

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"> Asset portfolio review and management Disciplined execution of the value engineering study review encourage a culture to report both successes and failures (lessons learnt) Ensure project and supply chain performance is monitored and managed Establish a contingency plan (plan b) Establish a robust governance structure Implement advanced assurance frameworks (independent review and oversight) Implement an effective risk management process Improve capex forecast accuracy Monitoring and tracking the progress of capital projects. Project role clarification and accountability Secure contractor's commitment to assigning a strong and experienced management team Standardise design and construction methodologies 	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.

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- We also assessed our flagship Grootegeluk (by far, our largest operation) to identify potential improvement opportunities. The assessment reviewed Grootegeluk's operational excellence status across a number of dimensions: mining operations and planning processes, maintenance, sourcing and procurement, as well as people performance and culture. The study concluded that Grootegeluk's operational excellence process is very mature and confirmed the improvement initiatives already identified by mine management for 2016.
- In the next phase of the Exxaro improvement initiative, we will further investigate areas identified for possible improvement and finalise the review of our operating model.
- As discussed elsewhere, optimising ECC and rolling out cost-savings across its operations achieved savings of R80 million in the latter part of 2015.

As with our improved safety performance, operational efficiency improvements would have been impossible without continually engaging with employees. While the most significant employee engagements are discussed under business resilience and employees, specific employees and departments were targeted to address this material issue (including the ECC workforce, even prior to transaction closure, resulting in the significant turnaround at ECC in a very short period of time and the savings noted above).

As Exxaro increases its export allocation, even greater emphasis will be required on managing risks from infrastructure access and capacity, which explains the increase of this risk's residual score in 2015.

The risk of being unable to meet production demands has decreased in 2015, following the decline in demand from customers.

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
8	Achieve operational and financial excellence	Infrastructure access and capacity External	Medium/long	<ul style="list-style-type: none"> • Collaborate with government stakeholders to improve and initiate new infrastructure • Identify other stakeholders to co-develop a solution and to extend infrastructure • Regular liaison with TFR, RBCT and water stakeholders • Understand the return on infrastructure and consider appropriate funding. 	Likely	Major	↑	Likely	Major
10	Achieve operational and financial excellence	Unable to meet production demands Internal	Medium	<ul style="list-style-type: none"> • Accelerate business improvement (BI) projects under way – Conduct more accurate geological studies • Develop and implement a communication plan • Develop condition-based budget model feeding from life-of-mine plan • Implement consequence management • Implement skills development programmes (professionals-in-training and bursaries) • Improve maintenance and asset management • Maintain the stockpile threshold • Ongoing capital infrastructure planning aligned to strategy • Regular interaction with unions, Eskom, TFR, RBCT and government 	Likely	Catastrophic	↓	Possible	Catastrophic

Employees

Material issue	Key performance indicator	Sustainability capital	Current performance	Legend (indicator)
Employees	Organisational culture assessment	Human capital	Level 4	
	% of people who received HIV/AIDS awareness training	Human capital	18	
	% of employees who received awareness training and voluntarily tested for HIV/AIDS	Human capital	50	
	% of people tested positive and enrolled in HIV management programme and receiving ARV treatment	Human capital	26	
	HIV/AIDS prevalence rate (%) compared to country prevalence rate	Human capital	4	
	Talent bench (%) – senior management	Human capital	20	
	Talent bench (%) – middle management	Human capital	18	
	Skills provision (% of internet appointment of critical skills)	Human capital	82	
	Skills retention (% turnover)	Human capital	4,7	