Our strategic objectives continued to guide our actions over this period (the diagram below reflects the addition of the sixth capital – intellectual). The changing environment has called for some tough decisions and a firm commitment to action to weather the subdued outlook for our commodity exposure. Consequently, one of the most material issues the board and management dealt with in 2015 was business resilience: a new issue since 2014 in response to the challenging environment and falling income from our equity investments in SIOC and Tronox. We define business resilience as our ability to withstand the economic and commodity market downturn. An absence of resilience would result in a destruction of value and our ultimate demise.

In the integrated report 2014, we detailed the process followed by the board to determine material issues. This remained constant over the review period, although the materiality of some issues increased in response to the worsening operating environment.

The executive review provides a more expansive discussion and our performance on material issues in 2015. In this review, we provide a high-level context for the six material issues relative to our strategic discussions.

The impact of decisions and actions on our stakeholders was considered and we engaged extensively with them on our response to material issues, as detailed in the executive review.

2015 material issues

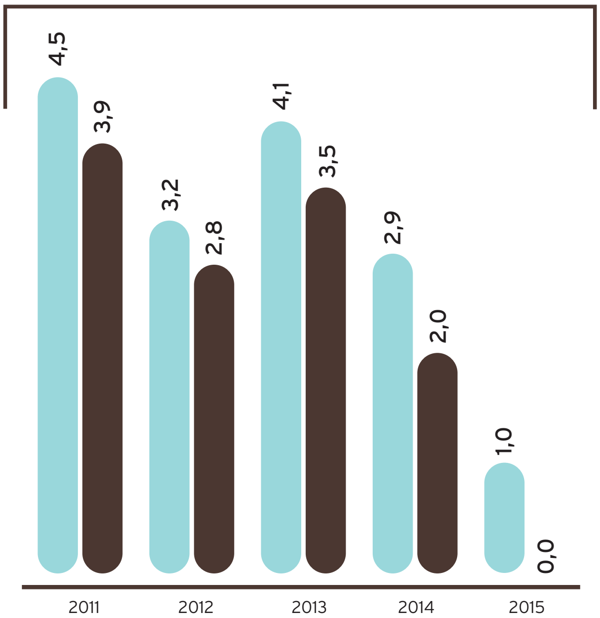
- Business resilience (new)
- Dependency on Eskom
- Licence to operate
- Capital projects
- Operating efficiencies
- Employees

Business resilience

Given the context of the global economy and commodity markets, the short to medium-term strategy was to focus on growing and securing the sustainability of our coal business and maintaining our strategic investments.

As a result of its declining performance, for the first time we requested the KIO management team to present its investment thesis during our strategic review in 2015. We also commissioned a detailed external review of the fundamentals of ferrous and its global outlook (to also guide decision-making on our Mayoko and other ferrous projects and businesses). We will keep monitoring the global outlook, particularly the performance of iron ore commodity prices, and will be considering the future of this investment in the context of Anglo American plc's intention to dispose of its controlling interest in KIO, as well as the impending black economic empowerment (BEE) (project Pangolin) unwind in November 2016, after which we no longer have a legal obligation to empower SIOC.

The audit committee and board have noted recent tax assessments received by SIOC from the South African Revenue Services (SARS) for tax years 2006 to 2010 of R5,5 billion, including interest and penalties of R3,7 billion. We will closely monitor progress on this and the potential impact it may have on Exxaro.



