Business resilience

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Business resilience	Core operating margin (%)	Financial	18	
	Funds from operations to net debt (%)	Financial	2	
	Annualised return on capital employed (ROCE) (%)	Financial	6	
	Annualised return on equity based on core headline earnings (%)	Financial	4	
	Annual core HEPS (cents per share short-term target)	Financial	425c	
	Net debt to equity (%)	Financial	23	
	Net debt to annualised earnings before interest tax, depreciation and amortisation (EBITDA) (times)	Financial	1	
	EBITDA interest cover (times)	Financial	12	
	People productivity (total tonnages handled/FTE average) (% improvement from a base)	Manufactured	18	
	People productivity (production tonnes/FTE) (% improvement from a base)	Manufactured	16	
	Growth from coal commodities (percentage deviation from budget)	Manufactured	(4)	
	Core assets (priority 1 operating solutions) overall performance against service-level agreement (% availability)	Manufactured	99	
	Asset availability of enterprise resource planning (%)	Manufactured	99	

The primary KPIs and general performance under this material issue relate to financial capital, although our responses also impacted operational efficiencies and employees and therefore broader capitals, as discussed later.

Despite the difficult environment, the group recorded a net operating profit for the period of R3 173 million compared to a net operating loss of R3 292 million in 2014, mainly due to the Medupi power station ramp-up and non-recurrence of pre-tax impairments of the carrying value of the Mayoko iron ore project non-current assets and intellectual property asset of R5 962 million in 2014, offset by 2015 pre-tax impairments of the carrying value of goodwill recognised on the acquisition of TCSA (R1 524 million) and the reductants operation's property, plant and equipment of R225 million (as also discussed in the audit committee report).

Earnings attributable to owners of the parent, which include Exxaro's equity-accounted investments in associates and joint ventures, were R296 million (2014: attributable losses of R883 million) or 83 cents earnings per share (2014: 249 cents losses per share), an increase of 134% mainly due to non-recurring post-tax impairment losses in 2014.

Headline earnings, excluding the impact of any impairment, impairment reversals and profits or losses realised on the sale of subsidiaries and other non-core assets, were 67% lower at R1 623 million (2014: R4 869 million) or 457 cents per share (2014: 1 372 cents per share), mainly due to a R3 652 million (145%) reduction in post-tax equity-accounted income from associates (primarily SIOC and Tronox).

Also noted in the board review, in 2015, we received 96% lower equity-accounted income and 78% lower dividends compared to 2014, largely attributable SIOC to the deteriorating iron ore price which necessitated reconfiguring the Sishen pit. This, together with the significant impact of a weaker iron ore price outlook, resulted in an impairment charge (both pre-tax) for Sishen mine of R6 billion and Exxaro's share is R1,2 billion. Equity-accounted losses from the Tronox investment were R1 503 million, compared to R568 million in 2014. This was mainly due to our share of stock write-downs to the lower of cost or net realisable value and higher consulting fees and financing costs on the Alkali chemicals business acquisition in 2015.

Equity-accounted losses of R53 million from Cennergi for 2015 improved by 42% compared to the R92 million loss in 2014, mainly due a successful cost-reduction initiative focused on both labour and non-labour cost.

An extract from our summarised annual financial statements provides further context.

