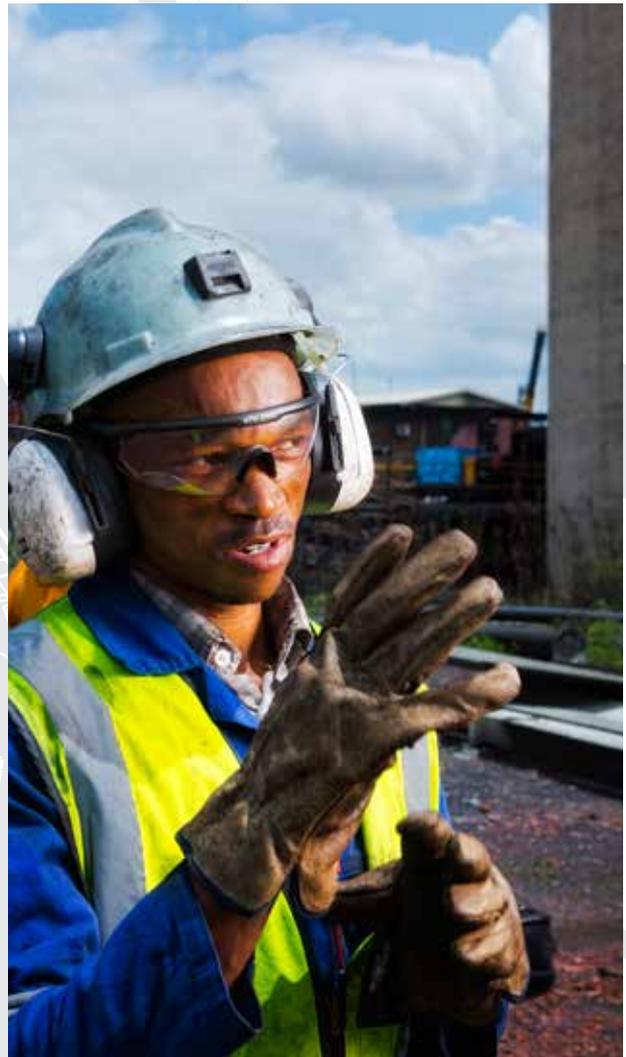


03

REPORTS



3.1 DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The directors of the company are responsible for maintaining adequate accounting records, the preparation of the annual financial statements of the company and group and developing and maintaining a sound system of internal controls to safeguard shareholders' investments, as well as the company's and group's assets. In presenting the accompanying company and group annual financial statements, IFRS has been followed, applicable accounting policies have been used and prudent judgements and estimates have been made.

In order for the directors to discharge their responsibilities, management has developed and continues to maintain a system of internal controls aimed at reducing the risk of error or loss in a cost-effective manner. Such systems can provide reasonable, but not absolute, assurance against material misstatement or loss. The directors, primarily through the audit committee, which consists only of independent non-executive directors, meet periodically with the independent external and internal auditors, as well as executive management to evaluate matters concerning accounting policies, internal control, auditing, financial reporting and financial risk management. The group's internal auditors independently evaluate the internal controls and coordinate their audit coverage with the independent external auditors. The independent external auditors are responsible for reporting on the company and group annual financial statements. The independent external and internal auditors have unrestricted access to all records, property and personnel as well as to the audit committee.

The directors have reviewed the company and group financial budgets, along with the underlying business plans, for the period to 31 December 2016. In light of the current company and group financial position and existing borrowing facilities, they consider it appropriate that the company and group annual financial statements be prepared on the going-concern basis.

The independent external auditors are responsible for reporting on whether the company and group annual financial statements are fairly represented in accordance with IFRS. The independent external auditors have audited the annual financial statements of the company and group and their unmodified report appears on page 20.