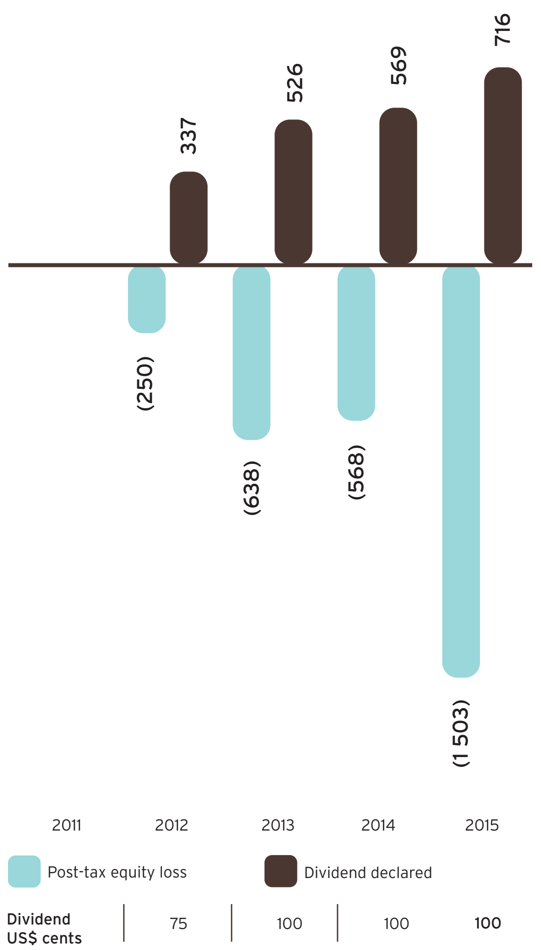
Dividend cover (times)

2011	2012	2013	2014	2015
1,2	1,2	1,2	1,4	0

SIOC contribution (Rbn)

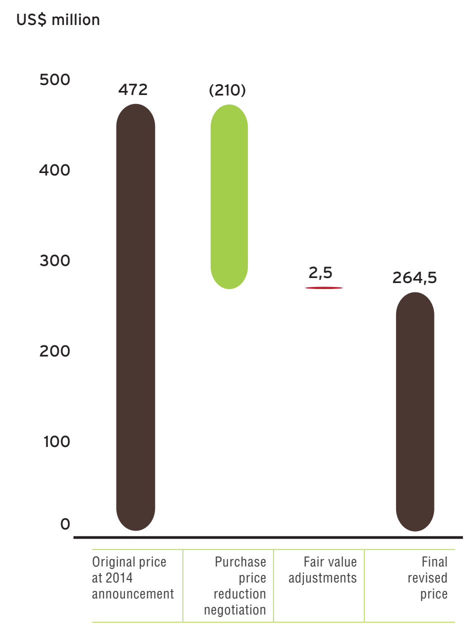
Our intention with the investment in Tronox has been questioned by shareholders for a number of years and although we continued to receive stable dividends at US$0,25 cents per share per quarter in 2015, the TiO_2 market is taking strain.

We expect to receive lower dividends from this investment in 2016 as Tronox recently communicated a revised quarterly dividend payout policy of US$0,045 cents per share. Given prevailing market conditions, we will maintain our investment in Tronox, but as with SIOC, the investment thesis of both significant investments will receive much attention from the board in 2016.



Tronox contribution (Rm)

An aspect we are very pleased with, and which we also spent considerable time on in 2015, is the finalisation of the TCSA (now ECC) acquisition at a much-reduced purchase price (in response to the severe decline in commodity prices). Securing additional export allocation at RBCT and further entrenching ourselves as a premier coal producer in South Africa has been a strategic imperative for a number of years and a diversification priority to counteract our dependency on Eskom. The financial impact of the transaction is discussed in more detail in the audit committee report, while detailed information on ECC's optimisation and performance is included in the executive review.



ECC negotiated purchase price reduction

Dependency on Eskom

The impact of this material issue was definitely more prevalent in 2015, compared to previous years. On the positive side, our coal business is considered defensive given the long-term offtake agreements with Eskom for 92% of coal produced.

However, our dependency on Eskom to deliver in line with coal supply and offtake agreement (CSA) conditions, especially for the tied operations, required the board to take some tough decisions this year.

The sustainability, risk and compliance (SRC) committee report discusses the decision to close Matla mine 1 due to safety concerns stemming from a delay by Eskom to spend the requisite capital, as well as Eskom's decision to terminate the Arnot CSA and the unfortunate impact on employees and communities.