Audited group statement of comprehensive income

For the year ended 31 December 2015

	2015 Rm	2014 Rm
Revenue	18 330	16 401
Operating expenses	(13 408)	(15 197)
Operating profit	4 922	1 204
Other income		1 466
Impairment charges of non-current assets	(1 749)	(5 962)
Net operating profit/(loss)	3 173	(3 292)
Finance income	102	80
Finance costs	(770)	(183)
Income from financial assets	1	9
Share of (loss)/income from equity-accounted investments	(1 137)	2 515
Profit/(loss) before tax	1 369	(871)
Income tax expense	(1 102)	(13)
Profit/(loss) for the year	267	(884)
Other comprehensive income/(loss), net of tax	2 167	1 190
Items that will not be reclassified to profit or loss	124	(316)
– Remeasurement of post-employment benefit obligation	(17)	
– Share of comprehensive income/(loss) of equity-accounted investments	141	(316)
Items that may be subsequently reclassified to profit or loss	2 043	1 506
– Unrealised gains on translation of foreign operations	329	224
– Revaluation of financial assets available-for-sale	(141)	345
– Share of comprehensive income of equity-accounted investments	1 855	937
Total comprehensive income for the year	2 434	306
Profit/(loss) attributable to:		
Owners of the parent	296	(883)
Non-controlling interests	(29)	(1)
Profit/(loss) for the year	267	(884)
Total comprehensive income/(loss) attributable to:		
Owners of the parent	2 463	307
Non-controlling interests	(29)	(1)
Total comprehensive income for the year	2 434	306
Attributable earnings/(loss) per share (cents)		
Aggregate		
– Basic	83	(249)
– Diluted	83	(249)

2014
Shortfall income from customers

2015
ECC goodwill (R1 524 million) and Reductants operation property, plant and equipment (R225 million)

2014
Mayoko iron ore project (R5 760 million) and intellectual property (R202 million)

2015
The Belfast project is classified as a qualifying asset and minimal expenditure was incurred on this project, as such borrowing costs capitalised were limited

2014
Interest expenses mainly capitalised to the Grootegeluk Medupi expansion project qualifying asset, which was completed

2015
42% decline in iron ore prices, 24% decline in TiO_2 prices and Exxaro's share of R6 billion impairment charges negatively impacted share of equity-accounted (loss)/income from associates SIOC and Tronox

2015
Mainly relating to the derecognition of deferred tax assets which increased the tax expense

2015
The year-on-year increase relates mainly to Exxaro's share of Tronox's foreign currency translation reserve movements as well Cennergi's financial instruments revaluations

Coal (also refer dependency on Eskom)

Coal revenue rose 12% from 2014, mainly from commercial mines, on a combination of higher export sales volumes (including ECC since September) at weaker rand exchange rates and international prices, higher Medupi power station coal sales and lower domestic steam volumes at lower prices.

This first-class performance from our coal team saw the business realise a 29% increase in core net operating profit at a 24% margin, albeit at 23% lower average US$/tonne realised prices. The group realised an average export price of US$50 per tonne in 2015 compared to US$65 in 2014.

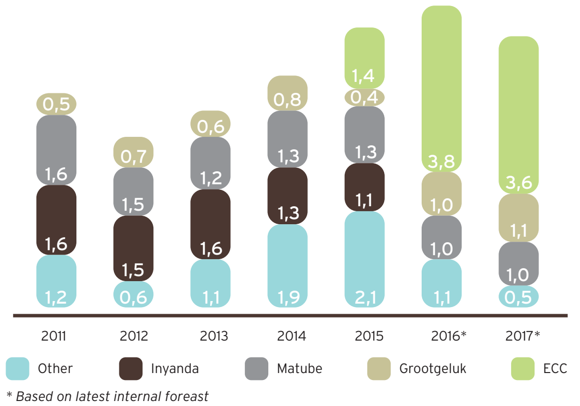
We were forced to cancel trains to RBCT due to low coal demand from the Indian market, but on the positive side continued to develop new markets and, in 2015, we succeeded in delivering some coal to North Africa and the Middle East.

Domestic coal trading conditions remained challenging in 2015. Despite an oversupplied export thermal coal market, we recorded good demand for our export coal. Export volumes rose from 5,3Mt to 6,2Mt, mainly on additional volumes from ECC.

Sales volumes were 1,95Mt higher (5%), also due to increased Medupi offtake and the inclusion of ECC.

Production volumes (excluding buy-ins) were 2,66Mt (7%) higher than 2014, mainly due to the ramp-up on Medupi supply and inclusion of ECC from September 2015 (1,37Mt).

