Mt <b>Life of mine:</b> 8+ years*	<b>Location:</b> West of Lephalale <b>Market:</b> Domestic and export <b>Product:</b> Thermal and metallurgic <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 2 786Mt <b>Indicated:</b> 1 017Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> 2 520Mt <b>Probable:</b> 645Mt <b>Mining method:</b> Open-cut <b>Run of mine:</b> 56.2Mt <b>Life of mine:</b> 20+ years*	<b>Location:</b> South-east of Delmas <b>Market:</b> Domestic and export <b>Product:</b> Thermal coal <b>Mineral Resources (inclusive)</b> <b>Measured:</b> 92.8Mt <b>Indicated:</b> 2.6Mt <b>Mineral Reserves (inclusive)</b> <b>Proved:</b> 45.9Mt <b>Probable:</b> 6.1Mt <b>Mining method:</b> Open-cut <b>Run of mine:</b> 6.5Mt <b>Life of mine:</b> 11 years



## AUSTRALIA



## PROJECTS

9

## THABAMETSI

**Location:** West of Lephalale  
**Project stage:** Early works  
**Market:** Domestic and export  
**Product:** Thermal coal  
**Mineral Resources (inclusive)**  
**Measured:** 270Mt  
**Indicated:** 749Mt  
**Mineral Reserves (inclusive)**  
**Proved:** 109Mt  
**Probable:** 21Mt  
**Mining method:** Open-cut  
**Run of mine:** -  
**Life of mine:** 26+ years\*

\* Adequate reserves well beyond expiry of mining right

8

## MATLA

**Location:** West of Kriel  
**Market:** Domestic (Eskom)  
**Product:** Thermal coal  
**Mineral Resources (inclusive)**  
**Measured:** 705Mt  
**Indicated:** 105Mt  
**Mineral Reserves (inclusive)**  
**Proved:** 145.3Mt  
**Probable:** 15.6Mt  
**Mining method:** Underground  
**Run of mine:** 6.0Mt  
**Life of mine:** 4+ years\*

7

## MAFUBE

**Location:** East of Middelburg  
**Market:** Domestic and export  
**Product:** Thermal coal  
**Mineral Resources (inclusive)**  
**Measured:** 117.6Mt  
**Indicated:** 9.7Mt  
**Mineral Reserves (inclusive)**  
**Proved:** -  
**Probable:** 56.7Mt  
**Mining method:** Open-cut  
**Run of mine:** 5.3Mt  
**Life of mine:** 11 years

10

## TUMELO

**Location:** North-west of Hendrina  
**Market:** Domestic and export  
**Product:** Thermal coal  
**Mineral Resources (inclusive)**  
**Measured:** 8.4Mt  
**Indicated:** 0.2Mt  
**Mineral Reserves (inclusive)**  
**Proved:** Not yet declared  
**Probable:** Not yet declared  
**Mining method:** Underground  
**Run of mine:** -  
**Life of mine:** -



## Our investment proposition

Based on disciplined governance and capital allocation, quality resources, access to funds and competitive returns, Exxaro is a unique listed investment opportunity for shareholders.

### Competitive advantages



- **Large multi-product and long-life coal Reserve base**
- Established domestic (short- and long-term contracts) and international customer base
- Adequate port and rail allocation to support export growth
- **Resilient and debt-free 30% black ownership structure**
- Ongoing cost and carbon efficiency programmes

### Key financial strengths



- **Strong balance sheet** - 13% net debt:equity
- **Cash-generative operations**
- Returning cash to shareholders: dividend policy of 2.5 to 3.5x **coal core attributable earnings**, pass-through of SIOC dividend received and special dividends from **surplus cash**

### Growth prospects



- **Organic coal production growth to supply domestic markets, Eskom and export markets**
- **Domestic and offshore coal revenue growth**, completing **57.2% of the R20 billion capex programme**
- **Stable revenue model from renewable energy investment**

### Leadership and governance



- Experienced, **growth-oriented** leadership team
- **Established governance structures** - proven and leading **ESG performance**
- **Ethical leadership**
- **Stakeholder-oriented**

Exxaro's monthly closing share price



### Governance structures



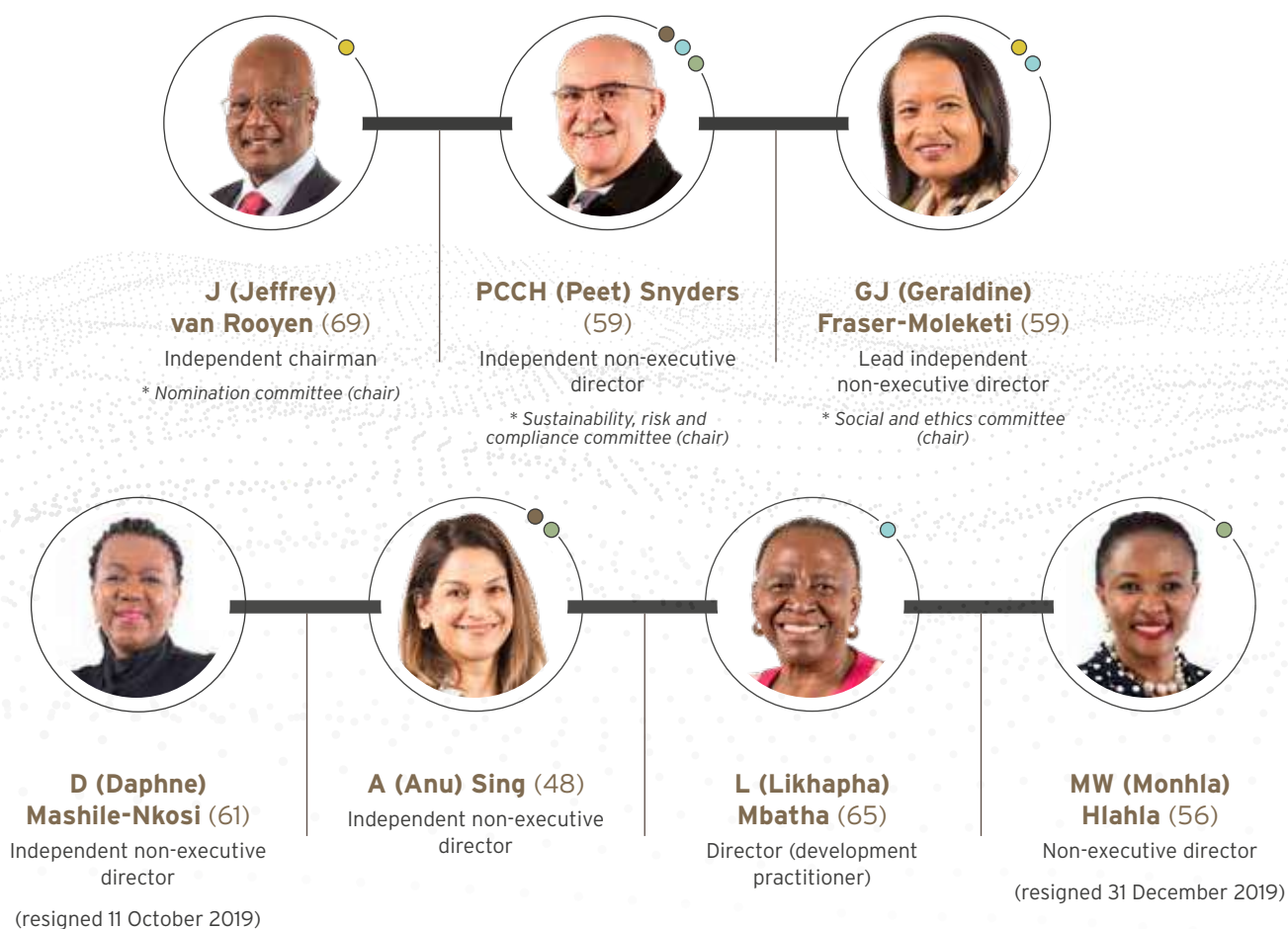
We recognise that creating value for our stakeholders depends on effective and efficient governance processes and practices informed by the pillars of good corporate citizenship, that is, transparency, accountability and integrity.



## Governance for sustainable value creation

The board of directors is ultimately accountable for the governance and performance of Exxaro, balancing the interests of the company as a responsible corporate citizen with the legitimate interests and expectations of stakeholders.

### Board of directors





- Audit committee
- Investment committee
- Remuneration and nomination committee
- Social and ethics committee
- Sustainability, risk and compliance committee
- \* Committee chair



**V (Vuyisa)  
Nkonyeni (50)**  
Independent non-executive  
director  
\* Audit committee (chair)



**EJ (Ras)  
Myburgh (61)**  
Independent non-executive  
director  
\* Remuneration and nomination  
committee (chair)



**MJ (Mark)  
Moffett (60)**  
Independent non-executive  
director



**VZ (Zwelibanzi)  
Mntambo (62)**  
Non-executive director



**LI (Isaac)  
Mophatlane (46)**  
Independent non-executive  
director  
\* Investment committee (chair)



**MDM (Mxolisi)  
Mgojo (59)**  
Chief executive officer  
(CEO)



**PA (Riaan)  
Koppeschaar (49)**  
Finance director  
(executive director)

## Governance for sustainable value creation continued

### OUR BOARD - SKILLS AND EXPERIENCE MATRIX

Diversity								
	Qualifications	Date of appointment	Tenure (years)	Age	Ethnicity	Gender	Experience as a director (years)	
<b>GJ Fraser-Moleketi</b>	DPhil Honoris Causa (Nelson Mandela University), Masters in Administration (University of Pretoria), Leadership Programme (Wharton), Fellow of the Institute of Politics (Harvard)	2018/05/18	1	59	Coloured	Female		
<b>MW Hlahla</b> Resigned 31 Dec 2019	MA Urban Planning, UCLA School of Architecture and Planning, Advanced Management Programme (INSEAD, France), Certificate in Accounting and Finance (Wits Business School)	2015/06/04	5	56	Black	Female	10	
<b>L Mbatha</b>	BA LLB (University of Lesotho), LLM (University of the Witwatersrand)	2018/03/07	2	65	Black	Female	10	
<b>D Mashile-Nkosi</b> Resigned 11 Oct 2019	Small Business Management Diploma (Wits Business School)	2018/03/06	2	61	Black	Female	10	
<b>VZ Mntambo</b>	BJuris, LLB (North West University), LLM (Yale)	2006/11/28	13	62	Black	Male	17	
<b>LI Mophatlane</b>	BA (University of Pretoria)	2018/05/23	2	46	Black	Male	1	
<b>M Moffett</b>	BCom, (CTA), CA(SA)	2018/05/18	1	60	White	Male	25	
<b>EJ Myburgh</b>	BEng (Electrical) (Pretoria), BSc (Hons) (Energy Studies) (Johannesburg), MBL (Stellenbosch), Executive Programme (Virginia)	2016/09/01	3	61	White	Male	10	
<b>V Nkonyeni</b>	BSc (Hons), Postgraduate Diploma in Accounting, CA(SA)	2014/06/03	6	50	Black	Male	17	
<b>J van Rooyen</b>	BCom, BCompt (Hons), CA(SA)	2008/08/13	12	69	Coloured	Male	12	
<b>PCCH Snyders</b>	BEng (Mining), Diploma in Marketing Management and MCom in Business Management, Mine Manager's Certificate of Competence (Coal and Metalliferous)	2016/07/01	4	59	White	Male	14	
<b>A Sing</b>	BSc Eng (Mechanical) (University of Natal), MBA (University of the Witwatersrand), AMP (INSEAD, France)	2018/03/07	2	48	Indian	Female	7	

Must have used the skills in the past 20 years

- Significant skills and experience (10+ years, in depth, main focus area, weekly use of skills and "line" accountability)
- Average skills and experience (5 - 10 years, ad hoc but regular and fairly in depth exposure/use of skills monthly)
- Limited skills and experience (5 years, very irregular or superficial exposure/use of skills quarterly/biannually)
- No experience

### General management experience

[illegible]

## Corporate governance report

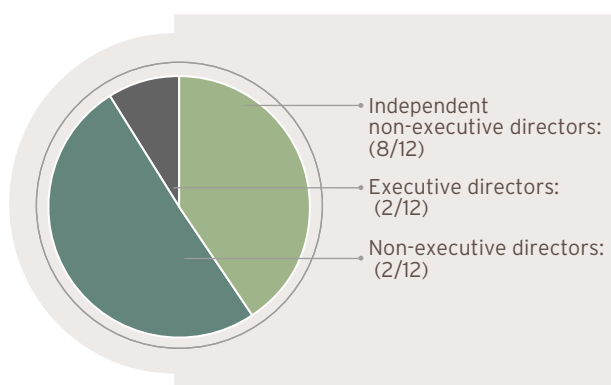
Our values<sup>#</sup> provide a foundation for our corporate governance practices. Therefore, as the custodian of corporate governance in the group, the board of directors of Exxaro Resources Limited (the board) is fully committed to the 16 principles of good corporate governance as set out in the King IV Report on Corporate Governance for South Africa, 2016 (King IV™). Alongside our values, the King IV principles are critical for effective governance outcomes to create long-term stakeholder value.

### Board composition and performance

The board is diverse in demographics, skills and experience to support governance that sustains value.

#### Independence

**Board composition (%)**



In line with King IV™, non-executive members may be categorised as independent if the board concludes that there is no interest, position, association or relationship which, when judged from the perspective of reasonable and informed third party, is likely to influence unduly or cause bias in decision-making in the best interest of the company.

Currently, one non-executive director, Mr J van Rooyen, has served on the board in an independent capacity for longer than nine years. In line with the company's memorandum of incorporation and the board charter, a formal assessment regarding the independence of mind has been conducted annually since 2017. After in-depth deliberation, the nomination committee, after the recusal of Mr J van Rooyen, concluded that he was independent in appearance and in fact.

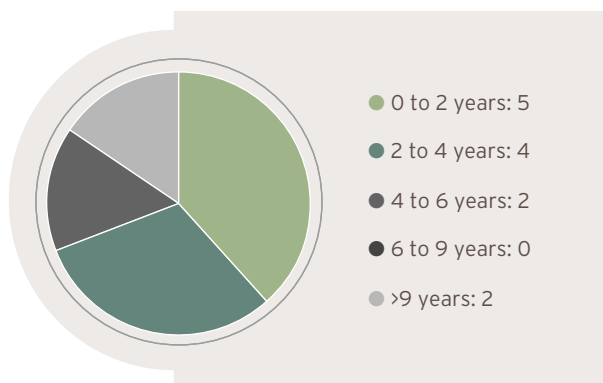
### Director tenure

The following directors resigned during 2019:

1. Ms D Mashile-Nkosi resigned as a non-executive director of the company with effect from 11 October 2019
2. Ms MW Hlahla resigned as an independent non-executive director of the company with effect from 31 December 2019

The period in office of our directors provides a proper blend of experience to the board. Our director tenures can be summarised as follows:

**Director tenure (%)**



Excluding Ms Mashile-Nkosi who resigned with effect from 11 October 2019

### Diversity of our board

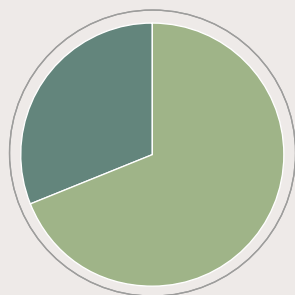
The importance and promotion of diversity at board level is recognised and the board formally adopted a Diversity Policy in February 2018, focusing specifically on the diversity attributes of gender, race, culture, age, field of expertise, skills and experience. Following the resignation of two female directors, diversity will be a key consideration when nominating new directors for appointment on the board to shareholders.

<sup>#</sup> Refer to page 98 of this report and also page 53 of our ESG Report.



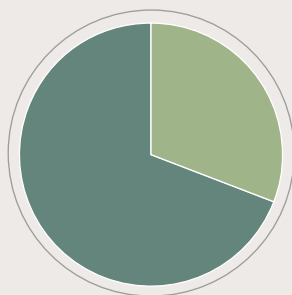
For the reporting period, the diversity of the board can be represented as follows:

#### Racial diversity (%)



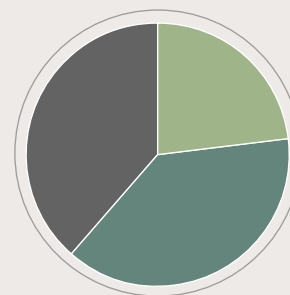
● HDSA\*: (9/13) 69  
● Non-HDSA: (4/13) 31

#### Gender diversity (%)



● Female: (4/13) 31  
● Male: (9/13) 69

#### Diversity of age (%)



● 40 to 49 years: 3  
● 50 to 59 years: 5  
● 60 to 69 years: 5  
● 70 and older: 0

\* Excluding Ms Mashile-Nkosi who resigned with effect from 11 October 2019

The board set a racial diversity target, at board level, of 50%.

There has been a marked improvement in the racial diversity of our board since 2017, increasing from 50% to 69% in 2019.

#### Key performance indicators

The board and its committees set annual key performance indicators (KPIs) to ensure that, in addition to general requirements placed on these bodies, their attention is directed to key activities that support and enable management in achieving the group strategy. We recognise that these KPIs are still more qualitative in nature but we aim to mature them into more meaningful quantitative measures to give stakeholders an in-depth understanding of the performance of the board and its committees.

The board and board committee evaluation for 2019 only focused on whether these KPIs had been achieved.

KPIs in 2019		Evaluation
1.	Review the Exxaro 2026 strategy including Coal 2023 strategy and Business of Tomorrow strategy	Achieved
2.	Review board KPIs and risk appetite thresholds in light of strategic changes (if any)	Achieved
3.	Review the investment portfolio, including joint ventures and equity accounted investments and determine the hurdle rates (IRR and NPV among others) and other non-financial criteria for investment decisions (risk appetite and social return on investment among others)	Achieved
4.	Approve the investment or non-investment of a large targeted coal company's coal energy operations	Achieved
5.	Monitor the gaps with regard to King IV compliance (as determined by EY)	Achieved
6.	Oversee the implementation of lessons learnt from corporate failures (such as Steinhoff)	Achieved
7.	Receive and review analyst reports	Achieved

#### KPIs in 2020

- Oversee the implementation of the strategy review project and its deliverables
- Review whether the current strategic dashboard KPIs are still relevant and in line with the new approved strategy
- Once approved, review strategic dashboard KPIs quarterly and understand management plans for out-of-appetite KPIs and periodically review management plans with enhancements requested in 2019
- Enhance board effectiveness

## Corporate governance report continued

### Performance of our board

#### Board attendance

The attendance reflected below is based on four quarterly meetings, two governance sessions and six special board meetings calculated against the number of meetings the individual was required to attend.

Director	Designation	Attendance (%)
J van Rooyen	Independent non-executive director and chairman of the board	100
GJ Fraser-Moleketi	Lead independent non-executive director	100
MW Hlahla**	Non-executive director	50
PA Koppeschaar	Executive director: Finance director	100
D Mashile-Nkosi*	Non-executive director	71
L Mbatha	Non-executive director	83
MDM Mgojo	Executive director: Chief executive officer	100
VZ Mntambo	Non-executive director	83
MJ Moffett	Independent non-executive director	100
LI Mophatlane	Independent non-executive director	92
EJ Myburgh	Independent non-executive director	100
V Nkonyeni	Independent non-executive director	92
A Sing	Independent non-executive director	83
PCCH Snyders	Independent non-executive director	100

\* Ms D Mashile-Nkosi resigned as a director of the company with effect from 11 October 2019

\*\* Ms MW Hlahla resigned as a director of the company with effect from 31 December 2019

### Evaluation

An independent evaluation was done in respect of the performance and effectiveness of the board and its committees. The purpose was to identify and record possible areas for strengthening while taking into consideration internal and external dynamics, and factors that may positively or negatively impact on the board's ability to enhance its performance and effectiveness in these areas where gaps were identified.

The formal evaluation is performed at least every second year by an independent third party and comprehensive feedback on the performance and effectiveness of the board and its board committees is provided

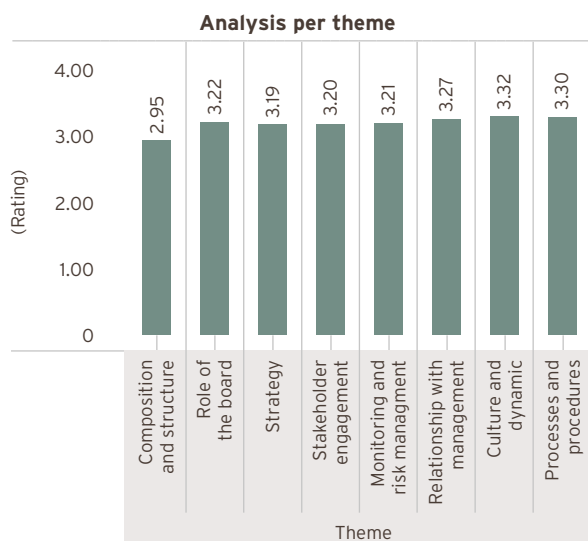
Performance was ranked as follows:

Rating	Explanation
1	Needs significant improvement
2	Needs improvement
3	Satisfactory
4	In line with best practice

#### Overall performance

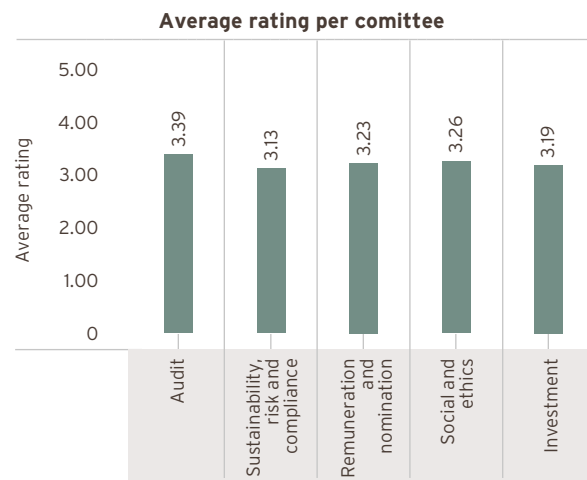
The overall, average rating achieved by the board of 3.21 is slightly above satisfactory and an indication that, although the board was generally satisfied with its performance and effectiveness, it does believe that there was still room to strengthen and/or refine specific areas.

The average ratings per evaluation theme are as follows:



Following the evaluation, various observations and recommendations have been made to the board. The board will also take the learnings from the evaluation, specifically the areas that they have identified as requiring additional focus, into its annual work plan for 2020.

**Board committee evaluation**



General observations following the independent evaluation of the board committees:

- None of the board committees achieved an overall average rating of below 3.00 (satisfactory)
- It should be noted that the functioning of the investment committee was suspended towards the end of 2019
- It was clear that members are satisfied with the composition, processes and culture of the various board committees
- Based on the ratings and comments made in the evaluation, the board committees generally play an effective and constructive role in supporting the board.

For more detail on the board and board committee evaluations, please see our ESG report.

## Corporate governance report continued

### Achieving governance outcomes to sustain value

King IV forms the cornerstone of our approach to governance. As such, we support the overarching outcomes of King IV, being the creation of

- Ethical culture
- Performance and value creation
- Adequate and effective control
- Trust, good reputation and legitimacy

Please refer to our full governance report in our ESG report for full detail on how we go about achieving these outcomes.

#### ➤ Ethical culture

Key areas of focus included

##### • Bribery and corruption

As the board assumes the responsibility for the governance of ethics, it also sets the direction for manner in which ethics should be approached and addressed by the organisation. Following a group-wide assessment, the board approved and endorsed a revised code of ethics in September 2018, which expressed the board's commitment to comply with the letter and spirit thereof. The revised code of ethics was rolled out within the group throughout 2019.

The code of ethics is read in conjunction with all the company's policies and procedures, with specific reference to the following policies that support the establishment of an ethical culture:

- Exxaro Anti-Bribery and Corruption Policy
- Exxaro Conflicts of Interest Policy
- Exxaro Fraud Prevention Policy
- Exxaro Fraud Investigation Process Policy
- Exxaro Fraud Response Policy
- Exxaro Gifts and Benefits from Suppliers Policy
- Exxaro Recruitment and Selection Policy
- Exxaro Whistleblowing Policy.

##### • Use of technology

In line with our continued pursuit of digitalisation, key considerations were deliberated at board level with regard to the use of technology and supporting an ethical culture.

#### ➤ Performance and value creation

Key areas of focus included:

##### • Strategy

Following extensive engagements with key stakeholders, including our providers of capital, and an assessment of our operating context, a strategic review was undertaken. Furthermore, in the formulation of a new strategy for the company, the board engaged with the executive and senior management in several strategy sessions throughout the year. The board therefore appreciates that the company's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process. The insight that conditions are changing and that there is a need to become

future-fit is used to drive decisions and measure our transition to a lower carbon future.

For detailed information on the outcome of these discussions, + please see the Chairman's review on page 12, the CEO's review on page 36 and our strategy discussion, including our trade off considerations, from pages 48 and 49.

Further key strategic considerations:

- Climate change: A climate change response strategy highlighting the need to respond to the growing global and local pressure on moving towards a low carbon economy. The strategy includes an alignment to the Paris Agreement and to incorporate the recommendations from the FSB's TCFD, which highlighted climate change transitional and physical risks confronting the organisation and the related financial impacts of these risks.
- Cennergi acquisition: The board considered and approved the acquisition of the Khopoli Investments Limited (a subsidiary of Tata Power) 50% shareholding in Cennergi Proprietary Limited by the company where, post the conclusion of the agreement, Exxaro will have 100% ownership of Cennergi.

##### • Innovation

Within its overarching values, the company has five cultural themes, viz., responsibility, adaptability, openness and connectivity, diversity and ownership. The company aims to foster a culture of being adaptable to the ever-changing world around us, encouraging its employees to be willing to learn and improve in everything they do. As change is inevitable, based on current social, economic, and technological realities, the company is placing emphasis on agility and creating new opportunities to move the group forward whilst remaining responsible to its stakeholders.

#### ➤ Adequate and effective control

Key areas of focus included

##### • Assessing corporate governance structures that support effective control

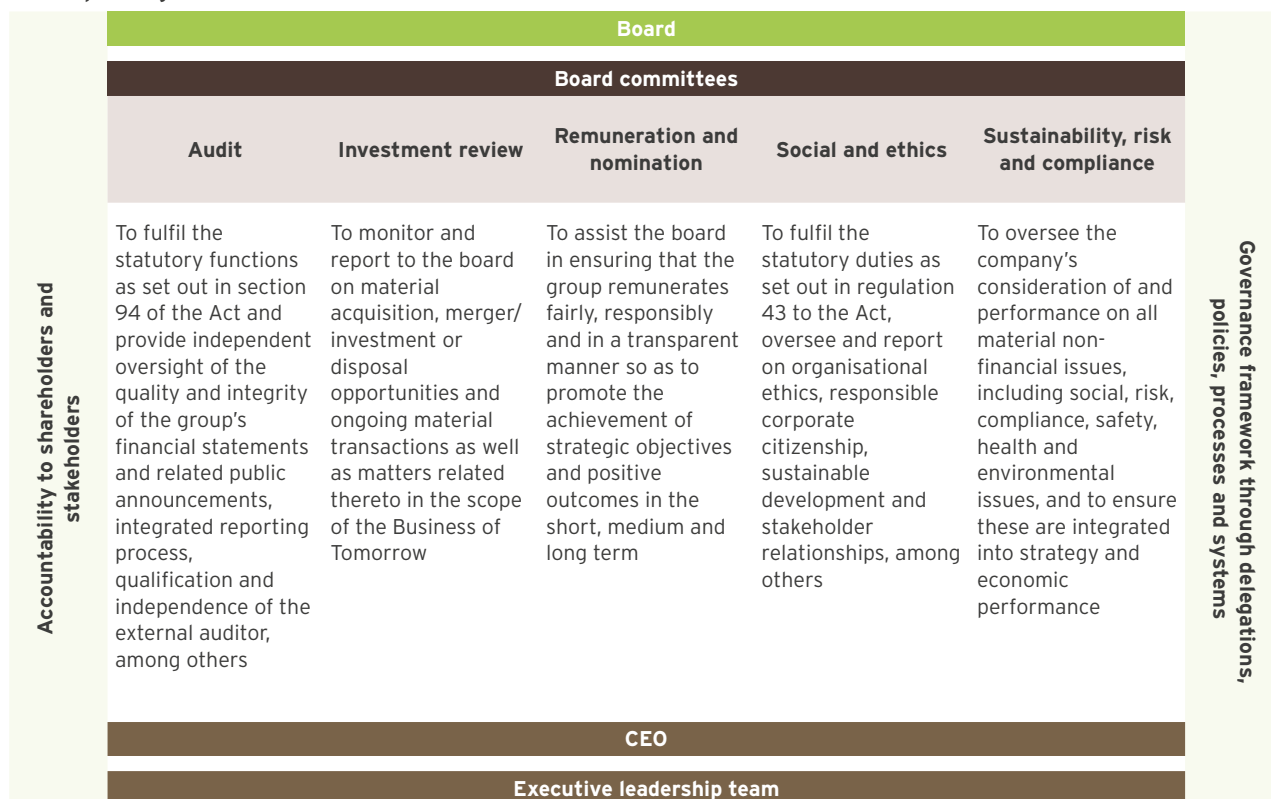
The Exxaro corporate governance structure supports the group's ability to create long-term value for stakeholders. The structure is constantly assessed to ensure agility in decision making and supporting different business requirements. Through this structure, the board exercises effective control, builds and protects the organisation's reputation and legitimacy. Good corporate governance is the responsibility of the board and executive management as well as all our employees.

Exxaro recognises the integral link between strategy, operating model and the corporate governance structures, hence the company continuously evaluates and monitors these elements to ensure that it remains fit for purpose and drives shareholder value.

The board therefore retains full and effective control over the business and affairs of the company and the board does not assume the functions of management, which remain the responsibility of the executive directors, prescribed officers and other members of senior management.



### Our corporate governance structure



Detailed reports from each of the board committees are included in our ESG report at <https://www.exxaro.com/investor/integrated-reports2019/esg/index.php>

#### • Strategic performance dashboard

We use a strategic performance dashboard to measure whether the company is on track to achieve its strategic objectives. This is a practical tool that was developed to monitor the creation of value and assist the board in understanding the pace and trajectory of execution of the strategy. Reporting on the status of the strategic dashboard is done at each of the board and the board committee meetings throughout the year to assist the board in tracking the achievement of the strategic objectives. The strategic dashboard KPIs are classified under the six capitals and can be found on page 12 of the ESG report. These KPIs are regarded by the board and executive as most material or the best possible aggregated representation of performance in these areas.

