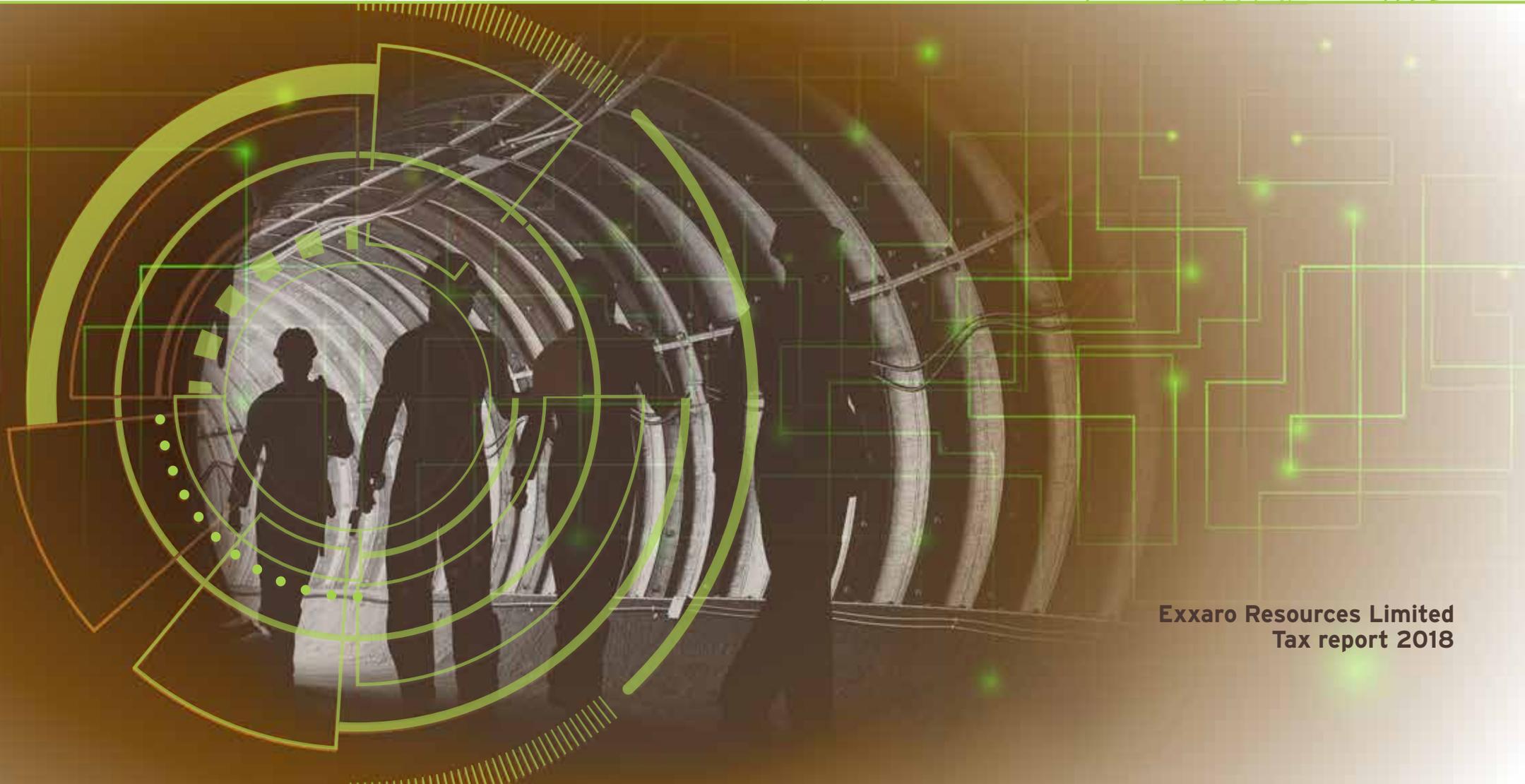




POWERING POSSIBILITY



Exxaro Resources Limited
Tax report 2018



FEEDBACK

Ongoing feedback from stakeholders helps us contextualise certain issues better for more informed understanding by readers. We welcome your suggestions, which should be directed to:

Hanno Olinger

Manager: Integrated reporting and ESG

Mobile: +27 83 609 1094

Email: hanno.olinger@exxaro.com

www.exxaro.com

Tel: +27 12 307 3359

Fax: +27 12 307 5327

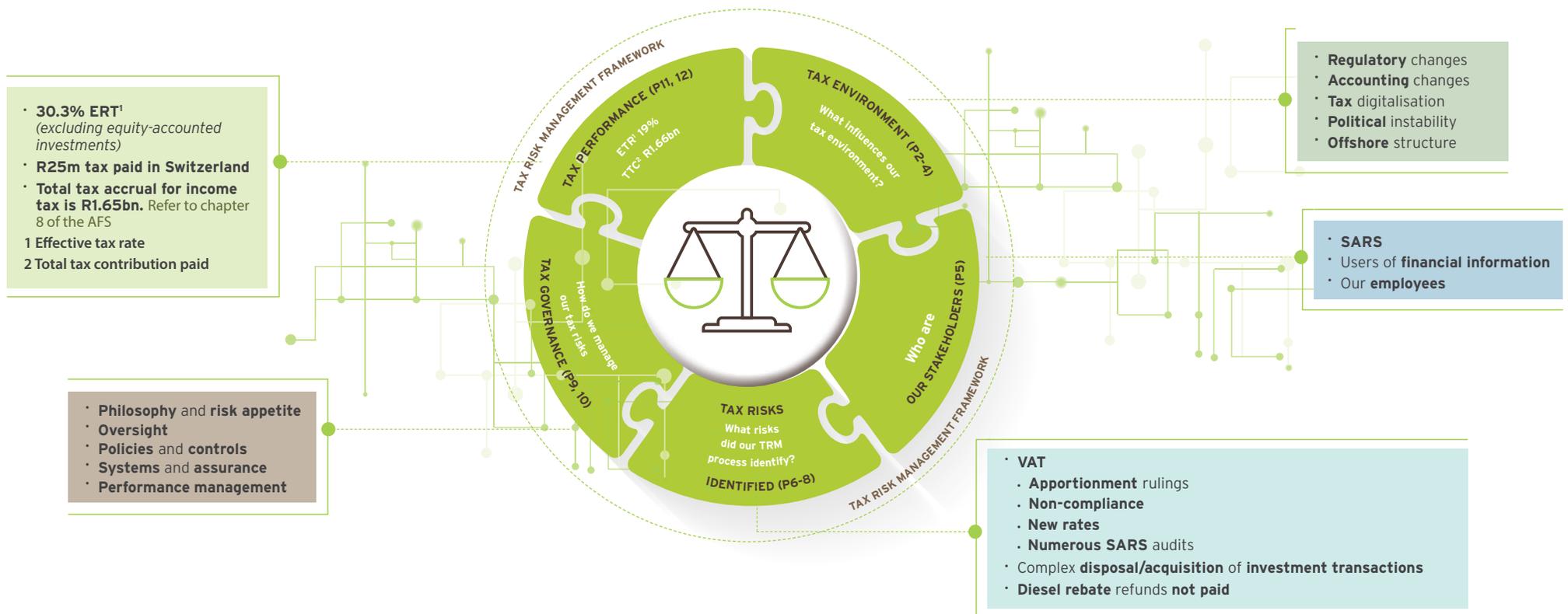
OUR TAX REPORT

REPORT OVERVIEW

This report uses the International Integrated Reporting Council's (IIRC) integrated reporting framework to explain Exxaro's performance and, more specifically, the tax consequences of this performance and how that contributes to value creation over the short, medium and long term.

We discuss how the external and internal environment influences tax choices, key stakeholders involved, material tax risk and opportunities, as well as how tax management is governed at Exxaro.

This report should be read in conjunction with the Exxaro integrated report 2018 on <https://www.exxaro.com/investor/integrated-reports2018/home.php>





INTERNAL AND EXTERNAL ENVIRONMENT

Taxation is an integral financial cost in our business model (integrated report, <https://www.exxaro.com/investor/integrated-reports2018/home.php>) and the natural outflow of each business decision. However, tax can be managed effectively within the parameters of tax law to support Exxaro's goal to create value and apply good corporate governance. It is useful to understand the external and internal factors that influence value creation in terms of taxation.

REGULATORY CHANGES

Carbon tax

The implementation of carbon tax was adopted by parliament's finance committee in February 2019 and takes effect from 1 June 2019. The effect on Exxaro for 2019 has been estimated at some R15 million based on 2018 direct scope 1 carbon emissions.