Against this background, the directors of the company accept responsibility for the company and group annual financial statements, which were approved by the board of directors on 15 April 2016 and are signed on its behalf by:



MDM Mgojo
Chief executive officer

Pretoria

15 April 2016



WA de Klerk
Finance director

3.2 CERTIFICATE BY GROUP COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act of South Africa, I, CH Wessels, in my capacity as group company secretary, confirm that, to the best of my knowledge and belief, for the year ended 31 December 2015, Exxaro has filed with the Companies and Intellectual Property Commission all such returns and notices as are required of a public company in terms of the Companies Act of South Africa and that all such returns and notices appear to be true, correct and up to date.



CH Wessels
Group company secretary

Pretoria

15 April 2016

3.3 AUDIT COMMITTEE REPORT

The audit committee is pleased to present its report for the financial year ended 31 December 2015.

Background

The company’s audit committee is established as a statutory committee in terms of section 94(2) of the Companies Act of South Africa and oversees audit committee matters for all the South African subsidiaries within the Exxaro group, as permitted by section 94(2)(a) of the Companies Act, as well as all off-shore subsidiaries and controlled trusts. In accordance with an exemption granted by the Financial Services Board, it also oversees audit committee matters for the company’s wholly owned insurance captive, Exxaro Insurance Company Limited.

The audit committee operates in accordance with the specific statutory duties imposed by the Companies Act, the Listings Requirements, as well as in accordance with detailed terms of reference, which has incorporated the principles contained in King III as well as duties specifically delegated by the company’s board of directors.

Objective and scope

Apart from the statutory duties of the audit committee as set out in the Companies Act, the provisions of the Listings Requirements and King III, the ambit of the audit committee has been expanded to include financial risk management, financial compliance, combined assurance and aspects of integrated reporting (in collaboration with the company’s sustainability, risk and compliance committee).

The audit committee’s objectives are to:

- Examine and review the group’s annual financial statements and report on interim and final results, the accompanying message to stakeholders and any other announcements on the company’s results or other financial information to be made public
- Oversee cooperation between internal and external auditors, and serve as a link between the board and these functions
- Oversee the external audit function and approve audit fees
- Evaluate the qualification, appropriateness, eligibility and independence of the external auditor
- Approve the appointment of the internal auditors, the internal audit plan, charter and fees
- Evaluate the scope and effectiveness of the internal audit function
- Ensure effective internal financial controls are in place
- Review the integrity of financial risk control systems and policies
- Evaluate the competency of the finance director and finance function
- Appoint the chief audit executive
- Comply with legal and regulatory requirements
- Oversee the effectiveness of the combined assurance plan and outcome.

The audit committee performed its functions as stipulated in the terms of reference and detailed annual plan for the year ended 31 December 2015.

Membership

Shareholders elect members of the audit committee annually. The audit committee consisted of four independent non-executive directors for the review period:

Member	Attendance of meetings
Mr J van Rooyen (chairman)	4/4
Dr CJ Fauconnier	4/4
Mr RP Mohring (passed away on 14 March 2016)	3/4
Mr V Nkonyeni	3/4

The chairman of the board is not a member of the audit committee, although he attends all meetings as permanent invitee. In addition, the chief executive officer, the finance director, chief audit executive, as well as the internal and external auditors are also permanent invitees to audit committee meetings. The audit committee, however, debates matters without the permanent invitees present, as and when so required.

The audit committee meets at least four times a year. Two meetings (aligned with the approvals of the interim and annual financial results) are held with both the independent external auditors and internal auditors, respectively, where management is not present.

Committee key performance indicators and evaluation

In 2015, for the first time, the board and its committees developed specific key performance indicators (KPIs), in addition to aspects dealt with in the annual plan. This was a first attempt at setting objective measures for directors for a particular year in assisting management to achieve Exxaro's strategic objectives. We recognise these are more quantitative in nature, but view this as a maturing process that will lead the board and its committees to more meaningful qualitative measures in time to ultimately provide stakeholders with a more in-depth understanding of the performance of the board and its committees.

The committee set the following KPIs for 2015:

- Greater oversight of information technology governance (IT) and its maturity
- Greater oversight of implementation of the combined assurance model
- Improved use of the strategic dashboard to manage and monitor the strategy
- Sharing best practice.

