Licence to operate

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Licence to operate	Ownership overall group (%) – mining charter	Social	52	
	Employment equity (%) in top, senior and middle management at every business unit – mining charter	Social	60	
	People living with disabilities (%) – mining charter	Social	1,2	
	Human resources development (% of payroll excl levies, incl internal and external training) – mining charter	Social	6,8	
	Woman in mining (%) (internal target as mining charter does not have specific targets)	Social	20	
	Preferential procurement (%) – capital	Social	40	
	Preferential procurement (%) – services	Social	70	
	Preferential procurement (%) – goods	Social	77	
	BBBEE level (BBBEE measures group performance against targets – new codes effective 1 May 2015) – BBBEE codes	Social	Level 2	
	Skills development – learning programmes for black people and people living with disabilities – target set as % of payroll to accommodate for exclusion of mandatory sectoral training – BBBEE codes	Social	2	
	Project delivery measure (%) – local economic development (LED) projects per social and labour plan (SLP)	Social	70	
	Fatality frequency rate (FFR) per 200 000 man hours*	Human	0	
	Lost time injury frequency rate (LTIFR) per 200 000 man hours*	Human	0,17	
	Lost time injuries (LTIs)	Human	29	
	Occupational health incident frequency rate (OHIFR)* – rate per 200 000 man hours. Includes chronic obstructive airways disease (COAD), pneumoconiosis, noise-induced hearing loss (NIHL), silicosis, occupational TB	Human	0,36	
	Number of reportable cases of environmental incidents*	Natural	18x level 2 and 0x level 3 incidents	
	Valid mining rights – % in place – mine works plan (MWP), environmental management plan (EMP) and SLP	Natural	97	
	Enforceable mining rights – based on conditions – % in place	Natural	98	
	Environmental authorisations (%) in place (validity) (IWUL), environmental impact assessment (EIA), waste)	Natural	>90	
	Environmental authorisations compliance to conditions (%)	Natural	<90	
	Number of stoppage directives (includes section 54 under MHSA, section 93 under MPRDA and stoppage directives under NWA and NEMA)	Natural	2	
	(%) environmental liability provisions in place (gap between immediate closure cost and rehabilitation funds available, incl guarantees)	Natural	67 ave	
	Material compliance to King III, full compliance to JSE Listings Requirements and Companies Act	Financial	100	

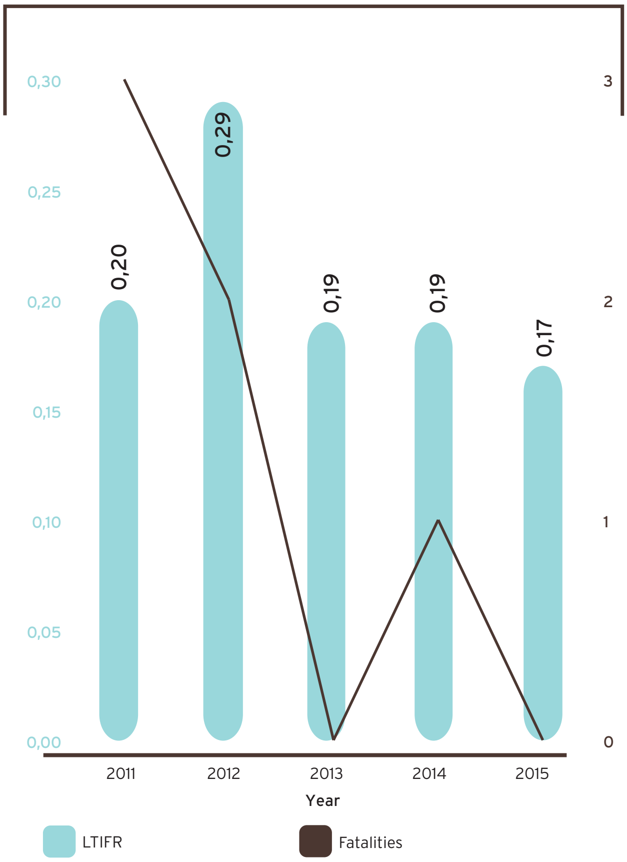
* *PwC external assurance. Refer to supplementary report.*

The safety of our people is fundamental to our business, and we will not rest until we consistently achieve our safety goals through collective responsibility, commitment and ongoing focus. As part of this focus, all operational business units, including ECC mines, have international health and safety accreditation (OHSAS 18001).

By December 2015, Exxaro had recorded another outstanding performance by operating for over 18 months without a mining-related fatality. This followed our first fatality-free year in 2013, and a rolling 12-month fatality-free period in 2014 – proof that our target of zero fatalities is attainable and that no death is acceptable.