The strategic dashboard KPIs cover inter alia, the areas of health and safety, skills development, environmental stewardship, carbon emissions, water management, socio-economic development, and compliance with key regulations such as the Codes of Good Practice and the Mining Charter scorecards. Furthermore, governance and financial metrics are also reported in the strategic dashboard.

#### ➤ Trust, good reputation and legitimacy

Key areas of focus included:







##### • Building relationships through meaningful engagement

In support of the company's purpose of powering better lives in Africa and beyond, the company continues to work towards improving the quality of our relationships with stakeholders and building long-term, stable and trusting relationships that will create shared value for all our stakeholders. + More information on our stakeholder engagements can be found on page 50 of this report under "stakeholder management".

##### • BEE

Implementation of the replacement BEE transaction phase 2: As part of the replacement BEE transaction of 2017, Exxaro committed to introducing appropriate schemes to benefit its employees and communities. Exxaro was guided by the Mining Charter III, published in 2018, and will implement these schemes during the 2020 financial year.

# Business model that creates value

	Our pool of resources	Capital constraints
 <b>NATURAL CAPITAL</b>	<ul style="list-style-type: none"> <li>Run of mine: 79.2Mtpa</li> <li>Land managed for six mining operations</li> <li>Water withdrawal: 7.3Mm<sup>3</sup></li> <li>Diesel: 98 702kL</li> <li>Electricity: 62 511MWh</li> </ul>	<ul style="list-style-type: none"> <li>Natural resources are finite and must be managed carefully</li> <li>Necessity to transition to a low-carbon economy</li> </ul>
 <b>HUMAN CAPITAL</b>	<ul style="list-style-type: none"> <li>6 812 employees</li> <li>13 330 contractors</li> <li>R298 million invested in skills development and talent management</li> <li>R4.2 billion invested in employee remuneration</li> <li>Safety training</li> <li>Health programmes</li> <li>Culture journey</li> </ul>	<ul style="list-style-type: none"> <li>Scarcity of skills challenging to retain in a competitive market</li> </ul>
 <b>SOCIAL AND RELATIONSHIP CAPITAL</b>	<ul style="list-style-type: none"> <li>Reputation</li> <li>SLP projects: R38.6 million</li> <li>Enterprise and supplier development: R170.7 million</li> <li>Community investments and volunteerism R95 million</li> </ul>	<ul style="list-style-type: none"> <li>Low trust business environment</li> <li>Negative sentiment towards companies in the fossil fuel sector</li> </ul>
 <b>MANUFACTURED CAPITAL</b>	<ul style="list-style-type: none"> <li>Six mining operations</li> <li>Sustaining capital R2.2 billion</li> <li>Expansion capital R3.6 billion</li> </ul>	<ul style="list-style-type: none"> <li>Contractors experiencing financial difficulties had an impact on completing our projects</li> </ul>
 <b>INTELLECTUAL CAPITAL</b>	<ul style="list-style-type: none"> <li>Digitalisation</li> <li>Business excellence process</li> <li>372 leadership and management training</li> </ul>	<ul style="list-style-type: none"> <li>Fast pace of change requires constant innovation and ideation</li> </ul>
 <b>FINANCIAL CAPITAL</b>	<ul style="list-style-type: none"> <li>Core equity-accounted income R4.8 billion</li> <li>Core EBITDA: R5.8 billion</li> <li>R5.8 billion cash dividend paid (including special dividend)</li> <li>Revenue: R25.7 billion</li> </ul>	<ul style="list-style-type: none"> <li>Low growth environment</li> </ul>

+ Positive impact on capital and therefore positive value-creation outcome  
 - Negative impact on capital and therefore negative value-creation outcome  
 = Neutral value-creation outcome

## Our activities

# MINING

• EQUITY INVESTMENTS  
 • RENEWABLES

## Our outputs

### COAL

PRODUCT VOLUMES OF 45.6MT

### ENERGY

762 GWH IN WIND ENERGY

### IRON ORE (SIOC)

CORE EQUITY-ACCOUNTED INCOME OF R4.4 BILLION (2018: R2.6 BILLION)

### TITANIUM DIOXIDE

CORE EQUITY-ACCOUNTED INCOME OF R236 MILLION (2018: R491 MILLION)

### WASTE

4 090 TONNES HAZARDOUS WASTE  
 1 082 KTCO<sub>2</sub>-E EMISSIONS

## Our outcomes

- Dust suppression below target\*
- + Carbon intensity down 5%\*
- Water intensity reduced by 10% from baseline\*
- + Zero level 3 environmental incidents
- + 100% valid mining rights
- + Seven stoppage directives

## Enhancing our outcomes

- Minimising our environmental impacts and seeking ways to be an active participant in the Just Energy Transition to a low carbon economy.
- A review of actions taken in this regard is provided in the following sections of this report:
  - Chairman's statement (+ page 12)
  - Strategy for growth and value creation (+ page 40)
  - Climate change (+ page 102)
  - CEO's report (+ page 36)

- Zero employee and contractor fatalities
- - 0.12 LTIFR
- - 0.24 OHIFR
- + Scarce skills retention on target

- Ensuring that we safeguard the health and wellbeing of our people is a top priority.
- A review of actions taken in this regard is provided in the following sections of this report:
  - Chairman's statement (+ page 12)
  - Strategy for growth and value creation (+ page 40)
  - CEO's report (+ page 36)
  - People (+ page 96)

- Net positive impact reputation
- - 4 community incidents
- + Top-quartile mining performer in ESG
- + Governance structure ESG analyst rating of 4.6 out of 5
- + Enterprise and supplier development at 1.8% of NPAT
- + BEE status maintained

- 4.5 days of community unrest resulted in cost to Exxaro in lost production. Moreover, making it evident that social and relationship capital has a direct impact on our ability to create financial capital. We therefore continually seek ways to engage and maintain relationships of mutual respect and benefit with our stakeholders.
- A review of actions taken in this regard is provided in the following sections of this report:
  - Chairman's statement (+ page 12)
  - Stakeholder management (+ page 50)
  - Strategy for growth and value creation (+ page 40)
  - CEO's report (+ page 36)
  - Social licence to operate (+ page 100)

- + Marginal cost overruns on mega projects
- + Implementation timelines for mega projects on target

- Optimising our manufactured assets remains a key strategic priority.
- A review of actions taken in this regard is provided in the following sections of our 2019 report:
  - Chairman's statement (+ page 12)
  - Strategy for growth and value creation (+ page 40)
  - CEO's report (+ page 36)

- + Core system availability at 99.8%
- + Zero cyber intrusions
- + 400 youth trained in the digital economy

- Ensuring competitive advantage through innovation and digitalisation remains key to Exxaro's strategy going forward.
- A review of actions taken in this regard is provided in the following sections of our 2019 report:
  - Chairman's statement (+ page 12)
  - Strategy for growth and value creation (+ page 40)
  - CEO's report (+ page 36)
  - Business resilience (+ page 92)

- + Core EBITDA margin of 23%
- + ROCE of 28%
- + Core HEPS of 2 354 cps
- + Market capitalisation of R47 billion
- + Net debt to equity of 13%

- Through our early value strategy we are focusing on enhancing the performance and efficiency of our current coal assets in light of the market environment while seeking to unlock new opportunities in other areas of energy generation.
- A review of actions taken in this regard is provided in the following sections of our 2019 report:
  - Chairman's statement (+ page 12)
  - Strategy for growth and value creation (+ page 40)
  - CEO's report (+ page 36)
  - Finance director's review (+ page 74)
  - Business resilience (+ page 92)

\* Although we have achieved greater levels of efficiency in our use of natural capital, these outcomes have been marked as negative as they reflect a reduction in the balance of natural capital available.

## Positioning the business for growth within the context of climate change







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## POWERING OUR PEOPLE

### (PIT) CHALLENGE

"There are challenges our Professionals-in-Training (PIT) have dared to accept this past year: how to find solutions to some of our most pressing problems in a sustainable way, in a way Mother Nature intended, with no harsh chemicals or waste" - CEO Mxolisi Mgojo (far right) addresses the Professionals-in-Training at the PIT Symposium held in October at the conneXXion.

The participants were asked to research and present on areas relevant to Exxaro's business and close to Exxaro's heart, including the future of clean-energy technologies, sustainable mining and mine closure.



Why work for us?

<https://www.exxaro.com/workplace/#why-work-for-us>

## CEO's report



**Mxolisi Mgojo**  
Chief executive officer

### Highlights

- New Belfast digital mine on line six months early and on budget
- Eskom approves Matla Mine 1 funding
- Digitalisation drives efficiency
- Acquired remaining 50% in Cennergi

### Challenges

- Contractor issues delay GG6 expansion by six months
- Volatile coal price
- Low economic growth rate in South Africa
- Eskom's sustainability

### Outlook

#### Internationally

- Uncertain global economic growth
- API4 price to remain under pressure
- Expected recovery in iron ore seaborne supply and anticipated narrowing of steel mill margins to be a drag on prices
- COVID-19 impact on global economy and commodity demand
- Credit downgrades negatively impacting economic outlook

#### South Africa

- Cautious optimism about domestic economic reforms but execution risk remains
- Volatile rand exchange rate
- Domestic coal demand and pricing uncertainty
- Encouraged by Integrated Resource Plan, efforts to secure Eskom's financial viability and liberalisation of sector for self-generation

#### Exxaro

- Coal business remains core
  - early value strategy
  - assess potential for development of Moranbah South
- Maintain strategy in relation to Tronox disposal (subject to acceptable market conditions)
- Focus on mining and energy
  - no new investments in food and water as part of Business of Tomorrow programme
  - maintain contractual commitments
- Acknowledge risks and opportunities due to climate change: responding accordingly

## Business resilience within a challenging macro-environment

Our business context during the year was volatile to say the least.

In fact, after year end, just prior to the publication of this report, President Cyril Ramaphosa announced a nationwide lockdown for 21 days to halt the spread of the COVID-19 virus and save the lives of hundreds of thousands of our people. This is truly the epitome of volatility and has brought with it its own unprecedented trials.

On other fronts, many challenges needed to be confronted. Our price outlook for the year was set at an average coal price of US\$90 oblivious to a storm that was brewing in our markets. The slide to less than US\$60 by April 2019 and a completely unexpected upswing to US\$80 in the fourth quarter of 2019 were not driven by fundamentals of supply and demand but unpredictable market forces and politics.

Coal suppliers had to find alternative markets as the United States (US) and China fought their trade war. Australia was forced to seek buyers in our Asia-Pacific markets when Indonesia became the primary supplier to China. The

high-grade, clean-burning thermal coal during 2020. Belfast mine presents hope for the loss-making Mpumalanga coalfields with a LoM of 12 years, and potential to directly and indirectly benefit thousands of people.

Another highlight in the past year was Eskom's approval of partial funding for Matla Mine 1 to increase production from 6Mt to 10Mt by 2023. In 2023, GG6 will have been commissioned, while Belfast and Mafube are fully ramped up, improving our production output and the quality of our products.

We remain concerned about the risk of operating in an environment that continues to suffer load shedding. However, we are committed to supporting government, collectively with the Minerals Council South Africa (MCSA), Business Leadership South Africa (BLSA) and Business Unity South Africa (BUSA), to resolve this power crisis. In addition, we are responsive to the global call for climate action, guided firstly by South Africa's energy requirements, today and in the long term, and then the need to consider minimising potentially negative impacts on vulnerable communities. The transition to a lower-carbon environment must be informed by social justice.

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Despite the overwhelming impact of geopolitical challenges on our markets in the past year, Exxaro maintained a respectable profitability level.

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oversupplied United Kingdom (UK) and European markets, where low gas prices drastically reduced coal offtake by power producers, also pushed the Americans, including Colombia, and Russia into Eastern markets.

At the same time, adverse weather conditions in the Richards Bay port, as well as delays due to derailments, presented significant challenges. In addition, Eskom was unable to honour the offtake agreement for the Medupi power station where stockpiles had reached maximum capacity.

Continued weak economic growth in South Africa compounded the situation. The economy slipped back into a technical recession in the last quarter of 2019, the second time in as many years, illustrating once more the urgent need for structural economic reforms.

Our Grooteegeluk plant 6 (GG6) expansion project was affected by the problems of the local construction sector. The project was delayed by six months when Group 5 embarked on business rescue proceedings and we had to replace the contractor.

At the same time though, our Belfast digital mine came on line six months early (+ details on page 91). We expect the R3.3 billion operation, to reach steady state production of

## Facing the COVID-19 crisis

Subsequent to year end, the COVID-19 (the virus) pandemic required us to support government protocols and directives to contain the spread of the virus.

We have received the necessary approval to continue with our production activities, albeit at varying reduced levels in terms of volumes and people, as these activities are considered to be essential services and the necessary measures have been taken to prevent possible infections.

Exxaro's head office, the conneXXion, was closed from 26 March 2020 and most employees have been enabled to work from home. Arrangements are in place for business continuity and the necessary protocols have been activated across all operations and business units, ensuring efficient and safe ways of working. Additional preventative disease transmission protocols have been implemented in all our coal mining operations.

We are closely monitoring all updates and advice from relevant organisations, including the National Department of Health, the Department of Minerals Resources and Energy and Minerals Council South Africa.

## CEO's report continued

While coal mining was declared exempt from the nationwide lockdown due to the fact that the production of electricity is considered an essential service according to the law (and those critical elements in the value chain are considered critical services), we will not, in anyway, be exempt from the challenges this crisis will create for our country and the people who live in it.

Rest assured that we will take great care in the coming days and weeks to protect our people as they seek to provide this critical service to the nation in our ongoing efforts to support energy security.

Indeed, our determined pursuit of digitalisation at our head office, and, where possible, at our operations, has supported business continuity and we will continue to pursue heightened health and safety measures for our employees on the ground at our operations.

As we navigate this unfolding situation, we will ensure that engagement channels remain open to enable us to make well-informed decisions that take all stakeholder needs into account during this critical time.

Please view future updates on our website  
<https://www.exxaro.com/investors/#overview>

### Transitioning to a low-carbon future

We are ever mindful that the transition to a low-carbon future should improve lives as we aspire to promote a cleaner way of living. Our purpose remains a critical responsibility: to power better lives in Africa and beyond. Following an extensive strategy review, we have developed a vision statement that aligns with our purpose: resources powering a clean world. We used this as a filter when we were considering the acquisition of Tata Power's 50% shareholding in Cennergi.

As a wholly owned subsidiary of Exxaro, Cennergi will establish and strengthen our position in the renewable energy sector at a time when coal-based electricity generation is considered inappropriate in assuring the nation's energy security. We are committed to our climate change strategy, which aligns with the Paris Agreement and incorporates recommendations of the Task Force on Climate-related Disclosures (TCFD).

A sustainable low-carbon future requires us to limit coal mining and redefine our worth not merely in terms of LoM but rather in terms of carbon efficiency. However, to ensure sustainable value creation in the interests of all our stakeholders, we are determined to extract maximum value from our existing coal assets while pursuing new opportunities. We have decided to accelerate the production of high-quality coal for export markets while ensuring supply to Eskom's Matimba and Medupi power stations, and to schedule later in the life of mine the areas with lower quality coal so that early value will be created over the next 20 years and will deliver shareholder value and socio-economic benefit beyond our existence.

Accompanying this economic-transition strategy is a social-impact strategy to effect a Just Energy Transition (+ page 48) for our communities. Key tenets of this strategy are climate adaptation and collaboration for impactful investment in sustainable regional projects.

### Land as a legacy

In support of the country's land redistribution policy, we have embarked on a minerals succession programme which will allow us to map out all of our land to establish, among other initiatives, agri-economies that will transcend dependency on mining. This will be undertaken in partnership with emerging farmers in communities where we operate.

We are involved in the Impact Catalyst in Limpopo (+ page 52), which will give rise to the first regional socio-economic development platform addressing health and wellbeing within the mining-dependent province. We are thus re-imagining the potential of the land we have long shared with farmers as well as the transformational impact of mining.

At the same time, we are re-examining our corporate social investment (CSI) structures to ensure that our investments go beyond the constrained traditional CSI model with a view to more meaningful investment in the sustainable development of our stakeholders, including black suppliers, particularly women, and youth. For example, our YD\* programme (+ see ESG report page 63) is helping 400 previously disadvantaged young men and women to adapt digital technologies and create employment opportunities.

### With gratitude

I am grateful for all of the people of this organisation who share their time and energy in pursuing our purpose. Throughout the past year, we have seen our teams go the extra mile. I am uplifted by the same people who support the board and challenge us, the executive, to reach even further than we believe possible.

We are resilient because our people have the tools and skills they need to work efficiently in an environment that is moving quickly towards the fourth industrial revolution. Our award-winning Digital@Exxaro programme (+ details on page 98), combined with other employee engagement initiatives, are transforming our company culture to ensure that we are more open and agile when we engage with stakeholders internally and externally.

Our move to a new corporate centre in July, named the *conneXXion* by employees, is enabling better interaction and communication through open-plan workspaces. Employee teams were involved in the design and set-up of their own workspaces. At our mining operations, teams meet in integrated operations centres with an end-to-end view of mining activities, which are visible and accessible in real time at headquarters. This Middle Eye platform (+ page 98) also connects us to remote original equipment manufacturers when we need to solve technical problems on surface and underground.

We want to immerse the entire organisation in the way of the future by encouraging people to unlearn the old and embrace new skill sets. We are investing in a mindset change so that employees at all levels of Exxaro will not need to be pushed but will pull the organisation forward.

At the same time, we tirelessly pursue zero harm. We are disappointed that our lost-time injury frequency rate (LTIFR) did not improve in 2019, due to an increase in contractor employment during our expansion projects, but we are proud that Leeuwpan has remained injury-free for 30 years. The safety campaigns launched last year, our Khetha Ukuphepha and the Minerals Council's Khumbul'ekhaya, remind us to ensure that safety is a priority every day.



**Mxolisi Mgojo**  
Chief executive officer

20 April 2020





# Strategy for growth and value creation

## Understanding our strategic context - matters materially impacting our strategy



**Macro-environment**



**Business resilience**



**Our people**



**Social licence to operate**



**Climate change**

Our strategy is influenced by the macro-economic forces on our business (+ details on page 86).

A major focus area of strategic consideration has been action against climate change, which is driving the transition from fossil fuels to renewable energy sources that support a lower-carbon economy (+ see our strategic trade-offs on page 49 for more information on the critical decisions considered in determining our strategic direction, as well as our material matters on page 4).

### A responsive coal strategy

During 2019, Exxaro continued to deliver on our stated strategic objectives. This included maintaining and strengthening our performance in the following:

	Ensuring the sustainability of our business
	Portfolio optimisation
	Operational excellence
	Capital allocation priorities

In the face of uncertainty, we continue to respond adaptively, optimising our robust assets and moving lower in the cost curve such that we land coal competitively across all markets.

In response to the critical need to mitigate climate change and ensure resilience in the face of the real impacts on our business, we have developed climate scenarios to assess the potential implications for our coal operations as well as the required response by each operation, considering domestic and global energy and climate response policies, global sentiment towards coal and the potential impact on our coal markets.

A critical starting point was an assessment of coal quality and yield to determine sustainable production volumes and life of mine (LoM) under different climate scenarios - this was the basis of the **early value strategy** we shared with our stakeholders in 2019, which aims to maximise the value of our coal business by reducing the potential for stranded high-quality coal Reserves.

### Outcomes of our early value strategy

Our Limpopo operation, Grootegeluk, remains resilient and can continue to supply Eskom's Matimba and Medupi power stations over its remaining life in line with the national Integrated Resource Plan. We will complete the current capex programme, focusing on GG6 and the load-out station to grow our exports. Our plans for our Thabametsi mine to supply the Thabametsi Coal IPP remain suspended until further notice.

Our Mpumalanga mining operations will be most impacted by climate risk in terms of LoM:

- The contract for our mine, Matla, to supply coal to the Matla power station expires in 2023. Engagements are currently underway with a view to extend coal supply for the life of the power station
- The recently commissioned digitally connected Belfast mine, which produces high-quality RB1 export coal, will continue to operate, incorporating the second phase of the operation
- The remaining operations, Leeuwpán and Exxaro Coal Central Proprietary Limited (ECC), will not meet our requirements and expectations for resilience in the climate scenarios and the journey to a low/zero carbon environment. Consequently, a decision was taken to divest from the operations.

Our plan is aligned with our outlook of maintaining a diversified product portfolio consisting of exports and maintaining our contractual commitments to Eskom and domestic customers. We have reviewed the configuration of our Mineral Resources and Mineral Reserves, and remaining life of operations. For the early value strategy, as discussed above, some of our operations will result in modestly shorter lives but at the same or higher production rate and other operations will be better managed by different operators, and hence sold as going concerns.

As a whole, the coal business remains robust, focusing on cost and operational efficiency (including climate adaptation considerations), high-quality coal supply, generating returns for shareholders and responsiveness to market needs over the next 10 to 15 years in Mpumalanga and Limpopo.

### Forging the way forward

Mindful of the alternative national energy strategy, we reviewed our original Business of Tomorrow strategic response to climate risk in 2019. We continue to uphold our stated purpose, but we are reviewing our approach to ensure we are able to leverage our key competencies while securing new, low carbon-aligned streams of revenue.



We have long recognised that sustainability on the African continent has three necessary pillars: food security, water security and energy security.

In 2017, Exxaro began exploring potential roles in that space through the Business of Tomorrow (BoT). The BoT strategy provided Exxaro with an opportunity to understand sustainable ecosystems and the energy space.

As a direct result of BoT, we are now confident that Exxaro's greatest opportunity to support a sustainable South Africa, and, in so doing, a sustainable, profitable Exxaro, is through an undiluted focus on energy security. We are in the process of positioning Exxaro for that role.

We have, therefore, ceased all new investments in BoT and will dispose of the majority of the current portfolio over the next two to three years as we maintain our obligations.

As a company with deep roots and expertise in energy, and because energy security is critical for food and water security going forward, we have determined that we can most powerfully move the needle by sharpening our focus on energy and on gaining nearer-term traction in that area.

The purchase of the remaining 50% interest in Cennergi (+ see page 77), highlights our intention to power better lives in Africa and beyond, and we are pleased to consolidate our interest in this renewable energy asset at a time in South Africa when we need energy security as we respond to increasingly negative sentiment towards coal-based electricity generation.

## Strategy-aligned social impact

Within this context, we are also developing a strategy-aligned social impact plan, which consolidates our social investment efforts to date. We will thus be able to seek appropriate socio-economic development projects in collaboration with our peers, social partners, experts in the field and government. It will also enable us to empower communities on a regional scale with climate mitigation and adaptation at the core of this social development strategy.

## Looking ahead

Exxaro has long recognised the fact that the shift to a lower carbon environment must and will arrive - for South Africa, for the continent and for the world.

The Integrated Resource Plan foresees a reduction in coal-based electricity generation from its current level of 95% to almost 50% by 2030, citing one of many projections. Some may view the Integrated Resource Plan statements as a radical change in the national energy strategy whereas Exxaro has spent the past decade establishing the foundation of a profitable, sustainable and ethical business that can thrive in a low-carbon environment while remaining true to its purpose. Our plans in the foreseeable future build on that foundation with Matimba, Medupi and Kusile continuing to operate for at least another 15 to 20 years. Going forward, we will continue to balance our mining and energy portfolios with commitments to renewable energy or its components.



## Short to medium-term outlook

Our short to medium-term plan is to provide a solid platform, in terms of operational performance and financial results, while optimising our portfolio of investments and operations to maximise the value of the coal business in the short term.



## Performance against strategy

In 2019, our strategic objectives continued to guide our actions within a constrained environment, which called for tough decisions

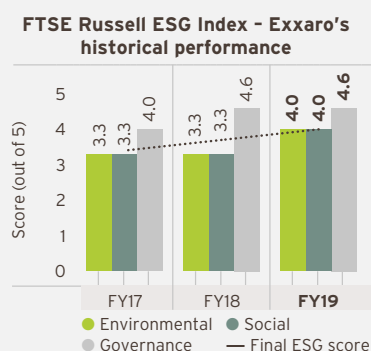
Strategic objectives	Related material matters	Performance in 2019
 <p><b>Ensuring the sustainability of our business</b></p>	<ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Key customer dependency</li> <li>• Cost competitiveness of product</li> <li>• Product substitution</li> <li>• Capital project execution</li> <li>• Workforce culture, diversity and capability/innovation</li> <li>• Transparency, ethics and integrity</li> <li>• Safety and health</li> <li>• Legal and regulatory excellence</li> <li>• Social unrest</li> <li>• Supporting job and business creation</li> <li>• Cybersecurity</li> <li>• Climate change</li> <li>• Responsible environmental stewardship</li> <li>• Country risk (political)</li> <li>• Price and currency volatility</li> <li>• Short-term investor/shareholder focus</li> <li>• Infrastructure access and capacity</li> </ul>	<p>Exxaro has been responsive to opportunities within its ESG landscape:</p> <p>We have implemented a safety campaign, Khetha Ukuphepha, to arrest the declining trend in our safety performance.</p> <p>In 2019, we maintained our LTIFR of 0.12, which remains above our target of 0.11. We are beginning to see improvements where the performance of the first two months of this year is significantly better than the same period in the previous year.</p> <p>We have maintained best-in-class performance in terms of our CDP and ESG ratings. This is a pleasing objective recognition on which we are building in terms of our climate response strategy. The opportunity for self-generation is being evaluated, which will present additional opportunities for improvement in our emission-reduction efforts.</p>
 <p><b>Portfolio optimisation</b></p>	<ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Cost competitiveness of product</li> <li>• Product substitution</li> <li>• Capital project execution</li> <li>• Supporting job and business creation</li> <li>• Climate change</li> <li>• Responsible environmental stewardship</li> <li>• Country risk (political)</li> <li>• Price and currency volatility</li> <li>• Short-term investor/shareholder focus</li> <li>• Infrastructure access and capacity</li> </ul>	<p>We completed the transfer of Arnot mine to Arnot OpCo, an operation owned and operated by former employees with a broad-based benefit scheme for the surrounding communities. All conditions precedent have been fulfilled - we continue to evaluate the remaining coal assets for resilience in the evolving operating environment.</p> <p>We are pleased with our progress in the corporate portfolio optimisation - we are nearing the conclusion of an agreement for the sale of our interest in Black Mountain Mining; and the remaining interest in Tronox will be sold at a suitable market opportunity.</p>



and firm commitment to our focus on business resilience: our ability to withstand any economic and commodity market downturn.

#### Key KPI and performance

Target: Top quartile ESG



#### Looking ahead

Exxaro is focusing on improving its ESG performance as a consequence of improved stewardship and management of our sustainability capitals.

We anticipate that our safety performance will improve as a result of our safety awareness campaign, Khetha Ukuphepha



Exxaro has committed to becoming Scope 1 and Scope 2 carbon-neutral by 2050.

We are working to prepare for and mitigate climate change effects in the coal business (+ see pages 102 and 103)

Portfolio optimisation remains a strategic objective to, firstly, ensure a simplified business structure that will reduce the holding discount in our valuation; and secondly, in relation to the coal business, remain with a portfolio of coal assets that will withstand the market price volatility and remain with high quality reserves which provide flexibility with changing market requirements for coal products.

We have taken a more aggressive path in our optimisation of the investment portfolio in order to focus more effectively on building a sustainable business. Therefore we are reviewing all further investments in our Business of Tomorrow (BoT) venture. Exxaro's deepest roots and expertise lie in energy and because energy security is critical to food and water security, we have determined that we can most powerfully move the needle by sharpening our focus on energy and on gaining nearer-term traction in that area. Consequently, we are strengthening our commitment to energy. In keeping with that aim, we have purchased the remaining 50% interest in Cennergi from Tata Power. This JV vehicle has been in Exxaro's portfolio since 2012 and represented our first foray into renewable wind energy as well as our early recognition of the need to reduce the carbon intensity of Exxaro's total portfolio.

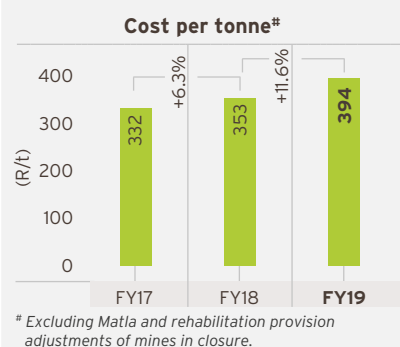
## Performance against strategy continued

Strategic objectives	Related material matters	Performance in 2019
 <p><b>Operational excellence</b></p>	<ul style="list-style-type: none"> <li>• Cost competitiveness of product</li> <li>• Product substitution</li> <li>• Capital project execution</li> <li>• Workforce culture, diversity and capability/innovation</li> <li>• Safety and health</li> <li>• Legal and regulatory excellence</li> <li>• Cybersecurity</li> <li>• Climate change</li> <li>• Responsible environmental stewardship</li> <li>• Price and currency volatility</li> <li>• Short-term investor/shareholder focus</li> <li>• Infrastructure access and capacity</li> </ul>	<p>Our operational excellence drive culminates in the margin above our operating costs at the hands of the customer. We therefore continued to seek opportunities to ensure cost competitive production and improved efficiency for higher volumes.</p> <p>Our digitalisation strategy continues to evolve. Improvements are still incremental. However, we anticipate significant improvements over the next three years in unit cost and volume metrics.</p>
 <p><b>Capital allocation priorities</b></p>	<ul style="list-style-type: none"> <li>• Financial resilience</li> <li>• Key customer dependency</li> <li>• Cost competitiveness of product</li> <li>• Product substitution</li> <li>• Capital project execution</li> <li>• Workforce culture, diversity and capability/innovation</li> <li>• Supporting job and business creation</li> <li>• Climate change</li> <li>• Responsible environmental stewardship</li> <li>• Country risk (political)</li> <li>• Price and currency volatility</li> <li>• Short-term investor/shareholder focus</li> <li>• Infrastructure access and capacity</li> </ul>	<p>Exxaro's improved capital allocation programme continued to deliver on commitments related to capital expenditure for its production growth through project delivery and return of cash to shareholders.</p> <p>In relation to capex and project delivery, other than GG6, all projects are on schedule and on budget.</p> <p>During March 2019, Tronox Limited redomiciled from Australia to the UK. Each Tronox Limited shareholder received one share in the newly incorporated English company, Tronox Holdings plc, in exchange for each share held in the Australian-incorporated Tronox Limited. On 9 May 2019, Tronox Holdings plc repurchased 14 000 000 shares from Exxaro. Exxaro returned 65% of the cash received to shareholders as a special dividend. We are committed to concluding the disposal of the remaining interest at an opportune moment and once again the majority of those proceeds will be distributed to shareholders.</p>

## Key KPI and performance

Target: To limit increase to be no higher than mining inflation (R/tonne)

Volumes: TTH



## Looking ahead

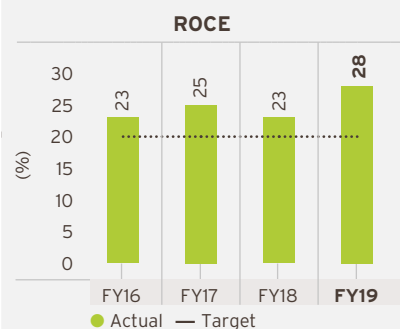
Our coal operations will be best-in-class and cost-competitive through our operational excellence drive to continue to meet customer expectations in terms of volumes, quality and price.