Exxaro participated in industry responses to this tax when National Treasury first proposed it in 2011. The tax has been widely criticised as another revenue-generating tool that the country cannot afford, especially in a period of low economic growth. Although noble commitments have been made by the South African government to reduce greenhouse gas emissions by 42% by 2025 (against a business-as-usual curve), many believe the targets are unrealistic and the tax will not change taxpayers' behaviour in the short to medium term as alternative energy sources are not available on the scale required.

We recognised the importance of reducing carbon emissions and the benefits of a low-carbon economy long before the introduction of this tax. Exxaro has reported its carbon emissions to the global CDP (the benchmark global carbon-disclosure programme) since 2009. In 2011, Exxaro achieved a top score of 100 points for its carbon and energy management in the CDP's leadership index and, in 2014, was among the top 10 global leaders on this index. For almost a decade, we have been adopting cleaner, more efficient technologies in line with our policies and strategic goals across our operations and investing in clean-energy companies such as Cennergi, which owns and operates two wind-farms (page 11).

For more information on how we manage Exxaro's carbon footprint, refer to page 70 of the integrated report.

Royalty taxes

There are small wins for the taxpayer in the coal-mining business. In the draft tax laws amendment bill of July 2018, Treasury proposed an amendment to the Mineral and Petroleum Resources Royalty Act 2008 on determining gross sales for royalty tax purposes. The amendment would have imposed a burden on the taxpayer to prove that transport, insurance and handling costs incurred on behalf of and passed on to customers formed part of the invoiced gross sales price. It would also have meant an additional royalty tax charge to Exxaro of some R27 million if we were unable to satisfy the onerous burden of proof.

Exxaro was represented on a committee formed by industry leaders and the South African Institute of Tax Professionals (SAIT), which held discussions with Treasury and the South African Revenue Service (SARS) on the intent and effect of the proposed amendment. As a direct result of taxpayer engagement with Treasury, proposed legislative changes were amended in favour of taxpayers.

ACCOUNTING CHANGES

IFRIC 23 – Uncertain tax positions

Diverse reporting methods by different entities when uncertain about applying tax law affected the application of IAS 12¹, in turn necessitating the introduction of IFRIC 23² (from 1 January 2019). This gives guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances.

¹ International accounting standard

² IFRS interpretation committee

INTERNAL AND EXTERNAL ENVIRONMENT CONTINUED

Exxaro will not adopt IFRIC 23 prior to its effective date. We identified two uncertain tax positions that will be provided for in the 2019 financial results if these uncertainties are not resolved during the year:

- A current dispute with SARS on imputing income from controlled foreign companies resulting in a tax liability of around R255 million, including interest and penalties as at 31 December 2018. A tax court date has been set for 4 March 2019. The court could not proceed with the hearing as SARS senior counsel resigned in court on the first day. Exxaro agreed to stand down until 15 March to allow SARS to appoint senior counsel, which it was unable to do. The case has been postponed and application will be made for a new tax court date. Exxaro and SARS are negotiating to reach a settlement.
- An additional assessment for royalties relating to Mafube Mining Proprietary Limited (Exxaro's 50% joint venture with Anglo American) has been issued by SARS totalling some R280 million, including interest and penalties. Exxaro's exposure is therefore around R140 million. Mafube objected to the assessment under section 104 read with rule 7 of the Tax Administration Act 28 of 2011.

POLITICAL INSTABILITY

Political interference, state capture, corruption and widespread mismanagement of SARS in recent years have made media headlines. We believe a lack of leadership, low morale and high staff turnover hampered decisions and productivity at SARS, leading to tax audits not being finalised, unpaid tax refunds and aggressive tax treatments by the authority.

Exxaro, for the first time since inception, is engaged in legal action with SARS (noted above). Diesel-rebate audits at most of our mines have been under way for over a year without findings, requiring us to engage with SARS through legal channels.

The introduction of the tax ombud has done much to alleviate non-compliance by SARS, although Exxaro has not escalated matters to the ombud yet.

However, it is not all negative – we have successfully engaged with the authority in obtaining a long-sought VAT apportionment ruling for Exxaro Resources.

In addition, after renewed engagement with a dedicated relationship manager at SARS, Exxaro Coal Mpumalanga received an income tax refund for the first time in the last decade, as well as a positive and quick response to an application under the voluntary disclosure programme.

We hope the political tide has turned and we look forward to building a transparent and fair relationship with SARS, based on mutual trust, as we have enjoyed in the past.

TAX DIGITALISATION

In line with our strategic objectives to create value by enhancing and digitalising business processes, the Exxaro tax function initiated a VAT digitalisation project and further refined its automated reporting and compliance tool (both detailed below).

