

The capitals

Exxaro uses the six capitals model (natural, human, social, manufactured, intellectual and financial capital) as a balanced approach to increase our potential to invest and develop for sustainable growth.

We add value to the capitals during the lifecycle of every mining operation - with the aim of leaving each area richer after mine closure - and now also for businesses in the energy, agriculture and water sectors. At each stage of the value chain, which we refer to as the resource-to-market business model, the cumulative net effect is to leave a positive impact. Each sustainability capital that we affect will be responsibly managed to maximise the benefit to all stakeholders, internally and externally. This is detailed in the business model on page 1.

The South African mining industry

The mining sector is in a crisis - drastic decline over the past five years



Number of people employed
in the industry declined by

70 000



Industry profits before
tax declined by

48%



Mining's contribution to GDP
declined by

0,2%

per annum



Dividends paid to investors
declined by

52%



Domestic input costs continue to rise

> Energy > Labour
> Transport > Steel

The policy environment remains uncertain for the sector

Source: Chamber of Mines.

Changing fundamentals in the global mining industry have been exacerbated in South Africa by policy uncertainty. This has forced mining companies to reconsider their businesses using a long-term lens. While the process has been painful, specifically in terms of job losses, most companies are emerging as more resilient and better positioned to continue generating benefits for all stakeholders - now and in the longer term.

EXXARO 2026 GROUP STRATEGY: POWERING BETTER LIVES IN AFRICA AND BEYOND

04

Strategy

Our 2026 strategy is a 10-year view (from 2016), focused on continued value creation and our positive impact on society. As part of this process, we have adopted a three-year strategy review cycle; with a deep dive into strategic direction in year one and a high-level review in years two and three. In 2016, our executive committee went through a detailed process to identify the direction we want to grow into and, over the past two years, we have fundamentally reshaped our strategy to address the changing world in which we operate.

Coal remains our core business for the medium term. However, we are considering investment opportunities that will ensure the group remains relevant in future by addressing solutions to societal challenges.

In 2017, we continued to refine this direction. Our primary assumptions include:

- Exxaro is well positioned and prosperous in coal from its South African base, but this business alone may not be enough to ensure success in future
- Global attitudes to coal are increasingly hostile and investment in coal-mining opportunities is constrained by rapidly diminishing coal reserves in South Africa
- Today's business environment will be different in future, driven by new technologies and business innovation, consumer preferences and markets that are driving this change at an accelerating pace
- Doing what we did yesterday and continuing to invest in what we know today is not a guarantee for success tomorrow
- To thrive, we must continuously explore, learn and adapt to this new world.

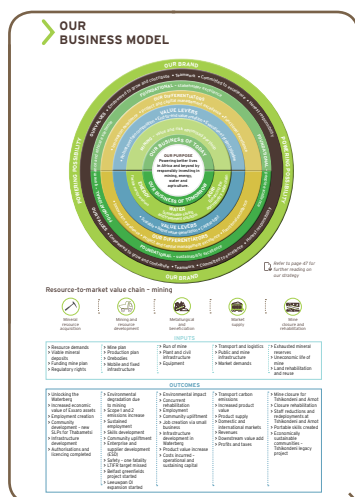
Exxaro is committed to creating value for its stakeholders, namely our employees, communities, shareholders and broader society. Our ambition is to be a "champion of Africa", balancing the needs and expectations of stakeholders and being a vehicle for transformative change on the continent by powering better lives.

The Exxaro 2026 strategy comprises two key pillars:

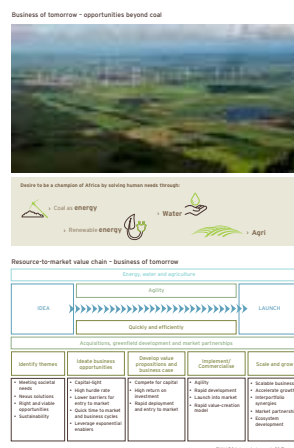
- The traditional core competency of mining - we will leverage a robust portfolio, end-to-end value creation and execution of the coal project pipeline
- Leveraging business opportunities in the energy, water and the agricultural value chains based on key principles:
 - Capital-light - low-capital investment through shared and collaborative approaches to investing, meaning these opportunities are small initially, but rapidly scalable when proven viable
 - Leveraging emerging and proven technological innovations and the resulting business models.

The diagram below illustrates our strategy framework centred on our purpose:

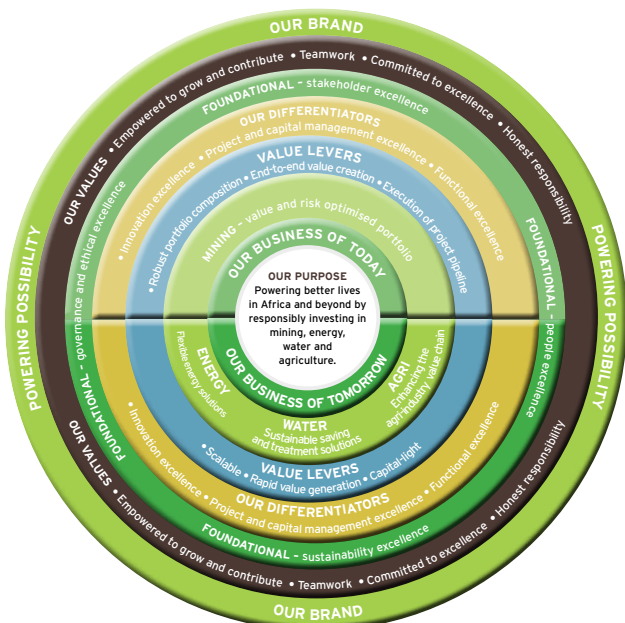
- We will fulfil our purpose by leveraging on our discipline in capital allocation, executing our growth projects and building a robust business portfolio more suited to changing operating environments
- We will be differentiated by pursuing excellence in what we do to create value, building on a foundation of people development, constructive stakeholder relationships, governance and ethical conduct
- Our values guide our decisions to ensure we maintain course towards our purpose, remain resilient and build a trusted brand, known for powering possibilities.



Refer to inside front cover for detailed strategy.



EXXARO 2026 GROUP STRATEGY: POWERING BETTER LIVES IN AFRICA AND BEYOND (CONTINUED)



Coal strategy - overview

We are focused on continuing to manage our coal business as a modernised, South Africa-based producer, providing the free cash flows for returns to shareholders, investing in communities and growth opportunities. This strategy has been executed effectively, supporting solid results for the review period.