We are planning for a CPI +2% (mining inflation) increase in unit costs, acknowledging inflation costs, but with improving volume efficiencies. Cash cost performance and free cash flow generation will be material measures of operational success.

Target: ROCE >20%

Dividend policy

- (1) Pass through of SIOC dividend
- (2) 2.5 - 3.5 coal earnings



Return and growth are the primary expectations by shareholders from the performance of the business.

The combination of our free cash flow generation and cash obtained from disposals has imposed a greater focus on our capital allocation and strategic outlook.

Our approach to building another core business in energy will be well considered in terms of an understanding of our capabilities and those required for success in this new area. We have learned valuable lessons from our past capital-allocation endeavours.

As we embark on a transition strategy, a key consideration will be balancing medium-term growth.

## Performance against strategy continued

### Progress against our coal-specific strategy

Progress in achieving specific objectives that impacted our results include:

**Improved** discard handling  
**Commissioning** of the new **Belfast mine**  
**Development** of our **“early value”** strategy

### Strategic objectives

Pillar	Objective	Business risks addressed
<b>Portfolio excellence</b>	Develop portfolio investment and divestment scenarios Execute streamlined investment and divestment processes	Dependency on Eskom as key customer Price and currency volatility Executing Business of Tomorrow strategy
<b>Marketing excellence</b>	Market-to-resource optimisation Extend positioning in value chain	Dependency on Eskom as key customer Price and currency volatility Cost-competitiveness of products Infrastructure access and capacity (Transnet Freight Rail and Richards Bay Coal Terminal)
<b>Innovation excellence</b>	Set base: Ensure ICT infrastructure Digitalise and link all steps of value chain Enable digitalisation: approach, team and structure/ processes	Price and currency volatility Cost competitiveness of products Competition and product substitution
<b>Operational excellence</b>	Drive top five priorities Startup Way Implement LEAN5 <sup>1</sup> findings across business units	Price and currency volatility Cost competitiveness of products
<b>Capital management excellence</b>	Align project portfolio with strategy Reduce capital cycle lead time Implement projects with LEAN5 construction Measure and forecast in real-time Communicate effectively to markets	Capital project execution
<b>People and organisation excellence</b>	Align workforce planning with strategy Recruit talent and train new capabilities Address social impact of technology Change management for Startup Way culture Streamline and automate people-centred processes (cross-functional initiative driven by human resources and sustainability)	Retention strategy: people Talent retention: people Compliance and adherence to B-BBEE and Mining Charter III targets Employee value proposition Reskilling and upskilling employees for new world of work
<b>Safety and sustainability excellence</b>	Maintain licence to operate Leverage latest technology in safety, health, environment and community management Effective community engagement	Maintain social licence to operate Community unrest

<sup>1</sup> A range of initiatives to extract more from what we have and maximise opportunities.



### Five enabling topics identified to accelerate business optimisation across coal business



#### Bias for action

Bias for action to translate procedures and standard operating procedure into action, adhere to plans and implement agreed actions



#### Performance management

System requires close frontline performance tracking and visualisation to engage people on the shop floor



#### Ownership for operational excellence by line

Operating units are accountable for driving operational excellence



#### Incentive system

Incentive system should award individual performance



#### Spans of control

Large number of low and high spans of control

#### Case study: Coal's future

Coal is an important source of electricity, with more than a third of the world's power generated by coal. "That doesn't mean we, as a coal business, should sit back and relax," said Mxolisi Mgojo, Exxaro's CEO, during a panel discussion at the 2019 Mining Indaba. "The world is changing, and it is changing fast, and this requires us to adapt constantly. We must gear ourselves to be disruptors if we don't want to be disrupted. Dealing with some of these changes, which range from coal divestment to the surge in technology, requires us to diversify from an operational and even a client perspective to stay resilient. The time of being able to comfortably rely on one resource, one core business activity, and one key offtaker is long gone."

Exxaro is therefore looking ahead, confirmed Mxolisi. "We have been doing so for quite some time and we will continue to do so."



## Understanding our strategic trade-off considerations

### Unpacking the social and environmental trade-offs of coal and its future in South Africa's energy mix

Coal as a fuel source carries significant costs for environmental systems. In truth, the increasing frequency and scale of climate change-related events has brought to the forefront the critical need to transition to a low-carbon economy. However, structural economic transitions have, historically, had the greatest negative impact on the most vulnerable in society.

Our purpose is to power better lives in Africa and beyond. To achieve this aim, careful consideration must be given to the critical trade-offs of the immediate, and affordable energy needs of the economy along with the growing and urgent need to reduce carbon emissions to sustain our environmental systems.

Within this context, the South African Integrated Resource Plan foresees a significant reduction of coal-based electricity generation (currently at 77%) to close to 59% by 2030. However, it is anticipated that Matimba, Medupi (and Kusile operated by Serriti) will continue to operate beyond this period for an additional 15 to 20 years. Going forward, however, it is anticipated that new capacity will be led by solar and wind power.

In line with this outlook, we are seeking to meet immediate and longer-term energy needs through our adaptive coal strategy while exploring possibilities in renewable energy to support this transition, taking into consideration social and climate risk. Minimising the potential social risks during this transition remains critical, such as increasing unemployment and poverty that could arise from transitioning our coal-based economy to a lower carbon economy. Consequently, development of a Just Energy Transition strategy is an imperative alongside the urgency to switch our energy systems.



## Digitalisation - Forging new career paths

The Exxaro digitalisation and innovation journey is a strategic initiative driven by the CEO. Key improvements achieved through this initiative include an integrated perspective of the value chain, leading to better decision making from visualised information through better dashboards.

We recognise that our continued pursuit of digital innovation will accelerate the rate at which historical jobs in our industry become obsolete. To address this trade-off, internal smart workforce initiatives were introduced to assist employees in acquiring the relevant knowledge and skills for the new world of work and the impact of digitalisation on the future of work.

Smart workforce programmes include training in digitalisation and innovation, Microsoft 365, design thinking, data science and data mining, culture and leadership behaviours aligned with Exxaro's workforce of the future journey, creating a bias for action and, more critically, job-specific reskilling at operating units and our corporate office. The programmes were rolled out in 2018 and are revised continuously in line with business requirements.

### Set the base:

Ensure infrastructure in place, and required equipment, assets and end-points are deployed

### Enterprise-wide integration:

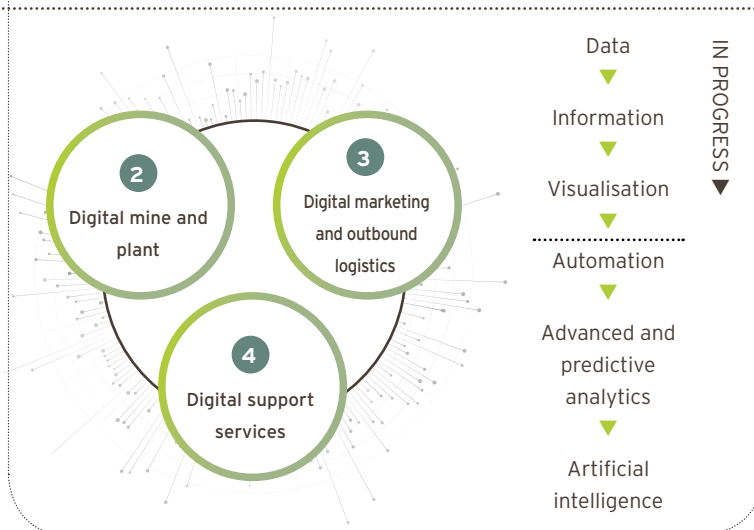
Digitalise and link all steps of the value chain

### Enable digitalisation:

Roll out Startup Way, enable workforce, upgrade structure/ processes and establish start-up incubator

#### 5 Company-wide digital system integration

##### 1 Infrastructure



##### 6 Startup Way

##### 7 Digital workforce

##### 8 Innovation magnet

## Stakeholder management

In support of Exxaro's purpose of powering better lives in Africa and beyond, we continue to work towards improving the quality of our relationships with stakeholders and building long-term, stable and mutually trusting relationships that will create shared value for all our stakeholders.

We have adopted a stakeholder maturity model to assess our progress and improvement in relationship building with our stakeholders (+ see ESG report page 43). Our management objective is to improve our stakeholder engagement maturity level from ad hoc and procedural to integrated and relational levels over the next two to three years. This requires context and simplicity.

### Exxaro's approach to stakeholder management

The board has approved the key account management (KAM) approach to stakeholder management for Exxaro. The approach is aimed at improving stakeholder engagement across the organisation so that it is proactive and responsive to risks and opportunities. In this way, we will be better able to strengthen stakeholder relationships in an increasingly dynamic and uncertain operating environment. It is a purpose-driven process that supports Exxaro's stakeholder excellence objectives, our organisational purpose and our culture themes of "ownership" (results orientated, efficient and effective) and "open and connected" (collaborative, connected to the ecosystem).

+ For more information on the KAM approach, see page 44 of the ESG report.

### Stakeholder and risk identification

Our approach to stakeholder risk management begins with the identification of key external stakeholders, risks, issues and opportunities. A process of stakeholder mapping and analysis is conducted regularly across our operations to identify new stakeholders and emerging issues, and to determine the extent to which they affect or are affected by the activities, outputs

and/or the outcomes of the organisation and thus their materiality to the organisation.

During quarterly risk reviews at the business units, the material issues identification process and annual functional reviews at head office, stakeholder-related risks are evaluated in line with Exxaro's enterprise risk management framework. The inputs inform the development of either an issues management-focused engagement plan or a risk management-focused plan. In 2019, Exxaro implemented a stakeholder management system to monitor the effectiveness of engagement activities across the business.

### Engagement highlights of 2019

#### Community engagements

A highlight in 2019 was a reduction in the number of production stoppages related to community protests at our operations, from 22 in 2018 to 4.5 in 2019. We attribute this to greater responsiveness to stakeholder needs, and the number of engagements with key local, provincial and national stakeholders as well as the activities of independent social facilitators now appointed at all operations. The proactive identification and communication of local procurement opportunities for communities also contributed to the reduction.

The role of the social facilitators is to mediate and enable alignment between the mine and communities on recruitment, training and preferential procurement. The positive impact of the social facilitators is particularly evident at Grootegeluk and Matla mining operations. At Grootegeluk, the partnership resulted in 17 engagements in the second quarter alone with municipal and local forums linked to major political parties. Matla has not experienced any community protests that have caused major disruptions at other mines in the eMalahleni municipality.



#### Local government engagement

In June, the new general manager at Grootegeluk, Ronald Mafoko, was introduced to the Lephalale Local Municipality Council as well as the Ga-Seleka and Shongoane traditional leaders. He was welcomed warmly and assured of their support. Grootegeluk is also working to re-establish a stakeholder engagement forum to continue the dialogue process and feedback to the community on social initiatives.





## Stakeholder management continued

While the number of production stoppages related to community unrest has reduced, protests continue and are responded to at all business units, largely focused on procurement and employment opportunities.

### Government engagements

The atmosphere of the local political landscape was tense in the second quarter due to national general elections on 8 May 2019. Government engagements in the first half of the year therefore focused on political party stakeholders for insight into policy thinking. Exxaro donated R20 million to political parties in 2019 using the parliamentary proportional method.

In 2019, Exxaro expanded its engagement to political parties to target reputation building opportunities and collaboration with government through initiatives such as:

- Secured a partnership with Brand South Africa as custodians of promoting the role of business in South Africa, disseminating positive narratives about the company's nation building initiatives
- Worked with the Department of Minerals and Energy to align the country's messaging and participated in government activities on the margins of the Mining Indaba
- Met with the Minister of Employment and Labour, Thembelani Nxesi, to position our labour strategy. The minister also officiated at the launch of Exxaro's new head office, the *conneXXion*, earlier in 2019
- On 26 November 2019, our Grooteegeluk mine hosted the Waterberg launch of the model aimed at prioritising delivery of high-impact regional development.

The president launched a new district development model in three pilot municipalities between October and November.

Our overall objective of government engagement is to seek alignment on national priorities and develop opportunities of collaboration for social and economic development in South Africa. Accordingly, we are exploring a municipal capacity building programme in collaboration with the NBI and MISA to improve the capability of municipalities in delivering social services and establishing partnerships with businesses and civil society for the implementation of high-impact projects.

### The Impact Catalyst

The Impact Catalyst was launched in Polokwane, Limpopo, on 29 October 2019 by the founding partners, including Exxaro, Anglo American, World Vision and the Council for Scientific and Industrial Research (CSIR), and attended by the province's premier as well as other key stakeholders. It is aimed at increasing the impact of socio-economic development initiatives through collective action. Several other companies in finance, engineering and consulting as well as other sectors have expressed interest in the initiative. Exxaro has committed R10 million to the Impact Catalyst which has to date funded a feasibility study into establishing a local manufacturing capacity and a health project.

### Investor engagements




A key feature of 2019 was the Capital Markets Day, which provided an opportunity to update investors on Exxaro's coal strategy to 2023 in terms of capital investment, volume growth and anticipated coal market activity. In addition, investor engagement was intensified by the governance roadshow for insight into investor concerns about Exxaro's remuneration philosophy and structure. Investors engaged through offshore and domestic conferences and raised concerns such as coal supply to Eskom, the outlook for seaborne prices, climate change risk and response, and capital allocation in relation to capex, use of cash from disposals and the dividend policy. Offshore investors were particularly concerned about the sovereign risk. Investor engagements will be more demanding in view of our strategy considerations. We are also exploring shareholder concerns and insights on the Just Energy Transition concept from a South African perspective as well as their perceived role in this process.





### Civil society/NGOs

We engaged the Centre for Environmental Rights (CER) regarding a concern on water use licence compliance at our Leeuwpan mine, Mpumalanga.



We are working to resolve the concerns expressed.





## Building our stakeholder relationships

Category	How we engage	Key topics and concerns	Our response
<b>Employees</b> Quality of relationships (based on internal assessments and/or external surveys) 	CEO roadshows Business unit mass meetings Caucus system LetsConnect mobi/USSD system Business unit and group newsletters Television screens Email Company portal	Improved communication Transformation (throughout organisation) Skills development Community development Business strategy Ethics Recruitment practices Responsible environmental management Job security Exxaro strategy and outlook	We increased the number of communication channels with employees to include a mobile app, at no cost to employees, to receive information Skills development spend (+ page 32) Employment equity implementation (+ page 99) Responsible environmental management (+ see ESG report page 20)
<b>Unions</b> Quality of relationships (based on internal assessments and/or external surveys) 	Quarterly meetings Union/management monthly meetings Future forums Employment equity forums Skills development forums	Transfer of provident fund from Iscor to Exxaro Recognition agreement Line of sight (LOS) Career pathing Skills development Individual development plan	Transferring employees to MineWorkers Provident Fund and Exxaro pension/provident fund (+ see ESG report page 54) Recognition agreement signed with NUM and UASA at ECM (+ see ESG report page 54) LOS (under discussion: the line of sight principle referring to an incentive that clearly indicates, over a short period of time, whether or not controllable operational targets are being achieved) (+ see ESG report page 113)
<b>Government</b> Quality of relationships (based on internal assessments and/or external surveys) 	Government engagement plan implemented at corporate centre aiming to build provincial or national relationships necessary to support business unit activities Regular engagements at provincial and local level as required to secure social licence to operate	Current skills and small, medium and micro enterprise (SMME) development initiatives Role in climate change and renewables Identifying areas for collaboration to address community needs Projects in agriculture Water projects Job creation	Skills development (+ see ESG report page 51) Employment equity (+ see ESG report page 56) Climate change and responsible environmental management (+ page 102)


-  Strong relationship that enables mutual value creation
-  Good relationship with room for improvement to enable mutual value creation
-  Current state of relationship has adverse effects on value creation
-  No relationship - adversely impacting value creation

## Stakeholder management continued

Category	How we engage	Key topics and concerns	Our response
<b>Communities</b> Quality of relationships (based on internal assessments and/or external surveys) 	Formal quarterly mine stakeholder engagement forum meetings Municipal local economic development forums Collaboration structures such as Coal Leadership Forum in Mpumalanga Ad hoc meetings with taxi associations, farmers and farming communities and various other community meetings	Better engagement and procurement opportunities Continued investment in community development, job creation and youth development	A total of R62.1 million was invested in community development, infrastructure and education initiatives in 2019 (+ see ESG report page 61). Exxaro has partnered with Anglo American, the CSIR, World Vision and the Limpopo provincial government in the Impact Catalyst – a collaborative socio-economic development platform aimed at achieving more significant impact (+ page 52). The R40 million investment in the Youth Exponential Development (YD*) initiative, in line with the president's youth empowerment scheme, was rolled out in 2019 (+ see ESG report page 63).
<b>Investors/analysts</b> Quality of relationships (based on internal assessments and/or external surveys)  Investor perception survey results considered in this assessment	Annual and interim results presentations Non-deal roadshows Local and international investor roadshow meetings and webcast/teleconferences around finance director biannual pre-close statements Hosted second Capital Markets Day event at new, digitally connected Belfast mine in Mpumalanga Survey on Just (Energy) Transition	Feedback from annual investor perception survey: The overall responding sample has improved significantly with more positive perceptions of Exxaro in almost all the categories such as strategy and capital allocation. Investors continue to show appreciation for access to executive management and the regular and consistent contact given to them by Exxaro. As a measure, good access to executive management scored the highest positive average in the entire report. Climate change and transition plans.	In response to the information needs highlighted by analysts in the reputation survey, Exxaro has, firstly, improved communication of strategy, including capital allocation from process, and secondly, responded to key concerns about strategy and the future direction of the company.




-  Strong relationship that enables mutual value creation
-  Good relationship with room for improvement to enable mutual value creation
-  Current state of relationship has adverse effects on value creation
-  No relationship – adversely impacting value creation



Category	How we engage	Key topics and concerns	Our response
<b>Suppliers</b> Quality of relationships (based on internal assessments and/or external surveys) 	Largely transactional engagements around commercial relationship  Exxaro hosted first ever Supplier Recognition Awards in 2019	Local procurement  Enterprise and supplier development  Supply chain processes, payment, partnerships and feedback	<p>Our local procurement strategy is regulated by the supply chain sustainability policy, integrating local SMMEs into our supply chain through direct and indirect procurement channels. Direct procurement is enabled by set-asides, preferential tender evaluation criteria, and preferential contracting terms.</p> <p>In 2019, contracts worth at least R380 million were awarded to black-owned SMMEs in Exxaro's host communities. Indirect procurement is the preferred method of integrating SMMEs in major capital projects. Our sustainability policy encourages contractors to subcontract a share of the contract value to local SMMEs while adhering to Exxaro's corporate governance and sustainability standards.</p> <p>Exxaro has implemented a comprehensive enterprise and supplier development (ESD) strategy aimed at supporting economic transformation. Around R170 million was disbursed to 30 beneficiaries in 2019. Our digitalisation journey aims to create an efficient market for buyers and sellers to engage effectively. To improve our turnaround times and feedback, we are implementing a new system and digital portal for suppliers to track tenders and invoices, and improve efficiency. In principle, Exxaro supports proposals for collaboration and co-creation of our long-term procurement strategy and undertakes to investigate means to achieve this goal. We are also developing a stakeholder engagement plan to improve communication and interaction with suppliers (+ see ESG report pages 63 to 65).</p>



## Stakeholder management continued

Category	How we engage	Key topics and concerns	Our response
<b>Customers</b> Quality of relationships (based on internal assessments and/or external surveys) 	Exxaro invited 60 key customers to our inaugural customer day and provided an overview of the business and our operations, as well as a visit to our Grootegeeluk mine in Limpopo. The guest list included Eskom, ArcelorMittal and a variety of smaller customers and traders from around the country.	Availability of additional volumes Impact of the Exxaro export strategy into the local market. Requests for supply to new markets Coal prices	The quality of our coal seams determines Exxaro's products, markets and marketing strategy. Around 63% of our volumes are delivered to Eskom and 25% is exported. The remaining volumes are placed in the domestic market. In the past year, there has been a reduction in volumes supplied from Leeuwpan due to production challenges. However, Exxaro is committed to maintaining a local presence. Several production issues at Grootegeeluk resulted in variability in product quality for our domestic customers. The issues have been addressed by the operational teams.
<b>Media</b> Quality of relationships (based on internal assessments and/or external surveys) 	Planning meetings, correspondence and communication activities	Media relations, improved access to senior management (especially CEO) and information about community development initiatives	A communication strategy has been developed, targeting our stakeholders through social media, print and broadcast channels. Most of the messages are aimed at sharing Exxaro's involvement in education, small business and infrastructure development, agriculture and health. We continuously seek opportunities to profile the organisation among various stakeholders such as that offered by the South Africa Investment Conference.
<b>NGO</b> Quality of relationships (based on internal assessments and/or external surveys) 	Correspondence	Impact of Mpumalanga mining operations Exxaro Just (Energy) Transition consideration	Exxaro responded in writing to the CER outlining our approach to environmental management, our understanding as to the role of the regulator, independent auditors and licence holder, and committed to addressing specific concerns noted in relation to our Leeuwpan mine.



Strong relationship that enables mutual value creation



Good relationship with room for improvement to enable mutual value creation



Current state of relationship has adverse effects on value creation



No relationship - adversely impacting value creation



## Environmental monitoring at Matla



## Business risks and opportunities for growth

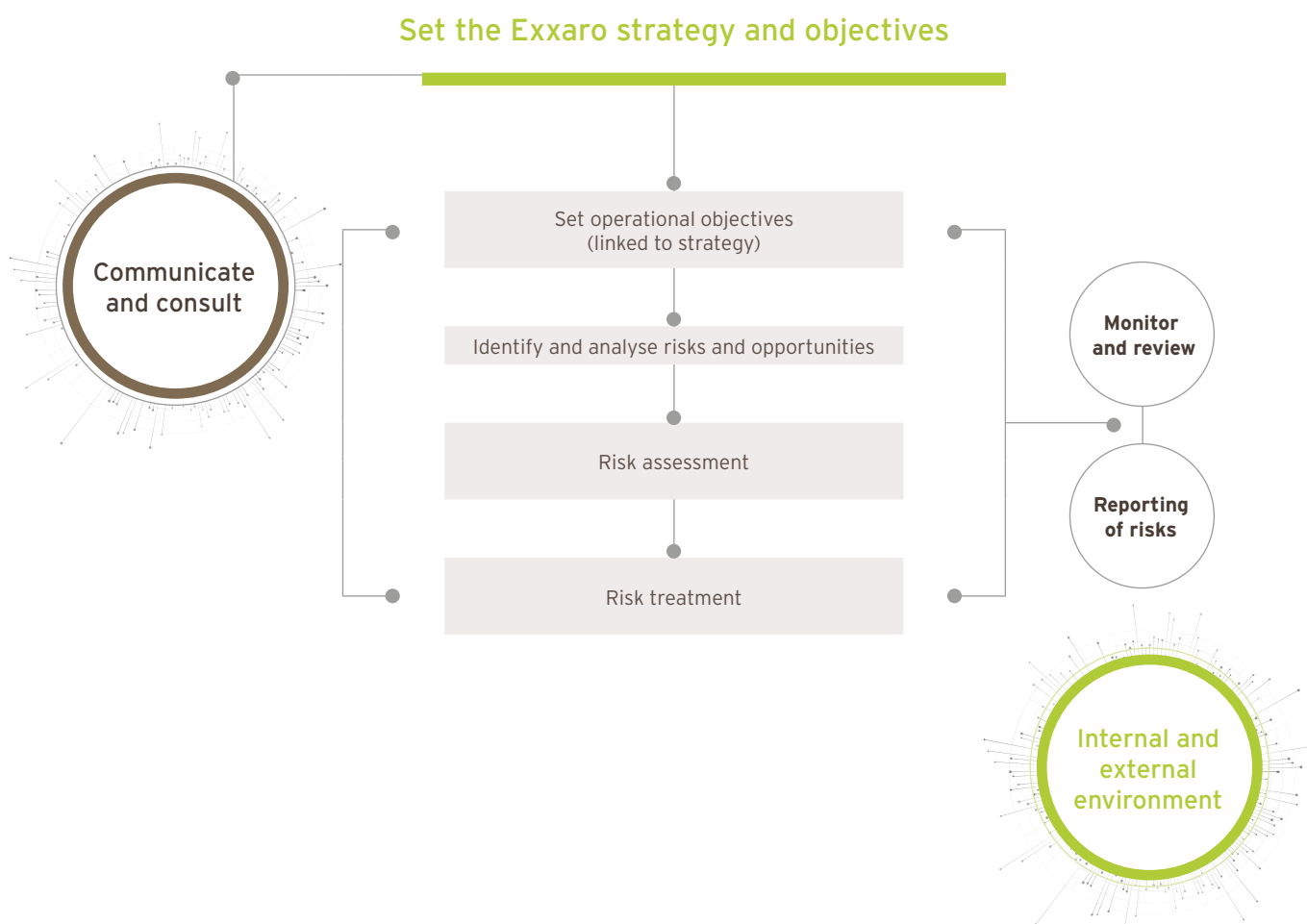


Exxaro has a mature risk management culture that forms part of our strategy, governance and day-to-day operations.

### Risk management process

The Exxaro risk-management process is a strategic enabler embedded in all our processes, functions and systems. Risk management, together with crisis management, is a board objective, which is ingrained in the Exxaro corporate culture.

The board and respective management layers consider business risks when setting strategies, and monitor controls continuously at strategic, tactical and operational levels.



### Risk management approach

The group's risk management is mature. It is performed at management level with a different scope and context in mind. The layers are vertically integrated and provide input into the specific risk profiles.





## Risk appetite and thresholds

Exxaro defines risk appetite as the type and level of risk the group is willing to accept in order to meet strategic objectives.

We understand that, if we want to create value for all our stakeholders and remain sustainable, we need to measure and monitor our progress by using appropriate key performance indicators (KPIs).

The board and executive committee monitor KPIs quarterly to ensure all risks and key metrics are within Exxaro's risk appetite. The KPIs and their thresholds are reviewed by the board and executive committee at least annually.

+ For details, please refer to **performance against strategy** on page 42.

## Pursuing opportunities

The Exxaro risk management framework also caters for the identification and realisation of opportunities, for example, early value coal extraction to maximise value in the short to medium term in view of the climate change risk. We believe that, for Exxaro to remain sustainable in the near future, it is important to adapt to change, and to identify and pursue possible opportunities that ultimately create value.

The opportunities we identified in 2019 are outlined in the table below.

Opportunity	Related material theme
Coal digitalisation journey: long-term improvement in productivity and cost	+ <b>Business resilience: page 92</b>
Project XXX initiatives: short-term throughput improvements	
Operational excellence drive: improvements in cost and throughput	
Closing the gap initiatives: EBIT improvement towards 2023 target	
Early value strategy: extract future value earlier	
Liberating high-value product to maximise our product mix	



## Business risks and opportunities for growth continued

$$\text{Risk} = f \left( \begin{array}{c} \text{Likelihood} \\ \text{of risk occurring} \end{array} \times \begin{array}{c} \text{Impact} \\ \text{of the risk} \end{array} \right)$$

The formula indicates the universal assertion that risk is a function of likelihood and impact.

### 2019 vs 2018 risk comparison

Our risk scores are derived from the product of the likelihood and the impact of the eventuality. We rank our risks according to residual core risks from highest to lowest.

The following significant changes occurred in the past year:

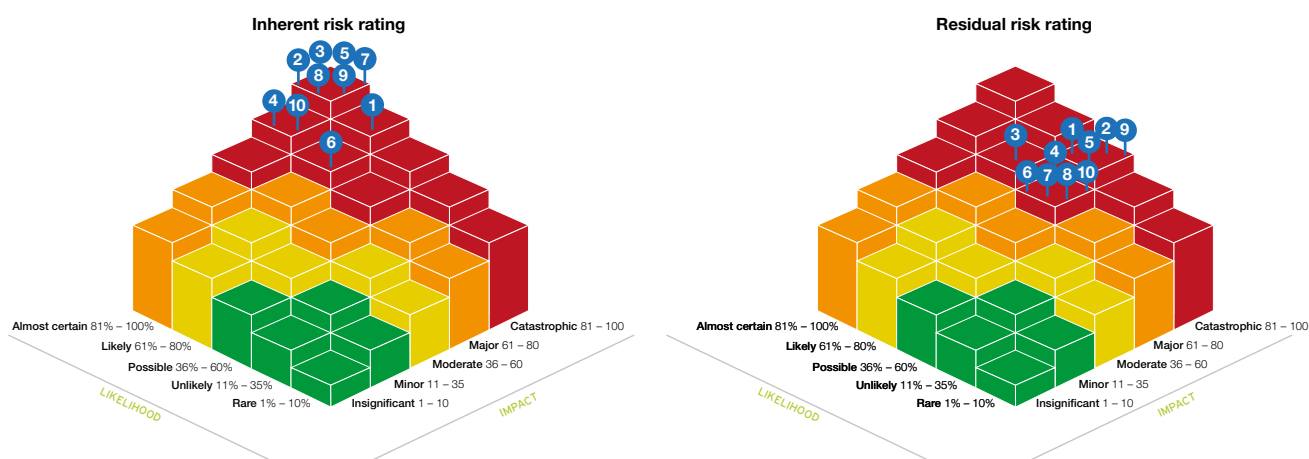
- Climate change concerns increased significantly and moved from number 11 in 2018 to number 2 in 2019:
  - Exxaro is facing intense scrutiny by consumers and activists demanding greater visibility and transparency with regard to carbon footprint and emissions reduction strategies. Shareholder activists are also driving coal miners to reshape their portfolios. Our climate change strategy (page 102) includes an impact risk assessment (in terms of physical and transitional risks) which will be conducted during 2020 to quantify and develop specific treatments for the business. As climate change shortens the lifespan of operations, we will focus on extracting the best quality coal (with high calorific or energy value).