Income tax reporting and compliance tools

In 2017, we enhanced and further automated our tax reporting and compliance tools (used for financial reporting and preparing tax returns). These tools expedited statutory compliance and ensured more accurate financial tax reporting. The tools are technically supported by Deloitte.

VAT

Exxaro (in consultation with EY) implemented a VAT digitalisation project in the review period. The aim is to proactively identify and manage our VAT risk at a very early stage to prevent unnecessary penalties and interest from SARS and enable us to respond to SARS queries and audits more timeously and accurately. It also identifies instances where VAT was not claimed at the earliest, resulting in a cash-flow loss. Identifying and capitalising on these opportunities will result in a positive cash flow for Exxaro. Using a digital platform coincided with streamlining the human resources required in the tax department.



INTERNAL AND EXTERNAL ENVIRONMENT CONTINUED

The first three phases of the project were implemented in 2018:

- Phase 1 – a review of data readiness and completeness
- Phase 2 – data analysis to identify risks and opportunities in the current financial system, and design a visualised analytics dashboard for testing
- Phase 3 – finalise the visualised analytics dashboard for implementation.

The final phases will be implemented in FY19:

- Phase 4 – an e-learning tool for VAT
- Phase 5 – deploy robotic process automation for identified processes to mitigate VAT risks.

With the assistance of EY, the completion of VAT201 returns was automated. This will create capacity for risk management, and ensure accurate and timely filing of returns.

COMPLEXITY OF EXXARO'S OFFSHORE TAX STRUCTURE

Exxaro's offshore structure has been significantly reduced, both in complexity and absolute number of entities. What remains is a fit-for-purpose and cost-effective structure. A major contributor to this process was disposing of our mineral sands operations to Tronox in 2012, and subsequent liquidation of all related subsidiaries incorporated in The Netherlands.

The offshore structure was further simplified by the sale of the African Iron Group in 2016, comprising offshore companies in Mauritius, Republic of the Congo Brazzaville, Australia and Bermuda.

Exxaro operates in two countries for commercial purposes:

- Switzerland – marketing coal
- Australia – prospecting operations of Moranbah.

The group owns equity-accounted investments in:

- Peoples Republic of China
- Israel
- United Kingdom (one of the investments was sold in February 2019 – refer to page 82 of the integrated report)
- Australia.

Exxaro has to report the following offshore companies as controlled foreign companies and impute their income by including this as taxable income in South Africa:

- Exxaro International Trading AG (EITAG) (Switzerland)
- Exxaro Base Metals China Ltd (Hong Kong)
- Exxaro Australia Iron Holdings Pty Ltd (Australia)
- Exxaro Australia Pty Ltd (Australia)
- Exxaro Australia Iron Investments Pty Ltd (Australia).

The biggest imputation is from EITAG, the Swiss marketing company, taxable in ROCSI Holdings Proprietary Limited. EITAG declared and paid a dividend of R177 million to ROCSI and paid a 5% dividend withholding tax to the Swiss tax authority of R8.85 million.

Exxaro Resources Limited is classified as a multinational enterprise. As per the notice in Government Gazette 41196, it is obliged to lodge a master file, local file and a country-by-country report to SARS within 12 months of its financial year end. Exxaro filed its 2017 reports in December 2018.

STAKEHOLDER ENGAGEMENT

Honest and transparent engagements with stakeholders on tax matters are summarised below. Further information on our stakeholder engagement process appears in our integrated report 2018.