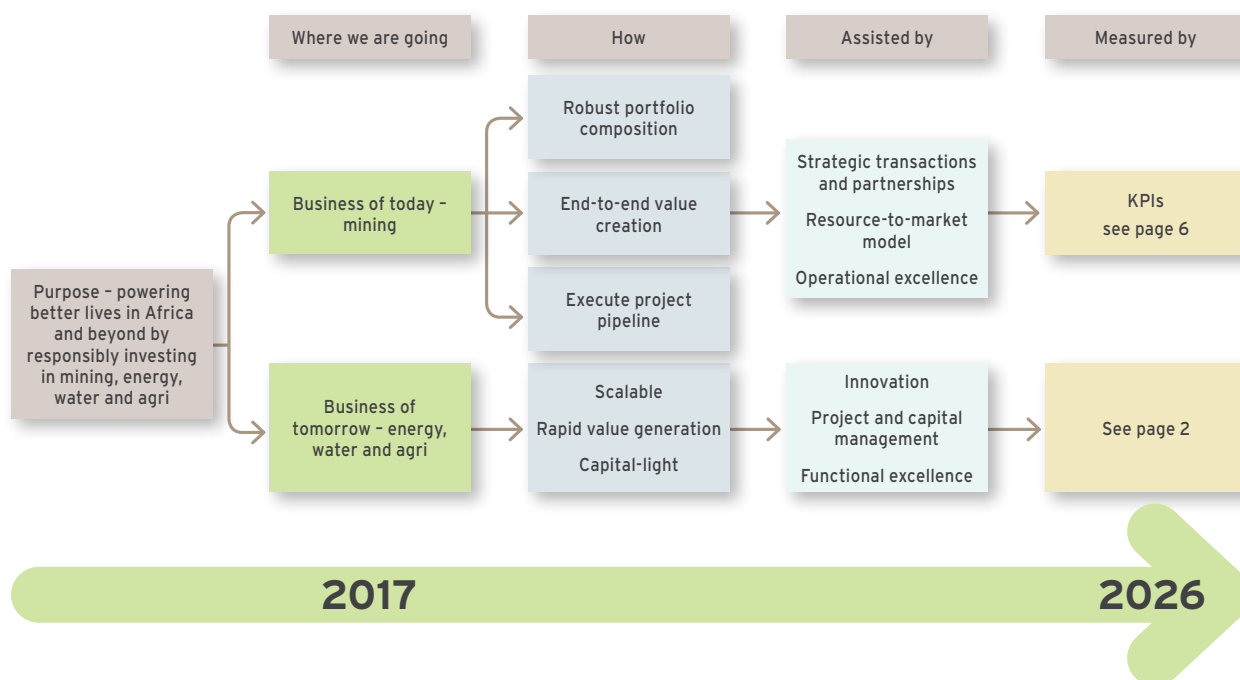
Innovation and technology are important enablers for initiatives in our operations portfolio, and in marketing and operational excellence.

As one example, our operational excellence process is steadily decreasing the cash unit cost across the coal business (refer to page 53).

A key thrust in recent years has been to unlock value in the Waterberg (Limpopo province) by:

- › Developing coal logistics capabilities with Transnet Freight Rail (TFR) for rail allocation and Richards Bay Coal Terminal (RBCT) for export entitlement
- › Executing the strategy to reduce our Eskom exposure
- › Developing an operational excellence drive to improve productivity and efficiency
- › Reviewing our coal portfolio, considering coal market changes and innovation potential.

Our coal strategy is detailed on page 49.



Our aim is to provide sustainable returns to shareholders and sustainable benefits for the countries in which we operate by managing a world-class portfolio of assets, primarily in Africa, that are underpinned by growing global infrastructure and energy demand.