As noted by the SRC committee, a material achievement in 2015 was our lowest LTIFR of 0,17. This is an 11% improvement on the LTIFR reported for 2014 and significantly below the peak of 0,39 in 2008 (56% improvement).

Our LTIFR also remains about 30% lower than our coal-industry peers and although still out of appetite, the improving trend is extremely encouraging.



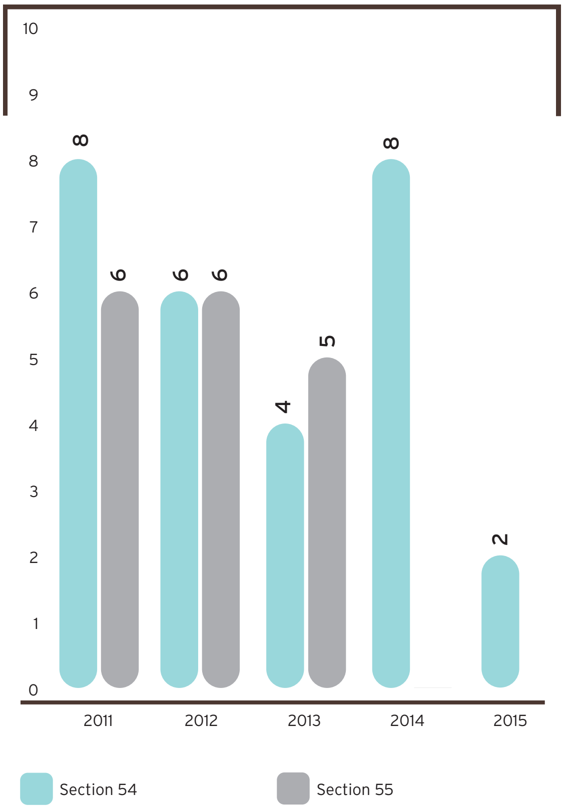
Safety performance

We recorded 29 LTIs against an aspiration of zero harm.

The most common incidents were leg and ankle injuries followed by hand injuries. The highest number of LTIs were recorded at Matla, Grootegeluk and Arnot.

We have focused programmes to empower safety, health and environmental representatives with the knowledge to identify risks better and contribute more effectively to reducing safety risks in the workplace.

In 2015, only two Mine Health and Safety Act 29 of 1996, as amended, (MHSA) section 54 directives were issued by the DMR at Arnot and Matla for identified unsafe practices. These were both resolved immediately to the satisfaction of the DMR. There were no section 55 directives issued by the DMR for any contraventions of the MHSA. We have had a positive trend since 2010 in reducing directives issued after rolling out an internal section 54 inspectorate programmes at all business units, authorising appointed employees to stop unsafe activities and, in time, prevent accidents.



Safety stoppage directives

In engaging with employees on safety, we focused on visible felt leadership (VFL), hazard identification, and response training and leadership empowerment in the workplace. The early benefits of more stringent safety practices are evident in fewer section 54 directives (safety stoppages) issued by the DMR.

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

Our analysis shows our mining rights are 98% valid, with the variance largely due to Strathrae, which has not started mining yet and has therefore not implemented its MWP and SLP.

Every right, licence and permit granted has detailed compliance stipulations. These have been recorded in a central tracking system for every mine and are being actively monitored. In 2015 we focused on improving our compliance to the stipulations.

We define the enforceability of our mining rights by section 93 and section 47 directives issued, any section 102 to request amendments to MWPs, EMPs or SLPs. In addition, it includes submitting reports to the DMR describing future mining activities.

We achieved an overall enforceability score of 98%, largely due to resubmitting the Leeuwpan SLP after an amendment.

Exxaro measures environmental authorisations on two levels: IWULs granted, and environmental impact assessments approved. The reasons for this KPI being below tolerable levels are mainly delays in water use licences, but also include:

- The Arnot and Matla rehabilitation provisions were initially lagging, but steadily improved through 2015. The gap between immediate closure costs and provisions made by Eskom still needs to be closed further
- Delays in obtaining environmental licences for new projects for the Glisa water treatment plant
- Delays in finalising appeals lodged against the Thabametsi and Belfast projects.

Delays and appeals against IWULs granted by the Department of Water and Sanitation have become a risk for new projects and are becoming part of the critical path of projects. To mitigate these long lead times in receiving the necessary permits and licences, we are engaging early with the respective regulators. Stakeholder engagement with every interested and affected party impacted by projects is also being proactively undertaken.

Our greenhouse gas (GHG) emissions are currently not an immediate risk to our licence to operate. However, the outcomes of COP21 held in 2015, also known as the Paris agreement, will have an impact on every country's management and reduction of carbon emissions. Expectations are that initiatives will become more stringent and eventually a compliance requirement.