Production and mining plans will be amended accordingly to minimise the amount of coal extracted without compromising our contractual obligations. Due to pressure from investors and environmental lobbyists, there is limited capacity in the insurance market for fossil fuel companies. As such, this risk has a direct impact on our insurance portfolio. Going into the renewal period, the insurance market will be even more challenging. We may require recapitalisation of our insurance captive company in the event that full cover is not secured from the market for Exxaro's insurance programme.

- Price and currency volatility risk was reassessed and separated into:
  - Commodity price volatility
  - Exchange rate volatility
- Safety and health risk increased to appear in the top 10:
  - We had more than 6 000 additional temporary employees on our sites at the peak of our capital expansion programme. Consequently, due to the nature of mining, an increased number of employees and contractors were exposed to occupational risk. Due to the nature of mining, employees and contractors are exposed to occupational risk. Safety interventions have been introduced to reinforce the need to adhere to safety procedures, and to improve safety culture and behaviour.

### Top 10 heat map

Exxaro's top 10 risks are plotted inherently (before controls) and residually (after controls) on the heat map below (+ page 60), followed by an outline of our key identified risks, the main drivers, their potential impacts and mitigating treatments. We have considered internal and external risks, and our mitigation strategies depend on the severity of impact and likelihood of occurrence.



The pages that follow refer to the legends below:

First line of defence	Second line of defence	Third line of defence
Management of risk - (risk owner)	Management support and oversight	Independent assurance










↑ Increased   ↓ Reduced   → Unchanged   + New




## Response strategy to risks and trends

We are pleased with the movement and direction of our risks during this past year. The extent of the shift is testament to the effectiveness of our response actions and has reflected in the success we achieved with our strategic objectives as described elsewhere. We are operating in an increasingly "VUCA" world, therefore as we manage some risks (and take advantage of opportunities) and succeed in our business strategy, so new risks and opportunities arise.







# Business risks and opportunities for growth continued





1 Eskom systemic risk		Capitals impacted	  
<b>Drivers</b> <ul style="list-style-type: none"> <li>Inadequate environmental financial provision at captive mines</li> <li>Rehabilitation fund shortfall at Matla</li> <li>Realisation of approved funding for capital requirements (Matla capital project programme)</li> <li>Further delays in the Eskom Medupi power station operating at full capacity</li> <li>Eskom liquidity risk: Eskom not honouring commercial rights and obligations as per coal supply agreements</li> </ul>		<b>Strategic performance KPI</b> B-BBEE contribution level, black ownership, SLP project delivery, capital project delivery, core operating margin, annualised return on capital employed, annual core HEPS and net debt to annualised EBITDA (+ page 15, ESG report page 12)	
<b>Impacts</b> <ul style="list-style-type: none"> <li>Cost of production becomes uncompetitive at Matla (lack of capital)</li> <li>Loss of revenue</li> <li>Reputational damage</li> <li>Cash flow constraints at Eskom resulting in late or no payment to Exxaro</li> <li>Operational constraints at Grooteegeluk due to pit liberation impacts as a result of further Medupi power station delays or inability of Eskom to take contracted offtake</li> </ul>		<b>Treatments</b> <ul style="list-style-type: none"> <li>Enforcement of coal supply agreement and arbitration award in terms of environmental funding</li> <li>Capex funding to build siding to evacuate coal</li> <li>Temporary solution to load test train from Waterberg to Mpumalanga</li> <li>Top management and political interaction with ministers when required</li> <li>Ongoing discussions on the future of Matla</li> </ul>	
<b>Outlook</b> <ul style="list-style-type: none"> <li>Eskom continues to face a tough operating and fiscal environment</li> <li>Expect significant progress in improving offtake for Medupi</li> <li>Active participation and planning with Eskom to extract coal from Waterberg</li> </ul>			
Lines of defence: 1 and 2		Materiality theme: 	Risk trend: 
2 Climate change		Capitals impacted	
<b>Drivers</b> <ul style="list-style-type: none"> <li>Poor plant design unable to withstand extreme weather conditions</li> <li>Poor monitoring and reporting of climate change impacts</li> <li>Infrastructure vulnerabilities</li> <li>Lack of awareness of climate change impacts</li> <li>Increased NGO activism</li> <li>International and local investor negative sentiment towards fossil fuels</li> </ul>		<b>Strategic performance KPI</b> Reportable environmental incidents, carbon intensity, water intensity and rehabilitation funding adequacy of commercial mines, ex guarantees (+ page 15, ESG report page 37)	
<b>Impacts</b> <ul style="list-style-type: none"> <li>Reputational damage</li> <li>Loss of licence to operate</li> <li>Financial loss (increased carbon tax among others)</li> <li>Environmental impacts</li> <li>Legal claims against heavy polluters</li> <li>Health and safety impacts on employees (increased occupational incident rate due to heat stroke and increase in skin cancer among others)</li> <li>Energy security and supply</li> <li>Loss of throughput</li> <li>Natural disasters</li> </ul>		<b>Treatments</b> <ul style="list-style-type: none"> <li>Raise awareness of climate change impacts</li> <li>Invest in appropriate technology to reduce own emissions</li> <li>Develop market intelligence on carbon pricing</li> <li>Embed climate change mitigations in design criteria for existing and new projects</li> <li>Engage government and other role players in industry to align on the transition to a low-carbon future</li> <li>Engage with regulator to anticipate policy changes</li> <li>Link performance reward system to emissions reduction</li> <li>Plan and embark on coal early value strategy to reduce stranded assets</li> <li>Develop renewable energy strategy to transition to lower carbon economy</li> <li>Adopted TCFD framework to engage with shareholders and other stakeholders</li> <li>Align with Paris Agreement</li> </ul>	
<b>Outlook</b> <ul style="list-style-type: none"> <li>Invest in renewable energy initiatives</li> <li>Initiate work on determining science-based targets for climate change</li> <li>Continue with emission reduction</li> </ul>			
Lines of defence: 1, 2 and 3		Materiality themes:  	Risk trend: 

③ Community unrest		Capitals impacted 
<b>Drivers</b> <ul style="list-style-type: none"><li>• Dissatisfaction with local economic development initiatives</li><li>• Political agitation</li><li>• High unemployment rate</li><li>• Lack of service delivery by local government</li><li>• High demand for skills development, employment and local procurement</li><li>• Poor implementation of SLPs</li><li>• 2021 municipal elections</li><li>• Perceived slow transformation at operations</li><li>• Increased activism by communities</li><li>• Conduct of contractors (employment practices) Exxaro is seen as endorsing</li><li>• Fractured communities and competing interests</li><li>• Manipulation of information/community against Exxaro</li><li>• Lack of employment opportunities</li><li>• Lack of skills development opportunities</li><li>• Lack of procurement opportunities</li><li>• Poor communication of opportunities</li><li>• Poor service delivery by municipality</li></ul>	<b>Strategic performance KPI</b> B-BBEE contribution level, black ownership and SLP project delivery (+ page 15, ESG report page 65)	
<b>Impacts</b> <ul style="list-style-type: none"><li>• Production interruptions</li><li>• Negative media reports (reputation)</li><li>• Jobs/opportunities for sale (misrepresents Exxaro)</li><li>• Potential harm to mine employees and contractors</li><li>• Potential damage to mine equipment and property</li></ul>	<b>Treatments</b> <ul style="list-style-type: none"><li>• Emergency response and crisis management plans</li><li>• Carve out opportunities</li><li>• Municipal capacity building</li><li>• Design and implement Impact Catalyst</li><li>• Enterprise and supplier development (including contractors)</li><li>• Build local, provincial and national political relationships</li><li>• Invest in non-mining skills development programmes</li><li>• Roll out bursaries/skills development programmes</li><li>• Roll out community engagement plans for proactive engagement (+ see KAM on page 44)</li><li>• Transparent and ongoing communication with communities</li><li>• Ensure emergency response plans are in place at all business units</li></ul>	
<b>Outlook</b> <ul style="list-style-type: none"><li>• Given the upcoming local government elections in 2021, we anticipate increased electioneering activities</li><li>• Continue to proactively engage communities and other stakeholders to manage relations</li></ul>		
Lines of defence: 1 and 2	Materiality theme: 	Risk trend: 













## Business risks and opportunities for growth continued

<div> <div>4</div> <b>Commodity price volatility</b> </div> <div> <b>Capitals impacted</b>   </div>	
<b>Drivers</b> <ul style="list-style-type: none"> <li>• European debt crisis (especially Brexit)</li> <li>• Global and domestic economic slowdown</li> <li>• Structural economic challenges in the US and trade wars</li> <li>• Depressed local demand (closure of ArcelorMittal and Saldanha plants)</li> <li>• Global resistance to fossil fuels</li> <li>• Cost of renewable energy technology decreases</li> </ul>	<b>Strategic performance KPI</b> Capital project delivery, core operating margin, annualised return on capital employed, annual core HEPS and net debt to annualised EBITDA (+ page 15, ESG report page 12)
<b>Impacts</b> <ul style="list-style-type: none"> <li>• Financial losses</li> <li>• Difficult to forecast planning and budgets</li> <li>• Feasibility of new projects (capital projects not achieving expected returns)</li> <li>• Existing assets not achieving expected returns</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>• Hedging capital commitments</li> <li>• Impact of volatility frequently assessed in corporate model communicate to coal</li> <li>• Improve speed of mine planning to match price volatility</li> <li>• Negotiate long-term fixed-price contracts linked to currency</li> <li>• Diversify away from thermal coal</li> <li>• Adoption of market to resource model</li> <li>• Focus on market intelligence in the coal sector</li> </ul>
<b>Outlook</b> <ul style="list-style-type: none"> <li>• Uncertainty in the global market will continue to prevail</li> <li>• After effects of the COVID-19 pandemic will have an adverse impact on commodity markets and result in lower coal prices</li> </ul>	
<b>Lines of defence: 1 and 2</b>	<b>Materiality theme:</b>  <b>Risk trend:</b> 

5 Cost competitiveness of products		Capitals impacted
<b>Drivers</b> <ul style="list-style-type: none"> <li>Limited LoM</li> <li>Poor capital project execution</li> <li>Cost containment discipline not uniform across the organisation</li> <li>Inflationary pressures</li> <li>Deteriorating mining conditions (decreasing yield and increasing stripping ratio)</li> <li>Not meeting production volumes</li> <li>Volatility of exchange rate</li> <li>Commodity price decline</li> <li>Inaccurate financial modelling</li> <li>Higher fixed costs (headquarters costs are charged to the business units)</li> <li>South African geographical constraints</li> <li>Frequent changes in legislation (cost of licence to operate)</li> </ul>	<b>Strategic performance KPI</b> Core operating margin, annualised return on capital employed, annual core HEPS and net debt to annualised EBITDA (+ page 15, ESG report page 12)	
<b>Impacts</b> <ul style="list-style-type: none"> <li>Reputational damage</li> <li>Margin squeeze</li> <li>Premature mine closure and allocation of costs to other operations</li> <li>Reduced earnings</li> <li>Social impact</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>Assign management accountants as business partners in relevant areas</li> <li>Budget for post-production stoppage (rehabilitation cost)</li> <li>Create strategic joint ventures to optimise economies of scale</li> <li>Embrace technology and innovation to improve productivity</li> <li>Focus on sustainable cost reduction programmes and business improvement initiatives</li> <li>Focus on controllable efficiencies at business units</li> <li>Increase awareness of cost management</li> <li>Investigate and divest non-core and sub-par assets</li> <li>Optimise operating model and avoid duplicated activities</li> <li>Plan reviews by coal operations committee</li> <li>Rebalance product chains to improve infrastructure use (integrated logistics)</li> <li>Re-optimize capital in projects (mega projects and stay-in-business capital)</li> <li>Review and monitor performance of suppliers and service providers</li> </ul>	
<b>Outlook</b> <ul style="list-style-type: none"> <li>Improve cost competitiveness of products in midst of suppressed commodity prices with emphasis on improving cost containment discipline, achieving production targets and productivity benchmark standards, and reducing fixed costs (specifically head office costs impacting cost per tonne produced)</li> </ul>		
Lines of defence: 1 and 2		Materiality theme:  Risk trend: 
6 Competition and product substitution		Capitals impacted
<b>Drivers</b> <ul style="list-style-type: none"> <li>Regulatory push</li> <li>Price-driven substitution</li> <li>Advances in technology</li> <li>Pressure from stakeholders</li> <li>Environmental concerns</li> <li>Inability to grow coal and future material)</li> </ul>	<b>Strategic performance KPI</b> Growth strategy project delivery (CEO and executive committee performance contracts) (+ page 15, ESG report page 112)	
<b>Impacts</b> <ul style="list-style-type: none"> <li>Reputational damage</li> <li>Financial loss</li> <li>Loss of market share</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>Develop growth strategy and submit for board approval</li> <li>Early alerts about regulatory changes</li> <li>Implement diversification strategy</li> <li>Invest in cleaner coal-extraction alternatives</li> <li>Proactive engagement with stakeholders</li> <li>Target markets with dominant and growing coal consumption</li> </ul>	
<b>Outlook</b> <ul style="list-style-type: none"> <li>Continuous reduction in costs of alternative sources increases threat of product substitution (finalising and implementing Exxaro's strategy for a Just Energy Transition to renewables)</li> </ul>		
Lines of defence: 1 and 2		Materiality theme:  Risk trend: 




## Business risks and opportunities for growth continued

7 Loss of social licence to operate	Capitals impacted 
<b>Drivers</b> <ul style="list-style-type: none"> <li>• Unable to achieve SLP targets as approved</li> <li>• Increased social activism due to socio-economic challenges</li> <li>• Increased state intervention in mining sector through legislation and regulation</li> <li>• Depressed economic outlook</li> <li>• Unable to meet some new mining charter targets (such as procurement)</li> <li>• Onerous compliance requirements</li> <li>• Lack of or limited communication</li> <li>• Lack of understanding of collaboration principles by other stakeholders</li> <li>• High expectations for social investments and procurement opportunities</li> <li>• Delayed delivery of projects (not meeting community expectations)</li> <li>• Delays in approval of licences and authorisations</li> </ul>	<b>Strategic performance KPI</b> B-BBEE contribution level, black ownership and SLP project delivery (+ page 15, ESG report page 12)
<b>Impacts</b> <ul style="list-style-type: none"> <li>• Community unrest</li> <li>• Production stoppages and closure by communities</li> <li>• Directives issued by Department of Mineral Resources and Energy as remedy</li> <li>• Penalties and fines for non-compliance</li> <li>• Adverse media exposure affecting reputation</li> <li>• Suspension or cancellation of mining right</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>• Adherence (as minimum) to new mining charter and B-BBEE requirements of Department of Trade and Industry</li> <li>• Conduct SLP audits</li> <li>• Proactive involvement in sustainable socio-economic development initiatives</li> <li>• Timely implementation of SLPs</li> <li>• Strengthen relationships with communities</li> <li>• Increase effectiveness of human resource development programme</li> <li>• Regular engagement with government</li> <li>• Compliance performance management</li> </ul>
<b>Outlook</b> <ul style="list-style-type: none"> <li>• Continue to drive delivery of SLPs</li> <li>• Actively monitor regulatory environment to identify any change in compliance requirements and accordingly adapt compliance efforts</li> <li>• Entrench efforts to improve stakeholder relations and align with their expectations</li> </ul>	
Lines of defence: 1, 2 and 3	Materiality theme:  Risk trend: 
8 Cybersecurity threats	Capitals impacted 
<b>Drivers</b> <ul style="list-style-type: none"> <li>• Large number of devices connected to corporate network requires management (security updates)</li> <li>• Vulnerability due to lack of awareness</li> <li>• People opening Exxaro up to attacks</li> <li>• Greater vulnerability due to increased number of connected devices especially in operational systems</li> </ul>	<b>Strategic performance KPI</b> Capital project delivery (+ page 15, ESG report page 16)
<b>Impacts</b> <ul style="list-style-type: none"> <li>• Loss of production</li> <li>• Loss of information</li> <li>• Financial loss (ransom - increased cost and production loss)</li> <li>• Business interruption</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>• Ensure gaps are bridged between IT/OT</li> <li>• Ensure that all devices are governed by company security policies</li> <li>• Implement cloud security framework</li> <li>• Upgrade of all network devices and PCs</li> <li>• Effectively respond to attacks</li> <li>• Ensure business continuity management plan in place and review regularly</li> </ul>
<b>Outlook</b> <ul style="list-style-type: none"> <li>• Continuously monitor IT/OT environment to detect potential threats</li> <li>• Continue to roll out cloud strategy</li> </ul>	
Lines of defence: 1, 2 and 3	Materiality theme:  Risk trend: 

9 Safety and health concerns	Capitals impacted 
<b>Drivers</b> <ul style="list-style-type: none"> <li>• High/excessive fatigue levels</li> <li>• Poor procedures for maintenance of equipment and machinery</li> <li>• Inadequate on-the-job training due to illiteracy</li> <li>• Lack of awareness of health risks</li> <li>• Lack of hazard awareness (in line of fire)</li> <li>• Non-adherence to procedures</li> <li>• Lack of communication among teams working on equipment</li> <li>• Lack of change management</li> <li>• Design or modification of equipment without sign-off</li> <li>• Inadequate supervision</li> </ul>	<b>Strategic performance KPI</b> Fatalities, LTIFR, OHIFR and skills provision (+ page 15, ESG report page 13)
<b>Impacts</b> <ul style="list-style-type: none"> <li>• Fatalities and injuries</li> <li>• Operational stoppages</li> <li>• High insurance premiums</li> <li>• Loss of licence to operate</li> <li>• Decrease in quality of life</li> <li>• Section 54/55 fines and penalties imposed by Department of Minerals and Energy</li> <li>• Loss of productivity (deaths, medical incapacity or sick leave)</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>• Analyse historic incident data to identify trends and root causes</li> <li>• Consequence management applied consistently</li> <li>• Continuous investigation and reporting of incidents</li> <li>• Ensure implementation and maintenance of proximity detection systems</li> <li>• Establish compliance-based committees to manage, educate and communicate</li> <li>• Implement safety summit and indaba</li> <li>• Implement safety, health, environment and community risk management tool</li> <li>• Improve safety management with innovation</li> <li>• Ensure PDS systems implemented and maintained</li> <li>• Consequence management to be applied consistently</li> </ul>
<b>Outlook</b> <ul style="list-style-type: none"> <li>• Implementation of the Khetha Ukuphepha campaign</li> <li>• Focus on improving safety performance</li> </ul>	
Lines of defence: 1, 2 and 3	Materiality themes:  
Risk trend: 	



## Business risks and opportunities for growth continued

10 Exchange rate volatility	Capitals impacted 
<b>Drivers</b> <ul style="list-style-type: none"> <li>• European debt crisis (especially Brexit)</li> <li>• Social and political challenges in South Africa</li> <li>• Structural economic challenges in the US</li> <li>• Global economic slowdown</li> <li>• Limited domestic demand may require additional exports with potentially negative financial impact due to exchange rate</li> </ul>	<b>Strategic performance KPI</b> Core operating margin, annualised return on capital employed, annual core HEPS and net debt to annualised EBITDA (+ page 15, ESG report page 16)
<b>Impacts</b> <ul style="list-style-type: none"> <li>• Financial loss (viability of business units)</li> <li>• Difficult to conduct forecast planning</li> </ul>	<b>Treatments</b> <ul style="list-style-type: none"> <li>• Hedging of capital commitments</li> <li>• Impact of volatility frequently assessed in corporate model and communicated</li> <li>• Difficult to conduct forecast planning and budget</li> <li>• Improve speed of mine planning to match volatility (Wings strategy)</li> <li>• Negotiate optimal Eskom contracts</li> <li>• Placement of products (local versus export)</li> </ul>
<b>Outlook</b> <ul style="list-style-type: none"> <li>• The World Economic Forum revised outlook for economic growth in 2020 and 2021: effect of slowing economic outlook has significant impact on emerging markets like South Africa with negative sentiment affecting the stability of the local currency (exacerbated by country-specific challenges weighing on demand for local currency)</li> </ul>	
Lines of defence: 1, 2 and 3	Materiality theme: 
Risk trend: 	

## Grooteegeluk



## Combined assurance for effective governance

The board, supported by the audit committee, is ultimately responsible for Exxaro's system of internal control, which has been designed to evaluate, manage and provide reasonable assurance against material misstatement and loss.

We apply a combined assurance model to optimise assurance by management, as well as internal and external providers, while fostering a strong ethical climate and mechanisms to ensure compliance.

Using our board-approved enterprise risk management approach, management identifies key risks facing Exxaro and implements the necessary internal controls. The process is monitored and evaluated by internal audit while independent external auditors cover key controls and accounting matters. Every year, key sustainability indicators are selected for reasonable or limited external assurance (+ page 141 of the ESG report) with comparable information for trend analysis where possible.

The board and audit committee assessed the effectiveness of controls for the year to 31 December 2019 as satisfactory, principally through a process of management self-assessment (including formal confirmation by executive management), reports from internal audit, independent external audit and other assurance providers.

### Approach, governance and reporting

Exxaro defines assurance broadly to cover all sources, including external assurance, internal audit, management oversight and regulatory inspections.

Our combined assurance model includes and optimises all assurance services and functions to collectively provide an effective control environment and support the integrity of

information used for internal decision making by management, the board and its committees, and in our external reports including:

- Corporate governance disclosures in terms of King IV™
- Financial statements and other external reports, including our integrated report and ESG report.

Our combined assurance forum is a working group, which coordinates assurance activities within Exxaro. Regular invitees include members of the audit committee as well as the sustainability, risk and compliance committee. The forum's activities and outcomes of assurance reports are presented quarterly to the audit committee.

When commissioning specific assurance prior to publishing external reports, the forum considers:

- Application of assurance should be applied to underlying data used to prepare a report, or to the process for preparing and presenting a report, or both
- The nature, scope and extent of assurance in terms of suitability for the intended audience of a specific report
- The specification of applicable criteria for measuring or evaluating the underlying subject matter of the report.

The well-defined and embedded process enables Exxaro to publish specific disclosure on the approach to assurance of external reports including:

- A brief description of the nature, scope and extent of assurance functions, services and processes underlying preparation and presentation of a report
- A statement by the board on the integrity of a report and basis for this statement with reference to the assurance applied.

### Assurance review

For the year under review, the sources, level, and focus area of assurance commissioned and performed, are summarised below.

Focus area	Assurance provider	Tier/level of assurance*	Function assured	
			Corporate	Business unit
External/statutory audit	PwC	3	Yes	Yes
Selective non-audit services	PwC	3	Yes	Yes
Sustainable development/KPIs	PwC	3	Yes	Yes
Environmental liability provisioning	PwC	3		Yes
Mining rights and environmental legal compliance	Inlexso	3		Yes
B-BBEE DTI code compliance	Empowerdex	3	Yes	Yes
Mining charter compliance	Ngubane	3	Yes	Yes
Insurance risk surveys	IMIUI	3		Yes
Major and mega capital projects	EY	3		Yes
Mineral Resource and Mineral Reserve statement	EY	3		Yes
Governance, risk and internal controls	EY	3	Yes	Yes
Employee benefits	Ngubane	3	Yes	Yes
Social and labour plan projects	Ngubane	3		Yes
ISO and OHSAS certifications	Various	3		Yes

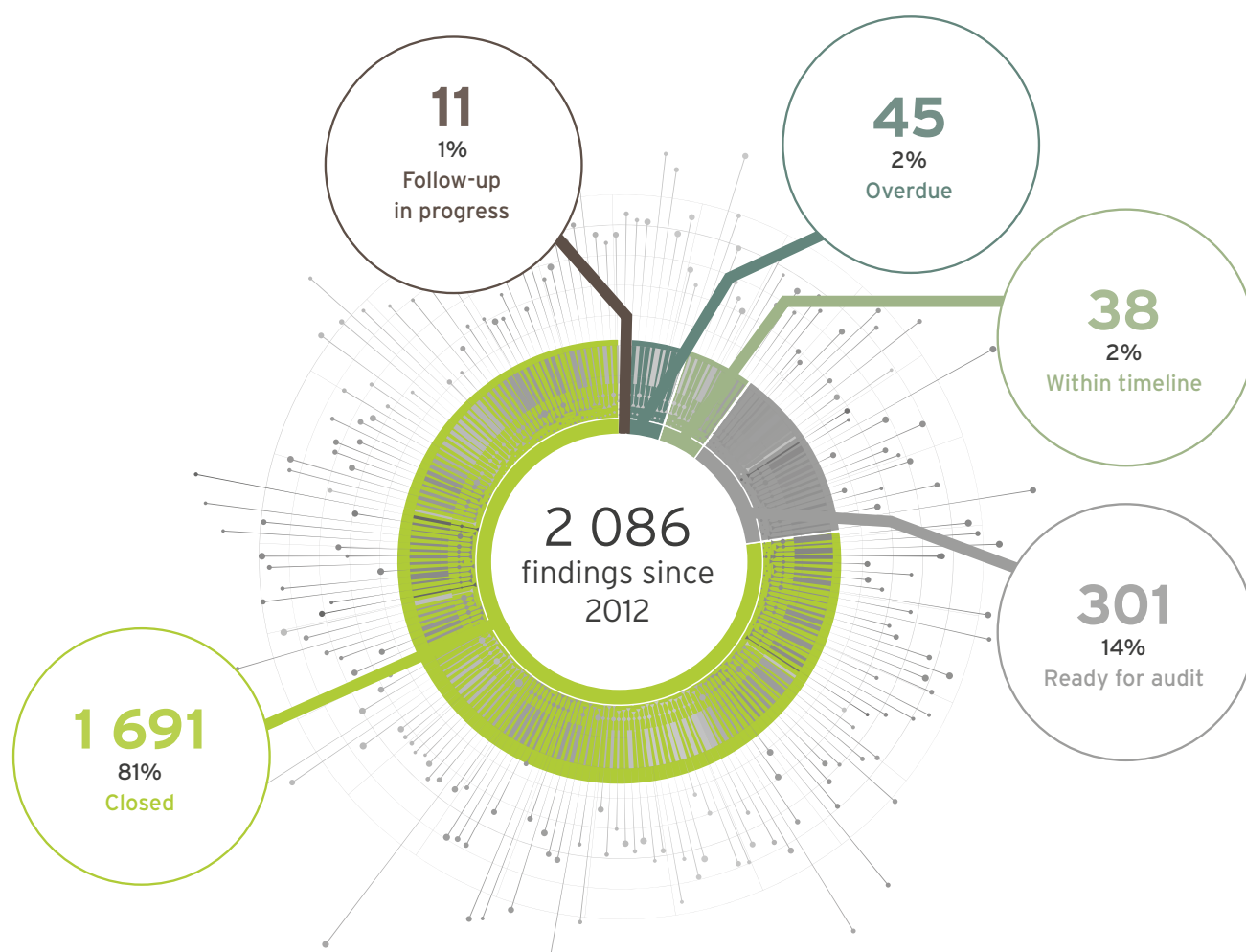
\*Tier/level of assurance refers to independent external assurance.

## Outcome of assurance reports

The outcome of assurance reports issued, is illustrated below.

### 2012 to 2019

The total number of findings raised since 2012 is 2 086. The split by status of the findings is depicted in the chart below. As of 31 December 2019, there was a total of 1 691 findings that had been successfully resolved from the total of 2 086, leaving a total of 395 open findings that require the attention of management and assurance providers.



Status of findings	Internal audit	Other assurance providers	Total
Follow-up in progress	11	0	11
Ready for audit	95	206	301
Within timelines	3	35	38
Open/outstanding (overdue)	30	15	45
<b>Total</b>	<b>139</b>	<b>256</b>	<b>395</b>

Overdue findings have been classified by ratings assigned in the final audit report and split into audit source below.

Audit source	Level 1 (high)	Level 2 (medium)	Level 3 (low)	Not rated	Total
Internal audit	7	12	1	10	30
Other assurance providers	3	9	3	0	15
<b>Total</b>	<b>10</b>	<b>21</b>	<b>4</b>	<b>10</b>	<b>45</b>



## Performance of the business in 2019





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*Belfast under construction*

## Finance director's review



**Riaan Koppeschaar**  
Finance director

Despite the challenging macro-economic environment impacting the core results from our own managed operations, the contribution from our non-managed operations showed a significant increase, resulting in core headline earnings rising to R7.4 billion compared to R7.2 billion in 2018. We are pleased to have declared total dividends of R23.27 per share to our shareholders compared to R23.40 in 2018.

### Snapshot

- Revenue: R25.7 billion ↑ up 1%
- Core EBITDA\*: R5.8 billion ↓ down 20%
- Core equity-accounted income: R4.8 billion ↑ up 45%
- Core HEPS: R23.54 ↑ up 9%

- Cash generated by operations: R5.3 billion ↓ down 25%
- Total ordinary dividend for 2019: R14.30 per share
- Special dividend: R8.97 per share

\*EBITDA is calculated by adjusting net operating profit before tax with depreciation, amortisation, impairment charges/reversals and net loss or gain on disposal of assets and investments (including translation differences recycled to profit or loss).



## Global economy and commodity prices

In the domestic market, steam coal demand remained stable with Eskom demand varying due to lower offtake from the Medupi power station offset by additional offtake from the Leeuwpans and ECC operations. ArcelorMittal demand varied due to fluctuations in its kiln operations as well as the steel plant in Saldanha being placed on care and maintenance. Exxaro has successfully placed the ArcelorMittal material in the market with other customers.

Overall, the thermal coal seaborne market remained in oversupply. However, price support for the API4 was evident towards the end of 2019 but the sharp increase in API4, priced South African producers out of their natural markets. The competition in our markets is intensifying with traditional Atlantic Ocean suppliers competing aggressively. The API4 averaged US\$72 per tonne compared to US\$98 per tonne in 2018. Export sales volumes increased 14% from 8.0Mt in 2018 to 9.1Mt in 2019.

## Capital management and shareholder returns

In terms of our capital allocation framework, free cash flow generated will be prioritised as in the diagram below:



During 2019, we received cash of R13.4 billion, comprising R4.1 billion from our operations (net of tax paid), proceeds of R5.1 billion from the partial disposal of Tronox Holdings plc and the redemption of our membership interest in Tronox UK as well as dividend income received from our equity-accounted investments of R4.2 billion.