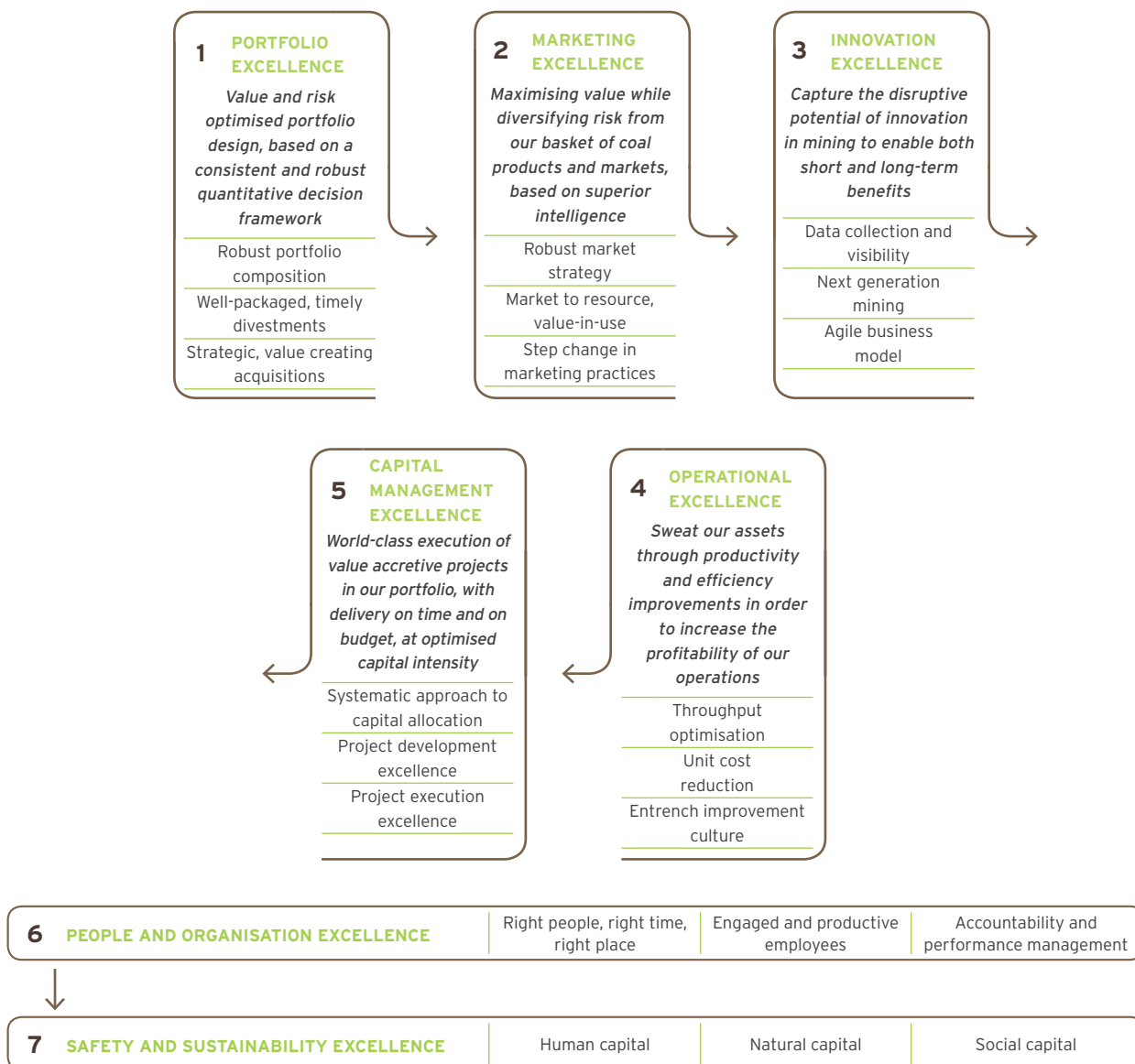
COAL - EXXARO'S CORE

04

Strategy

Progress is measured against clear targets or milestones, and key performance indicators are included in remunerating accountable individuals. Please see the remuneration scorecards in our supplementary report at <http://www.exxaro-reports.co.za/reports/ar-2017/supplementary/index.php>

We will be a modernised, South Africa-based coal producer energising better lives in Africa and beyond



COAL - EXXARO'S CORE (CONTINUED)

Strategy pillars

Portfolio excellence: Achieve and maintain a competitive cost position by investing in selected projects to generate excess cash and returns. Identify asset disposals to enhance the strength of our portfolio, reduce operating cost and preserve capital.

Marketing excellence: We are maximising value by our basket of coal products and markets, based on customer and market insights. This will ensure coal operations generate value through three key strategic levers:

- › *Robust market strategy:* market analysis and intelligence to understand growth trends
- › Deep understanding of customer needs, applying value-in-use to *maximise value extraction* by optimising market-to-resource processes
- › *Step change in marketing practices:* digital innovations for real-time insights.

Innovation excellence: Capture the disruptive potential of innovation in mining for short and long-term benefits. Digitisation will unlock value through technological advances that seamlessly interconnect the "pit-to-port" process for a real perspective of the business and its markets. We are still at the early stages of developing this capability.

Operational excellence: Ensure we capitalise on our assets through productivity and efficiency improvements to increase profitability. To date, the operational excellence process has delivered higher coal volumes year on year despite challenges from unexpected events such as the labour strike and constraints at the port.

Capital management excellence: In 2017, growth and enabling projects of some R13 billion began in the Waterberg and Mpumalanga regions. The coal products from these projects will be destined for export markets. Disciplined execution, on time and budget, will ensure additional value through optimised capital intensity.

People and organisational excellence: This is the foundation of our business. We invest in our people because strong leadership and empowered employees are key to executing our strategy. We are one of the industry's leading trainers, annually investing over 5% of payroll on training and personal development.

Safety and sustainability excellence: Underpinned by our commitment to keep our people – and those around us – safe, we have implemented world-class safety systems and practices, lowering our LTIFR from 0,29 in 2012 to 0,12 in 2017. Our target is an LTIFR of 0,11 and zero fatalities. We invest in our communities – through our corporate social investments as well as social and labour plans, we have invested over R500 million in the last 11 years, benefiting more than 12 000 people. Our environmental stewardship is primarily focused on protecting a scarce commodity, water: through treatment, we prevent pollution of surface water resources while reusing harvested rainwater at some of our operations; we are addressing the effects of climate change arising from our direct activities; we have reduced carbon emissions intensity by 10% despite our increasing production profile. Importantly, we are focused on further improvement.

Exxaro's coal business is a critical contributor to the national business and energy landscape, and we understand our responsibility to the South African nation. We are also mindful of other challenges facing the country and continent, such as the ongoing security of energy supply hampering growth as well as poor access to water and food. We believe we are well positioned to develop solutions that can alleviate these challenges by adopting new business models created by emerging technological innovations, leveraging relevant partnerships and our balance sheet in building our business of tomorrow.

Exxaro business of tomorrow



The objective of our business of tomorrow unit is to make a meaningful impact by championing the improvement of lives in Africa.

Global studies, such as the 2016 World Economic Forum global risk report and priority global initiatives, as well as the 17 UN sustainability goals, provide a macro-view of the key needs and opportunities facing the world. Globally, the recurring nexus of energy-agriculture-water is recognised as a key future societal, economic and environmental challenge, which needs to be addressed urgently.

Ensuring the steady supply of energy, agriculture and water (products and services) for a sustainable society will require innovative investments and solutions. That makes them relevant and impactful sectors for Exxaro to consider participating in commercially.

Our existing capabilities, assets and business needs can be leveraged as starting points. By entering opportunities in the energy, water and agricultural sectors, Exxaro will address core business challenges and optimise the use of existing assets, while capitalising on opportunities to provide sustainable development for communities in which we operate.

Evolving market structures, as well as overlapping exponential business and smart technology developments in all three sectors, are highlighting new high-growth and disruptive opportunities (often beyond the traditional linear definitions of these sectors). Many of these prospects are significantly less constrained by infrastructure, time and capital requirements compared to Exxaro's existing coal mining business.

OUR STRATEGIC PERFORMANCE FOR 2017

In 2017, our strategic objectives continued to guide our actions. The constrained environment again called for tough decisions and a firm commitment to continue our focus on business resilience: our ability to withstand any economic and commodity market downturn.

In determining our focus areas, we distilled multiple issues across our operating context, concentrating on those with important implications for our business model to guide our strategic responses. We summarise our progress below.