Paris COP21 and its impact on South Africa

Progress at the 2015 United Nations (UN) climate change conference (COP21 or the Paris agreement) has important (potential) ramifications for the mining industry in South Africa stemming from the national climate action plan submitted by our government.

Broadly, the Paris agreement reflects a hybrid approach, blending bottom-up flexibility to achieve wide participation, with top-down rules to promote accountability and goals.

South Africa pledged to reduce GHG emissions by 42% by 2025 compared to the business-as-usual scenario. The country's plan goes further than most by committing to quantified emissions levels in specific years and by announcing a peak year for emissions.

We have analysed the potential implications for Exxaro, summarised below:

Impact	Implication	Timeline
South Africa will push forward with legislative reforms on GHG mitigation (eg carbon tax, offsets and budgets as well as GHG reporting). This reflects the country's ambition to lead the Africa group and assumes a permanent seat on the UN security council. More onerous GHG reporting and mitigation initiatives will be required.	Exxaro will need new skill sets: climate change scientist, energy efficiency engineers, environmental engineers and environmental strategist.	1-2 years
South Africa is likely to use climate change adaptation as part of broader social redress and development in poor and vulnerable communities.	• SLPs might require climate-change adaptation projects • Corporate social investment contribution to climate-change adaptation projects will be expected • Licence conditions could become more stringent (eg water and atmospheric emissions)	1-5 years
International financing for new coal projects is likely to come under pressure as investors may not be willing to make funds available or be pressured by their governments to stop supporting coal projects.	Self-funding for new coal projects	5-10 years
Long-term coal exports to mainly European countries could come under immense pressure, eg high import tariffs.	Diversifying the portfolio into other commodities	10-15 years

A pending cost element to these emissions is the introduction of a carbon tax which will impact most companies, including Exxaro.

Exxaro has not met its carbon reduction target for 2015 specifically, but has performed well over the last four years. These targets will be reviewed in 2016.

As discussed in the board review, there has recently been much shareholder activism against coal as a source of energy. Exxaro has responded to shareholder enquiries on our strategy to reduce emissions, transition to renewable energy and adapt to the so-called 2ºC climate environment (limiting the increase in global temperature to below pre-industrial levels).

Given the current and expected outlook for South Africa's electricity requirements, we believe coal remains a relevant source of affordable electricity generation for the economy and Exxaro is well positioned to supply this energy source to Eskom. We do, however, regard this as a medium to longer-term risk and it therefore forms part of our diversification imperative.

South Africa is a water-scarce country and Exxaro recognises that water-reduction initiatives are crucial to sustainable operations. Our prime focus is optimising the use of recycled water and developing innovative passive water treatment systems for operations.

Expansions at our operations had a direct impact on the amount of water abstracted and hence our water intensity reduction targets for 2015 have not been met.

We are implementing water treatment plants to reuse and recycle as much water as possible.

BEE amended codes of good practice

The amended codes of good practice have been promulgated after being revised to five elements with more stringent targets. Exxaro has analysed its anticipated performance against the new codes and is putting measures in place to improve on elements where we are not performing well at present. Under current economic conditions, we expect that the target of the ownership element under net value will not be met. We are also focusing on enterprise and supplier development (ESD) which has new compliance requirements.

We have also fallen short of the skills development target as the amended codes have removed all mandatory skills training. We will work towards reaching the targets as soon as possible.

A challenge in the amended codes is the target set for people with disabilities at 2% of the workforce. We are currently 40% below this target and actively driving disability awareness campaigns to identify employees with verifiable disabilities who have not declared these. In advertising careers, we emphasise the fact that a disability is not a barrier. (The limited to no external recruitment, in response to the business resilience material issue, has further negatively impacted our progress against this target).

Case study

NEW WATER TREATMENT PLANT IMPROVES SAFETY, BENEFITS THE ENVIRONMENT AND LOCAL WATER USERS

A new R250 million water treatment plant at Matla reduces the safety risk of water-filled mined-out cavities while benefiting the environment and local water users. The plant treats 10 mega litres (10 million litres) per day, and is part of our holistic strategy to manage our water stewardship by reducing, reusing and recycling water.

Water flows into Matla's underground mining operations from the surface, leading to flooding risks that affect the safety of workers. This could also affect the environment if contaminated water is released to the surface without prior treatment.

After discussions with the national departments responsible for water, environmental affairs and mineral resources, Exxaro mapped out a sustainable solution. Underground water is pumped to the surface where innovative filtration processes remove contaminants and purify the water. Of the 10 mega litres treated each day, two thirds is discharged into the Olifants River and the balance is used at Matla operations or for drinking water at the mine.