In terms of our capital allocation model, we then used this to:

- Service our debt of R232 million
- Sustain our coal operations of R2.3 billion
- Expand our coal operations with further capex of R3.6 billion
- Pay normal dividends of R5.1 billion
- Pay a special dividend of R3.2 billion
- Acquire shares to the value of R678 million to settle vested share-based payment schemes.
- Pay R320 million relating to the deferred consideration paid to Insect Technology Group UK Limited (Insect Technology) (also previously known as AgriProtein), as well as additional investment in LightApp
- Pay ECC contingent consideration of R344 million.

Net debt also increased by R519 million as a result of the implementation of IFRS 16 Leases, which resulted in the

recognition of lease liabilities. The dividends received by Eyesizwe resulted in the full settlement of the preference share liability in October 2019.

The closing net debt position at 31 December 2019 is therefore R5 810 million culminating in a:

- Net debt:equity ratio of 13%
- Net debt:EBITDA cover ratio of 1.0.

We are proud to report that Eyesizwe, our BEE shareholder, has fully settled its acquisition debt in October 2019, three years earlier than anticipated. The early settlement was funded from dividends received from Exxaro. From an accounting perspective, this resulted in the outside shareholders of Eyesizwe being treated as non-controlling interests for the Exxaro group from 1 November 2019.

Given our strong balance sheet, underpinned by strong cash flow generation, the board approved a final dividend of 566 cents per share in line with our dividend policy:

- A pass through of the SIOC dividend received
- A coal dividend based on a cover ratio of 3.0 times core attributable coal earnings.



## Finance director's review continued

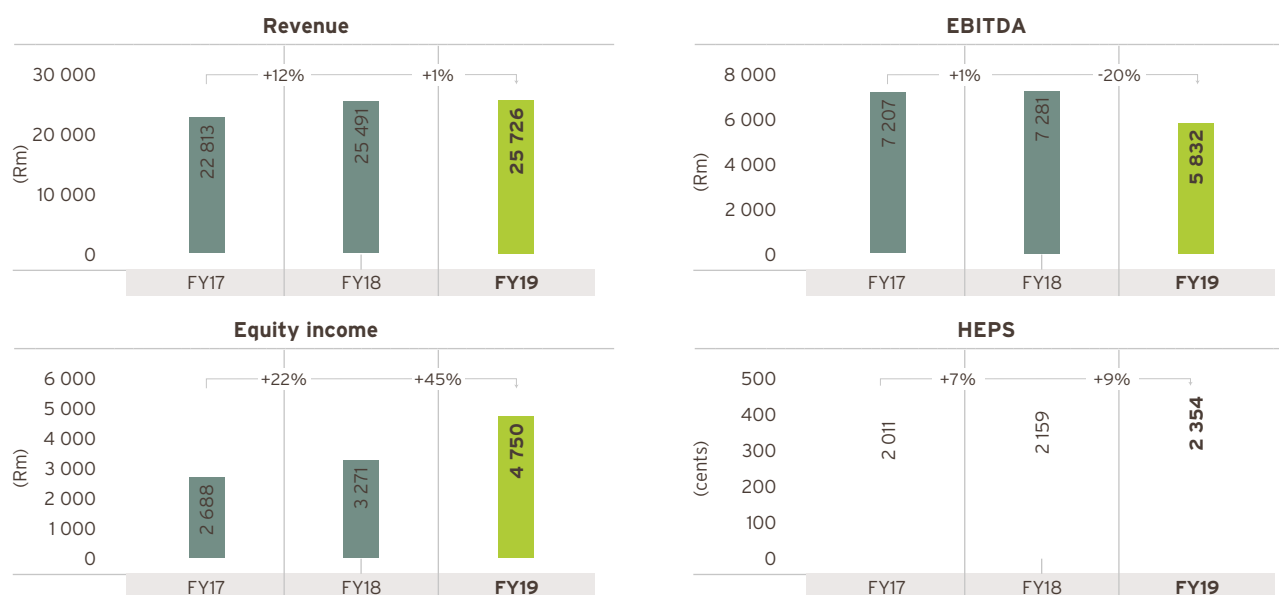
Exxaro paid the following dividends during 2019:

- A final dividend relating to the 2018 financial year of 555 cents per share (R1 393 million to external shareholders) paid in May 2019
- An interim dividend of 864 cents per share (R2 168 million to external shareholders) paid in October 2019

- A special dividend of 897 cents per share (R2 251 million to external shareholders) paid in October 2019, following the partial disposal of Exxaro's shareholding in Tronox Holdings plc and the redemption of the membership interest in Tronox UK.

### Core income statement highlights

#### Group core financial highlights



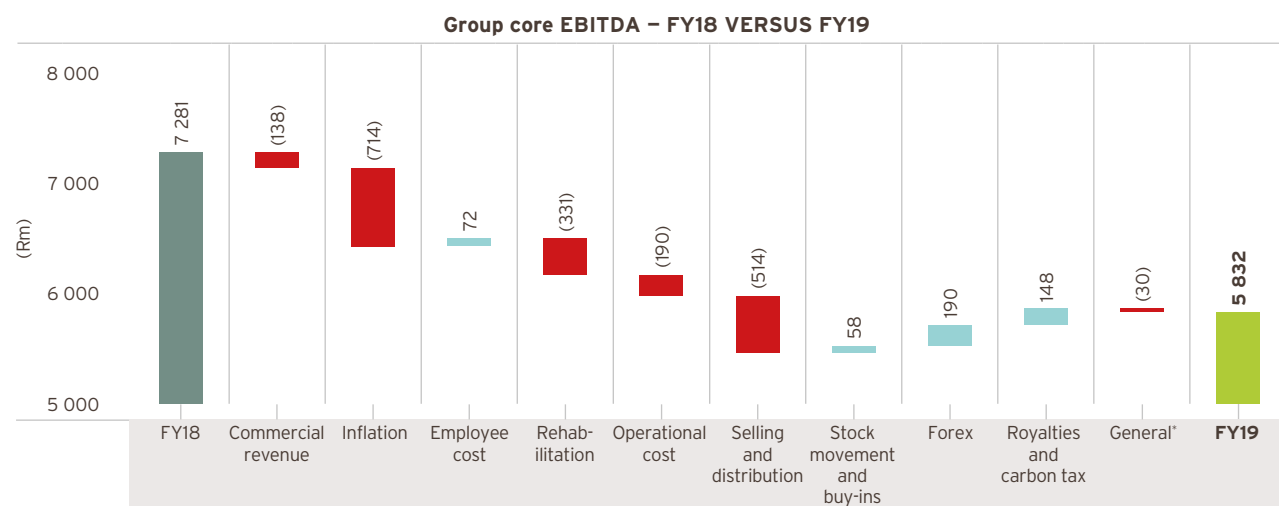
#### Group revenue

Group revenue was up 1% to R25 726 million (2018: R25 491 million). While coal export volumes increased by 14%, there was a significant decline in the API4 price resulting in a 30% lower average price per tonne achieved of US\$54 (2018: US\$77). The negative impact was cushioned somewhat by a weaker average spot exchange rate of R14.44 to the US dollar (2018: R13.24). On the domestic front, while higher prices from commercial mines had a positive revenue impact, this was offset by lower production volumes when compared to the previous year.

#### Group core EBITDA

Group core EBITDA, which represents our own managed operations, decreased by 20% to R5 832 million (2018: R7 281 million).

#### Group core EBITDA – FY18 versus FY19



\* Total EBITDA variance for Matla included in General = R15 million.

+ The table below shows a full breakdown of core equity-accounted income.

### Core equity-accounted income (Rm)

	Core equity-accounted income/ (loss)		Dividend income	
	2019	2018	2019	2018
Coal: Mafube	127	113		
Coal: RBCT	3	(34)		
Ferrous: SIOC	4 423	2 605	4 051	2 569
TiO <sub>2</sub> : Tronox SA	236	381		
: Tronox UK <sup>1</sup>		110		
: Tronox Holdings plc <sup>2</sup>			47	69
Energy <sup>3</sup>	17	60	95	58
Other: Other <sup>4</sup>	(56)	36		
<b>Total</b>	<b>4 750</b>	<b>3 271</b>	<b>4 193</b>	<b>2 696</b>

<sup>1</sup> Application of the equity method ceased when the investment was classified as a non-current asset held-for-sale on 30 November 2018. On 15 February 2019, the 26% Tronox UK membership interest was redeemed.

<sup>2</sup> Application of the equity method ceased when the investment was classified as a non-current asset held-for-sale on 30 September 2017.

<sup>3</sup> Includes equity-accounted income for Cennergi of R45 million (2018: R65 million profit) and equity-accounted loss for LightApp of R28 million (2018: R5 million). The dividend received for both periods is from Cennergi.

<sup>4</sup> Includes equity-accounted profit for Black Mountain of R51 million (2018: R70 million) and equity-accounted loss for Insect Technology of R103 million (2018: R31 million) and equity-accounted loss for Curapipe of R4 million (2018: R3 million).

The negative revenue impact is mostly due to lower export prices partially offset by higher revenue in the domestic market. Inflation on labour is calculated at a group specific rate of 7.3%, electricity at mine-specific rates averaging 6.9% and inflation on the rest of the costs at PPI of 4.5%.

The positive variance on employee cost is mainly due to the North Block Complex divestment in the second half of 2018 and lower bonus payments in line with lower profitability. This was partially offset by higher amounts incurred due to the implementation of an additional shift at our Grootegeluk mine.

The increase in rehabilitation cost is mainly driven by revised cost estimates received from external environmental specialists in preparation for the revised legislation expected to become effective in June 2021, and relates mainly to our mines in closure (Hlobane and Durnacol).

Operational cost was higher mainly due to the higher stripping costs at our Leeuwpans, Belfast and ECC mines related to the higher RoM tonnes that were removed.

The negative variance on selling and distribution costs is in line with higher export sales volumes as well as first tonnages from our Belfast mine.

The net positive forex variance is a combination of realised and unrealised forex differences on export sales as a result of the weaker rand/US\$ exchange rate in 2019.

Lower profitability, a combination of rates used in the calculation and the amount of capital expenditure qualifying to be redeemed against revenue resulted in lower royalties in 2019.

### Core equity-accounted income

Core equity-accounted income from associates and joint ventures increased 45% to R4 750 million (2018: R3 271 million), mainly as a result of SIOC.

As announced on 17 September 2019, Exxaro has concluded an agreement with Khopoli, a wholly owned subsidiary of Tata Power, to acquire Khopoli's 50% shareholding in Cennergi for an amount of R1 550 million, subject to normal working capital adjustments. The transaction will be effective on 1 April 2020 and Exxaro will then own 100% of Cennergi.

## Finance director's review continued

### Earnings

Core headline earnings were 3% higher at R7 402 million (2018: R7 167 million) or 2 354 cents per share (2018: 2 159 cents per share), based on core weighted average number of shares (WANOS) of 332 million shares from January to October 2019 and core WANOS of 251 million shares for November and December 2019 (2018: 332 million shares).

### Summarised statement of financial position (Rm)

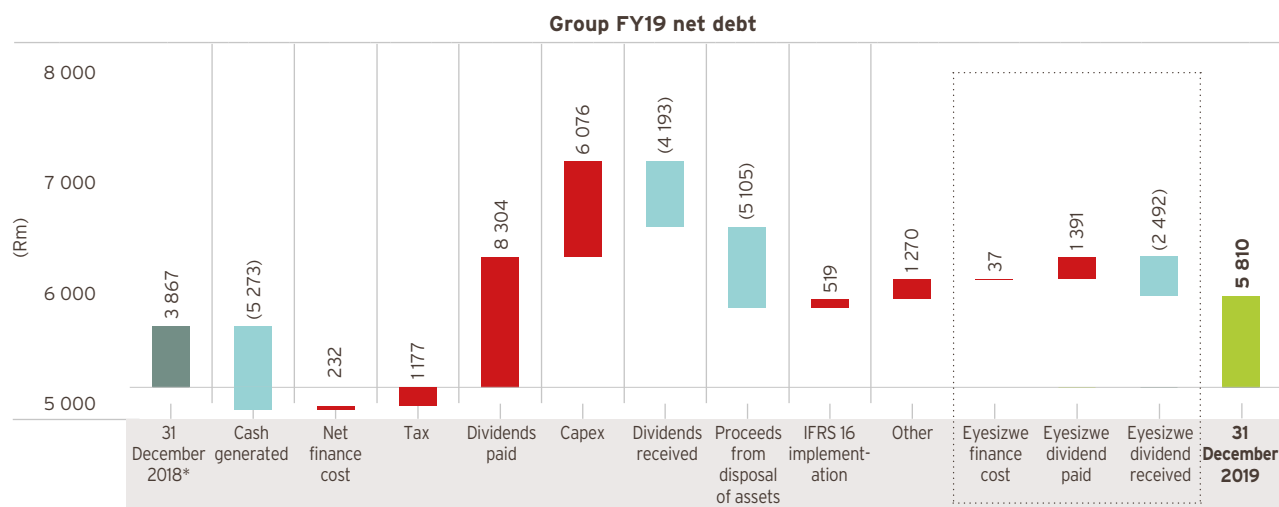
	2019 Rm	2018 Rm
<b>Assets</b>		
<b>Non-current assets</b>	57 106	52 226
Property, plant and equipment	33 562	28 825
Equity-accounted investments	16 630	17 046
Financial assets	2 674	2 634
Other assets	4 240	3 721
<b>Current assets</b>	9 121	7 641
Inventories	1 809	1 604
Trade and other receivables	3 241	3 140
Cash and cash equivalents	2 695	2 080
Other assets	1 376	817
<b>Non-current assets held-for-sale</b>	2 613	5 183
<b>Total assets</b>	68 840	65 050
<b>Equity and liabilities</b>		
<b>Total equity</b>	42 887	41 145
<b>Equity attributable to owners of the parent</b>	34 776	41 846
Non-controlling interests	8 111	(701)
<b>Non-current liabilities</b>	19 364	15 745
Interest-bearing borrowings	6 991	3 843
Provisions	4 305	3 952
Deferred tax	7 138	6 874
Other liabilities	930	1 076
<b>Current liabilities</b>	5 179	6 823
Interest-bearing borrowings	50	571
Trade and other payables	2 603	2 960
Overdraft	976	1 531
Other liabilities	1 550	1 761
<b>Non-current liabilities held-for-sale</b>	1 410	1 337
<b>Total equity and liabilities</b>	68 840	65 050

Property, plant and equipment increased by R4 737 million when compared to 2018, which includes a R2 245 million spend on sustaining and environmental capital (stay-in-business capital) and R3 572 million on new capacity (expansion capital). Expansion capital mainly related to the Belfast and GG6 projects.

Cash and cash equivalents increased 30% to R2 695 million when compared to the previous year. Cash flow generated by operations of R5 273 million (2018: R7 024 million) and dividends received from investments of R4 193 million (2018: R2 696 million) were sufficient to cover our capital expenditure and ordinary dividends paid. Total dividends received from our investment in SIOC was R4 051 million (2018: R2 569 million). SIOC has declared a final dividend to its shareholders in February 2020, amounting to R1 412 million for Exxaro's 20.62% shareholding. The dividend will be accounted for in the first half of 2020.

Net debt for the year ended 31 December 2019 increased by R1 943 million to R5 810 million (2018: R3 867 million). In addition to our capital expenditure programme, we paid R344 million in respect of the ECC contingent consideration, R678 million for the acquisition of shares in the market to settle share-based payments and R263 million being the deferred consideration relating to Insect Technology.

In addition to the cash generated from our own operations and dividends received, we also received R2 057 million from Tronox UK for the redemption of Exxaro's 26% membership interest, and R2 889 million from Tronox Holdings plc for the repurchase of 14 million shares from Exxaro. Of the cash received, 65% was returned to shareholders in the form of a special dividend.



\* Eyesizwe debt = R609 million; Exxaro net debt = R3 258 million.

## Divestment of non-core assets and investments

During the second half of 2019, the Exxaro board of directors approved a decision to divest from its 26% interest in Black Mountain. On 30 November 2019, the investment was classified as a non-current asset held-for-sale and the application of the equity method ceased.

On 31 January 2020, the Arnot operation was transferred to Arnot OpCo Proprietary Limited Consortium. The transfer will be accounted for in 2020.

On 20 February 2020, Exxaro announced our intention to divest our entire interest in ECC and the Leeuwpan operations. The divestment will be executed through a formal disposal process.

The proposed transaction is a category two transaction in terms of the JSE Listings Requirements and is therefore not regarded as material.

## Mining and prospecting rights

Matla's mining right lapsed in November 2019. A compliant mining right renewal application was submitted in August 2019.

## Key financial performance indicators

The achievement of our key financial performance indicators is presented in the table below.

While we did not attain our core operating margin target our debt ratios are well within target, indicating a healthy balance sheet. The impact of various coal sensitivity measures as well as the key financial risk factors can be further used to stress test our current headroom.

We have comfortably met all our bank covenants for the year ended 31 December 2019 as well as the previous financial year.











Internal key performance indicators	Target	2019	2018
EBITDA interest cover (times)	>4	160	22
Core net operating margin (%)	>20	15	22
Return on capital employed (%)	>20	28	23
Net debt:equity (%)	<40	13	9
Net debt:EBITDA (times)	<1.5	1.0	0.6
Bank covenants <sup>1</sup>			
Net debt:equity (%)	<80	17	12
EBITDA interest cover (times)	>4	19	20
Net debt:EBITDA (times)	<3	0.7	0.5

<sup>1</sup> Includes dividends received from investments in associates and contingent liabilities (excluding Department of Mineral Resources and Energy guarantees).



## Finance director's review continued

### Coal sensitivity analysis

Measure		Sensitivity		Impact on NOP*	
Environmental rehabilitation discount rate	—	1%	— (304)		273
Royalty cost (% increase)	—	1%	— (256)		256
Export price per tonne	—	US\$1	— (131)		131
Domestic sales volumes	—	1%	— (101)		101
Exchange rate	—	10 cents	— (40)		40
Labour	—	1%	— (29)		29
Railage	—	1%	— (23)		23
Export sales volumes	—	1%	— (19)		19
Fuel	—	1%	— (11)		11
Electricity	—	1%	— (5)		5

\* Net operating profit

### Key financial risk factors affecting our performance

The group's corporate treasury function provides financial risk management services to the business, coordinates access to domestic and international financial markets, and monitors and manages the financial risks related to the operations of the group through internal risk reports, which analyse exposure by degree and magnitude of risks. The risks include market risk (including foreign currency risk, interest rate risk and price risk), credit risk and liquidity risk.

In managing its capital, the group focuses on a sound net debt position, return on shareholders' equity (or return on capital employed) and the level of dividends to shareholders. The group's policy is to cover its annual net funding requirements through long-term loan facilities with maturities spread over time.

#### Market risk management

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices and equity prices, will affect the group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposure within acceptable parameters while optimising the return on risk.

The group's activities expose it primarily to the financial risks of foreign currency exchange rates, commodity prices, interest rates and changes in the environmental rehabilitation funds' portfolio of assets' quoted prices.

#### Price risk management

The group's exposure to price risk in relation to quoted prices of the environmental rehabilitation funds is not considered a significant risk as the funds are invested with reputable financial institutions in accordance with a strict mandate to ensure capital preservation and growth. The funds are held for strategic purposes rather than trading purposes.

#### Foreign currency risk

The group undertakes transactions denominated in foreign currencies hence exposures to exchange rate fluctuations arise. The currency in which transactions are entered into is mainly denominated in US dollar, euro and Australian dollar. Exchange rate exposures are managed within approved policy parameters utilising FECs, currency options and currency swap agreements.

The group maintains a fully covered exchange rate position in respect of foreign balances (if any) and imported capital equipment resulting in these exposures being fully converted to rand.

Uncovered foreign debtors at 31 December 2019 amount to nil (2018: US\$0.29), whereas uncovered cash and cash equivalents amount to US\$89.81 million (2018: US\$37.29 million).

All capital imports were fully hedged. Monetary items have been translated at the closing rate at the last day of the reporting period US\$1:R14.13 (2018: US\$1:R14.43).

Trade-related import exposures are managed through the use of economic hedges arising from export revenue as well as through FECs. Trade-related export exposures are hedged using FECs and options with specific focus on short-term receivables. The FECs used to hedge foreign currency exposure mostly have a maturity of less than one year from the reporting date.

### Foreign currency risk management

The following significant exchange rates applied during the year:

	2019			2018		
	Average spot rate	Average achieved rate	Closing spot rate	Average spot rate	Average achieved rate	Closing spot rate
US\$	14.44	14.73	14.13	13.24	12.93	14.43
€	16.16		15.83	15.60		16.50
AU\$	10.05		9.90	9.88		10.19

### Interest rate risk

The group is exposed to interest rate risk as it borrows and deposits funds at floating interest rates in the money market, bond market and extended bank borrowings.

The financial institutions chosen are subject to compliance with the relevant regulatory bodies. The interest-bearing borrowings were entered into at floating interest rates in anticipation of a decrease in the interest rate cycle.

The interest rate repricing profile for interest-bearing borrowings is summarised as follows:

	One to six months Rm	Total borrowings Rm
<b>At 31 December 2019</b>		
Non-current interest-bearing borrowings	6 991	6 991
Current interest-bearing borrowings	50	50
Total borrowings	7 041	7 041
<b>Total borrowings (%)</b>	100	100
<b>At 31 December 2018</b>		
Non-current interest-bearing borrowings	3 843	3 843
Current interest-bearing borrowings	571	571
Total borrowings	4 414	4 414
<b>Total borrowings (%)</b>	100	100

### Interest-rate sensitivity

The following table reflects the potential impact on earnings, given an increase in interest rates of 50 basis points:

	Loss	
	2019 Rm	2018 Rm
Increase of 50 basis points in interest rate	(35)	(37)

### Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the group's short, medium and long-term funding and liquidity management requirements.

The group manages liquidity risk by monitoring forecast cash flow in compliance with loan covenants and ensuring that adequate unutilised borrowing facilities are maintained.

Borrowing capacity is determined by the directors, from time to time.

	Group	
	2019 Rm	2018 Rm
Amount approved <sup>1</sup>	43 470	52 308
Total borrowings	(7 041)	(4 414)
<b>Unutilised borrowing capacity</b>	<b>36 429</b>	<b>47 894</b>

<sup>1</sup> Decrease mainly relates to the increase in NCI.

## Finance director's review continued

The group's capital base, the borrowing powers of the company and the group were set at 125% of shareholders' funds for the 2019 and 2018 financial years.

To avoid incurring interest on late payments, financial risk management policies and procedures are entrenched to ensure the timeous matching of orders placed with goods received notes or services acceptances and invoices.

### Credit risk

Credit risk relates to potential default by counterparties on cash and cash equivalents, loans, investments, trade receivables and other receivables.

The group limits its counterparty exposure arising from money market and derivative instruments by only dealing with well-established financial institutions of high credit standing. The group exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread among approved counterparties. Credit exposure is controlled by

counterparty limits that are reviewed and approved by the board of directors annually.

Exxaro has concentration risk as a result of its exposure to one major customer: Eskom. To date the customer adheres to the stipulated payment terms.

Exxaro establishes an allowance for non-recoverability or impairment that represent its estimate of expected credit losses in respect of trade receivables, other receivables, loans, cash and cash equivalents and investments. The main components of these allowances are a 12-month expected credit loss component that result from possible default events within the 12 months after the reporting date and a lifetime expected credit loss component that results from all possible default events over the expected life of a financial instrument.

The carrying amount of financial assets represents the maximum credit exposure. None of the financial assets below were held as collateral for any security provided.

Detail of the trade receivables credit risk exposure:

	Group	
	2019 %	2018 %
<b>By geographical area</b>		
RSA	65	66
Europe	17	21
Asia	16	11
USA	2	2
<b>Total</b>	100	100
<b>By industry</b>		
Public utilities	53	45
Structural metal	2	
Cement	1	1
Mining	38	41
Manufacturing	1	1
Merchants	1	1
Food and beverage	1	1
Steel	3	10
<b>Total</b>	100	100

### Climate change risk

Our climate change position statement contains details (see [www.exxaro.com](http://www.exxaro.com)) on our approach to climate change mitigation and adaptation. The document also includes our scope 1 and 2 aspirational target of carbon neutrality by 2050. We have developed climate change scenarios that take into account the 2°C world as recommended by the TCFD. We will be using these scenarios to conduct a detailed analysis to quantify the financial risks and opportunities in our operations.

### Outlook

For 2020, real global economic growth is anticipated to take significant strain – a global recession now the base case – mainly as a result of the impact of the global spread of the coronavirus (COVID-19) pandemic.

We expect domestic thermal coal demand and pricing to remain relatively stable during 2020.

The API4 is expected to be under pressure as a similar liquefied natural gas (LNG) supply wave, as evident in 2019, is

anticipated to continue into 2020, together with low gas prices globally.

South Africa's fiscal imbalance is set to remain a major constraint in addressing the increasing socio-economic challenges the rand/dollar exchange rate is expected to remain volatile.

As we roll out the integrated operations centres at all our business units, in terms of our digitalisation plan, increased visualisation of the mining value chain will highlight embedded inefficiencies that will be addressed through in-time decision making relating to safety, productivity and cost performance. At an enterprise level, we are on schedule to implement our integrated management platform allowing us to access strategic insights across our operations, enabling future looking value-add conversations

The expected recovery in iron ore seaborne supply with narrowing steel margins will soften the iron ore market.

Our shareholding in Tronox Holdings plc has been reduced to approximately 14.7 million shares, representing about

10% of the total outstanding shares as at 31 December 2019. We remain committed to monetising our stake in Tronox Holdings plc over time and in the best possible manner, taking into account prevailing market conditions.

In 2017, Exxaro adopted a strategy to explore new investment opportunities based on three pillars: water security, food security and energy security. Based on our experience since then, we have now changed that strategy to focus solely on new opportunities in the energy security space. As we pursue these opportunities, our approach continues to be measured with a view to mitigating potential risks and ensuring that the capital allocation decisions are in line with the appropriate metrics.

With regard to the Moranbah South hard coking coal project, Exxaro, together with Anglo American Coal, is in the process of reassessing the potential development plan for the project.

### COVID-19

Subsequent to year end and the finalisation of the financial statements, the COVID-19 (the virus) pandemic required us to support government protocols and directives to contain the spread of the virus. We have undertaken to act responsibly in preventing the further spread of the virus and therefore

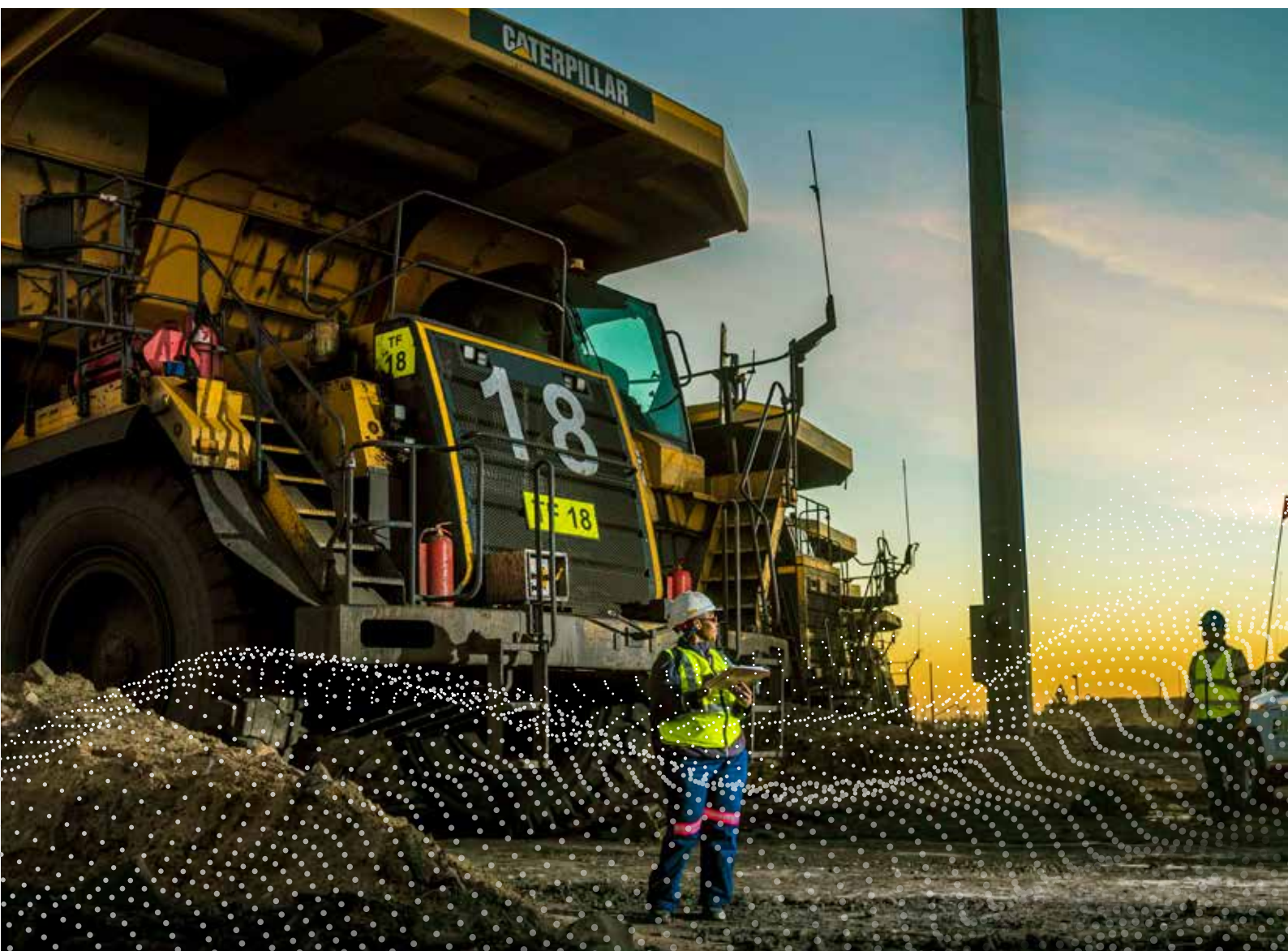
implemented our Crisis Management Plan (CMP) and Business Continuity Plan (BCP) across the breadth of our businesses, which includes health and safety controls and preventative measures.

Additionally, it is important to recognise the impact on the South African economy and the cumulative negative impact of the lockdown period, which commenced on midnight, 26 March 2020 and is foreseen to last until midnight, 16 April 2020. We have received the necessary approval to continue with our production activities during this period, albeit at varying reduced levels in terms of volumes and people, as these activities are considered to be essential services and the necessary measures have been taken to prevent possible infections. Refer to note 18.3 of the group and company annual financial statements for the year ended 31 December 2019 for more detail.