Replacement and expansion of primary mining capacity



Improved maintenance of facilities to accommodate the increasing mining fleet

Implementation of semi-mobile in-pit crushing technology to reduce travelling distances, cycle times and cost (limits the number of units in the truck fleet compared to conventional pit-rim dumping)



Commissioned GG10 to enhance product flexibility, capitalise on pit liberation and enhance flexibility

Commissioning upper and lower in-pit discard backfill systems to **reduce operating costs** and long-term **environmental liabilities**



Commissioning cyclic operated slurry ponds to **increase product reclamation rate** and **reuse of water**

Commissioning a **zero-waste water-treatment plant** at **North Block Complex** to protect the environment



Focus areas for 2017

STRATEGIC OBJECTIVE	MEASURES	ACHIEVED IN 2017
Structure for resilience	<ul style="list-style-type: none"> › Improved efficiency and cost performance › Functional excellence programme › Digitisation and innovation roll out across functions and operations › Implemented replacement empowerment shareholding structure at 30% › Establish an initial small unit to investigate the energy, water and agriculture sectors for capital-light, scalable opportunities 	<ul style="list-style-type: none"> › Coal product tons output increased by 6,3% YoY. This decreased the average unit cash cost and kept unavoidable increases below the targeted inflation line › Programme progressing well according to plan › Implementation in line with BU specific digital road maps are ongoing › 30% BEE transaction concluded in December 2017 › Team established
Portfolio improvement	<ul style="list-style-type: none"> › Review of coal portfolio › First tranche of Tronox disposal completed › Disposal process in place for Black Mountain, Arnot and North Block Colliery › Explore high-return business opportunities stemming from emerging technologies in the energy, water and agriculture sectors 	<ul style="list-style-type: none"> › Non-core assets identified - disposal process ongoing › R6,5 billion realised on sale of 19% stake › Team established
Capital allocation	<ul style="list-style-type: none"> › Sources and use of cash - strong cash generation from higher prices and cost efficiency 	<ul style="list-style-type: none"> › Targeting mining projects with returns >WACC x 1,5x › Dividend cover ratio of 2,5 to 3,5x core attributable earnings › Returning excess cash to shareholders › Project-financed energy projects' equity returns >15%

> RISKS AND OPPORTUNITIES

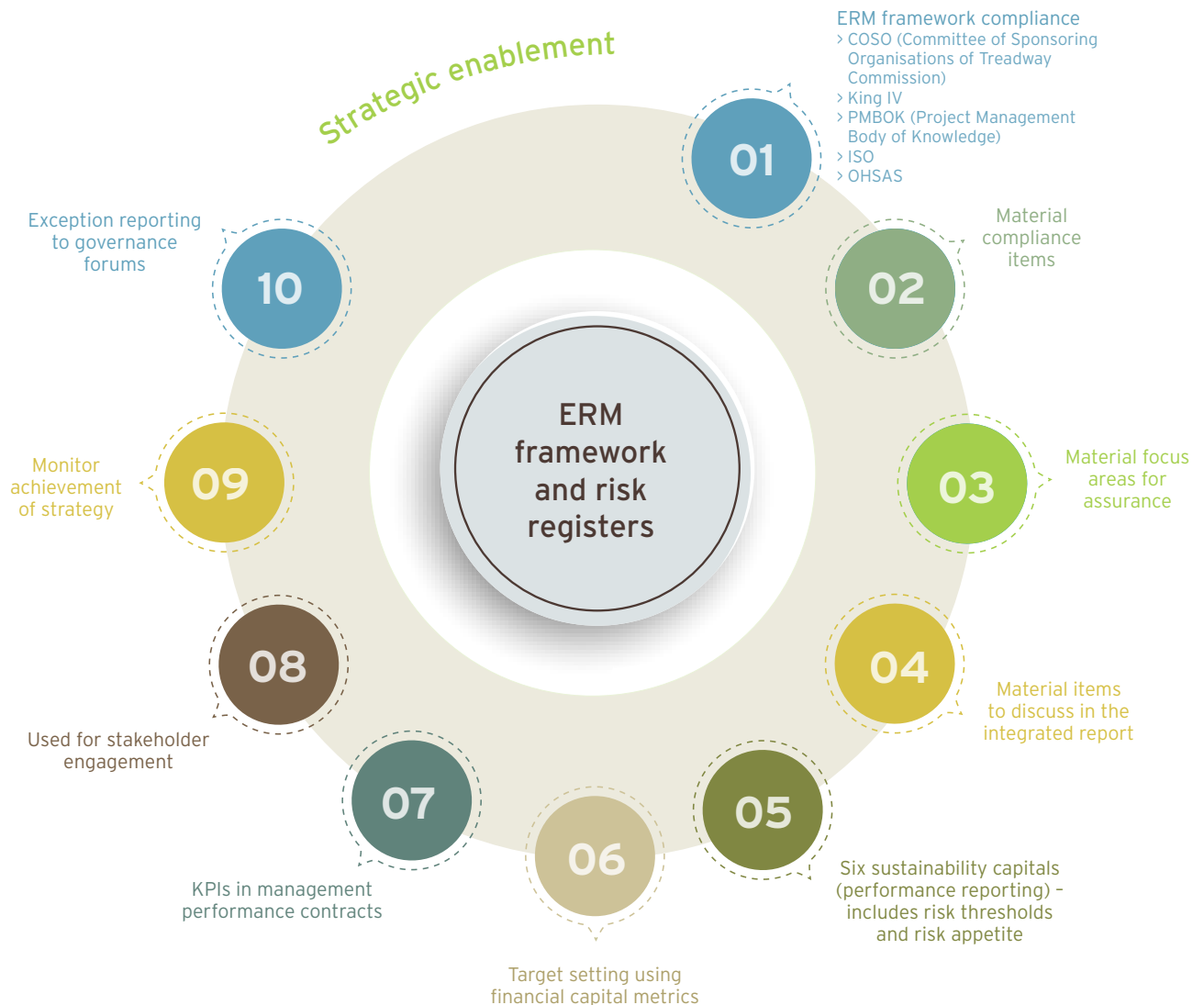
Context

As a mining company, Exxaro recognises that risk is inherent in all its business activities. The company has remained resilient over recent years due to its robust risk management, compliance management and integrated assurance process, despite geopolitical uncertainty, macro-economic challenges and the volatility in commodity prices since 2015.

The sustainability, risk and compliance (SRC) committee, on behalf of the board, is responsible for regularly monitoring risks that would have an extreme impact on the group if they materialise.

Extreme risks, together with their controls, are considered critical in the ever-changing environment in which we operate. These are continually monitored and reviewed in line with the risk appetite framework and combined assurance approach. The board also uses strategic, tactical and operational risks facing Exxaro as input during the annual strategy session where identified risks are used to guide the conversation in setting the strategy and risk appetite as well as approve quantification of the strategy in a five-year budget period.

The SRC committee and all management teams promote a culture of good governance and risk management as these are critical to be a sustainable organisation.



Enterprise risk management (ERM) involves the systematic application of management policies and procedures to the activities of communicating, consulting, establishing context, and identifying, analysing, evaluating, treating, monitoring and reviewing risk. At Exxaro we understand that effective risk management can only occur when a proactive risk culture has been created, where everybody understands that they have a role in managing risks in their environment.

ERM methodology is therefore applied across all functional areas and considers all hazards/root causes as well as all potential impacts (financial, operational, stakeholder, legal/compliance, safety, health and environment) that the risk

event may trigger. Exxaro does not have a separate risk methodology for every impact or functional area as this would undermine true integration and building a risk culture.

