

SUSTAINABILITY, RISK AND COMPLIANCE COMMITTEE REPORT



Dr Con Fauconnier
Committee chairman

Purpose

- Provide oversight on three important aspects influencing strategy and the long-term viability of the company – sustainability, risk and compliance
- Oversee and coordinate all risk and compliance activities (although the audit committee remains accountable for financial risk and compliance)
- Ensure Exxaro reports annually through an integrated report and provide oversight over the integrated report.

Key issues that received attention during the year included

- Regular reviews of safety performance: we are pleased with the LTIFR of 0,17. Although still above the target of 0,15, this is a significant milestone and the lowest rate in Exxaro's nine-year history
- We have again reported no fatalities in 2015 – our second 12-month fatality-free period. We will continue to emphasise the objective of zero harm through visible-felt leadership initiatives in 2016: safety always, all the way!
- As discussed elsewhere, the SRC portion of the strategic dashboard is discussed at every meeting: the KPIs deal with material items in each of the capitals, including energy consumption, water withdrawal and discharge, air quality, occupational diseases and exposure, lost-time injuries, social and labour plan performance, preferential procurement and enterprise development, top risks and licence-to-operate legislative compliance.

Specialist and business unit reports are presented to the committee by rotation. In 2015, the most material discussions included:

- Matla mine 1 cessation of operations in the first quarter of 2015. After much deliberation, we approved halting operations at Matla mine 1 because of safety concerns (refer detailed discussion in executive review). Mine 1 will remain closed until the required capital for shaft development and safety-improvement initiatives is obtained from Eskom
- Following the instruction by Eskom to stop producing and supplying coal for Arnot power station, significant time was spent on reviewing planned closure activities and social impacts which will remain a focus in 2016. The committee and board specifically debated whether to publically respond to allegations made in the press and decided not to engage in such a manner. However, when we published results on 3 March 2016, a detailed position paper was posted on our website and stakeholders are encouraged to refer to this for full information
- Mine-closure strategies generally, but specifically plans for Inyanda's scheduled closure
- A summary of ECC's top 50 risks in preparation for the transaction closure in August 2015
- An overview of Exxaro's water-liability estimation model: regarded as a first for the industry and a significant step in quantifying water liabilities (previously excluded from closure rehabilitation provisions) and appropriately accounting for this
- Carbon disclosure performance and commitments. In preparation for the Paris United Nations Framework Convention on Climate Change Congress of Parties (COP21), the board supported an international agreement between governments on climate change to limit the global temperature rise to below 2°C from pre-industrial levels. Exxaro also supports the activities of South Africa's National Business Initiative (NBI), Business Unity South Africa and the industry task team on climate change. This will naturally continue to inform our strategic process and our portfolio improvement strategic objective.

Effectiveness against 2015 KPIs and committee evaluation

The 2015 KPIs were:

- Entrenching oversight of the risk management framework
- Visibility, support and understanding of material issues
- Active stakeholder engagement by committee members
- Improved use of the strategic dashboard to manage and monitor the strategy
- Sharing best practice.

The committee and invitees concurred that these KPIs were achieved in 2015.

In the committee evaluation, an average score of 3,72 out of 5 (close to exceeding expectations) was achieved, with no aspect identified as requiring attention.

We approved fewer KPIs for 2016, mainly because the KPI 'visibility, support and understanding of material issues' was fully entrenched through numerous visits to business units in 2015 and has become a standard part of the annual plan. The KPI 'stakeholder engagement' was specifically elevated to the board for increased focus in 2016. The other KPIs will remain the same for 2016, although some measures were adjusted to redirect focus.