Stakeholder group	Key concerns and expectations	Our response
SARS	<p>Non-compliance to tax laws resulting in reputational damage and financial loss in the form of penalties, interest and additional taxes.</p> <p>Capacity constraints with Exxaro tax staff due to numerous, ongoing SARS audits.</p> <p>Complex restructuring transactions or sale/acquisition of investments/assets can expose Exxaro to adverse tax consequences.</p> <p>Complex and frequent tax legislation changes pose additional tax risks.</p>	<ul style="list-style-type: none"> ● Regular interaction with a dedicated SARS relationship manager. Building a relationship on trust and ethical behaviour as guided by the King IV Report on Corporate Governance^{TM*} for South Africa, 2016 (King IV) ● Managing tax risks within a board-approved framework ● Transparent behaviour by timeously responding to information requests, audits, application of voluntary disclosure programmes and detailed tax return submissions ● Implementation of VAT robotics to proactively identify possible incorrect VAT treatments ● Update and external audit of existing transfer pricing policies ● Using the tax ombud to ensure SARS is administratively compliant and adheres to its service charter for paying refunds, finalising audits, etc ● Employing appropriately qualified tax staff and managing their performance ● Using approved expert legal tax advisers for all transactions: <ul style="list-style-type: none"> – With a tax impact above R10 million – Acquisition and sale of investments – Projects in foreign jurisdictions – Group restructuring projects.
Users of tax financial reporting such as shareholders and financiers	Tax reporting does not fairly represent the financial position of the Exxaro group of companies	<ul style="list-style-type: none"> ● An automated tax consolidation tool was developed and customised by Deloitte according to Exxaro's needs to assist in calculating and preparing tax disclosure notes as required by IAS 12
Employees	Employees participating in the broad-based employee share scheme (Mpower) do not always understand the calculation of their tax liability.	Finalisation of the new mining charter in 2018 will give guidance on developing a new share incentive scheme for non-management employees. To ensure employees fully understand the resulting tax liability, Exxaro needs to manage expectation gaps and educate employees on the appropriate tax treatment.

* Copyright and trademarks are owned by the Institute of Directors in Southern Africa NPC and all of its rights are reserved



ENTERPRISE RISK MANAGEMENT

FRAMEWORK

As stated in Exxaro's enterprise risk management (ERM) framework, in today's environment of change and uncertainty, effective risk management is a critical success factor for achieving our strategic and business objectives. Embedding risk management into existing processes is key to making informed decisions and proactively planning for possible future events stemming from internal as well as external sources.

The reputation of a company emerges from its results over time. A key component of maintaining a good reputation with investors, analysts and regulators alike is timely and transparent communication, avoiding surprises. The ability to sustain performance at a given level over time must include tax. This sustainability is, however, under threat in an environment of constant change and uncertainty. Effectively dealing with uncertainty and stakeholder expectations requires a strong focus on tax risk management (TRM).

TRM is important due to the development of operational risk management techniques, new regulatory requirements on transparency and disclosure, as well as a more restrictive mindset on tax planning and the focus on good corporate governance.

TRM is a proactive, systematic analysis of possible unwanted events and responses (including controls and treatment plans) rather than a reactive mechanism to the limited events detected. It is about managing the future rather than administering past events.

A formal structure ensures accountability for TRM, independence and objectivity of the tax function in the group and establishes clear reporting lines.

The process forms part of the group enterprise risk management function, headed by the general manager: risk, compliance and assurance. This function ensures that the TRM framework is aligned with the objectives of the group ERM framework.

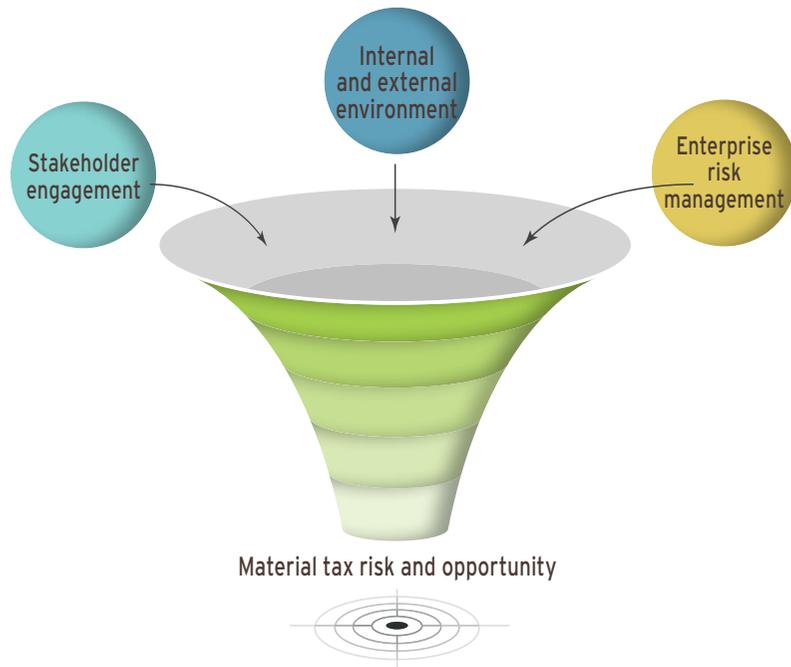
PHILOSOPHY AND RISK APPETITE

In Exxaro's ERM framework, we state that our vision is to create sustainable value for all stakeholders by striving for operational efficiency, continuous improvement and regulatory compliance within a framework of responsible citizenship.