Transnet Freight Rail (TFR) performance from our Mpumalanga mines to RBCT remained on schedule. However, rail performance on the North-West corridor remains a key concern as it impacts materially on Grootegeluk's ability to dispatch trains to RBCT and AMSA. Active engagement with TFR has confirmed its commitment to ensuring adequate rail performance levels are reached and maintained. We will continue to align our Waterberg production with TFR's rail ramp-up schedule.



Exports per mine (Mt)

On the export-allocation profile, we expect Inyanda tonnes to be replaced by ECC, Belfast and Grootegeluk tonnes in future.

The local metals and reductants markets struggled to compete with Chinese imports, weak demand and low international metals prices.

In the reductants markets, various companies in the ferroalloy industry continued to face financial difficulty as they struggled to compete globally due to low ferroalloy prices and high local electricity prices. Given the impact of poor demand on the offtake of semi-coke from our Reductants operation, we have placed the char plant on care-and-maintenance.

Ferrous

Considerably improved financial results from this division are not comparable given that they primarily reflect the non-recurring pre-tax impairment loss recorded in 2014 for the Mayoko iron ore project (R5,7 billion). Net operating losses reduced 95% from R6 238 million in 2014 to R306 million in 2015, mainly due to the non-recurring pre-tax impairment loss recorded in 2014 for the Mayoko project, reduced operational activities at Mayoko (R69 million) and closure of the loss-making AlloyStream operation in the first quarter of 2015 (R108 million). Included in 2015 net operating loss is a once-off tax expense provision relating to non-income-based taxes of R156 million recorded after receipt of the assessment. Exxaro will vigorously contest this assessment by following the appropriate process.

Case study

ENHANCING CUSTOMER RELATIONS

Coal markets, alongside broader commodity markets, have undergone material changes in the past five years. Earlier in the decade, we saw the exuberant rise in commodity prices on the back of unprecedented Chinese demand amid infrastructure-led growth, allowing this country to become the dominant consumer of nearly every bulk commodity. 'Stronger for longer' became the new mantra for commodity producers and massive amounts of capital have been invested in production expansions and new projects to feed the proverbial dragon.

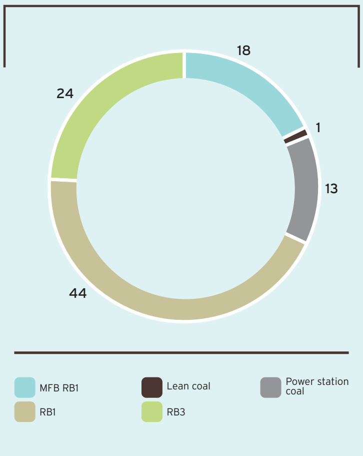
This situation has reversed in the past three years as China moves towards a greener, consumption-driven economy and reduces its demand for commodities. In coal alone, imports into China have declined by 31% year on year, while Europe has scaled down on coal consumption materially as renewables satisfy the energy baseload.

We are now witnessing an oversupply in most commodities as demand remains largely stagnant, with Indian and south-east Asian growth not yet compensating for lower Chinese demand. Specifically in coal, seaborne supply from producers has not been reduced in response to the oversupply, except for the USA and Indonesia. Australia, Colombia and Russia are still expanding their coal exports, cushioned against lower dollar-based prices by depreciating home currencies.

Changing customer behaviours in export markets

Until 2012, Exxaro sold the bulk of its export coal via traders and end-consumers into the European market. These transactions were dominated by term agreements based on long-standing relationships.

Since then, the portfolio of export products has changed and, in line with our strategic decision to diversify our markets geographically, new export markets were developed.



2015 export product mix (%)

New markets, combined with oversupply in global coal markets, have changed consumer behaviour: it is now a buyer's market with buyers spoilt for choice.

As Exxaro edges closer to Eastern and Pacific markets, the more apparent it becomes that customer relationships are short term and typically based on the next deal or vessel. Excellence in customer relationships and service does not necessarily directly translate into more sales.

However, sustaining customer relationships remains vital to ensure we are given an opportunity to compete. As such, Exxaro is focused on maintaining very healthy relationships with both end-consumers and trading companies to ensure effective channels to market.