**Riaan Koppeschaar**  
Finance director

20 April 2020





## Operational performance

### Coal

#### Achievements in 2019:

Product volumes of **45.6Mt**

Sales volumes of **44.5Mt**

Export volumes of **9.1Mt**

Despite changes in the coal portfolio, with some operations mining diminishing Reserves, as well as delayed expansion projects, our optimisation initiatives are delivering value, particularly operational excellence and digitalisation. Our operational excellence process continues to focus on throughput optimisation and cost management, as well as driving the maturity of our LEAN5 initiative. Through our digital programme, we have made good progress in implementing our integrated operating centres and mine visualisations aiming to improve decision making across the entire value chain. Our digital programme will continue to drive value as we focus on MRM integration, data science and selective automation. Our ability to implement our expansion projects and deliver early value positions us well to launch into the next phase of volume and value growth.

The average Argus/McCloskey Coal Price Index (API4) price for coal exported from Richards Bay was weaker in 2019 at US\$72. Exxaro's average export price in 2019 was lower than it was in the past two years and also lower than the average API4 price for the review period due to a lower API4 price and widening discounts. The international seaborne market was oversupplied in 2019, largely due to an oversupply of LNG into Europe and Indonesia increasing coal supply, China's clampdown on Australian imports, and adherence to import quotas.

#### Cost per tonne

Cost per tonne was affected by higher contractor mining and rehabilitation provision cost incurred, linked to new reserves (mainly Belfast) and closed operations, increased distribution

cost on export volumes, general and labour inflation increases, as well as lower volumes, mainly due to lower power station coal offtake.

We continue to drive operational excellence, using the benefits of digitalisation to visualise, in real-time, the mass flow of coal from pit to port. Integrated visual operations centres augment our operational excellence initiatives for a step-change that will protect margins from inflationary pressures and improve productivity.

### Ferrous

#### SIOC

- Core equity-accounted income of R4.423 billion (2018: R2.605 billion)
- Dividend of R4.051 billion to Exxaro in 2019 (2018: R2.569 billion)

### Energy

#### Cennergi

- Core equity-accounted income of R45 million (2018: R65 million)
- Dividend of R95 million to Exxaro 2019 (2018: R58 million)

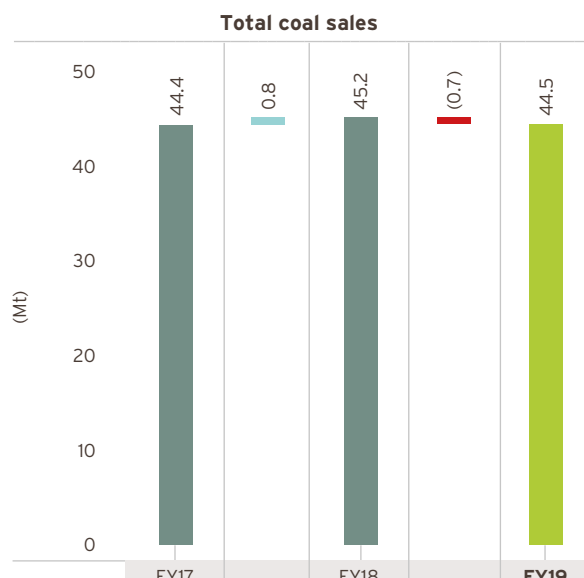
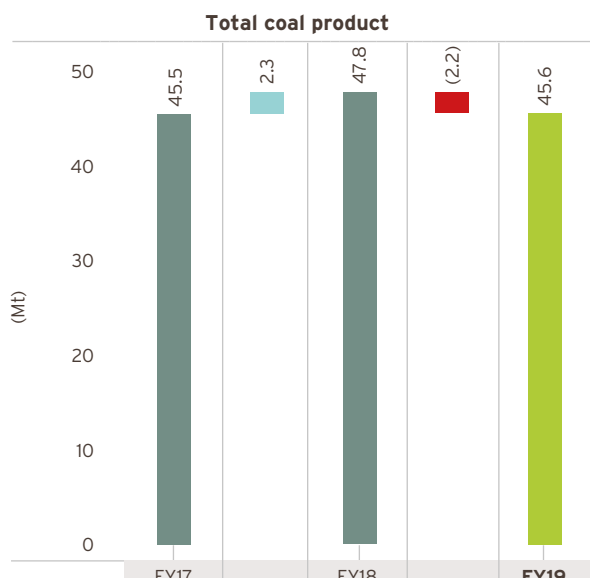
### Titanium dioxide

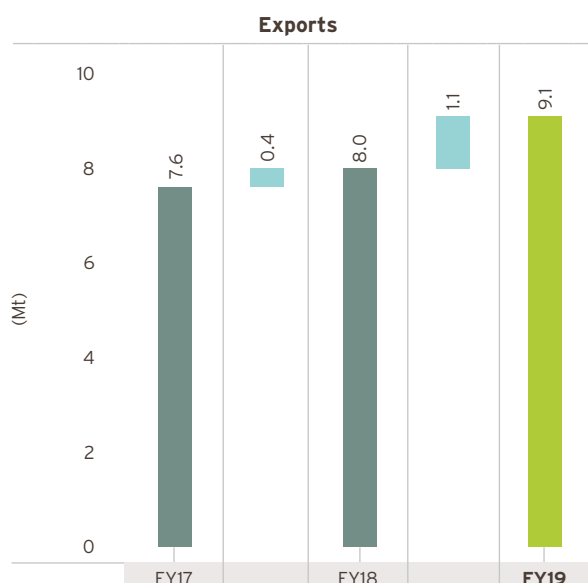
- Core equity-accounted income from Tronox SA decreased by R145 million to R236 million compared to 2018. The decrease is mainly as a result of increased royalties and allocated head office costs, inventory revaluation adjustments and foreign currency exchange losses.
- Our 10.38% (2018: 23.35%) interest in Tronox Holdings plc remains classified as a non-current asset held-for-sale and we are committed to monetising this asset through an efficient and staged sales process

## Divestment of non-core assets and investments

#### Black Mountain

During the second half of 2019, the Exxaro board approved a decision to divest from its 26% interest in Black Mountain Mining. On 30 November 2019, the investment was classified as





a non-current asset held-for-sale and the application of the equity method ceased.

### Arnot

On 22 February 2019, Exxaro signed a transfer agreement with the Arnot OpCo consortium), subject to conditions precedent, for the transfer of the Arnot operation. The shareholders of the consortium are former employees of Arnot and Wescoal. The ground-breaking deal will enable the consortium to restart the mine and supply coal to the national electricity provider for its Arnot power station.

On 10 December 2019, all conditions precedent for the transfer agreement were met. On the same day, the parties to the transfer agreement signed an addendum requiring Exxaro Coal Mpumalanga Proprietary Limited (ECM) to continue operating

the mine, liable for the expenses incurred, and with a right to the income generated until the end of January 2020. On 31 January 2020, the Arnot operation was transferred to Arnot OpCo consortium. The transfer will be recognised in 2020.

### Tronox Holdings plc

In September 2017, the directors of Exxaro formally decided to dispose of the investment in Tronox Limited. As part of this decision, Tronox was required to publish an automatic shelf registration statement of securities of well-known seasoned issuers, which allowed for the conversion of Exxaro's class B to class A Tronox ordinary shares. Subsequently, Exxaro sold 22 425 000 class A Tronox ordinary shares in October 2017. In May 2019, Tronox Holdings plc repurchased 14 000 000 Tronox Holdings plc ordinary shares from Exxaro after Tronox had redomiciled to the UK.

### Case study: Arnot

On 1 May 2019, former employees of Arnot were handed the mining rights to restart the mine.

In a historic deal, Exxaro announced that the Minister of Mineral Resources and Energy had agreed to cede the mining right for its Arnot coal mine to a consortium that will benefit former Exxaro employees who had been retrenched following the expiry of the coal supply agreement with Eskom in 2015, which ultimately led to the closure of the mine.

The ground-breaking deal will enable the consortium to restart the mine and, upon conclusion of a new coal supply agreement with Eskom, supply coal to the national electricity provider for its Arnot power station.

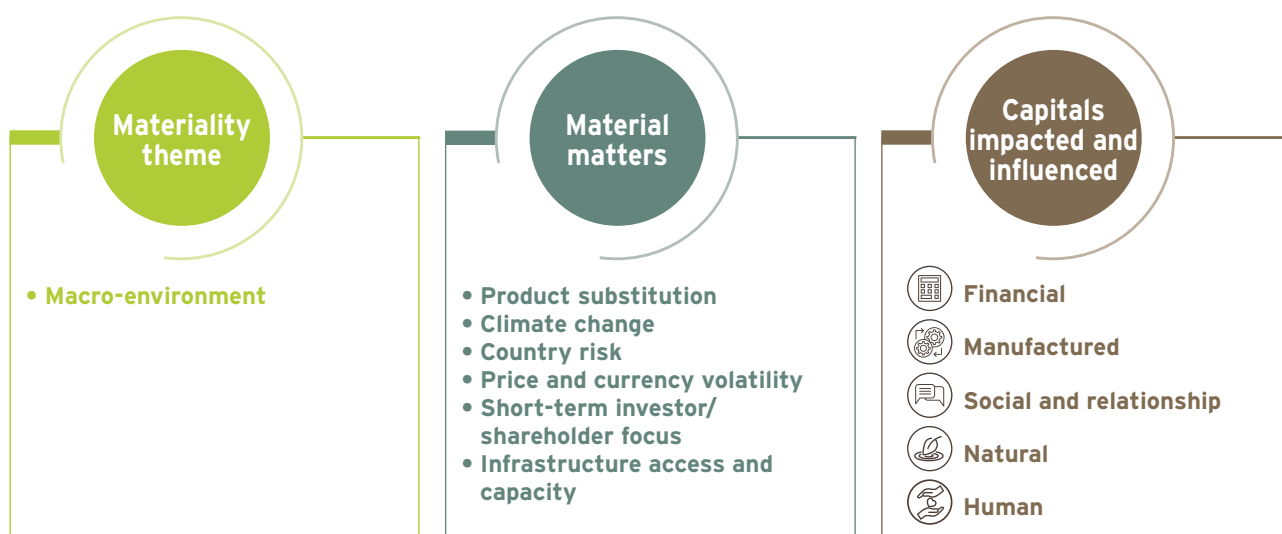
At the handover on Workers' Day, Mxolisi Mgojo, Exxaro's chief executive officer, said: "Today is a historic day for Exxaro, and indeed South Africa, as we complete a first and important step towards this transfer, which effectively will make bosses and owners of our former workers. Exxaro has always tried its very best to avoid retrenchments as retrenchment hurts our employees and their dependants the most. We therefore did not hesitate when our former employees approached us about enabling them to reopen the operation so that they could mine it."




## Macro-economic factors and commodity markets




Exxaro's macro-economic operating context and commodity markets include global and local influences that affect our ability to create value over time for all of our stakeholders.

In determining our material matters over the past year, we grouped matters of significance in this regard under the theme **macro-environment**.



### Our broader operating context: trends influencing our business

Trend	Cause	Effect	Our response
<b>Slowdown in global economic growth</b> 	<p>Escalating US-China trade tension, with stagnation in global manufacturing activity, contributed to the world's real GDP growth rate declining to 2.6% (2018: 3.2%).</p> <p>Growth in global steel production, particularly in China, decelerated.</p> <p>Iron ore prices were steady although highest in the first half of the year.</p> <p>The price of Brent crude oil remained range-bound towards the end of the second half of 2019 after temporarily elevated levels due to the attack on Saudi Arabian oil facilities.</p>	<p>Demand for sized product in the domestic market was positive.</p> <p>As more domestic supply was available due to weak export prices, domestic pricing remained stable.</p> <p>The seaborne thermal coal market remained in an oversupplied position with export sales prices dropping by 27% after trading at US\$98/tonne on average in 2018.</p> <p>The soft ban on coal imports in China and a sluggish Indian economy exerted pressure on seaborne trades.</p> <p>European stock levels remained relatively high due to cheap gas prices.</p> <p>India continues to draw South African coal.</p> <p>✚ For more information, see coal production and sales volumes on page 84</p>	<p>We remain committed to monetising our remaining stake in Tronox Holdings plc with prevailing market conditions in mind.</p> <p>Our interests in Black Mountain and the Chifeng Kumba Hongye Corporation's refinery remain non-core while we work on divestment plans for Black Mountain.</p> <p>The divestment in Arnot has been concluded. The outstanding condition was the cession of the current coal supply agreement between Eskom and Arnot OpCo. Competition Commission and section 11 approvals had already been obtained.</p> <p>The potential development plan for the Moranbah South coking coal project is being reassessed by Exxaro and Anglo American.</p> <p>✚ For more information, see coal production and sales volumes on page 84</p>

Trend	Cause	Effect	Our response
<p><b>Evolving societal and regulatory environment</b></p> 	<p>Globally, mining companies are facing increasing demands from diverse stakeholder groups, and maintaining a social licence to operate remains a top risk.</p> <p>Furthermore, across all stakeholder groups, there is, rightly so, increasing intolerance of poor business and sustainability practices.</p> <p>Shareholder activists are also placing increasing pressure on companies, particularly coal miners, to give voice to their long-term ambitions within this context.</p>	<p>A breakdown in trust can bring a mine to its knees faster than any other risk. Focus on building relationships of mutual benefit with communities should therefore be a top priority for all mines.</p> <p>Furthermore, in the context of greater water stress and extreme weather events due to global warming, coal producers are facing more intense pressure to reassess their portfolios and demonstrate how they are contributing to the transition to a low-carbon economy.</p> <p>✚ For more information, see energy transition on page 87 below</p>	<p>We are ever mindful that the transition to a low-carbon future should improve lives as we aspire to promote a cleaner way of living. Our purpose remains a critical responsibility: to power better lives in Africa and beyond, complemented by a new vision: to see resources powering a clean world.</p> <p>✚ For more information, see CEO's report and strategy on pages 36 and 40</p>
<p><b>Energy transition</b></p> 	<p>We have observed intensified global action on climate change and a move to restrict the use of fossil fuel for energy generation.</p> <p>The findings of the Intergovernmental Panel on Climate Change (IPCC), in its special report on the impacts of global warming of 1.5°C, paints a grim picture of the consequences of the current trajectory in greenhouse gas emissions and changing climate patterns.</p>	<p>Under the current trajectory, we expect the transitional and physical risks of climate change on our business will be medium to high over the next 20 to 30 years.</p> <p>✚ For more information, see risks and opportunities on page 60</p>	<p>Our response has been to ensure a sustainable Exxaro in a carbon-constrained environment.</p> <p>On 4 June 2019, the board passed a unanimous resolution to reassess the group's climate-change risks and opportunities in line with the recommendations of the FSB's TCFD.</p> <p>An internal multifunctional task team is developing a strategy using the TCFD recommendations. Progress and results will be presented to the market when the review process has concluded.</p> <p>✚ For more information, see climate change on page 102</p>
<p><b>Big data and mining</b></p> 	<p>Digital and technological innovation has opened avenues to improve productivity, safety and environmental management in the mining industry.</p>	<p>Companies are exploring new data-informed methods of mining, assisted by technology, which requires an understanding of the potential future workforce and new skills sets.</p> <p>✚ For more information, see innovation and information management on page 95</p>	<p>The Exxaro digitalisation and innovation journey is a strategic initiative driven by the CEO.</p> <p>Our award-winning Digital@Exxaro programme is transforming our company culture to ensure that we are more open and agile when we engage with stakeholders internally and externally.</p> <p>✚ For more information, see Digital@Exxaro on page 98</p>



## Macro-economic factors and commodity markets continued

### Market overview

During 2019, escalating US-China trade tensions and Brexit uncertainty were reflected in the global economic slowdown and hence market sentiment and performance.

#### Global GDP

**+2.6%**

(2018: 3.2%)



#### API4 coal export price averaged

**US\$72**

per tonne  
(2018: US\$98/t)  
expected to soften  
in 2020

### GDP growth rates

- Global economic slowdown
- US-China trade tensions
- Manufacturing stagnation
- South African growth below potential

US-China trade tension in 2019 resulted in higher cost to businesses and consumers, lower product demand, disrupted and less efficient supply chains, financial market volatility, reduced international trade and investment flows, and diminished competition and innovation.

Global manufacturing activity stagnated with several countries' manufacturing purchasing managers' index (PMI) contracting for extended periods during the year.

World real GDP growth in 2019 declined to 2.6% compared to 3.2% in 2018. A global economic recession is anticipated in 2020, mainly as a result of the impact of the global spread of the coronavirus (COVID-19) pandemic.

#### Real GDP growth rate (%)

	2020 forecast	2019	2018
<b>World</b>	(2.8)	2.6	3.2
US	(5.4)	2.3	2.9
Eurozone	(4.5)	1.2	1.9
China	2.0	6.2	6.6
India	2.1	4.8	6.8
South Africa	(3.0)	0.2	0.8

#### IMPLICATIONS FOR EXXARO

Global energy demand and transition

#### STRATEGIC RESPONSE

Ensure a sustainable Exxaro in a carbon-constrained environment

decisions will take time to implement. The upside is that there is potential for an investment rebound in future.

#### IMPLICATIONS FOR EXXARO

South Africa's energy mix and demand

#### STRATEGIC RESPONSE

Eskom as a strategic customer

### Inflation

- Persistently low inflation
- Less stringent monetary policy

During 2019, in response to a deteriorating global growth outlook, a significant number of central banks turned to monetary easing to support economies. In many cases, interest rate cuts were facilitated by subdued inflation while some countries battled economic crises and others suffered apparent political interference in monetary policy decisions. South Africa's consumer price index (CPI) was 4.1%, which was higher than the midpoint of the Reserve Bank policy of between 3% and 6%. It is expected to edge up slightly in 2020, barring any major shocks to the rand and fuel prices.

#### IMPLICATIONS FOR EXXARO

Cost and revenue escalations

#### STRATEGIC RESPONSE

Inflation-linked escalations

South Africa's economic growth in 2019 was again disappointing and remained well below potential. However, some positive signs were evident in the implementation of key economic reforms although the challenging and tough



### Iron ore

Fines

**US\$94**  
per dry metric tonne  
(CFR) China  
(2018: US\$70/dmt)

### Political and policy

Cautious optimism

### Currency markets

- Chinese renminbi (CNY)
- US dollar (US\$)

The Chinese currency fell past the market-presumed red line of 7CNY/US\$ in 2019 before it recovered somewhat, mainly due to market pressure induced by punitive US tariffs on Chinese goods and general US dollar strength. Safe haven status also supported the US dollar in times of tension.

In South Africa, currency volatility continued throughout the year with weak economic growth, political distractions and negative emerging market sentiment as the key drivers. However, the continued search for yield by investors, among others, supported the rand at times of risk-on sentiment. Rand volatility is expected to continue into 2020.

#### IMPLICATIONS FOR EXXARO

Forex volatility

#### STRATEGIC RESPONSE

ZAR based pricing for certain products

### Coal markets

- Domestic supply and demand up
- Seaborne thermal coal oversupplied

Favourable demand for sized product in the domestic market continued in 2019. As domestic supply increased due to weak export prices, domestic pricing remained stable.

The seaborne thermal coal market remained in an over-supplied position. Export sale prices dropped by 27% in 2019, having traded at US\$98/t on average in 2018. The soft ban on coal imports in China and a sluggish Indian economy exerted pressure on seaborne trades.

European stock levels remained relatively high as a result of cheap gas prices while India continued to draw South African coal.

#### IMPLICATIONS FOR EXXARO

Market demand evolving and dynamic

#### STRATEGIC RESPONSE

Market-to-resource optimisation

### Business sentiment

- Cautious optimism

The reality of South Africa's economic growth challenges, with much-needed economic reforms, was again highlighted in the draft growth policy document released by National Treasury. Optimism prevailed that focus would shift to implementation of critical economic reforms to enable a sustainable economic growth path for the country.

#### IMPLICATIONS FOR EXXARO

Investor sentiment

#### STRATEGIC RESPONSE

Stakeholder engagement



## Macro-economic factors and commodity markets continued

### Commodity markets

- **Mixed performance**
- **Key drivers**

Exxaro's specific commodity markets recorded mixed performances in 2019. Slowing global economic growth, supply disruptions, escalating US-China trade tensions and energy transition themes were the key drivers in commodity markets during the year.

#### Commodity prices (US\$/t)

Commodity	2020 forecast	2019	2018
Thermal coal (RB1)	60.00	71.56	98.05
Thermal coal (RB3)	48.00	55.76	78.10
Hard coking coal (prime)	163.00	175.08	207.58
Iron ore fines	80.00	93.63	69.70
Lump premium	11.40	17.20	15.62
Titanium dioxide pigment	2 459	2 480	2 850
Chloride slag	835	777	682
Zircon	1 370	1 510	1 460

#### IMPLICATIONS FOR EXXARO

Performance of commodity markets

#### STRATEGIC RESPONSE

Portfolio management

### Coal

- **Weak power generation in Asia's manufacturing economies**
- **LNG surplus**
- **Low European gas prices**
- **High global coal inventories (thermal)**
- **Indian demand**
- **Import restriction (metallurgical)**

During 2019, the global seaborne thermal coal market was under severe pressure from increasing domestic supply in China coupled with policy uncertainty, a global LNG surplus market, sustained low gas prices supported by high carbon prices in Europe leading to coal-to-gas switching, coupled with high renewables, hydropower and nuclear power generation, high global stockpiles at ports and weak seasonal demand in key Asian markets.

It was the year that LNG played a leading role. Significant oversupply of gas from the first quarter of 2019 and LNG storage overhang added to coal destocking pressure in Europe. The same LNG supply wave is expected to continue into 2020

as well as a similar thermal coal price pattern. Demand during the northern hemisphere winter supported title transfer facility (TTF) hub prices, which allowed some breathing space for coal.

Hard coking coal prices slumped to a two-year low in 2019 as Chinese port restrictions and weak Indian demand weighed heavily on the seaborne market. The unprecedented slump in the Indian automotive sector continued for most of 2019 as Indian buyers appeared to be in no hurry to restock. Construction activity in India also remained weak due to a sluggish macro environment. Barring any significant supply disruptions, a loose demand-supply balance is expected in 2020.

#### IMPLICATIONS FOR EXXARO

Fluctuating market demand and lower commodity pricing

#### STRATEGIC RESPONSE

Market-to-resource optimisation

### Supply-side disruptions (thermal coal)

- **High-level engagements**

Export rail performance from Grootegeluk declined after the annual coal line shutdown, exacerbated by a collision between two trains at the Matlabas crossing between Thabazimbi and Lephalale in October 2019.

The Transnet Freight Rail (TFR) Waterberg corridor expansion project slipped although it remained aligned with Grootegeluk's export production ramp-up schedule.

From January to October 2019, export rail performance, in terms of our Mpumalanga and Waterberg Transnet long-term rail agreements, achieved 95% against the annual contracted tonnage.

Grootegeluk achieved an average of 4.7 trains per week in 2019.

High-level engagements are ongoing and train planning has been approved at levels above five trains per week.

#### IMPLICATIONS FOR EXXARO

Performance of export potential

#### STRATEGIC RESPONSE

Transnet engagement

## Iron ore

### ➤ Robust Chinese steel output

### ➤ Steel margins

The iron ore price was a leading performer in 2019. The year began with Vale suffering tragedy when its tailings dam collapsed and some operations were suspended. Iron ore prices responded immediately as the market feared shortages while iron ore producers found it difficult to raise production to offset the loss. In addition, weather-related disruptions in northern Brazil and western Australia further tightened the market. Chinese steel production was stable during the year.

Within the iron ore market, the premium for higher-grade ore versus benchmark evaporated in 2019. Declining steel margins, and expectation of weaker steel demand amid ongoing growth in steel output, led steel mills to move back towards lower-grade fines. In addition, increased output of higher-grade ores was recorded with significant softening of the high-grade market. Improving exports and narrowing steel mill margins will be a drag on iron-ore prices into 2020.

#### IMPLICATIONS FOR EXXARO

Performance of SIOC investment

#### STRATEGIC RESPONSE

Exposure to higher-value iron ore lump product

## Mineral sands and titanium dioxide pigment

### ➤ Subdued feedstocks and pigment markets

The year was challenging for titanium dioxide (TiO<sub>2</sub>) feedstock and pigment markets. Weak TiO<sub>2</sub> pigment demand in the US, China and Europe, due to a sluggish global automotive sector, US-China trade tension, concerns about Brexit and reduced consumer confidence, led to a decline in global TiO<sub>2</sub> pigment production.

Deteriorating market sentiment and cost pressures in the market for zircon led to a general shift from premium towards standard-grade zircon, particularly in the ceramics sector of China hence an increase in premium-grade inventory levels in 2019.

Demand is expected to increase in 2020, led by the pigment sector, with capacity expansions and higher production in China, as well as a return to normal utilisation rates in North America.

## Case study: Belfast

Belfast Coal promised to deliver early run of mine (RoM) before the targeted date in October 2019 and did so on 14 March 2019 – seven months ahead of schedule.

The mining team worked in a timely and diligent manner to realise the revised business case to achieve the early RoM targets.

The operation is potentially the last sizeable value-adding greenfield coal project that Exxaro operates in Mpumalanga. It aims to support Exxaro's strategic vision to increase steam coal exports and the company's share of the South African coal market.

"Our strategy at Belfast Coal is to be a leading pioneer, unearthing the latest business trends and thereby increasing productivity and safety," says Lazarus Ramashilabele, business unit manager. "The target is to double our output by 2023, which will contribute significantly to the Exxaro 2026 business strategy."

Belfast is the first of its kind in South Africa to have a "digital twin" – a complete digital replica of the mine, which allows management to connect to and manage the operation from remote locations. The maintenance teams are thus able to analyse machinery and detect potential problems to improve safety and reduce downtime.

Exxaro began the R3.3 billion Belfast implementation project in July 2018 after more than 20 years of research and development.

The mine ranks as the last good-quality A-grade, high-yield coal deposit in Mpumalanga with an estimated lifespan of 12 years in its first phase operation.

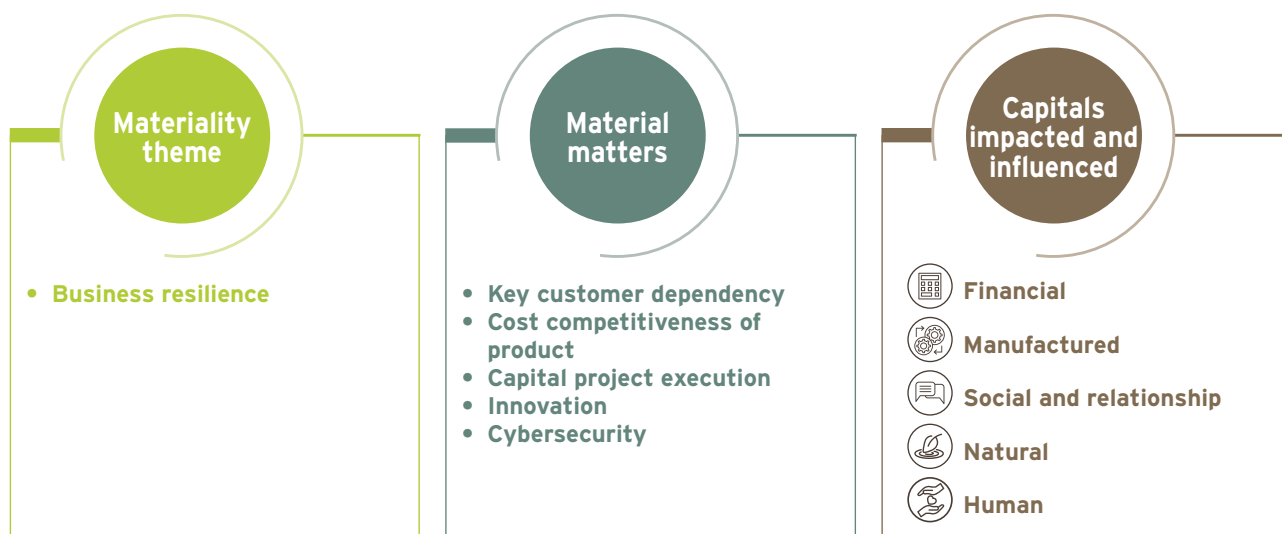




## Business resilience

Business resilience refers to our ability to withstand changes in the global economy and markets by managing our portfolio of projects, as well as capital allocation.

In determining our material matters over the past year, we grouped matters of significance raised during engagements with our stakeholders in this regard under the theme **business resilience**.



### Capital project execution

Exxaro continued to focus on implementing our growth and sustaining capital programme within time and on budget despite financial challenges facing many of our contractors.

#### Waterberg (Limpopo)

At our GG6 expansion project in the Waterberg, replacement of contractors to complete Group 5's scope of work was conducted in May 2019. We expect a six-month delay in completing the project. The project team continues to work with operations to minimise any further impact on volume, value and cost.

At Grootegeluk, the rapid load-out station project has been aligned with the TFR north-west corridor expansion project, which was due to begin commissioning by December 2019. Force majeure events, caused by strikes and poor contractor

performance, delayed hot commissioning and train sequencing until the first quarter of 2020. The delay did not affect the TFR ramp-up schedule and forecast final costs were within the allocated project budget.

Implementation of the Thabametsi IPP project was also delayed by the granting of the licence to generate electricity. Although Exxaro met all requirements, and engagements with the project developer continue, capital expenditure has been moved from the 2019 figures into future years.

#### Mpumalanga

The first coal from our greenfield Belfast mine was produced through the beneficiation plant in September 2019. The project remains ahead of schedule and within budget.

Production at Mafube's Nooitgedacht is also on track with the mine expected to produce at nameplate capacity in 2020.