The Matla water treatment plant is a prime example of our approach to water stewardship and one of three in our Mpumalanga region forming part of our long-term water management strategy.

Benefits of the water treatment plant

By actively managing and limiting the volume of water underground, Matla has:

- Improved the safety levels of employees and the underground working environment
- Reduced its daily intake of fresh water, thus reducing its water footprint
- Provided high-quality water for farmers and other users by discharging clean water into the Olifants River.

In addition, 200 temporary jobs were created during construction and 14 permanent jobs to operate the water treatment plant.

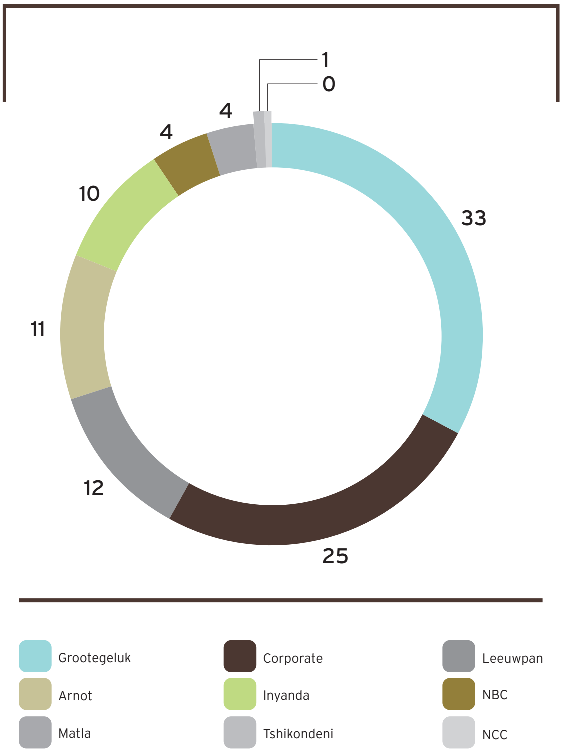
As noted in the board review, minority shareholders responded negatively to the financial assistance provided to Main Street 333 to maintain our BEE status.

We have also responded to general enquiries from shareholders on our approach to climate-change risks and heightened activism against coal as an energy source. A key concern for shareholders was the potential risk of stranded coal assets, given the scale of coal resources held by Exxaro. Although we are exploring business opportunities beyond coal, in the medium term, the South African energy mix remains dominated by coal and coal is thus a key element of our strategy. As also discussed earlier, given the outlook for the country's electricity requirements, we believe coal remains a relevant source of affordable electricity generation for the economy and Exxaro is well positioned to supply this energy source to Eskom.

Community development projects are implemented by each operation in terms of its SLP, under the broad mandate of the Exxaro Chairman's Fund and Exxaro Foundation. Total expenditure is detailed in the social and ethics committee report. We also responded to our communities' needs by refining our social return on investment (SROI) methodology to improve the quality and sustainability of projects to better meet community expectations (see Exxaro Chairman's Fund and Exxaro Foundation annual report for 2015 on the Exxaro website).

Senior management, led by the CEO, engaged with provincial and local government leaders about regulatory and local development issues. Key to these discussions was the role of Exxaro as a mining company in contributing to socio-economic and environmental development in each region.

Investment per focus area 2015 – total R56,3 million



Socio-economic spend per operation (%)

Exxaro's integrated risk, compliance and assurance framework has enabled us to meaningfully improve our performance in this area over the past three years. Our safety risk management process has been fully integrated into our enterprise risk management framework and both operate from an integrated systems platform.

The table below expands on the risks, critical controls and the 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
2	Demonstrate responsibility and accountability	Safety concerns Internal	Short/ medium	• Analyse historical incident data to identify trends and root causes • Conduct compliance awareness training • Continuously review industry safety benchmark • Continuous reporting of incidents • Incident management • Establish compliance-based committees to manage, educate and communicate safety programmes • Integrate reporting system (plant maintenance, safety, HR) • Implement safety, health, environment and community risk management tool • Invest in education, training, communication and behaviour-based safety programmes • Review operational processes to capitalise on advances in technology	Likely	Catastrophic	↑	Likely	Catastrophic
7	Demonstrate responsibility and accountability	Maintain a social licence to operate External	Medium	• Adhere to commitments in SLPs as a minimum • Conduct SLP audits • Proactive involvement in sustainable socio-economic development initiatives • Pursue identified initiatives to progressively improve Exxaro's BBBEE rating • Regular engagement with government • Reporting on mining charter requirements (external and internal) • Reporting on SLP requirements (external and internal)	Possible	Major	↑	Possible	Major