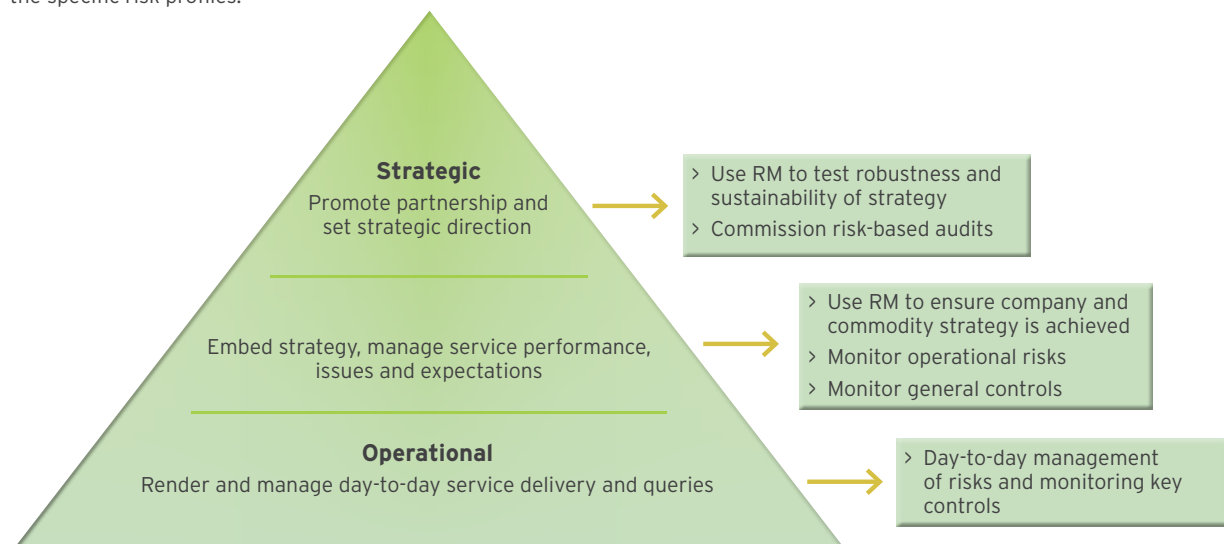
Risk owners are in place across all layers for every risk and accountable for ensuring the appropriate risk strategy is implemented. Control owners are appointed for every control and report to risk owners on the maintenance of controls and implementation of action plans.

Exxaro has reviewed its strategic risks. Changes to the risk ranking reflect changes in the internal and external environment by using the robust risk process illustrated below:

Layered approach



Risk management is performed at each layer with a different scope in mind. Each layer informs the next and is used as input to the specific risk profiles.



> RISKS AND OPPORTUNITIES (CONTINUED)

Pursuing opportunities

The Exxaro risk management framework also caters for identification and realisation of opportunities in the organisation. We believe that, for Exxaro to remain sustainable in the near future, it is important to adapt to change and identify and pursue possible opportunities to ultimately create value for our shareholders.

The following opportunities have been identified as part of the business of tomorrow strategy (opportunities beyond the mining sector):

	OPPORTUNITY	STRATEGY
1	Microgrids	Energy: distributed energy generation
2	Optimising electricity use through analytics	Energy: energy analytics
3	Open facilitated energy trading	Energy: energy exchange
4	Insect protein from biowaste	Agriculture: alternative agricultural products
5	Farming at the retailer/small-farming aggregation	Agriculture: bring farmers closer to market
6	Innovative leak repair	Water: water saving
7	Leak detection and pressure monitoring	Water: water saving

Risk appetite and thresholds

Exxaro defines risk appetite as the tendency of a group to take risks in a given situation and risk thresholds are used to express our appetite. We understand that if we really want to create value for all our stakeholders and remain sustainable, we need to measure and report on our key performance indicators.

The board and executive committee monitor KPIs quarterly to ensure all risks and key metrics are within Exxaro's risk appetite. The KPIs and their thresholds are reviewed by the board and executive committee at least annually. Please refer to KPIs on page 6.

Historical risks and trends

Over the last three years, there has been no significant change in the risk profiles of mining companies generally. Exxaro has identified new risks in 2017 as indicated in the trend report below.

Top 15 Exxaro risks over the last three years

RANKING	2015	2016	2017
1	Dependency on Eskom as a key customer	Key dependency on customers	Dependency on Eskom and ArcelorMittal South Africa (AMSA) as key customers
2	Unavailability of electricity	Safety concerns	Continued policy and regulatory uncertainty
3	Safety concerns	Commodity price volatility	Maintain a social licence to operate
4	Commodity price volatility	Inability to be innovative	Capital project execution
5	Inability to meet production demands	Uncompetitive products (cost/tonne)	Safety and health concerns
6	Unavailability of water	Health concerns	State capture
7	Infrastructure capacity, access, development and funding	Ineffective capital project execution	Fraud and corruption
8	Competitiveness of assets (cost/tonne)	Maintain a social licence to operate	Rehabilitation liability
9	State intervention in mining sector	Legal and regulatory non-compliance	Water allocation and shortage
10	Capital project execution	Labour unrest	Community unrest
11	Mine rehabilitation	Product substitution	Price and currency volatility
12	Government bureaucracy	Unable to meet production demands	Unable to meet production demands
13	Compliance to environmental legislation	Stranded assets	Cost competitiveness of products
14	Maintain a social licence to operate	Fraud and corruption	Infrastructure capacity and access
15	Inability to accurately calculate financial provision for environmental closure	Compliance to environmental legislation	Competition and product substitution

RISKS AND OPPORTUNITIES (CONTINUED)

Trends

The trend report ranks risks from highest residual risk rating to lowest residual risk rating and compares FY16 with FY17. The residual risk score is the risk remaining after considering the existence and effectiveness of controls in place.

