

AUDIT COMMITTEE REPORT



Jeff van Rooyen
Committee chairman

Purpose

Apart from statutory duties set out in the Companies Act, Listings Requirements and King III, the ambit of this committee has been expanded to include financial risk management, financial compliance, combined assurance and aspects of integrated reporting. In terms of this mandate, its key objectives are to:

- Examine and review the group’s annual financial statements, reports and results
- Oversee the internal and external audit functions and their cooperation and serve as a link between the board and these functions
- Evaluate the qualification, appropriateness, eligibility and independence of the external auditor
- 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
- Oversee the effectiveness of the combined assurance plan and outcome.

Key issues that received attention during the year included

- Given the continued decline of global commodity prices and the performance of the mining industry as a whole, the committee debated the valuation of the company’s investments, particularly ECC, Tronox and SIOC when impairment indicators were discussed. Extensive advice and guidance were obtained from management and the external auditors. Following this rigorous review, we are pleased to advise that, except for impairments at ECC of R1,5 billion (goodwill recognised on acquisition) and reductants of R225 million (carrying value of property, plant and equipment), as well as the impact of R866 million (net after tax) on Exxaro after KIO’s decision to impair the Sishen mine by R6 billion, no other assets were impaired. We view this as a strong indicator of Exxaro’s decisive response to current commodity industry fundamentals
- In addition, negative market conditions meant a rapid decline in Exxaro’s share price during 2015. This, in turn, required granting financial assistance to our BEE shareholder consortium, Main Street 333 to remedy a default of its debt covenants to avoid risking Exxaro’s BEE status. This matter was debated extensively by both the committee and an independent sub-committee of the board. While we acknowledge that some shareholders viewed this intervention negatively, Exxaro regarded providing this loan (on commercial, arm’s-length terms) as the most appropriate risk-mitigating course of action to protect our BEE status and confirm that the company, without difficulty, passed the solvency and liquidity test when this decision was made.

Effectiveness against 2015 KPIs and committee evaluation

The 2015 KPIs were:

- Greater oversight over information technology (IT) governance and its maturity
- Greater oversight over 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.

In respect of the overall committee evaluation, an average score of 3,88 out of 5 (close to exceeding expectations) was achieved, with no aspect identified as requiring attention.

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