In keeping with the group's risk management philosophy, business strategy and objectives, the Exxaro tax function's TRM strategy is to create value, protect the group against loss, and ensure effective tax planning, compliance with tax legislation and appropriate financial reporting within acceptable risk parameters.

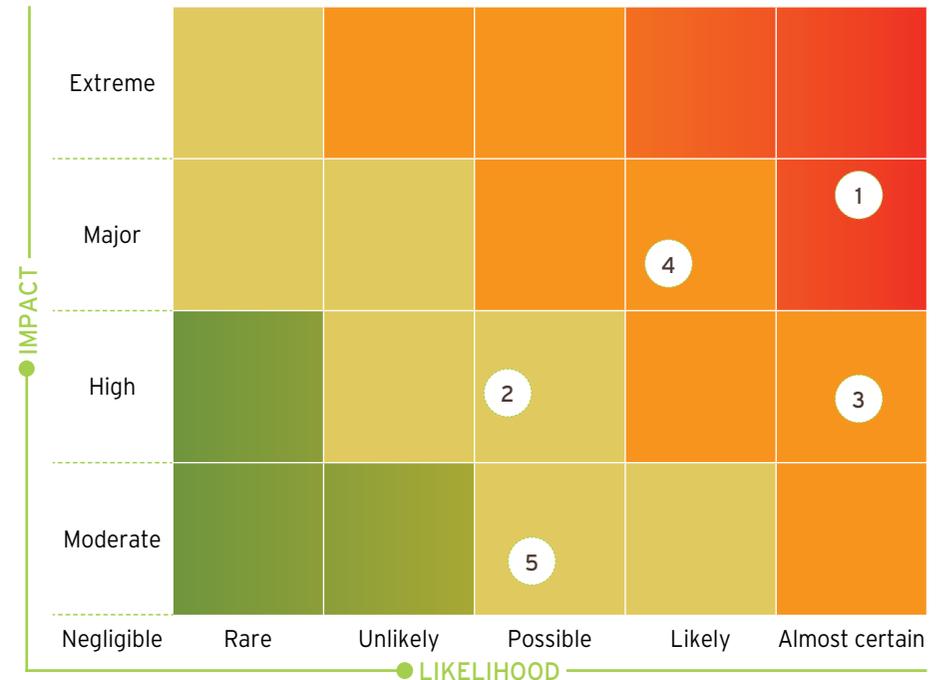
Our policy is to actively pursue opportunities and transactional tax positions that will minimise Exxaro's tax liability. Given that an acceptable amount of risk promotes growth and new opportunities, our aim is not to totally eliminate risk as this may lead to the loss of beneficial tax opportunities. Although tax considerations do not drive decisions, tax is regarded as a legitimate business lever within the parameters of applicable tax legislation.

MATERIAL TAX RISK, OPPORTUNITY AND STRATEGIC RESPONSE



- Relevant tax matters are identified by considering issues identified through:
- Risk and opportunity arising from internal and external influences (page 2)
 - Key expectations raised by stakeholders (page 5)
 - Our enterprise risk management process (page 6).

These are prioritised based on inherent risk and predetermined risk appetite against the likelihood of the matter arising and its impact on value creation (refer heat map). Only the top five material tax risks and opportunities are discussed in this report.