Project	Project classification (Growth/sustaining)	Product	Description of project focus and performance	Capex	Outlook
<b>Location: Waterberg (Limpopo)</b>					
<b>GG6 expansion</b>	Growth	1.7Mtpa of semi-soft coking coal	Expansion of the existing Grootegeluk 2 plant to enable production of semi-soft coking coal	R4.8bn	Construction is underway and first production is expected in the second half of 2020
<b>Grootegeluk rapid load-out station</b>	Sustaining	Load capacity: 12Mtpa	Grootegeluk's rapid load-out station and railyard upgrade project is aligned with TFR's north-west corridor expansion project	R1.3bn	Hot commissioning and sequencing of trains is underway
<b>Location: Mpumalanga</b>					
<b>Belfast implementation project</b>	Growth	2.7Mtpa of thermal coal	Development of a new greenfield open-pit coal mine, including a coal handling and preparation plant, supporting infrastructure and services, with a 12-year LoM	R3.3bn	Production ramp-up is underway and first production through the plant was achieved in the third quarter of 2019 - on track for delivery within budget and ahead of schedule
<b>Leeuwpan life expansion</b>	Growth	2.7Mtpa of thermal coal	Development of an open pit from the OI reserve to extend the LoM of the Leeuwpan mining complex by seven years with relocation of households and graves to the local township	R0.6bn	First production was achieved in the second half of 2018, relocation is underway and project close is expected in the second half of 2020
<b>Dorstfontein West 4 seam</b>	Growth	0.8Mtpa of thermal coal	To enable operations to produce coal from mid-seam reserves, including a plant upgrade and development of conveyor systems	R0.3bn	First production was achieved in the second half of 2019 and project close is expected in the first half of 2020 following construction of the bunker
<b>Matla Mine 1 relocation</b>	Sustaining	Infrastructure to support LoM production	To provide access to Mine 1 reserves by a new box-cut, bulk materials handling system and associated infrastructure.	R1.8bn	Finalising detail design, tender adjudication for early works in process and construction is expected to begin in the second half of 2020

## Business resilience continued

### Business excellence

Our business excellence function was established with two main objectives: internalising excellence capabilities and instilling a culture of continuous improvement at head office. While 2018 was the year of initiation and establishment, 2019 was a year of entrenching excellence. Capability development is pivotal to ensuring that excellence is a permanent skill set within our organisation so that we achieve our priorities.

The champion resourcing model continued into 2019 with a number of secondee rotations, which encourage training champions who are released into their functions as agents of continuous improvement. Some of the key focus areas for champion development include the use of LEAN tools, relationship building and soft skills, understanding digital tools and enablers, and adopting new ways of working.

In order to focus our efforts, an opportunity forum was launched in the third quarter of 2019 as a mechanism to solve

problems using the best combination of existing process and digital capabilities. Problems or opportunities are directed to the opportunity forum, including multi-functional teams representing all business units, to assess and recommend the best combination of solutions.

The opportunity forum has delivered the following results to date.

- **Prioritisation:** The ability to determine projects to be resourced, based on their ability to deliver benefits and the most important objectives for Exxaro at any point in time
- **Improved value delivery:** Ensuring that business challenges are matched with the right solution almost always requires a combination of process improvement and the use of digital enablers
- **Visibility:** Transparency about ongoing projects is enabled within and across functions

### Coal capex

Rm	FY19 actual	FY19 previous guidance	FY18 actual	% change previous guidance
<b>Sustaining</b>	<b>2 245</b>	<b>2 240</b>	<b>2 779</b>	<b>0</b>
Waterberg	1 753	1 625	1 904	8
Mpumalanga	475	575	875	(17)
Other	17	40	0	(58)
<b>Expansion</b>	<b>3 572</b>	<b>3 375</b>	<b>2 943</b>	<b>6</b>
Waterberg	1 198	1 231	1 987	(3)
Mpumalanga	2 301	2 070	956	11
Other	73	74	0	(1)
<b>Total</b>	<b>5 817</b>	<b>5 615</b>	<b>5 722</b>	<b>4</b>

Salient features of our capex in 2019 include:

- Capital expenditure increased by 2% from 2018 to R5 817 million
- R2 245 million (2018: R2 779 million) applied to sustaining and environmental capital (stay-in-business capital)
- R3 572 million (2018: R2 943 million) invested in new capacity (expansion capital).

### Key customer dependency

Exxaro relies on Eskom, the national power utility, and ArcelorMittal for 57.2% and 5.7% of its revenue respectively (2018: 50.8% and 6.8%). In 2019, sales volumes to Eskom were 70.5% of the total (2018: 69.6%).

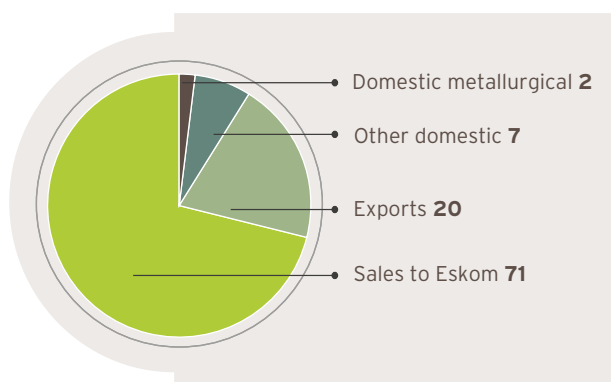
### Eskom

Our dependency on Eskom remained a key focus in 2019, specifically in light of ongoing concerns about the utility's financial and operational stability. On the positive side, the coal business is defensive, given our long-term commercial offtake agreements with Eskom at Medupi and Matimba.

At Matla, we have engaged with Eskom on the potential renegotiation of the cost plus agreement for continued supply to Eskom post-2023. The discussions are progressing well. In 2019, we supplied coal to Eskom from our Leeuwpans and Dorstfontein West mines. We continue to engage with Eskom on the conclusion of medium-term agreements to continue supply from these collieries. We remain committed to managing a positive and fruitful relationship with Eskom as we remain the largest supplier to the power utility.



Coal sales (by product tonnes) (%)



## ArcelorMittal

ArcelorMittal has ceased operations at its Saldanha plant as it is struggling to remain competitive amid poor commodity prices. The situation has impacted the supply of metallurgical coal to Saldanha Steel.

ArcelorMittal has declared a section 189 to retrench employees and is re-evaluating its other operations in Vanderbijlpark and Newcastle.

In our engagements, ArcelorMittal has reiterated its intention to purchase in excess of 1.2Mtpa of semi-soft coking coal from Exxaro. We will continue to supply ArcelorMittal in terms of contractual agreements with continuous and amicable communication at all levels.

Exxaro will continue to explore both domestic and international market options for semi-soft coking coal.

## Innovation and information management

As the fourth industrial revolution progresses and impacts all industries, the agility of the business is critical to seize opportunities by leveraging digital tools, as well as progressive methodologies and capabilities that enable Exxaro to enhance performance across the value chain.

Exxaro is taking an enterprise-wide approach to digitalisation rather than a point solution. This includes technology platforms enabling us to view the value chain from exploration to logistics. For example, our integrated operating centres are breaking down boundaries in the value chain to promote a single view of the business and enable improved decision making. At our new Belfast mine, the creation of a digital twin enabled us to begin production six months ahead of schedule. It will also enable the operation of the mine at the highest level with real-time information on breakdowns and stoppages. A cultural drive is aimed at enabling employees to operate on these new digital and innovation platforms. We are adopting technologies that will enhance the way people work rather than displace them.

## Cybersecurity

As Exxaro advances in digital transformation, and relies increasingly on digital services, the I&IM function will have to become increasingly diligent in managing the risks associated with the digital business strategy. The company's cybersecurity posture will have to be strengthened accordingly.

In 2019, I&IM collaborated with the business units to accelerate the execution of our cybersecurity strategy, focusing efforts on three major capabilities: information security, cloud security management and business resilience.

The information security framework was updated to reflect our cloud and digital operations landscape, and to ensure that the vital foundational structures are adequate to secure and bolster our operations.

We enabled mobile data protection by rolling out a security application for all users accessing company data via mobile devices. Exxaro's business-critical assets, business and personal information are secured by new data loss prevention and data protection capabilities.

We also invest in the education of our people through focused cybersecurity awareness campaigns that reduce the probability of attacks. We routinely conduct service continuity simulations to verify the adequacy and efficiency of our service continuity strategies. We thus improve our ability to recover critical systems in the event of a disaster.

We strive to secure Exxaro's assets across all information security domains.





## People

“We have the greatest people at Exxaro in whom we invest significantly to safeguard their health and safety, to provide opportunities for professional and personal growth, and to equip them with the necessary skills and knowledge for the future requirements of our business.”

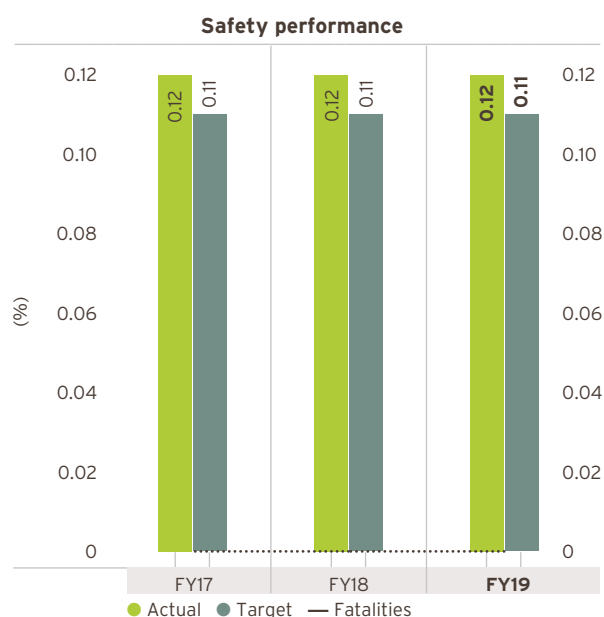
- Vanisha Balgobind

In determining our material matters over the past year, we grouped matters of significance raised during engagements with our stakeholders in this regard under the theme **our people**.



### Safety

Exxaro recorded another fatality-free year in 2019 - the fourth since inception in 2006. The relatively steady decrease in the lost-time injury frequency rate (LTIFR) over five years reflects the focus and commitment of all our people on zero harm. We have implemented a robust internal management standard at group level to manage stoppages and compliance instructions aligned with sections 54 and 55 of the Mine Health and Safety Act, 1996 (Act 29 of 1996) and sections 29, 30 and 31 of the Occupational Health and Safety Act, 1993 (Act 85 of 1993). The standard intends to proactively manage safety compliance by stopping to correct compliance issues and reducing the number of stoppage instructions issued by the Department of Mineral Resources and Energy.



Employees Key performance indicators	2019 Actual	2018 Actual	2017 Actual
Number of fatalities	0	0	1
LTIFR per 200 000 hours	0.12	0.12	0.12
OHIFR	0.24	0.33	0.33
Project delivery measure for local economic development projects per SLP (time variance % from plan) <sup>1</sup>	(11) (behind schedule)	(12) (behind schedule)	(15) (behind schedule)
Employment equity (%) in top, senior and middle management at every business unit <sup>1</sup>	54.7	53.5	57
Human resource development (% payroll excluding levies, including internal and external training) <sup>2</sup>	6.5	6.3	5.1
Skills provision (% of internal appointment of critical skills)	48	52	56
Skills retention (% turnover)	3.8	5.1	5

<sup>1</sup> 2014 Mining Charter<sup>2</sup> 2019 Mining Charter

We have made steady progress over the past 13 years, proving that our target of zero harm is attainable.

The LTIFR was unchanged in 2019 at 0.12, and significantly below the peak of 0.42 in 2006. We recorded 26 LTIs against an aspiration of zero harm.

In 2019, seven section 54 directives were issued by the Department of Mineral Resources and Energy at Grootegeluk, ECC and Matla for identified non-compliance. We believe the current internal management standard will ensure that we actively stop unsafe activities and, in time, prevent accidents at all our business units.

## Health

In 2019, of the 51 cases of occupational disease reported to the Compensation Commissioner for Occupational Diseases, 15 (demonstrably work-related) were accepted for compensation, bringing the occupational health incident frequency rate (OHIFR) to 0.24 (target: 0.31).

We introduced the OHIFR three years ago to drive awareness of health risks, focusing specifically on effective management of chronic lifestyle diseases.



## People continued

### Culture transformation

Our corporate culture is critical in determining our success today and in years to come. In line with our 2026 strategy, we have sought to evolve our culture through a change programme called connect2NEXT. The programme aligns all major change initiatives to ensure collaboration, congruence and effective communication throughout the organisation, and it explores opportunities for synergies in implementing the change programmes.



#### Highlights in the implementation of our connect2NEXT culture transformation programme in 2019

#### Impact on strategic objectives

<b>Culture</b>	We refreshed timeless values and developed culture themes to create awareness and communicate desired behaviours group-wide.
<b>Workplace</b>	We adopted new ways of working, including a move to the conneXXion in July and empowered employees with change-enablement sessions
<b>Digital@Exxaro</b>	Digital technology solutions were introduced to enable efficient collaboration
<b>Smart workforce</b>	To bring our people up to speed with digital technologies, design thinking and analytics, we introduced smart workforce training programmes
<b>Partnering via ecosystems</b>	We collaborated in partnerships with external stakeholders to improve socio-economic conditions for communities in Mpumalanga and Limpopo: houses, crèches, community halls, small businesses and youth development programmes were established including YD <sup>x</sup> to bridge the youth unemployment gap
<b>Organisational excellence</b>	For the benefit of all stakeholders, we maintained continuous improvement using efficiency enhancements such as the LEAN5 methodology, Agile <sup>1</sup> and the Startup Way <sup>2</sup>

Within its overarching values, the company has **five cultural themes including responsibility, adaptability, openness and connectivity, diversity and ownership**. The company therefore aims to foster a culture of being adaptable to the ever-changing world around us, encouraging its employees to be willing to learn and improve in everything they do. As change is inevitable, based on current social, economic, and technological realities, the company aims to be agile and to create new opportunities to move the group forward as a collective.

**The company brought automation** to some of the company's departments in the form of Digital C (colleague) bots, which streamline mundane and repetitive processes so that employees can put their time to better use exploring different areas of work or taking time to improve their skills. The company reported at the Mining Indaba 2019 that, in the short period that the Digital Cs were piloted, the company has seen a percentage increase in transactional volumes, reduction in processing errors, improved quality of data and shorter processing time.

Additionally, each of the business units have digitalised their mining value chain, referred to as **Ops-Eye**, which provides real-time data on stock levels, quality of coal, throughput and has improved decision-making time. The Ops-Eye intelligence is a value chain control room with a "bird's-eye view" of an entire and interconnected operation. It can anticipate any bottlenecks and inform local control rooms of any changes needed to avoid production loss. Ops-Eye has the ability to access integrated information and predict potential outcomes, which forms part of the company's Digital@Exxaro programme.

Exxaro won the top prize at the 19th annual SA National Business Awards in the innovation category for its digitalisation and innovation journey in 2019, which is an integral part of the company's organisational strategy. The **Digital@Exxaro** programme was launched to promote the digitalisation and innovation journey, and has shown that using digital, the company operates its mining assets on the lowest quartile through improved productivity, reduced costs and improved safety performance.

<sup>1</sup> Changing and creating processes to become more responsive to developments in technology and also as a result of innovation.

<sup>2</sup> The Startup Way by Eric Ries is a management system based on five principles:

1. Continuous innovation that repeatedly finds new breakthroughs
2. The startup as an atomic unit of work
3. Entrepreneurship as the missing function in the organisation
4. Unleashing entrepreneurship as a kind of second founding
5. Continuous transformation that rewrites the company's DNA

## Employment equity

Since Exxaro's inception 13 years ago, developing skills levels across the business has been the cornerstone of successfully implementing our employment equity plans. We have achieved our targets at the middle and junior management levels. However, our challenge is with senior management and people with disabilities. New targets were published in September 2018 with a five-year compliance time frame.

Our women-in-mining focus is a key enabler for women to enter careers in our industry. Women currently comprise 22% of the workforce, and we focus on attracting women through our talent pipelines. Women now constitute 43% of young professionals in training, 33% of our full-time bursars in engineering and mining at universities, and black women represent 35% of the learner pipeline across the group.

## Talent management

Exxaro's employees, 99% sourced from our host communities in South Africa, are given numerous opportunities to remain competent and relevant in their jobs. High-potential individuals are also sought within the same communities for our trainee pipeline, and they are placed in relevant skills development programmes or awarded bursaries, internships and learnerships. We thus empower local community members to compete for positions in the company. Training is provided mostly in engineering and mining disciplines at the Grovos training centre in Lephalale and at the Colliery Training College in eMalahleni, Mpumalanga. In 2019, Exxaro had 964 young people in trainee feeder schemes.

Exxaro strives to exceed prescribed training targets year-on-year hence a significant portion of payroll is spent on youth and employee development. In 2019, Exxaro spent R298 million or 6.52% of payroll (target: 5%) on development training (2018: R260 million or 6.3%) including:

- R103 million on job-related operational and technical training at business units, including operator training and mobile equipment licences (162 043 training interventions were completed using our e-learning platform)
- R78 million on bursaries, professionals in training, internships, learnerships and skills programmes to secure our talent pipeline (viewed from the perspective of outcomes, we examine key areas across the skills value chain to ensure the right skills are available at the right time) with over half of talent pipeline spend on artisan and miner learnership development
- R14 million on developing targeted employees through management programmes, leadership roles, postgraduate studies and support functions

## Economic empowerment

An employee ownership plan scheme was developed for qualifying employees in 2019 and implemented in 2020. The scheme is evergreen and beneficiaries will benefit from dividend payments only for the duration of employment.

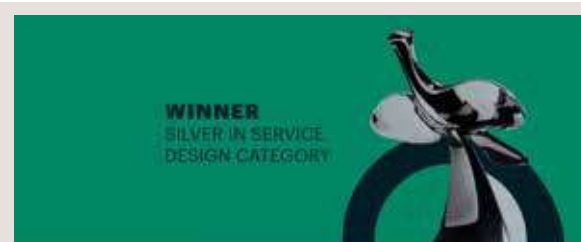
In terms of the interim cash scheme, equivalent in value to a dividend payment, a qualifying employee in service on all two payment dates received a total of R9 264 in 2019 (2018: R10 925).

The base calculation used to determine the dividend payment is equal to 500 units (one unit representing one share) or less (depending on the employee's length of service).

An evergreen community ownership scheme is also in the process of development. The scheme envisages partnership with government for sustainable local development of communities from the dividend.

Our enterprise and supplier development programme continued to support local community businesses in 2019.

Around R170 million was disbursed to 30 beneficiaries in 2019.



### MYNEXXT: THE AWARD-WINNING SOLUTION

The company was recognised for innovative engagement with customers in the service design category of the 2019 Loeries for the MyNexxt: future-ready workforce video, which received a silver award (the greatest achievement in the category in 2019). The award acknowledges creativity and innovation across the region. Exxaro, in partnership with multinational professional services company, Accenture, and WinWin developed MyNexxt to support, upskill and prepare Exxaro's 15 000+ employees for a digital future. Accenture was Exxaro's partner in completing the service design, and WinWin was a key player in developing the solution that brought the design to life.

 <https://www.exxaro.com/media-centre/2019/mynexxt-the-award-winning-solution>



## Social licence to operate

The objectives of our social licence to operate are to comply with regulations, and to seek to implement best practice engagement that supports the sustainable development of our stakeholders.

Maintaining our social licence to operate entails not only complying with the regulations imposed on mining companies by government, primarily the Department of Mineral Resources and Energy in South Africa, in the interests of host communities, but going beyond compliance and seeking to implement best practice engagement that supports the sustainable development of our stakeholders.

In determining our material matters over the past year, we grouped matters of significance raised during engagements with our stakeholders in this regard under the theme social licence to operate.



### Response to community challenges

In our mining communities, our operations are the primary economic activity (other than Eskom) where there is limited economic diversification that is independent of mining. Given the current poor performance of our economy, we are unable to respond fully to community demands for employment and procurement opportunities that would develop small enterprises. However, our efforts and results during the year point towards the right direction and promising prospects for the future.

Investment per focus area	Rm
Social infrastructure	11.89
Education (including school infrastructure)	28.23
Enterprise and supplier development (including agriculture)	15.94
Governance	0.17
Sport	0.81
Health and welfare	5.03
<b>Total</b>	<b>62.07</b>

We believe that Exxaro is a tenant in our host communities. A successful relationship with communities is key to our business success and growth. In addition to our SLPs, we invest in areas such as environmental conservation and health and welfare through our CSI programmes.

Over the past four years, Exxaro has contributed R226 million towards socio-economic development initiatives around our mining communities: 46% on education, 24% on social infrastructure and 13% on enterprise and supplier development, creating over 1 700 jobs. In addition we disbursed R170 million to 30 enterprise and supplier development beneficiaries in 2019.

Our aim is to create economic diversification to limit dependency on the mine while building resilient and self-sufficient communities in the long term by implementing local development initiatives to improve social infrastructure and education as well as promoting employment and local procurement.

In 2019 Exxaro experienced 4.5 days of production stoppages due to community unrest compared to 22 in 2018.



Our SLPs focus on agriculture, education, enterprise and supplier development, infrastructure and skills development in the two provinces, Limpopo and Mpumalanga, where we operate in 2019:

- Grooteegeluk, Leeuwpán, Matla and ECC presented academic enrichment programmes at a total cost of R6.2 million
- We equipped early childhood development centres in Tshikondeni
- ECC completed the Kriel community hall
- The Belfast skills development project trained 54 surface machine operators
- Road upgrades in Siyathuthuka near Belfast empowered local contractors and created 118 jobs.

✚ For more information, please see page 100 with details of our social licence to operate.

## Compliance and licensing

As part of the project life cycle planning process, Exxaro ensures that all requisite rights, licences and authorisations are in place prior to construction and commissioning.

The only exceptions occur after a stakeholder appeal.

Exxaro aims to have every mining right valid and to comply with all conditions for each licence and right granted. We define the validity of a mining right by having its three pillars in place: the mine works plan, environmental authorisations and SLPs.

We define the enforceability of our mining rights by sections 93 and 47 directives issued, as well as any section 102 to amend a

mine works plan, environment authorisation or SLP. In addition, compliance includes submitting reports to the Department of Minerals and Energy describing future mining activities.

Exxaro complies to the best of its abilities with all authorisations and licensing requirements for its current operations and projects. The authorisations typically include:

- Integrated water use licence
- Waste management licences
- Atmospheric emission licences
- Environmental impact assessments
- Records of decisions
- Environmental authorisation

Each of these has specific conditions to which mining operations have to adhere at all times.

## Key highlights:

- Reduced number of disruptions at operations
- YD\* (✚ see ESG report page 63)
- SLP local economic development
- Community benefits due to capex expansion programme
- Continued success of enterprise and supplier development programme

**Key challenge:** Delay in SLP implementation

**Opportunity:** Municipal capacity building

### National government engagement on social licence to operate

Extensive engagements with local communities, municipalities and the Department of Mineral Resources and Energy were held in the past year to finalise the Matla 2020-2025 social and labour plan (SLP). Disagreements between the eMalahleni municipality and the Department of Mineral Resources and Energy on the type of local economic development projects to be included have resulted in a delay in the submission of this SLP to the Department of Mineral Resources and Energy for approval, consequently delaying implementation of community development projects.



### Case study: 67CEOs

The first edition of the 67CEOs Foundation local community small, medium and micro enterprise (SMME) development programme in 2019 was sponsored by Exxaro. The two-day event, hosted in Mpumalanga and themed "Advancing inclusive ecosystems", aimed to educate and stimulate the growth of entrepreneurs.

Chief executive officers (CEOs), mentors and facilitators participated in panel discussions and led workshops focusing on inclusive ecosystems that could encourage entrepreneurship and job creation in South Africa. Besides a business model canvas and SMME financial management master classes, SMMEs were also introduced to service providers in order to increase the pool of support for local small businesses," says Lusapho Njenge, Exxaro's manager: enterprise and supplier development programme.

Lusapho is enthusiastic about plans in the pipeline for small business development. "Exxaro will continue investing in SMMEs in Mpumalanga and Limpopo where we mine. Some 80% of our total enterprise development funding in 2019 was invested in small businesses in these areas and, with the establishment of an equity fund, we will be able to invest in innovative ideas, particularly those that relate to agriculture, water and renewable energy businesses as these support our 2026 strategy."

The 67CEOs Foundation was established to support South Africa's National Development Plan by offering free entrepreneurship workshops to newly established businesses in partnership with CEOs and experienced entrepreneurs.



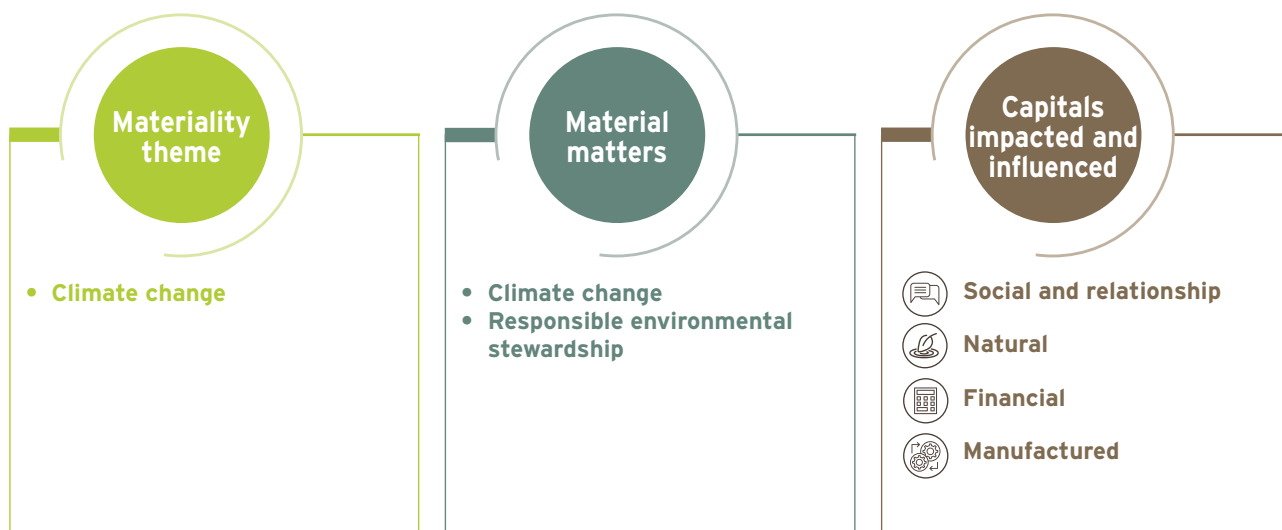
## Climate change

We recognise that, as a responsible corporate citizen, we must contribute positively to the global goal of transitioning to a low-carbon economy while managing the immediate needs and requirements of all our stakeholders.

We seek to manage climate change risk through proactive mitigation initiatives including efforts to reduce GHG emissions and through adaptation efforts such as increasing our capacity to cope with changes in climate and the impacts on our business.

Measuring specific indicators across our business units enables us to prioritise our actions and resources to address the greatest impacts on our business and mitigate our negative impacts on climate change.

In determining our material matters over the past year, we grouped matters of significance raised during engagements with our stakeholders in this regard under the theme climate change.



### Ensuring business resilience in the face of climate change is one of our strategic imperatives

Globally, we are facing the dual-energy challenge of providing affordable and reliable energy to meet growing demand while managing the risks of climate change. The continuing dependence on fossil fuel-generated electricity and fuels for transportation means that greenhouse gases (GHGs) emissions will continue to increase, thereby making it difficult to curb global temperature increases. The Intergovernmental Panel on Climate Change's (IPCC) climate change assessment reports have presented irrefutable evidence that the earth's climate balance has been altered towards warming, with the most significant contributor being increased carbon dioxide (CO<sub>2</sub>) concentrations in the atmosphere since the fourth industrial revolution.

In light of this, reversing this trend and halting temperature increases to below 2°C will be challenging - but not impossible. The United Nations (UN) IPCC 1.5°C Special Report states that limiting warming to 1.5°C implies reaching net-zero CO<sub>2</sub> emissions globally around 2050 and concurrent deep reductions in emissions of non-CO<sub>2</sub> gases, mainly methane (CH<sub>4</sub>).

In this regard, the decarbonisation of energy generation is critical. Introducing renewables into the energy mix is therefore essential and we recognise that this would have significant implications for fossil fuels, especially coal use, globally. This must, however, be balanced with the need for affordable and reliable energy in Africa to ensure that the continent develops its industrial base to reduce poverty and unemployment significantly. We believe that renewable energy can support the electrification of Africa and we are strategically working towards this.

### We believe that a Just Energy Transition solution to a low-carbon future should inform global climate action and binding agreements

The Paris Agreement aims to limit warming to "well below 2°C above pre-industrial levels" and to pursue efforts to limit the temperature increase to 1.5°C. This is a significant milestone to ensure collective action for the mitigation of climate change impacts.

We support the South African government's efforts to transition to a low-carbon economy within the principle of Just Energy Transition, taking into account the contribution of coal

in the socio-economic development of the country. The role of business is critical in adopting low-carbon technologies and driving innovation in product design to ensure that the objectives of the Paris Agreement are attained. Opportunities to expand the energy mix by incorporating renewables will increase access to reliable energy for the population, thereby contributing to the reduction of GHG emissions.

### **As we transition our business into a low-carbon future, we believe coal as an input to energy generation will remain relevant in South Africa**

Around 77% of South Africa's primary energy needs are currently provided by coal. The Integrated Resource Plan (IRP) 2019 states that the share of coal in the South African energy mix will reduce to 59% by 2030. This will increase pressure to diversify our business portfolio with the low-carbon future in mind.

### **We will aim to reduce our scope 1 and scope 2 GHG emissions to attain "carbon neutrality" by 2050**

In 2019, our audited scope 1 and scope 2 emissions were 412 and 670 kilotonnes of CO<sub>2</sub> (ktCO<sub>2</sub>) respectively. We will incorporate low-carbon fuel technologies and self-generated renewable energy in our operations to reduce our scope 1 and scope 2 emissions. This will support our aspirational target to be carbon neutral by 2050. We will engage our customers to support initiatives to reduce emissions from our product use, which will positively influence scope 3 indirect emissions.

### **Keeping our stakeholders and investor community informed of our performance**

We will continue to disclose our carbon emissions, climate change risks, opportunities and interventions through internationally recognised organisations such as the CDP (formerly known as the Carbon Disclosure Project). We aim to enhance our climate change disclosure landscape by adopting the Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

### **Building climate change business resilience is an opportunity to diversify our business portfolio into a low-carbon product mix**

The diversification of our portfolio into renewable energy by acquiring 100% of Cennergi, an independent power producer, will support our carbon neutrality strategy. We will continue to invest in the development of low-carbon energy sources to ensure that the majority of the population has access to affordable and reliable sources of energy.

### **Environmental authorisations**

We measure compliance to environmental authorisations on two levels: approved, and compliance to conditions.

Our analysis shows that our approved environmental authorisations are within acceptable levels (100%).

We implemented a new integrated monitoring and compliance system to help us improve the score in 2018. A compliance score of 96% in environmental authorisation conditions was achieved throughout our operations. As part of this process,

detailed checklists per site are being drafted to drive improved compliance to conditions.