The committee and invitees concurred that these KPIs were achieved in 2015.

The board and committee evaluations for 2015 differed substantially from prior years by focusing more on performance than conformance. Hence a comparison of year-on-year results would be misleading. Overall, the committee achieved an average score of 3,88 out of 5,00 (close to exceeding expectations) with no aspect identified as requiring attention.

To fully entrench the KPIs and related objectives in 2016, no changes were made to KPIs for the year ahead.

External auditors

The group's independent external auditors are PwC. Fees paid to the auditors are disclosed in note 7.1.3 to the group annual financial statements for the year ended 31 December 2015. The group has an approved policy to regulate the use of non-audit services by the independent external auditors. The policy differentiates between permitted and prohibited non-audit services and specifies a monetary threshold by which approvals are considered. During the year under review fees paid to PwC amounted to R33 million (2014: R36 million), which included R24 million (2014: R25 million) for statutory audit and related activities as well as R9 million (2014: R11 million) for non-audit services. The audit committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that such did not impact on their independence.

The audit committee annually assesses the independence of PwC and again completed such assessment at its meeting on 29 February 2016. PwC were required to confirm that:

- They are not precluded from reappointment due to any impediment in section 90(b) of the Companies Act
- In compliance with section 91(5) of the Companies Act, by comparison with the membership of the firm at the time of its reappointment in 2015, more than one half of the members remain in 2016
- They remain independent, as required by section 94(7)(a) of the Companies Act of South Africa and the Listings Requirements.

Based on this assessment, the audit committee again nominated PwC as independent external auditors for the 2016 financial year. Shareholders will therefore be requested to re-elect PwC as independent external auditors for the 2016 financial year at the AGM on 26 May 2016.

As part of the external audit assignment, PwC is required to expose an empowered auditing firm, Ngubani & Co, to the Exxaro assignment, thus developing its skills and experience and contributing to the prominence of upcoming black empowered audit firms in South Africa.

Internal auditors

The internal audit function is outsourced to EY and its responsibilities are detailed in a charter approved by the audit committee and reviewed annually. Its main function remains to express an opinion on the effectiveness of risk management and the internal control environment.

As part of the internal audit assignment, EY is required to contribute 5 per cent of the contract value towards a mutually beneficial investment project: agreement has been reached that this will be a community healthcare project seeking to address objectives set in the original Mining Charter. Details of the project will be channelled through and approved by the Exxaro chairman's fund and foundation.

Finance function review

As required by the Listings Requirements 3.84(h), the audit committee, through a formal process, has satisfied itself of the finance function's resources, experience and expertise and the appropriateness of the expertise and experience of the finance director.

3.3 AUDIT COMMITTEE REPORT (CONTINUED)**Annual financial statements**

The committee reviewed the company and group annual financial statements and accounting practices in detail and is satisfied that the information contained in the annual financial statements, as well as the application of accounting policies and practices applied are reasonable.

Statement on effectiveness of internal financial controls

The audit committee, with input and reports from the independent internal and external auditors, reviewed the company's system of internal financial controls, as underpinned by the risk management philosophy, during the year. The internal auditors again specifically noted the marked improvement in the overall control environment and confirmed that the system of internal controls was satisfactory. On this basis, the audit committee confirmed that there were no material areas of concern that would render the internal financial controls ineffective.

Key issues

Key issues receiving attention during the year included:

- Given the continued decline in global commodity prices and the mining industry as a whole, the audit committee was required to consider and debate the impairment indicator analysis, as well as the impairment assessments performed of the company's investments, especially ECC, Tronox and SIOC.
After extensive advice and guidance were obtained from management and the company's independent external auditors, we are pleased to advise that, except for two impairments of the goodwill recognised during the acquisition of TCSA of R1 524 million and the carrying value of property, plant and equipment at the Reductants operation of R225 million, as well as the impact of R866 million (net after tax) on the group following the decision by KIO to impair SIOC by R6 billion, no other assets were impaired as the carrying values are adequately supported. We view this as a strong indicator of the company's decisive response to the current commodity industry fundamentals
- Also resulting from the subdued market conditions, and as communicated during the year, the rapid decline of the company's share price experienced in 2015 required the granting of financial assistance to our BEE shareholder consortium, Main Street 333, to remedy a default of their debt covenants and resultantly risking Exxaro's BEE status. This matter was debated extensively by both the audit committee (excluding Mr V Nkonyeni) and an independent sub-committee of the board. While we acknowledge that some shareholders viewed this intervention negatively, we believe that providing this loan (on commercial and arms' length terms) is the most appropriate risk mitigating course of action in order to protect the Exxaro's BEE status and confirm that the company passed the solvency and liquidity test, when this decision was made.

**J van Rooyen**

Chairman of the audit committee

Pretoria

15 April 2016

3.4 INDEPENDENT EXTERNAL AUDITOR'S REPORT ON THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS**To the shareholders of Exxaro Resources Limited**

We have audited the consolidated and separate financial statements of Exxaro Resources Limited set out on page 26 to 159 (annexure 2), which comprise the statements of financial position as at 31 December 2015, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with IFRS and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making these risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Exxaro Resources Limited as at 31 December 2015, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act of South Africa

As part of our audit of the consolidated and separate financial statements for the year ended 31 December 2015, we have read the directors' report, the audit committee's report and the certificate by the group company secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In terms of the IRBA Rule published in *Government Gazette number 39475* dated 4 December 2015, we report that PricewaterhouseCoopers Inc has been the auditor of Exxaro Resources Limited for five years. Dion Shango has been the individual registered auditor responsible and accountable for the audit for five years. We are independent of the group in accordance with the IRBA Code of Professional Conduct for Registered Auditors and other independence requirements applicable to performing audits of financial statements in South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.

Director: TD Shango

Registered Auditor

Johannesburg

15 April 2016

3.5 REPORT OF THE DIRECTORS

The directors have pleasure in presenting the annual financial statements of Exxaro Resources Limited (Exxaro or the company) and the group for the year ended 31 December 2015.

Nature of business

Exxaro, a public company incorporated in South Africa and listed on the JSE, is one of the largest South African-based diversified resources groups, with interests in the coal, titanium dioxide, ferrous and energy markets.

Exxaro's assets vary between controlled and operated assets as well as equity-accounted investments. The major controlled assets include its coal operations and its iron ore prospecting operations in the RoC. The major equity-accounted investments include its 43,87% interest in Tronox, a global leader in the mining, production and marketing of inorganic minerals and chemicals. It also includes 26% interest in Tronox's South African mineral sands operations and United Kingdom Limited Liability Partnership, its 19,98% interest in SIOC, which extracts and processes iron ore and its 50% interest in Cennergi, an energy company which aims to be the leading cleaner energy IPP in South Africa.

Integrated report and supplemental information

Material information on the activities and performance of the group and the various divisions of the group is contained in the integrated report 2015 as well as in the supplementary information. These reports are unaudited. The board of directors acknowledges its responsibility to ensure the integrity of the integrated report and supplemental information. The board has accordingly applied its mind to the integrated reports and in the opinion of the board the reports address all material issues, and fairly present the integrated performance, impact and sustainability of the organisation.

Corporate governance

The board of directors endorses the principles contained in King III. Full details on how these principles are applied in Exxaro are set out in the supplementary information on the web, as well as limited information in the integrated report 2015.

Comparability of results

The results for the year ending 31 December 2015 and 2014 are not comparable due to the key events and transactions reported in the table on page 9.

Accounting policies

The accounting policies applied during the year ended 31 December 2015 are consistent, in all material respects, with those applied in the group annual financial statements for the year ended 31 December 2014.

Registration details

The company registration number is 2000/011076/06. The registered office is Roger Dyason Road, Pretoria West, 0183, Republic of South Africa. The remaining details of administration are included in the summarised group annual financial statements for the year ended 31 December 2015 and notice of the annual general meeting.