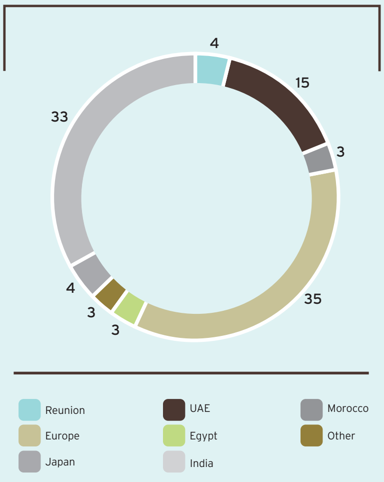
Customer relationships in the domestic market

Exxaro has long-established relationships in the domestic market. In the metals segment in particular these are regarded as strategic partnerships as all parties accept the symbiotic nature of the relationship.

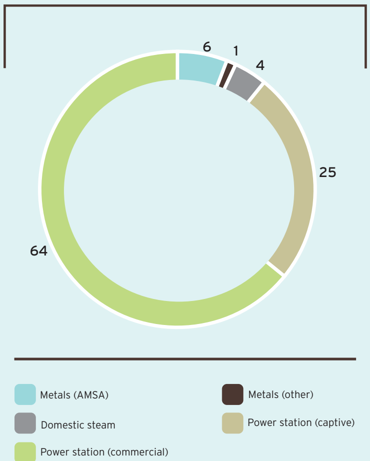
Since the fall in commodity prices worldwide, local markets have come under immense pressure. This is best demonstrated by ArcelorMittal as it deals with low-priced Chinese imports. The Exxaro/AMSA relationship has weathered many commodity cycles over the years, and each is fundamentally aware of the other's business drivers and collateral impact of any negative event. This has allowed us to develop a solid partnership, demonstrated by interaction at all levels of both businesses in the current commodity crisis.

Similarly, relationships in the domestic steam coal segment are very valuable. This is especially evident in the kiln sub-segment (mostly the cement market), where Exxaro has a dominant market share. The boiler sub-segment is a more opportunistic market, requiring more interaction and maintenance in terms of customer relationship management.

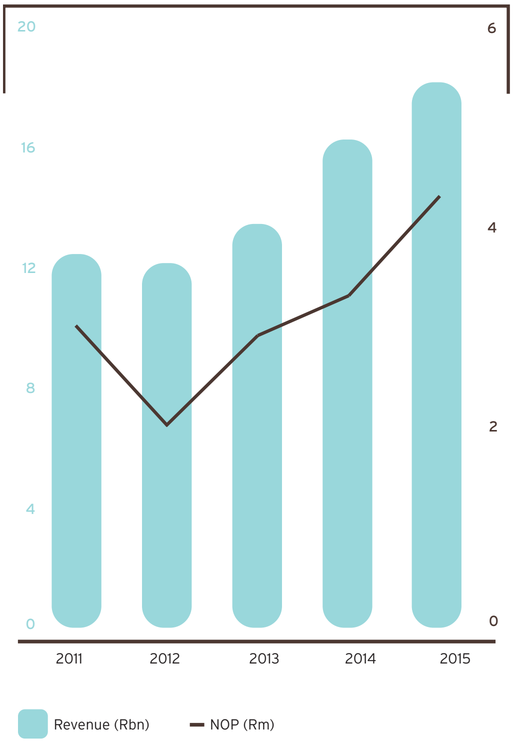
Eskom remains a key customer, with complex business and governance processes. Exxaro is the largest supplier to Eskom and it is essential to maintain this relationship, given the power utility's volume of offtake of our coal production and therefore contribution to total revenue.



