

Capital projects

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Capital projects	Capital project delivery measure (time and cost variance)	Manufactured	On target	
	Country risk as per assessment criteria (key drivers are physical security and security of tenure)	Manufactured	Achieved: <ul style="list-style-type: none"> <li>• Security of tenure</li> <li>• Physical security</li> <li>• Board-approved countries</li> </ul>	

In terms of capital management, we remained prudent by striking a balance between returning cash to shareholders, managing debt, and selectively reinvesting in Exxaro for growth. Through cutbacks and deferrals, we have reduced our expansion capital expenditure (capex) by 15% over the next five years while critically evaluating sustaining capex to preserve cash flow in this period (refer graphs in the board review).

- At R2 390 million, capital expenditure decreased by 25% in 2015 compared to 2014. R727 million (2014: R1 737 million) was invested in new capacity (expansion capital)
- R1 663 million (2014: R1 460 million) was applied to sustaining and stay-in-business capital
- Of the funds spent on stay-in-business capital, R833 million was for Grootegeluk’s replacement of trucks, shovels and stacker reclaimers.

The Waterberg capex programme extending to 2020 has also been revised to R15 billion (sustaining and expansion).

With every growth and sustaining project now reviewed, our disciplined decision-making approach to allocating capital considers the expected investment rate of return; net present value; cost curve position; payback period; risk and mitigation balance; as well as overall impact on shareholder returns.

The most notable coal project delays include:

- Moranbah South
- Mafube (Nooitgedacht)
- Grootegeluk 6
- Grootegeluk load-out station.

The impact of these delays on production growth and operating profit is expected to be mainly on projects already approved for implementation (primarily Belfast, which has been delayed by appeals).

**Project highlights:**

- **Grootegeluk:** To date, the ramp-up of coal supply to Medupi power station has progressed as scheduled (addendum 9) and coal stockpiles are being built.
- **Thabametsi:** The timing of certain future phases depends largely on progress with infrastructure (rail, water and roads) developments in the Waterberg. In the fourth quarter, we completed the bankable feasibility study of phase 1 to supply 3,9Mtpa of coal to the Thabametsi independent power producer (IPP), and the IWUL was approved in January 2016. An appeal was lodged and Exxaro is following due legal process.

The mining right approval is imminent and first run-of-mine coal production to the Grootegeluk beneficiation complex could therefore be achieved by 2018. The

subsequent rate of production ramp-up will depend on the IPP procurement programme for its coal baseload and Waterberg infrastructure development schedules.

- **Thabametsi IPP:** A bid was submitted by the Thabametsi IPP in the first bid window under the Department of Energy’s coal baseload IPP procurement programme on 2 November 2015 for a 630MW coal-fired power station. Marubeni Corporation is the lead developer and Korea Electric Power Corporation the co-developer on this project. Preferred bidders are expected to be announced in the first quarter of 2016. Based on this, we expect early construction works to begin in the second quarter of 2016.
- **Belfast:** Following authorisation of the integrated water use licence in 2014, an appeal was lodged and the licence suspended. We expect the appeal case to be heard by the water tribunal in the second quarter of 2016. We also expect the tribunal hearing on the objection against the project’s rezoning application received in 2015 to be heard in the second quarter of 2016. Only 7% of the approved project start-up capital budget has been released to date, primarily for detail engineering designs and activities beginning in 2016, until we have more certainty on the regulatory process for this project.
- **Mafube Nooitgedacht:** This project has been delayed by 12 months with first coal now forecast in first-quarter 2018, mainly due to environmental permits required to mine the Springboklaagte pans.
- **Mayoko:** Our iron ore project in the RoC has been placed on care-and-maintenance until we see signs of improving market conditions and developments in the logistics infrastructure. We continued to drive down operating labour costs (the labour force was reduced from 140 to 15 employees in 2015) and we halted all capital expenditure.

Despite submitting all documents to the RoC parliamentary authorities in 2015, the mining convention has not yet been ratified.

Given the delays in ratifying the mining convention, our efforts in 2016 will remain limited to maintaining the Mayoko mining right while finalising future options. We expect to spend R60 million in 2016 on this project to protect the mining right, maintain stakeholder relations and our reputation, while finalising the disposal of rolling stock and completing environmental impact assessments. Through these disposals we aim to be cash neutral in 2016.

Most of the rolling stock on the Mayoko project, except for two locomotives, was sold in 2015.

## EXECUTIVE REVIEW (CONTINUED)

Capital allocation has been a key concern for our shareholders as commodity markets weakened. Opportunities for commodity diversification (such as our Mayoko project and increasing interest in Tronox) were constrained by the weaker investment outlook. As discussed in the board review, in addressing our business resilience and in response to this stakeholder concern, our capital profile was materially amended by postponing, reducing and reprioritising projects after prudent review.

Capital project execution has remained on the top ten strategic risks of not only Exxaro, but most mining companies internationally. The importance of managing time and budget overruns is even more vital under current economic circumstances, with the resultant need for cash preservation.

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

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
5	Improve Exxaro's portfolio	Capital project execution Internal	Medium	<ul style="list-style-type: none"> <li>Asset portfolio review and management</li> <li>Disciplined execution of the value engineering study review encourage a culture to report both successes and failures (lessons learnt)</li> <li>Ensure project and supply chain performance is monitored and managed</li> <li>Establish a contingency plan (plan b)</li> <li>Establish a robust governance structure</li> <li>Implement advanced assurance frameworks (independent review and oversight)</li> <li>Implement an effective risk management process</li> <li>Improve capex forecast accuracy</li> <li>Monitoring and tracking the progress of capital projects.</li> <li>Project role clarification and accountability</li> <li>Secure contractor's commitment to assigning a strong and experienced management team</li> <li>Standardise design and construction methodologies</li> </ul>	Possible	Catastrophic	↑	Possible	Catastrophic

## Operating efficiencies

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Operating efficiencies	People productivity (% improvement of total tonnages handled/FTE from base)	Manufactured	18	
	People productivity (% improvement of production tonnages/FTE from base)	Manufactured	16	
	Growth from coal commodities (% deviation from budget)	Manufactured	(4)	
	Core assets (priority 1 solutions) overall performance against SLA (%)	Manufactured	99	
	Asset availability of enterprise resource planning system (ERP) (%)	Manufactured	99	
	Data loss prevention (physical data loss, not intellectual property, ie enterprise backup success rate) (%)	Manufactured	99	

The wide-ranging cost reductions of 2015 will continue in future, aimed at managing what is in our control, namely the coal business and our operating costs. Initiatives to date include:

- In February 2015, the CEO asked Exxaro's people to 'find me R1 billion' (to improve our 2015 results through cost saving and revenue-generating initiatives) although rapidly changing economic conditions soon meant more was required. Key achievements during the year included a R504 million improvement in profitability from the coal business, and R288 million in value realised from supply chain management teams.

Despite the exceptional efforts of our people across the organisation, we were unable to achieve the full R1 billion target.

- In July, the phased Exxaro improvement initiative was launched to deliver maximum value through operational improvements, consolidation, exploiting synergies, increased throughput and embracing a continuous improvement culture. Results from the diagnostic phase indicated areas for improvement, summarised below:
  - We analysed our corporate office and support function costs, including external spend, and compared these (including a benchmark study) to our peers (similar-sized resources/mining companies in South Africa). Our costs, overall, were higher than our peers.
  - Through a comprehensive activity analysis, we have identified areas where we can consolidate duplicated costs and streamline processes.