Ranking	Material matter	Context	Strategic response
1	VAT	<ul style="list-style-type: none"> • Incorrect VAT indicators used in SAP system • VAT rate change from 14% to 15% • Application of VAT apportionment ruling • Numerous VAT audits 	<ul style="list-style-type: none"> • Rolling out new e-learning tool • Implementing VAT analytics tool to compile exception reports and manage risks proactively • Updated VAT indicators in SAP and staff training on rate change • Robotic process automation was used to complete VAT201 returns, reducing human error
2	Disposals and acquisitions of investments	<ul style="list-style-type: none"> • Understanding the tax effects of complex transactions • Tax function not alerted to these transactions in the initial phases of negotiation, resulting in adverse tax consequences 	<ul style="list-style-type: none"> • Exxaro's tax function is required to sign-off on project-approval submissions to the investment review committee and executive committee's decisions on capital spent • Using expert legal advice on complex restructuring transactions
3	ECC VAT apportionment ruling	ECC's VAT apportionment ruling expired in 2017. A new ruling has been applied for, but not yet finalised. ECC is still negotiating with SARS on the principles of the ruling	The apportionment method of the expired ruling is still being applied while the matter is finalised
4	Diesel-rebate audits	<ul style="list-style-type: none"> • Uncertainty on the definition of primary production, leading to a reduction in rebates received. • The absence of a separate SARS diesel rebate e-filing system, leading to constant tax-compliant status failures and resultant inability to obtain tax-clearance certificates 	<ul style="list-style-type: none"> • Continuous engagement with SARS • Mine visits by SARS • Supply detailed SARS-compliant logbooks • Implementation of the Liquid Automation system in prior years
5	Exxaro Resources Ltd VAT apportionment ruling	<ul style="list-style-type: none"> • This company's VAT apportionment ruling was obtained. • Due to streamlining VAT resources, and the manual and time-consuming nature of the apportionment exercise, a risk of incorrect calculations has been identified 	Developing VAT robotic process automation to facilitate calculation and possible reappointment of a dedicated VAT accountant

GOVERNANCE OF TAX

GOVERNANCE OVERSIGHT

As a group, we are committed to complying with the code of corporate practices and conduct set out in King IV. In terms of this code, Exxaro is responsible for the governance of risk management, including tax risk management.

It is the responsibility of the board (and its audit committee) to manage tax risks. Operationally, the group tax manager is accountable for this function. To ensure this function's objectivity and independence in the wider group, the group tax manager reports directly to the general manager: risk, compliance and assurance.

The tax function is organisationally and physically separated from the finance function, and centralised at Exxaro's head office. It is not responsible for tax compliance, control and management of indirect taxes such as VAT and PAYE, but plays an advisory role when required.

The group tax manager attends the business-of-tomorrow committee, coal investment review committee and executive management committees to ensure the Exxaro tax function is informed of all transactions at inception phase, particularly decisions that can significantly affect the business. This is to ensure effective tax planning and tax risk management, resulting in operational cost savings.

POLICIES AND CONTROLS

The Exxaro tax function formally documented its TRM framework, which was approved by the board two years ago. Significant changes are reported as required and the framework is updated every two years. The TRM framework will be updated again in 2019.

The group tax manager is responsible for implementing and monitoring compliance with controls and procedures as prescribed by the framework, as well as identifying, analysing and evaluating the impact of events and associated risks on the group's strategic objectives.

It is important to keep the board, audit committee, executive management and other internal and external stakeholders abreast of tax risk management activities. Risk reporting is driven by stakeholder expectations and requirements as well as Exxaro's objective of open and transparent reporting.

The group tax manager reports to the audit committee quarterly on:

- The status of compliance on income tax filings to local and offshore tax authorities
- The status of significant tax disputes, audits and enquiries by authorities
- Significant tax developments affecting the business
- Significant tax risks identified (graded as likely to occur, with a tax impact above R10 million, where controls are inadequate to mitigate identified risks)
- The tax effect of material transactions, especially significant acquisition and disposals of assets, investments and businesses.

Transfer pricing policies for all offshore transactions with connected parties are maintained. The Exxaro tax function follows group document-retention policies and uses the SARS e-filing system as an additional document database. Long-term contracts are in place with expert tax advisers to assist the small tax team in applying for government grants and incentives to maximise tax benefits.

SYSTEMS AND ASSURANCE

Internal and external functions audit TRM processes on an ad hoc or rotational basis to provide an objective independent appraisal of the effectiveness of the framework and processes.

Two years ago, PwC assessed Exxaro's tax management maturity levels as standardised (therefore documented, active, developed and formalised - three out of five if scores could be assigned).



GOVERNANCE OF TAX CONTINUED

To address some of PwC's recommendations, several changes were made in the last two years:

- The tax function was organisationally repositioned to report to the general manager: risk, assurance and compliance, giving it a voice on the audit committee, and elevating tax awareness at board level
- Reinstated the tax manager position after it was originally made redundant in the last company restructuring to reduce staff levels
- Appointed an additional staff member to manage the workload
- Implemented more refined, automated tax reporting tools
- Embarked on a VAT digitalisation project, which will be finalised in 2019 and include VAT training tools
- Files country-by-country tax reports to SARS
- A business-of-tomorrow team was established to actively seek new business opportunities to deliver on the group's strategy of investing in alternative energies, water and agriculture. The tax manager serves on this committee
- The audit committee formally approved the TRM framework.