2015 export sales destinations (%)



2015 domestic sales volumes (%)



Core coal revenue and net operating profit

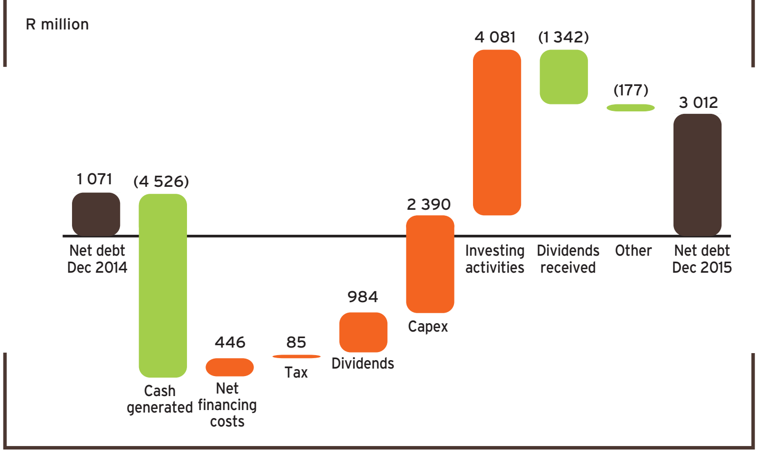
Cash flow and net debt

Cash preservation remained key to managing our business through this challenging period. As noted in the board review and elsewhere, we continued to critically assess our overall project pipeline and the timing of cash flows to prioritise and preserve capital. Cash flow generated from operations was R443 million higher at R4 526 million (2014: R4 083 million), used to pay for capital expenditure of R2 390 million, dividends of R984 million, net financing charges of R446 million and taxation of R85 million.

Net debt increased to R3 012 million, up 181% on R1 071 million in 2014, reflecting a net debt to equity ratio of 8,8% (at 31 December 2014: 3,1%). The increase was mainly due to funding the TCSA acquisition in August 2015. We remain within our financial covenants terms. This is, again, testimony to the success of immediate steps we took to ensure our business resilience and place us in a much better position to continue weathering difficult market conditions.

Our South African credit rating was downgraded in the first half of 2015 by Standard and Poor's Ratings Services from A- to BBB+. We began a process to refinance our R8 billion debt facilities and have received sufficient expressions of interest from potential lenders, confirming there is an appetite to refinance the facility, which we intend to close in the second quarter of 2016.

Changes in net debt



We have engaged with employees specifically on the need for change and Exxaro's sustainability (see R1 billion challenge, discussed under operating efficiencies). As noted in the board review, reducing our headcount was a last resort, culminating in the voluntary separation initiative also discussed under employees.

Shareholder concerns focused on Exxaro's cash-generating capacity and ability to maintain growth and consistent dividend payouts. The cost and capex management programme and the performance of the coal business have enabled Exxaro to remain cash positive, maintain low levels of debt as well as the dividend payout ratio.

We held discussions with the DMR in 2015 to secure the section 11 transfer of the ECC mining licences to Exxaro. As discussed elsewhere, we were required to commit to further empowering the ECC assets to secure this transfer.

An extract from our summarised annual financial statements provides further context.

Audited group statement of financial position
At 31 December 2015

	2015 Rm	2014 Rm
ASSETS		
Non-current assets	46 482	41 408
Property, plant and equipment	20 412	18 344
Biological assets	51	84
Intangible assets	56	34
Investments in associates	19 690	18 588
Investments in joint ventures	1 662	966
Financial assets	4 067	2 853
Deferred tax	544	539
Current assets	6 016	5 693
Inventories	1 240	998
Trade and other receivables	2 666	2 611
Tax receivable	55	78
Cash and cash equivalents	2 055	2 006
Non-current assets held-for-sale	128	328
Total assets	52 626	47 429
EQUITY AND LIABILITIES		
Capital and other components of equity		
Share capital	2 445	2 409
Other components of equity	6 911	6 031
Retained earnings	25 670	25 985
Equity attributable to owners of the parent	35 026	34 425
Non-controlling interests	(800)	
Total equity	34 226	34 425
Non-current liabilities	12 701	9 182
Interest-bearing borrowings	4 185	2 976
Provisions	3 112	2 219
Post-retirement employee obligations	217	167
Financial liabilities	116	88
Deferred tax	5 071	3 732
Current liabilities	4 655	3 590
Trade and other payables	3 546	3 208
Shareholder loans	21	
Interest-bearing borrowings	882	34
Tax payable	48	27
Provisions	158	254
Overdraft		67
Non-current liabilities held-for-sale	1 044	232
Total equity and liabilities	52 626	47 429