RANK	STRATEGIC PILLAR	RISK	2016 RESIDUAL RISK SCORE	TREND	2017 RESIDUAL RISK SCORE	COMMENT
1	Portfolio excellence Marketing excellence	Dependency on Eskom and AMSA as key customers	77	↓	76	Collective potential impact based on percentage of offtake and revenue, contractual obligation to fund capital commitments at tied mines, and contractual contributions for rehabilitation of tied mines
2	Portfolio excellence	Continued policy and regulatory uncertainty	*	New in top 10	53	Delays and (often) lack of constructive consultation with industry stakeholders in finalising charters, legislation and regulations
3	Safety and sustainability excellence	Maintain social licence to operate	46	↑	49	Onerous requirements in mining charter and BBBEE codes (dti)
4	Capital management excellence	Capital project execution	49	→	48	Significant capital profile in next five years
5	Safety and sustainability excellence	Safety and health concerns	73	↓	43	Lower residual risk rating due to effectiveness of corrective and preventive controls to potential impacts and likelihood of occurrence of safety and health risks
6	Safety and sustainability excellence	State capture	31	New in top 10 ↑	41	Adverse media reports on individuals, institutions and entities implicated in allegations of state capture, parliamentary enquiries, and lack of accountability - all potentially compromising the political and economic stability and sustainability of South Africa

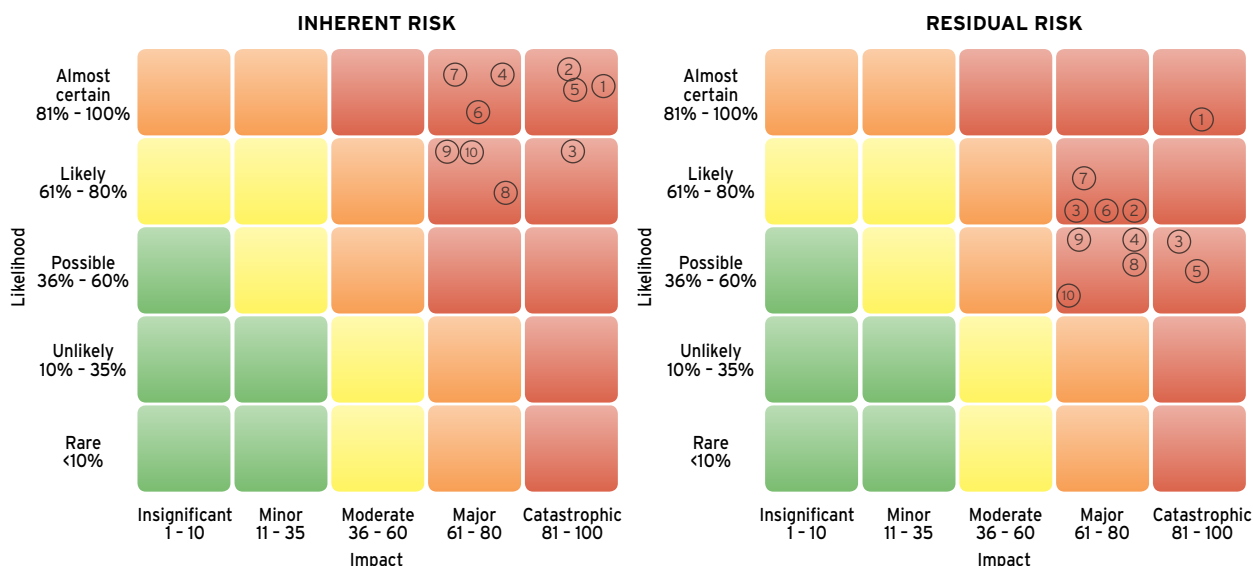
↑ Residual risk score increased ↓ Residual risk score reduced → Residual risk score unchanged * New risk identified

RANK	STRATEGIC PILLAR	RISK	2016 RESIDUAL RISK SCORE	TREND	2017 RESIDUAL RISK SCORE	COMMENT
7	Safety and sustainability excellence	Fraud and corruption	39	↑	40	Residual risk only marginally higher due to robust anti-fraud, bribery and corruption programme; despite a concerning and pervasive, systematic lack of ethics in our external operating environment
8	Safety and sustainability excellence	Rehabilitation liability	*	New in top 10	39	Uncertainty on full impact of new NEMA regulations
9	Safety and sustainability excellence	Water allocation and shortage	33	↑	39	Climate-change realities and potentially adverse use allocations
10	Safety and sustainability excellence	Community unrest	*	New in top 10	38	High levels of unemployment, general dissatisfaction of communities with the lack of adequate service delivery by authorities

↑ Residual risk score increased ↓ Residual risk score reduced → Residual risk score unchanged * New risk identified

Risk heatmap (top 10)

The top 10 risks are plotted on the heatmap below and detailed in the tables that follow.



Likelihood	
Factor	Description
> 81 - 100	Almost certain
> 61 - 80	Likely
> 36 - 60	Possible
> 10 - 35	Unlikely
< and = 10	Rare

Impact	
Factor	Description
> 81 - 100	Catastrophic
> 61 - 80	Major
> 36 - 60	Moderate
> 10 - 35	Minor
< and = 10	Insignificant

RISKS AND OPPORTUNITIES (CONTINUED)

DRIVER	DRIVER CATEGORY	IMPACT
1 Key dependency on Eskom and AMSA		
Risk description: Combined risk exposure due to dependency on Eskom and AMSA as key customers		
Further delays to Eskom Medupi power station	External	› Operational constraints at Grootegeluk due to adverse pit-liberation impacts
Termination of coal-supply agreement (CSA) at Arnot and Mafube	External	› Operations at Arnot stopped
Rehabilitation fund shortfall at Matla and Arnot	External	› Possible suspension or cancellation of mining right at Matla and Arnot by DMR on non-compliance to rehabilitation requirements under MPRDA
Non-funding of capital requirements. Some R4,5 billion required for new Matla mine 1 shaft and shortwall replacements for mine 2 and mine 3 as well as ventilation shaft for mine 3	External	› Safety compromised since capital approvals for safety initiatives rest with Eskom › Output and quality compromised without mine 1 › Financial penalties for captive mine contracts (production demands cannot be met because of outstanding capital approvals)
Matla CSA threatened	External	› Output and quality compromised without mine 1
Dependent on AMSA due to limited domestic market (high-value products at Grootegeluk)	External	› Marketing strategy changes
Eskom calling for over 25Mt in next five years from Grootegeluk operations	External	› Eskom deviating from plan, taking more than 25Mt
2 Continued policy and regulatory uncertainty		
Risk description: Political and economic uncertainty on the mining sector and broader economy		
Poor economic outlook may influence policy decisions	External	› Lower returns/margins on existing operations and future projects
Increased influence of opposition parties	External	› Increased pressure on business to invest in social causes
Uncertainty on energy mix for SA	External	› Delayed capital investments
Delays in finalising policy, regulations and approvals	External	› Delayed licence approvals › Loss of Thabametsi mining right
3 Maintain social licence to operate		
Risk description: Maintain a social licence to operate in terms of mining charter and BBBEE requirements		
Unable to meet some elements of dti BBBEE codes	Internal	› Reputational impact
Increased social activism due to chronic unemployment	External	› Community unrest › Production stoppages
Increased state intervention in mining sector: expectations to invest and transform	External	› Suspension/cancellation of mining right › Penalties and fines for non-adherence
Unable to meet some mining charter targets, and failure to implement sustainable SLP projects	Internal	› Reputational impact › Unfulfilled community expectations