### **Licence to operate**

Delays and appeals against integrated water use licences (IWULs) granted by the Department of Water and Sanitation have become a risk for new projects and part of their critical paths. To mitigate the long lead times in securing the necessary permits and licences, we engage early with the respective regulators, and proactively with every interested and affected stakeholder group.

Total carbon dioxide (CO<sub>2</sub>) emissions in 2019 were 72 029 kilotonnes (kt) compared to 73 795kt in 2018. The decrease of 2.4% reflects a decline in rehabilitation activities at some operations. Our short-term carbon intensity target is -5% on the prior-year level across the group, which is ambitious as some projects take time before their impact is evident, particularly for carbon intensities. We performed below the target with a carbon intensity of 5.4t CO<sub>2</sub>e per total tonnes mined compared to 5.3kt in 2018. Much of this is due to the inclusion of additional operations such as Belfast and ECC.

Diesel and electricity remain the biggest components of our GHG footprint. We are currently addressing energy security, economic productivity and environmental impacts in our drive to become carbon neutral and thrive in a low-carbon economy.

Exxaro performed well on both CDP climate change and water disclosures in 2019, indicating leadership and the group's commitment to climate change mitigation and adaptation, as well as addressing and managing water risks.

South Africa is a water-scarce country and we recognise that water-reduction initiatives are crucial to sustainable operations, particularly under prevailing drought conditions. Our group water strategy was approved in 2017. It is informed by our risk assessments and identifies five strategic focus areas of excellence:

- Compliance
- Operational water efficiency
- Policies, standards and processes
- Water technologies
- Stakeholder partnerships.

Group water intensity improved by 9% from 0.11kL/ton to 0.10kL/ton in 2019 mainly due to the sale of North Block Complex and the introduction of early run of mine (ROM) at Belfast.

As part of our commitment to water efficiency, and outlined in our strategy, we have finalised long-term, operation-specific water intensity targets for 2018 to 2022. The targets are based on the prior two years' consumption (baseline) and target water withdrawals from natural resources. To ensure targets are achievable, we conduct water efficiency assessments every six months to assess progress and identify opportunities.

Exxaro acknowledges the findings of the Intergovernmental Panel on Climate Change (IPCC). We agree that the negative impacts of climate change on our host communities, operations and society at large could be significant.



## Our Mineral Resources and Mineral Reserves report summary







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## Our Mineral Resources and Mineral Reserves

Exxaro continuously strives to enhance the level of estimation and reporting of Coal Resources and Coal Reserves. The group is committed to the principles of transparency, materiality and competency in reporting its Coal Resources and Coal Reserves.

We continuously strive to unlock maximum value in our Coal Resources and Coal Reserves. The drive towards the utilisation of breakthrough technology to improve our process and techniques throughout the value chain is a critical aspect to sustain, grow and optimally exploit our mineral assets. We review, test and implement the applicable technology solutions at operational and functional level as part of our strategy.

Exxaro broke ground on its R3.3 billion, first-of-its-kind digital mine on 5 July 2018. Since then Belfast Coal has made significant progress in its construction programme and is already producing high-grade thermal coal six months ahead of schedule. As a truly digital and connected mine, Belfast will contribute to be a thriving coal business in the region and demonstrate Exxaro's purpose to power better lives in Africa and beyond.



The ECC Dorstfontein West underground operational life beyond the exhaustion of 2 coal seam is premised on the exploitation of 4 (lower) coal seam. In 2019, the 4 seam was successfully accessed from existing 2 seam underground infrastructure. Two parallel 7m-wide and 2m-high inclines with a slope of six degrees, connected by six crosscuts, were developed by the Dorstfontein drill-and-blast stone development team, allowing for continuous exploitation of the ECC Resource.



The information presented here is an extract from the Consolidated Mineral Resource and Mineral Reserve Report (CMRR) report that encapsulates reporting governance, competence, tenure, risk, liabilities, exploration and assurance as well as comprehensive descriptions of applicable projects, operations and exploration activities in compliance with the JSE Listings Requirements (section 12). The reported Coal Resources and Coal Reserves reported here are therefore summarised versions. The CMRR report is available on the Exxaro website at <https://www.exxaro.com/investor/integrated-reports2019/mrr/index.php>

## Our strategy

The Coal Resource and Coal Reserve strategy is focused on sustaining, developing and growing the mineral asset base through the employment of responsible and innovative technical management. The value extracted from our mineral assets is continuously challenged through mine planning, considering evolving knowledge of the mineral asset's geological complexities and the opportunities it holds. As our competent persons are the custodians of the mineral asset, they are accountable for ensuring integrity and applying pioneering technology in combination with trusted knowledge to optimise the exploitation.

Our projects, operations and expansion initiatives are built on trusted and assured Coal Resources and Coal Reserves creating the platform for the LoM from which the annual business plans are derived. The Mineral Resource managers of each operation are the custodians of the LoM and ensure the professional execution of the business plans, stimulating profitability and return on investment while guarding against irresponsible exploitation.

The purpose of the LoM planning underlying our Mineral Resource and Mineral Reserve estimation is to unlock maximum value from the coal in the ground for Exxaro, taking margin and net value into consideration. Each ore body has a unique mining methodology, processing parameters and targeted market segment that delivers maximum value to shareholders. This is impacted by updated resource information, developments in mining and processing technology and changes in market dynamics.

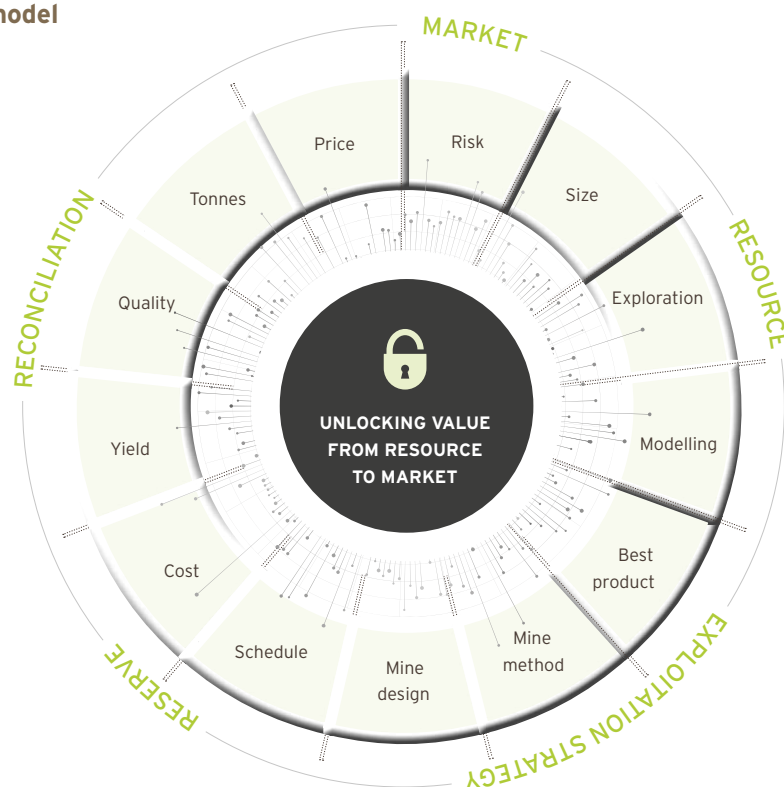
Consequently, the optimum exploitation strategy needs to be continually reviewed to ensure applicable resources reach the most lucrative markets (see resource-to-market model below). The relentless drive to reduce the environmental footprint of operations is embedded in the process and the continuous impact of the evolving legislative landscape is reflected in designs.

## World-class assets

Exxaro has a world-class Coal Resource portfolio, comprising fully owned operations and projects, and a number of jointly owned operations and projects in South Africa and Australia. The fully owned operations and projects in South Africa are located in the large and highly prospective Waterberg coalfield in Limpopo and the more mature Highveld and Witbank coalfields in Mpumalanga. Since inception in 2006, Exxaro's total attributable Coal Resource and Coal Reserve figures have been relatively stable. This trend can primarily be ascribed to the relatively large Waterberg coal deposits, particularly the remarkable Grooteegeluk complex. Estimated to contain 40% to 50% of South Africa's remaining Coal Resources, the Waterberg is viewed as the future of South African coal mining. Exxaro holds an estimated 3 billion tonnes of Measured and around 1.8 billion tonnes of Indicated Coal Resources in the Waterberg, primarily in Grooteegeluk mine and the adjacent mining right of Thabametsi.

Exxaro's portfolio and operations are continuously evolving, illustrated by newly commissioned Belfast coal mine and the large expansion projects at our Grooteegeluk, Matla and ECC operations. These initiatives demonstrate the resourcefulness of our people and our ability to implement projects through innovative and breakthrough technology.

## Resource-to-market model



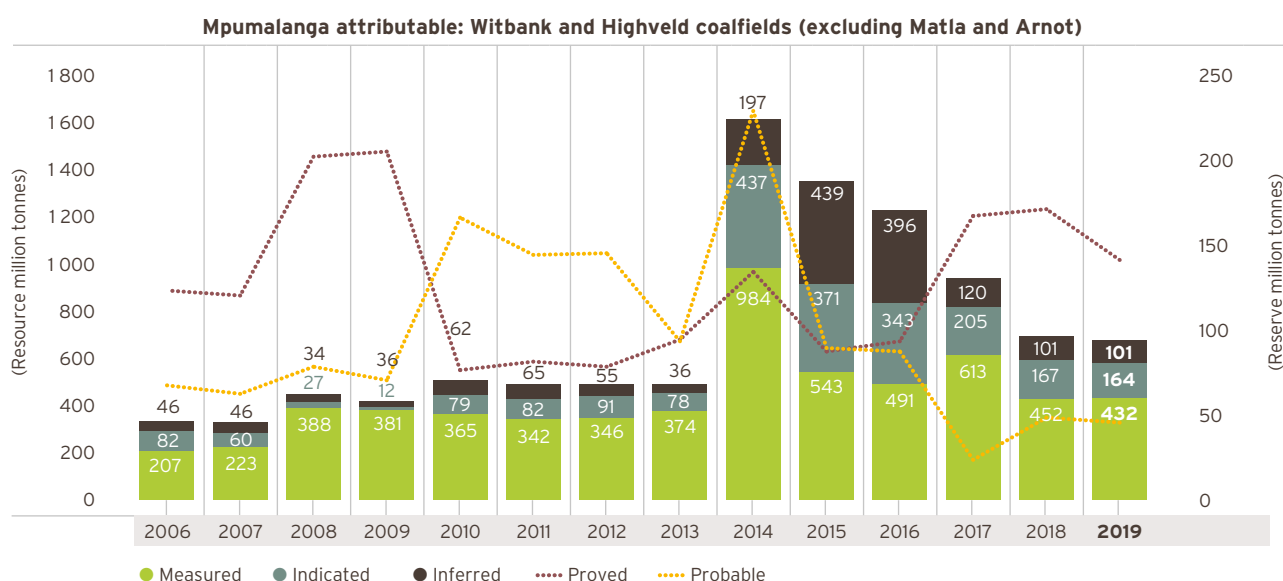
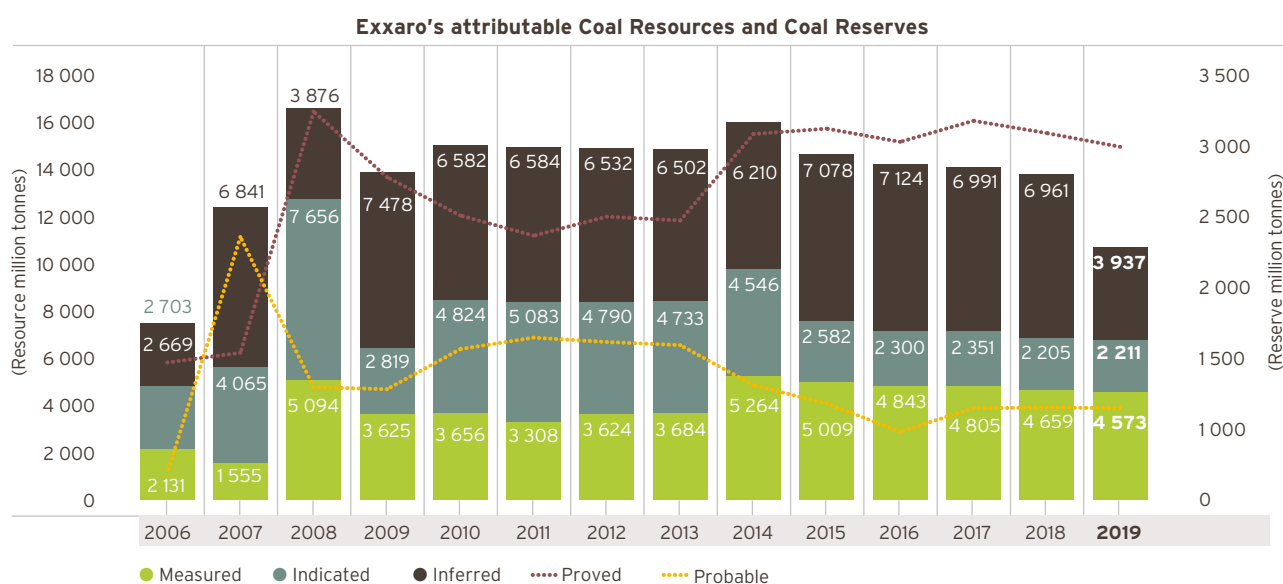
## Our Mineral Resources and Mineral Reserves continued

### Exxaro Coal Resource and Coal Reserve estimates over time

Mineral Resource and Mineral Reserve statements are summarised on pages 12 to 15 in the CMRR report, reported as those remaining on 31 December 2019, and compared with the corresponding estimates reported on 31 December 2018. The commodity, ownership, status of project/operation, mining method, Mineral Resource and Mineral Reserve classification categories, and associated tonnage qualities or grade are stated, and any material changes year on year are captured and explained as footnotes.

In 2018, Exxaro cautioned that we were considering options relating to four prospecting rights grouped into two projects, namely Waterberg North and Waterberg South. The projects are located approximately 30km north of Grootegeluk mine and consist of 2147Mt and 869Mt of Inferred Coal Resources respectively. In 2019, the Exxaro total attributable Coal Resource decreased by approximately 22%, primarily due to our decision to

relinquish these prospecting rights after careful consideration of their strategic fit. The prospecting rights are in closure and we are conducting all activities in a responsible manner to fulfil the closure requirements. The Total Exxaro attributable Coal Reserves decreased by approximately 3%, primarily due to mining at the various operations. However, the Coal Reserve at the Forzando operation in the ECC complex decreased by approximately 37% in the reporting year. The most significant contributors to the decrease are mining, macro-economic assumptions as well as areas excluded due to unfavourable floor gradients. Changes in Coal Reserves larger than 10% are also reported at the Matla and Leeuwpans operations. The approximate 13% decrease at Leeuwpans is primarily the result of mining whereas the 14% decrease at Matla is due to mining and the disposal of mining areas related to unfavourable stooping conditions in close proximity to surface infrastructure. For all the other operations, other than normal LoM depletion, no material changes to Coal Resource and Coal Reserve estimates are reported.



#### Notes

- Estimates reported as at 31 December 2019 are derived by using the actual mining depletion up to the end of October and then using forecast figures for November and December.
- Rounding off of figures quoted may result in minor computational discrepancies although this is not deemed significant.



We report on the following Exxaro-managed operations:

### Limpopo province

**Grootegeeluk coal mine:** Exxaro's flagship open-pit coal mine, producing power station coal, variously sized metallurgical coal products as well as semi-soft coking coal for local and international customers. There is no material change in our estimates for the reporting period.

**Thabametsi coal project:** The Thabametsi mining right, an area adjacent to the Grootegeeluk operation, is earmarked to produce power station coal to supply a mine-mouth feed IPP plant. Exxaro is currently ensuring that all compliance actions are executed hence no changes to the Coal Resource or Reserve estimates are reported.

### Mpumalanga province

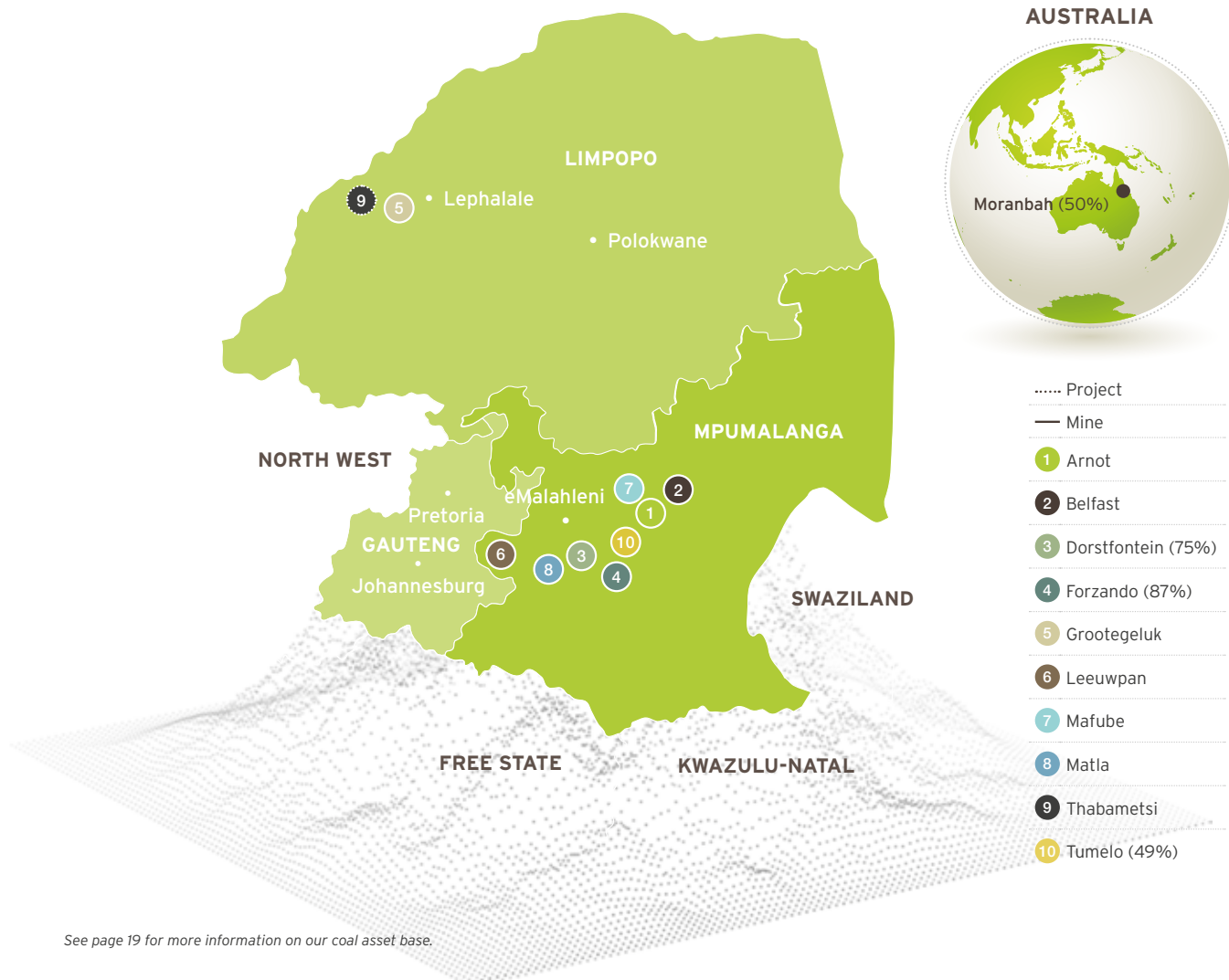
**Arnot coal mine:** In closure, consent has been received for the cession of the mining right and no changes to the Coal Resources are reported.

**Matla coal mine:** An Eskom-tied underground mine. Approvals have been received to execute three expansion projects, namely Matla Mine 1, Mine 2 Incline and Mine 3 Decline to access the large remaining 4 seam and 2 seam underground Coal Reserves. A project to replace the shortwalls with continuous miner sections is also underway.

**Leeuwpan coal mine:** Mining of the OI open pit area is progressing well.

**Belfast coal mine:** Early coal was produced in the second quarter, commissioning of the coal handling facility in the third quarter and production of the first export coal product in early September of the reporting year.

**ECC complex:** The Dorstfontein West mine incline to access the large 4 seam Coal Reserve from existing mining infrastructure has been completed and mining is progressing well. The study at the Dorstfontein East mine was also completed successfully to obtain access to the 4 seam lower Coal Reserves through five portals in the current pit 2 open-cut area.

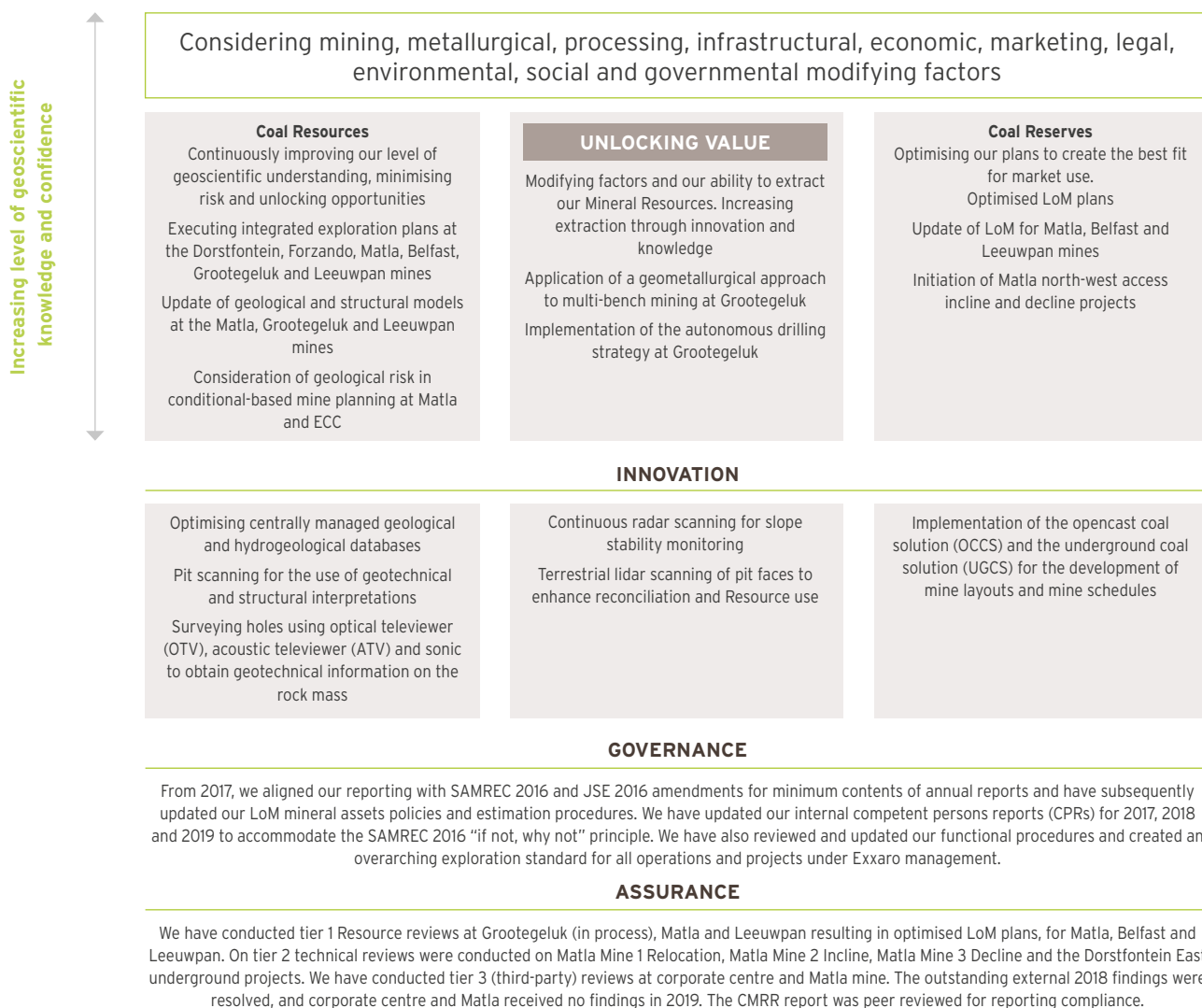


See page 19 for more information on our coal asset base.

## Our Mineral Resources and Mineral Reserves continued

### Unlocking value

In 2019, we continued to focus on unlocking value at our operations. We are acutely aware that our success as a mining company is built on the integrity of our Coal Resources and the effectiveness with which we convert these resources to Coal Reserves, and then the exploitation and extraction of these Reserves.



#### Case study: Seamless data management of geological information

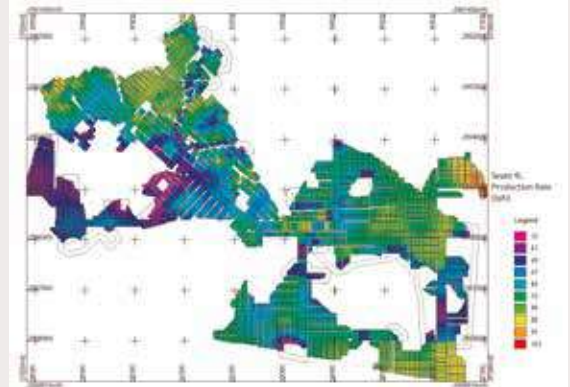
Exxaro has embarked on establishing a centralised geological systems (acQuire) to ensure the integrity and security of our geoscientific data. The solution offers improved integration between the various geoscientific disciplines (geology, geotechnical and geophysical information) and the potential to have almost real-time information. Similarly, EQuIS software has been implemented successfully for the monitoring and management of geohydrological information, and it will be fully autonomous. Both systems are Cloud-based with web integration and the capability of direct field capturing. The majority of the validations are at the point of capture to ensure compliance with established business rules. The principle is that the databases form a single source for all business decisions relating to geoscientific information going forward.



### Case study: Geological risk considered for conditional-based mine planning

ECC operations are characterised by areas that have been greatly affected by dolerite activity, which present in the form of dykes and sills. In addition, floor undulations and steep gradients present challenges, especially in the underground operations. These features tend to be more prevalent along paleo highs and near dolerite structures, and pose a risk to safety and effective coal extraction. ECC employs an exploration strategy to proactively and accurately predict the extent of these challenging geological features. The exploration strategy adopts an integrated approach with the investigation, identification and delineation of possible challenging features associated with the future exploitation of Coal Reserves.

Identified features applicable to Resource accessibility, mine-ability (roof/floor conditions) and Coal Resource characterisation (coal seam thickness and quality variability) are captured in our risk and opportunity domain analysis (RODA). Areas are identified and assigned higher geological loss through the application of querying and modelling techniques within the GIS-based RODA. The RODA is then considered during mine planning, influencing the orientation of mining layouts, mining tempos, production volumes, cutting rates, and associated mining and rehabilitation costs aligned with the identified risks or restricted zones. Areas perceived as low risk, if not already defined as Reserves, are highlighted and investigated as opportunities for inclusion in the future.



## Endorsement

Exxaro's lead competent persons are appointed by the executive management team.

Exxaro's lead Mineral Resource competent person is Henk Lingenfelder, a member of the Geological Society of South Africa and registered (400038/11) with the South African Council for Natural Scientific Professions. He has a BSc (Hons) in geology and 24 years of experience as geologist in coal, iron ore and industrial minerals.

The person in Exxaro designated to take corporate responsibility for Coal Resources, Henk Lingenfelder, the undersigned, has reviewed and endorsed the reported estimates.

*Henk Lingenfelder*

**JH Lingenfelder**  
BSc geology (Hons)  
Pr Sci Nat (400038/11)  
Group manager: geoscience  
263 West Avenue, Die Hoewes  
Centurion 0163

**South African Council for Natural Scientific Professions**  
Private Bag X540  
Silverton 0127  
Gauteng  
South Africa

Exxaro's lead Mineral Reserve competent person is Chris Ballot, a mining engineer registered (20060040) with the Engineering Council of South Africa. He has 23 years of experience in iron ore, mineral sands and coal in various technical and management roles.

The person in Exxaro designated to take corporate responsibility for Mineral Reserves, Chris Ballot, the undersigned, has reviewed and endorsed the reported estimates.

*Chris Ballot*

**CC Ballot**  
BEng mining  
ECSA 20060040  
Manager: mining processes  
263 West Avenue, Die Hoewes  
Centurion 0163

**Engineering Council of South Africa**  
Private Bag X691  
Bruma 2026  
Gauteng  
South Africa

# Administration

## Group company secretary and registered office

### SE van Loggerenberg

Exxaro Resources Limited  
263 West Avenue, Die Hoewes  
Centurion 0163  
(PO Box 9229, Pretoria 0001) South Africa  
Telephone: +27 12 307 5000

## Sponsor

Absa Bank Limited (corporate and investment bank division)  
Barclays Sandton North  
15 Alice Lane  
Sandton 2196

## Company registration number

2000/011076/06  
JSE share code: EXX  
ISIN: ZAE000084992

## Auditors

PricewaterhouseCoopers Inc  
4 Lisbon Lane  
Waterfall City  
Jukskei View 2090

## Commercial bankers

Absa Bank Limited

## Corporate law advisers

EOH Legal Services Proprietary Limited  
Roger Dyason Road  
Pretoria West 0183

## United States ADR depositary

The Bank of New York Mellon  
101 Barclay Street  
New York NY 10286  
United States of America

## Registrars

Computershare Investor Services Proprietary Limited  
Rosebank Towers  
15 Biermann Avenue  
Rosebank 2196  
(Private Bag X9000, Saxonwold, 2132)



## Disclaimer

Opinions expressed in this report are, by nature, subject to known and unknown risks and uncertainties. Changing information or circumstances may cause Exxaro's actual results, plans and objectives to differ materially from those expressed or implied in any forward-looking statements.

Financial forecasts and data in this report are estimates, which at times are based on reports prepared by experts who, in turn, may have relied on management estimates. Undue reliance should not be placed on such opinions, forecasts or data. No representation is made on the completeness or correctness of opinions, forecasts or data in this report. The company and its affiliates, advisers or representatives accept no responsibility for loss arising from the use of any opinion, forecast or data in this report.

Forward-looking statements apply only from the date on which they are made and the company does not undertake any obligation to publicly update or revise its opinions or forward-looking statements to reflect new data or future events or circumstances. The financial information on which the forward-looking statements are based has not been audited nor reported on by Exxaro's independent external auditors.



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