PERFORMANCE MANAGEMENT

The group tax manager follows Exxaro's recruitment policies and ensures tax staff are adequately qualified, with the necessary skills and experience demanded by each position's roles and responsibilities.

Training and formal post-graduate studies are encouraged and financially supported. In-house and external training courses and seminars on tax and accounting by reputable suppliers are regularly attended. A formal individual development programme is in place for all tax staff.

Tax staff are evaluated by the group tax manager on their commitment to risk management in their personal performance appraisal.

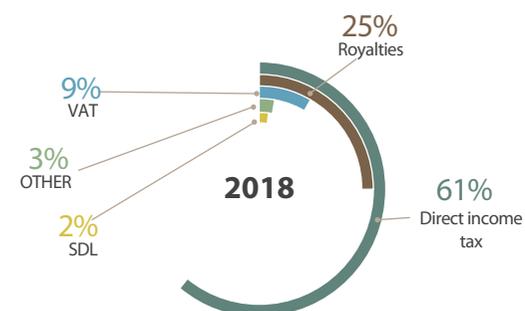
Bonus and share option schemes are tools to retain tax staff for the long term and reward performance excellence. Non-performance is addressed through Exxaro's group human resource practices.

TAX PERFORMANCE

TOTAL TAX CONTRIBUTION BORNE AND PAID

Total tax contribution (Rm)	2018	2017
Payments to government (taxation contribution)	1 660	1 446
Direct taxes per country	1 007	790
- RSA	986	774
- Switzerland	21	16
Indirect taxes	168	459
VAT	153	434
- Levied on purchases of goods and services	(2 992)	(2 254)
- Charged on turnover	3 145	2 688
Dividend withholding tax – local	1	2
Dividend withholding tax – Switzerland	9	6
Securities transfer tax	5	17
Levies paid to government	485	197
- Rates and taxes	6	10
- Mineral and petroleum resources royalties	413	133
- Workers' Compensation Fund	13	7
- Unemployment Insurance Fund	12	12
- Skills Development Levy	41	35

2018 – total tax contribution R1.6 billion



Total tax contribution collected on behalf of government

Additional amounts collected by the group on behalf of government	2018	2017
- Unemployment Insurance Fund	12	12
- PAYE deducted from remuneration paid	1 143	882

EFFECTIVE TAX RATE RECONCILIATION

The effective tax rate for the Exxaro group is calculated as 19% (19.1% excluding discontinued operations). The difference to the standard rate of 28% is explained below:

	Total %	Excluding discontinued operations %
Rate reconciliation		
Standard tax rate	28.0	28.0
Capital gains, special allowances and exempt income	(0.6)	(0.4)
Equity-accounted investment income ¹	(10.5)	(10.6)
Prior-year adjustments	0.4	0.4
Deferred tax assets not recognised	0.1	0.1
Non-deductible expenditure ²	1.6	1.6
Effective tax rate	19	19.1

COUNTRY-BY-COUNTRY REPORTING: CURRENT TAX ACCRUAL EXPENSE

Rm	Switzerland	Australia	South Africa	Total
Income tax	25	0	1 618	1 643
Dividend withholding tax ³			10	10
Total	25	0	1 628	1 653
Effective tax rate	9%	0	19.3%	19%
Statutory tax rate	9%	30%	28%	28%

¹ Equity-accounted investment income of R3.2bn is mainly from SIOC and Tronox.

² The majority of non-deductible expenditure relates to a fair-value adjustment on the contingent consideration recognised on the acquisition of Exxaro Coal Central Proprietary Limited in 2016.

³ Included is a dividend withholding tax of R9m paid by EITAG to the Swiss revenue authorities, but incurred in ROCSI, a South African company.

DISCLAIMER

The operational and financial information on which any outlook or forecast statements are based has not been reviewed nor reported on by the external auditors. These forward-looking statements are based on management's current beliefs and expectations and are subject to uncertainty and changes in circumstances. The forward-looking statements involve risks that may affect the group's operational and financial information. Exxaro undertakes no obligation to update or reverse any forward-looking statements, whether as a result of new information or future developments.

Where relevant, comments exclude transactions which make the results not comparable. These exclusions are the responsibility of the group's board of directors and have been presented to illustrate the impact of these transactions on the core operations' performance and hence may not fairly present the group's financial position, changes in equity, results of operations or cash flows. These exclusions have not been reviewed nor reported on by the group's external auditors.

www.exxaro.com