	IMPACT CATEGORY	TREATMENTS/CONTROLS	
	Operations	<ul style="list-style-type: none"> › Renegotiating Medupi CSA (addendum 10) › Broadening local and international customer base 	Material issue: Key customer dependency
	Operations	<ul style="list-style-type: none"> › Evaluating options for Arnot, conducting social impact studies for the mine 	Assurance: None
	Legal and compliance	<ul style="list-style-type: none"> › Position for impact of NEMA regulations. Engaging with Eskom to fund shortfall. Seeking resolution through arbitration process 	Strategic KPI: None
	Safety Quality Financial	<ul style="list-style-type: none"> › Engaging with Eskom 	
	Stakeholder relations	<ul style="list-style-type: none"> › Engaging with Eskom 	
	Financial	<ul style="list-style-type: none"> › Quarterly engagement with AMSA to understand its business drivers and demand 	
	Operations	<ul style="list-style-type: none"> › Continuous engagement with Eskom on requirements 	
	Stakeholder relations	<ul style="list-style-type: none"> › Monitor country-risk assessments including rating agency reports 	Material issue: Social licence to operate, business resilience
	Financial	<ul style="list-style-type: none"> › Continued support of business lobby groups to engage politicians and government 	Assurance: None
	Financial and operations	<ul style="list-style-type: none"> › Portfolio diversification › Monitor energy mix and implications 	Strategic KPI: None
	Financial and operations Legal and regulatory	<ul style="list-style-type: none"> › Leverage opportunities to collaborate with government and industry partners 	
	Stakeholder relations	<ul style="list-style-type: none"> › Pursue identified initiatives to progressively improve Exxaro's BBBEE rating 	Material issue: Licence to operate
	Stakeholder relations Operations	<ul style="list-style-type: none"> › Conduct SLP audits. Consider employment opportunities within SLPs and other industry-led or government initiatives 	Assurance: Tier 3 (external)
	Legal and compliance	<ul style="list-style-type: none"> › Regular engagement with government 	Strategic KPIs: <ul style="list-style-type: none"> › Mining charter elements › BBBEE code elements › SLP projects (cost variance from plan) › SLP projects (time variance from plan)
	Stakeholder relations	<ul style="list-style-type: none"> › Proactive involvement in sustainable socio-economic development initiatives. As a minimum, adhere to commitments in SLPs › Reporting on mining charter requirements (external and internal) 	

> RISKS AND OPPORTUNITIES (CONTINUED)

DRIVER	DRIVER CATEGORY	IMPACT
4 Capital project execution		
Risk description: Due diligence with which projects are managed		
Poor project management (time, cost and quality)	Internal	
Poor programme and contractor implementation strategy	Internal	› Project delay
Lack of access to strategic infrastructure (roads, water, housing, etc)	External	
Supply chain inefficiencies and poor contracting strategy	Internal	› Project cost overrun
SHEC and stakeholder management (community unrest) issues	External	› Community unrest
5 Safety and health concerns		
Risk description: The dangers of mining are inherent. Industry leaders have long focused on enhancing safety management systems and building a safety culture. The lack of a safety culture affects corporate reputation, the licence to operate and ability to attract and retain talent, particularly when employees must deal with serious injuries or loss of colleagues. Welfare of employees is also a focus in the mining sector (occupational and non-occupational diseases)		
Excessive fatigue levels	Internal	› Safety incidents
Poor procedures for maintaining equipment and machinery	Internal	› Fines and penalties - section 54/55 (DMR)
Inadequate on-the-job training	Internal	› Reputational damage
Lack of awareness on health risks	Internal	› High insurance premiums
Inadequate systems to track health issues (eg sick leave)	Internal	› Decrease in quality of life

	IMPACT CATEGORY	TREATMENTS/CONTROLS
		<ul style="list-style-type: none"> › Asset portfolio review and management › Contingency planning › Disciplined execution of value-engineering study review › Robust governance structure › Advanced assurance frameworks (independent review and oversight) › Adhere to risk management process › Improved capex forecast accuracy › Monitoring and tracking progress of capital projects › Project role clarification and accountability › Standardise design and construction methodologies
		<ul style="list-style-type: none"> › Secure contractor's commitment to assigning a strong and experienced management team
		<ul style="list-style-type: none"> › Planning as part of overall project › Proactive engagement with stakeholders prior to construction
	Financial	<ul style="list-style-type: none"> › Ensure project and supply chain performance is monitored and managed
	Stakeholder relations	<ul style="list-style-type: none"> › Proactive community engagement

	Safety	<ul style="list-style-type: none"> › Conduct compliance awareness training (health and safety) › Ensure compliance with Basic Conditions of Employment Act 	Material issue: Our people Assurance: Tier 3 (external) Strategic KPIs: <ul style="list-style-type: none"> › LTIs › Number of fatalities › LTIFR › OHIFR
	Financial Legal and compliance	<ul style="list-style-type: none"> › Continuous reporting of incidents › Ensure proximity-detection systems are implemented and maintained 	<ul style="list-style-type: none"> › Occupational health (accepted cases include COAD, pneumoconiosis, NIHL, silicosis and occupational TB) › HIV prevalence rate › HIV/Aids awareness training and voluntary testing (% of organisation)
	Stakeholder relations	<ul style="list-style-type: none"> › Continuously review industry benchmark on safety › Establish compliance-based committees to manage, educate and communicate safety programmes 	
	Financial Health	<ul style="list-style-type: none"> › Proactive surveillance programme at all business units 	
	Health	<ul style="list-style-type: none"> › Proactive surveillance programme at all business units 	

RISKS AND OPPORTUNITIES (CONTINUED)

DRIVER	DRIVER CATEGORY	IMPACT
6 State capture		
Risk description: A type of systemic political corruption in which private interests significantly influence a state's decision-making processes to their own advantage		
Fraud and corruption	External	› Loss of ownership of coal operations
Lack of leadership at all levels of government	External	› Licences withdrawn › Financial loss › Business continuity compromised
7 Fraud and corruption		
Risk description: Theft, fraud, forgery, bribery and corruption		
Lack of ethics in the South African context	External	› Reputational damage › Loss of assets
Failure to comply with laws and regulations	Internal	› Penalties and fines › Reputational damage
Collusion with major suppliers and service providers and agents	Internal	› Loss of assets › Criminal prosecution
8 Rehabilitation liability		
Risk description: Matching funding to achieve approved technical solution		
Mine predates proclamation of the Act	External	› Financial obligation
Lack of sufficient concurrent rehabilitation	Internal	› Reputational damage › Rehabilitation backlog
Changing legislation impacts provision	External	› Non-compliance to MPRDA and NEMA