Capital management

The board of directors is ultimately responsible to monitor debt levels, return on capital, total shareholders' return as well as compliance with contractually agreed loan covenants. These key metrics are detailed on page 14. The group aims to cover its annual net funding requirements through long-term debt facilities with maturities spread evenly over time.

During the year, the group complied with all its contractually agreed loan covenants, except in respect of the dividend declaration financing covenant (ie net profit after tax to distribution covenant). The latter was as a result of the non-cash impairments as follows:

	2015 Rm	2014 Rm
ECC: goodwill	1 524	
Reductants operation: property, plant and equipment	225	
Mayoko iron ore project: goodwill		1 020
Mayoko iron ore project: property, plant and equipment		4 740
Intellectual property		202

The group obtained approval from the providers of finance for the waiver of this covenant on the basis that the impairments are non-cash flow items, which approval was received.

Neither the company nor any of its subsidiaries are subject to externally imposed regulatory capital requirements. The group reviewed the capital allocation in the short to medium term. This resulted in the reprioritisation and staggering of the project pipeline to preserve cash in the year, and there was continued focus on reducing input and overhead costs, while protecting the group's profit margins. Key results from the group's initiatives included:

- Cash conservation
- Maintaining low debt levels
- Operational efficiency.

Capital expenditure for the year amounted to R2 390 million (2014: R3 197 million).

Share buy-back

The company may from time-to-time repurchase its own shares in the open market, depending on prevailing market prices and in accordance with the general authority granted by shareholders at each AGM and subject to compliance with the provisions of the Companies Act, and the Listings Requirements.

Repurchases will only be considered if deemed in the company's best interests. No shares were repurchased during 2015. The company does not have a defined share buy-back plan.

Share capital

Authorised

500 000 000 ordinary shares of R0,01 each.

Issued

358 115 505 (2014: 358 115 505) ordinary shares of R0,01 each.

Shareholders

An analysis of shareholders and the respective percentage shareholdings appears in Chapter 19: Annexure 3 on page 159.

Dividend payments

Dividend number 25

Interim dividend number 25 of 65 cents per share was declared in South African currency in respect of the period ended 30 June 2015. The dividend was paid in South African currency on Monday, 14 September 2015 to shareholders recorded in the register of the company at close of business on Friday, 11 September 2015.

The dividend declared was subject to a dividend withholding tax of 15% for all shareholders who were not exempt from or did not qualify for a reduced rate of dividend withholding tax.

Dividend number 26

Final dividend number 26 of 85 cents per share was approved by the board of directors on 2 March 2016 and declared in South African currency in respect of the year ended 31 December 2015. The dividend payment date is Monday, 18 April 2016 to shareholders recorded in the register of the company at close of business on Friday, 15 April 2016 (record date). To comply with the requirements of Strate, the last day to trade cum dividend is Friday, 8 April 2016. The shares will commence trading ex-dividend on Monday, 11 April 2016.

The gross local dividend amount is 85 cents per share for shareholders exempt from dividend withholding tax. The dividend declared will be subject to a dividend withholding tax of 15% for all shareholders who are not exempt from or do not qualify for a reduced rate of dividend withholding tax. The net local dividend payable to shareholders who are subject to dividend withholding tax at a rate of 15% amounts to 72,2500 cents per share. The dividend withholding tax amounts to 12,7500 cents per share. The number of ordinary shares in issue at the date of this declaration is 358 115 505. Exxaro Company's tax reference number is 9218/098/14/4.

Investments and subsidiaries

The financial information in respect of investments and interests in subsidiaries of the company is disclosed in note 17.5 to the group annual financial statements 2015.

Events after the reporting period

The directors are not aware of any matter or circumstance that has arisen since the end of the financial year not dealt with in the integrated report or in the company and group annual financial statements that would significantly affect the operations or the results of the company and group.

Refer note 18.3 on page 156 of the group annual financial statements 2015.

Directorate and shareholdings

Details of the directors in office at the date of this report are set out in the integrated report 2015.

Details of directors' shareholding are contained on page 103.