In addition, resulting from further delays to commission Medupi power station, negotiations on a potential tenth addendum to the Medupi CSA have started. The board will monitor the relationship with Eskom in 2016 and continue attempts to work with the utility to ensure electricity supply to South Africa.

Licence to operate

For this material issue, we focused on protecting Exxaro's BEE status and planning for the BEE unwind in November 2016.

Following announcements in 2015, we secured additional funding to support our controlling BEE shareholder, Main Street 333. This provided a medium-term solution to the group's BEE status until the structure unwinds. The Main Street 333 preference share balance at 31 December 2015 is R2,8 billion (IDC supported – R621 million, Exxaro loan R426 million and other R175 million).

The lock-in restrictions originally imposed on Main Street 333 as part of Exxaro's current empowerment scheme expire on 30 November 2016, when it is free to trade its shares in Exxaro. We are working with Main Street 333 to assess alternative solutions to address our empowerment strategy including:

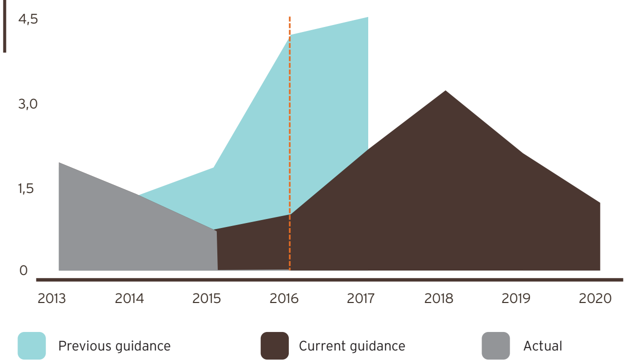
- Formulating a proposed mechanism for a potential unwind of Exxaro's existing BEE structure
- Managing all risks, particularly market risk, associated with unwinding
- Evaluating the requirements and potential alternatives of a subsequent BEE structure/scheme.

An independent board sub-committee was established to actively engage Main Street 333 on these matters to find a sustainable and satisfactory solution for all stakeholders. We are working to implement this solution prior to the November 2016 deadline.

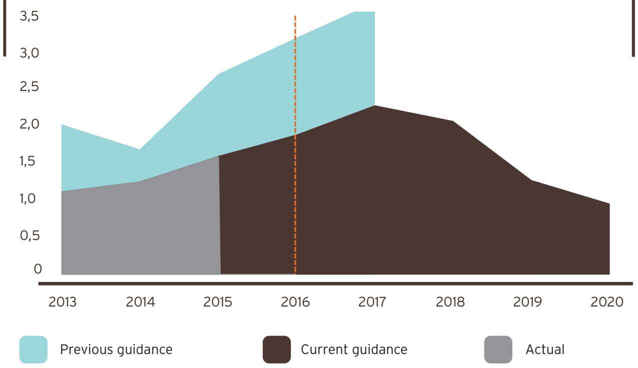
Capital projects

The board's focus centred on a critical review of the overall capital profile and need to postpone and reduce capital expenditure in response to the business resilience material issue. Our revised capital allocation profile is also testament to our short to medium-term strategic focus on coal as discussed earlier (refer graphs). The executive review provides more operational detail on current and planned projects.