2015
Year-on-year increase mainly due to additional interests acquired through the TCSA acquisition in the second half of 2015, share of this subsidiary group's reserve movements and net results in associates and joint ventures

2015
Mainly due to increased shareholder contribution into the Cennergi joint venture

2015
Includes indemnification asset (R1 044 million) as a result of a contractual agreement between Total S.A. and Exxaro on any claims by a third party in relation to the sale of ECC's interest in a joint operation

2015
Assets relate to the proposed sale of the corporate office building and liabilities relate to the acquired liabilities of the Ermelo joint venture (part of the TCSA group), which was already in the process of sale when Exxaro acquired the TCSA group

2014
Related mainly to the assets and liabilities of NCC, which were subsequently sold in 2015

2015
Includes non-controlling interests arising from the TCSA acquired group

2015
Increase mainly due to the acquisition of subsidiaries ECC

2015
We drew R2 billion from our senior loan facility of R8 billion, leaving R3 billion undrawn. We expect to refinance this facility in 2016. We also repaid over R2 billion of interest-bearing debt (including the overdraft recorded in 2014)

To ensure we remain resilient for the foreseeable future, we need to address the cost competitiveness of our products and consider how best (for aspects within our control) to respond to commodity price volatility.

The table below expands on these risks, our critical controls and the year-on-year trend, based on the residual risck score.

As commodity markets remained in surplus (low demand and oversupply), prices where subdued, resulting in related risks increasing, despite controls and mitigating actions.

Risk number	Strategic objective	Risk and source	Long/ medium/ short-term risk	Critical controls	Residual risk score 2014		Trend	Residual risk score 2015	
					Impact	Probability		Impact	Probability
4	Achieve operational and financial excellence	Cost competitiveness of products External and Internal	Short/ medium	• Create strategic joint ventures to optimise economies of scale • Focus on sustainable cost reduction • Business improvement initiatives/ programmes • Investigate and divest non-core assets • Re-optimise capital fleet – mine haul trucks, light vehicles, shovels etc • Review and monitor the performance of suppliers and service providers	Possible	Catastrophic	↑	Likely	Very high
3	Achieve operational and financial excellence	Commodity price volatility External	Short	• Develop a communication plan that quickly communicates changes to operations • Consider how changes to the above affect risk appetite • Improve the speed of mine planning to match price volatility • Match commodity prices to customer base • Negotiate long-term fixed-price contracts	Likely	Major	↑	Likely	Very high

Dependency on Eskom

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Dependency on Eskom	Core operating margin (%)	Financial	18	
	Commodity diversification	Manufactured	CCR, ferrous, mineral sands, energy	

The group relies on two major customers (AMSA and Eskom) for its revenue, at 13% and 53% (2014: 15% and 49%) respectively. Exxaro's sales volumes to Eskom were 92% of total sales, supporting close to a third of Eskom's power-generation capacity.

In 2015, several deliberations between the board and the executive committee were held on the group's dependency on Eskom as a major customer. The outcome focused on positioning our coal business to deliver coal cost-efficiently to customers. As noted by the board, we continue to work with Eskom to ensure electricity supply to South Africa, while maximising export revenue to benefit from the weaker exchange rate.

The board review noted that the materiality of this issue had increased in 2015, largely due to three factors:

- The SRC committee's decision to cease production at Matla mine 1 (after Eskom's delays in spending the requisite capital)
- As part of our continued engagement with Eskom on later dates to commission Medupi power station's next five units, we had initial discussions on a possible addendum 10 to the GMEP CSA, to review options available to both parties to reduce future take-or-pay obligations. Deliveries to Eskom were, however, in line with addendum 9
- Eskom's notice to terminate the Arnot CSA.