Ms MW Hlahla was appointed as an independent non-executive director effective 4 June 2015 and Mr MDM Mgojo was appointed as an executive director with effect from the same day.

Mr NB Mbazima resigned as a non-executive director effective 18 August 2015 and Mr S Mayet was appointed as a non-executive director with effect from the same day.

In accordance with the company's MoI, the appointments of Ms Hlahla and Messrs Mayet and Mgojo, having been appointed by the board of directors during the year, are required to be confirmed by the shareholders at the forthcoming AGM to be held on 26 May 2016.

Mr VZ Mntambo and Dr MF Randeru are required to retire by rotation in terms of the MoI, and being eligible have offered themselves for re-election at the forthcoming AGM.

Mr WA de Klerk will be separating from the company in August 2016 to take over as chief executive officer of AMSA.

3.5 REPORT OF THE DIRECTORS (CONTINUED)

Directorate and shareholdings (continued)

On 14 March 2016 Mr RP Mohring passed away. Rick was a dedicated member of the board since 28 November 2006 and served as remuneration committee chairman as well as a member of the audit, social and ethics and sustainability, risk and compliance committees. Rick had an illustrious career of 37 years in the mining industry. In 2012, he received the South African Institute of Mining and Metallurgy’s prestigious Brigadier Stokes award, which award is made to an individual for the very highest achievement in the South African mining and metallurgical industry. He will be missed, not only by the company but the entire mining industry. The board wishes to express its sincerest appreciation to Rick for his tireless and dedicated efforts towards Exxaro until the end, as well as our heartfelt condolences to his family, friends and other colleagues.

Directors’ service contracts

All executive directors’ employment contracts are subject to six calendar months’ notice. Non-executive directors are not bound by service contracts. There are no restraints of trade associated with the service contracts of executive directors.

For a detailed analysis of the directors’ and prescribed officers’ remuneration, refer pages 100 to page 112.

Group company secretary and registered office

The group company secretary is Mrs CH Wessels and her contact details appear in the administration section.

Independent external auditors

PwC was re-elected as independent external auditors on 26 May 2015 in accordance with section 90 of the Companies Act and has again been proposed for re-election in respect of the 2016 financial year, to occur at the forthcoming AGM on 26 May 2016.

Audit committee

The audit committee report appears on page 18 of these group annual financial statements 2015, as well as in the integrated report 2015.

Borrowing powers and financial assistance

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

	Group	
	2015 Rm	2014 Rm
Amount approved	42 783	43 031
Total borrowings	(5 067)	(3 010)
Unutilised borrowing capacity	37 716	40 021

The borrowing powers of the company and the group were set at 125% of shareholders’ funds for both the 2015 and 2014 financial years.

Pursuant to the authorisation granted at the AGM of the company held on 26 May 2015, the board of directors of the company, at its meeting held on 26 November 2015, approved, in accordance with section 45 of the Companies Act, the giving of financial assistance to related and inter-related companies of the company up to an amount not exceeding R15 billion, at any time and from time-to-time during the period 1 January to 31 December 2016.

The directors resolved that the company will satisfy the solvency and liquidity test, as contemplated in section 45 of the Companies Act and detailed in section 4 of the Companies Act, post such assistance and the terms under which such assistance will be provided are fair and reasonable to the company.

Employee incentive schemes

Details of the group’s employee incentive schemes are set out in note 14.2.3 to the group annual financial statements and in the remuneration and nomination committee report in the integrated report 2015 and in the supplementary information.

Related party transactions

Details of the group’s related party transactions are set out in note 15 to the group annual financial statements 2015.

Going concern

The board of directors believes that the company and group have adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going-concern basis. The board of directors is not aware of any new material changes that may adversely impact the company and group or any material non-compliance with statutory or regulatory requirements.

Annual general meeting

The 15th AGM of shareholders of Exxaro will be held at the Corporate Office, Roger Dyason Road, Pretoria West, Republic of South Africa, at 11:00 on Thursday, 26 May 2016. The notice of the AGM and form of proxy have been mailed or emailed to shareholders.