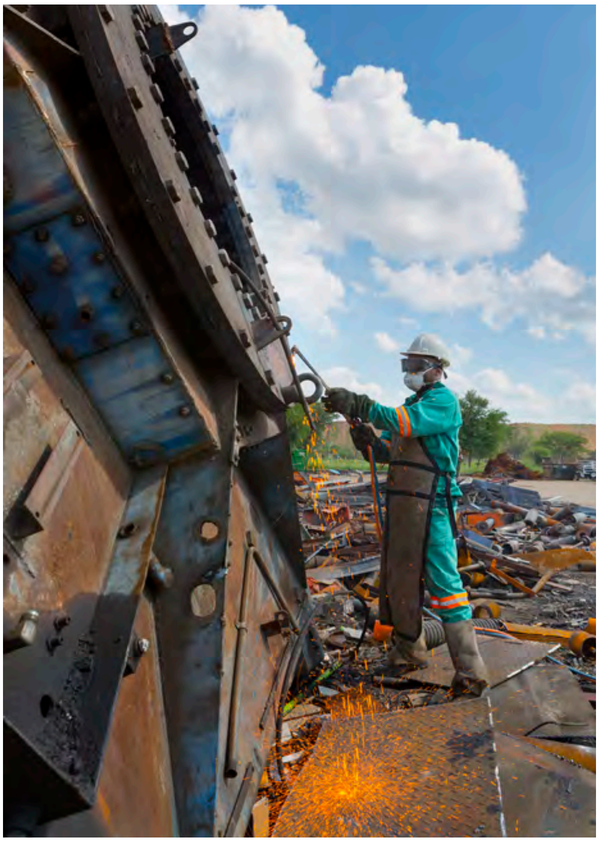
We continued monitoring progress in securing our Mayoko mining convention and the reduction of activities and expenditure in the RoC. The audit committee will closely monitor progress on the RoC-related tax and customs potential contingent liability and, as previously indicated, we will rigorously object and defend our position.



Expansion capital (Rbn)
2016 to 2020 based on latest internal forecast



Sustaining capital (Rbn)
2016 to 2020 based on latest internal forecast



Operating efficiencies and employees

We reviewed progress and related strategies in these areas during 2015 and operational excellence remains a key response to the current market downturn. However, we recognise that economic and market changes are structural and hence our strategy will adapt through innovation. The impact on employees is a of concern under these challenging conditions. We regarded headcount reduction as a last resort, but it became inevitable as conditions worsened in 2015 (details of voluntary and other separations are discussed in the executive review).

The table highlights our strategic initiatives and response to market conditions in addressing our material issues.

STRATEGIC INITIATIVES

SHORT-TERM FOCUS *(started in 2015)*	PORTFOLIO IMPROVEMENT	BEE OWNERSHIP	CAPITAL PROJECT GOVERNANCE *(decision-making criteria)*
• Preserve cash • Reduce overhead costs • Maximise operational output and performance • ECC optimisation • Optimise and restructure group • Customer relationships	• Portfolio optimisation • Expedite disposals and mine closures • Obtain Mayoko mining right • Take advantage of cleaner energy opportunities • Growth through innovation • Develop coal independent power producer in the Waterberg • Evaluate current Tronox and SIOC shareholding	• Achieve DMR's BEE conditions on ECC • BEE restructuring	• Investment rate of return and net present value • Affordability assessment and ranking • Payback period • Risk balance and mitigation • Maximise shareholder returns

Execution of our overall strategy, supported by these key initiatives, will remain paramount in 2016. The strategic performance dashboard will assist us in monitoring effective responses. In 2014, we introduced you to the Exxaro strategic performance dashboard by providing an extract in the integrated report with full detail on our website.

We believe the dashboard is one of the best industry examples of true integration between strategy, material issues, the six-capital framework, risk and risk appetite, assurance and measurable performance metrics. The dashboard forms the basis of how the board and executive committee manage the company's strategy and performance. Each board committee reviews specific sections of the dashboard applicable to its scope. Performance on dashboard metrics is extensively discussed in the executive review and supplementary report, but we include a summary with brief comments below.

STRATEGIC PERFORMANCE DASHBOARD

Exxaro measured 58 key performance indicators (KPIs) in 2015:

- 16 (28%) were out of appetite
- The number of KPIs rated as out of appetite in our financial capital increased during the year, as we continued to weather the commodity down cycle
- The manufactured capital KPIs performed better as we improved operating efficiencies and business processes to counteract the impact of deteriorating financial KPIs
- Our integrated focus to risk and compliance management started paying dividends to bring our natural capital within the required thresholds
- We continued to perform exceptionally well against mining charter targets and several initiatives during the year addressed our social licence to operate requirements, which further improved performance on social capital KPIs
- Some human capital KPIs were out of appetite, due to cost-containment initiatives implemented to counter the economic downturn, and these will be addressed once circumstances improve and the labour force stabilises.