	IMPACT CATEGORY	TREATMENTS/CONTROLS	
	Financial	<ul style="list-style-type: none"> › Ensuring legislative protection of contracts and mineral rights › Closing compliance gaps 	Material issue: Business resilience Assurance: None Strategic KPI: None
	Legal and compliance Financial Operations	<ul style="list-style-type: none"> › Ensuring legislative protection on contracts › Promoting Exxaro's purpose and achievements 	
	Stakeholder relations Financial	<ul style="list-style-type: none"> › Business intelligence tools › Ongoing internal compliance and risk management assessments › Participation in industry forums › Robust anti-bribery and corruption initiatives › Fraud hotline for employees to log anonymous calls and an internal investigation unit › Third-party due diligence and research 	Material issue: Business resilience, our people Assurance: Tier 3 (external) Strategic KPI: Fraud and corruption/asset destruction (annual % of PPE, inventory, debtors and cash)
	Legal and compliance Stakeholder relations	<ul style="list-style-type: none"> › Regular fraud and corruption awareness campaigns 	
	Financial Legal and compliance	<ul style="list-style-type: none"> › Automated control monitoring tool/system (SAP process control in procure-to-pay environment) 	
	Financial	<ul style="list-style-type: none"> › Financial provision through rehabilitation trust contributions and guarantees to DMR 	Material issue: Licence to operate Assurance: Tier 3 (external)
	Financial Stakeholder relations Environmental	<ul style="list-style-type: none"> › Concurrent rehabilitation plan - budget and execute 	Strategic KPI: Assessing financial rehabilitation provision gap compared to assessed life-of-mine rehabilitation quantum
	Legal and compliance	<ul style="list-style-type: none"> › Assess and implement provision for full compliance 	

RISKS AND OPPORTUNITIES (CONTINUED)

DRIVER	DRIVER CATEGORY	IMPACT
9 Water allocation and shortage		
Risk description: Supply of water to Exxaro operations. Availability of water for future projects		
Drought	External	› Operational stoppages
Delays in building water infrastructure by government	External	› Escalating cost of water
Limited water resources in SA	External	› Opportunity loss of strategy and business › Reduction in net present value
Traditional areas of operation have little water, especially Waterberg	External	› Project delivery delays
Competing demands of agriculture, mining and general population	External	› Legal/health and compliance
10 Community unrest		
Risk description: Where the community mobilises against local operations to demand employment and/or enterprise development or due to dissatisfaction with local economic development or contracting philosophy		
High unemployment rate in SA	External	› Harm to employees
Dissatisfaction with LED and skills development	External	› Disruption to operations › Potential damage to mine equipment › Reputational damage

	IMPACT CATEGORY	TREATMENTS/CONTROLS	
	Operations	› Establishment of public-private partnerships	Material issue: Business resilience Assurance: Tier 3 (external) Strategic KPI: Water intensity (kℓ/total tonnes mined)
	Financial	› Liaison through Chamber of Mines with government	
	Financial	› Linking water intensity targets to performance targets	
	Project performance	› Recycling water › Water treatment plants ensuring water efficiency and treatment	
	Legal and compliance	› Measuring and monitoring water intensity targets	
	Safety	› Build local and national political relationships › Business continuity planning › Invest in non-mining skills development programmes › Negotiations with communities › Ongoing employee engagement initiative › Ongoing investment in community and communicating achievements › Prudent investment that creates employment › Transparent and ongoing communication with other stakeholders	Material issue: Business resilience Assurance: None Strategic KPI: Brand perception
	Operations Stakeholder relations		

Highlights

	2017	2016
Strategy delivering improved operational performance – production and cost	6,2Mt R6,1bn	Export volumes at 7,9Mt NOP at R5,2bn
Improved market conditions evident in equity portfolio	R2,1bn	Income from equity-accounted investments of R2,4bn
Returning cash to shareholders	502 400	HEPS of 1 302 cents per share Final dividend of 410 cents per share

Lowlights

› Record two-year fatality-free performance broken by fatality in the review period.

	2017	2016
Record two-year fatality-free performance broken by fatality in the review period	Fatalities = 1 LTIFR = 0,12	Fatalities = zero LTIFR = 0,09

Exxaro has recorded excellent results for the year to 31 December 2017, reflecting our strict focus on delivering a solid performance from the coal business while enhancing organisational excellence and improving our prospects for the future.

Safety remains a priority for our sustainability. While we have reduced our LTIFR from 0,29 to 0,12 in recent years, this is above our target of 0,11. We regrettably recorded a fatality at Matla mine in 2017, and again extend our condolences to the family and friends of Mr Sibongiseni Sihle Majozi. Our recent two-year fatality-free record proves that we can operate safely, so much work remains to reach and maintain our goal of zero harm.

Arguably the highlight of our year, certainly in terms of corporate sustainability, was the finalisation of our new BEE shareholding. Exxaro's new BEE ownership level of 30% exceeds current compliance levels and is secure for the next 10 years. The details of this transaction were communicated to stakeholders throughout the process, and are summarised in the financial review (page 74). The support of our shareholders in achieving this goal was most gratifying and we are working on the community and employee ownership schemes encapsulated in the transaction.

Performance

As detailed in the financial review, net operating profit rose 17% to R6 billion. Our coal business benefited from higher selling prices and volumes while group results were affected by various once-off transactions such as costs associated with implementing the replacement BEE transaction and a net gain on the partial disposal of our shareholding in Tronox Limited.

Revenue rose 9% to R22,8 billion, mainly due to the noted increase in coal selling prices and higher Eskom commercial volumes at Grootegeluk for Medupi power station.



For quick access to the CEO's year-end results video, scan this QR code.



Snapshot of 2017 - market recovery but uncertainty remains

Macro-environment

- › **Recovery in world trade, industrial production and fixed investment; solid global economic growth rate but South Africa lagging**
- › **Inflation subdued, monetary policy accommodative and supportive to economic growth expansion**
- › **Share price recovered to a high of R169,00 in January 2018 from a low of R84,99 in June 2017**
- › **RSA real GDP growth for 2017 at 1,3% from 0,4% in 2016**
- › **Optimism as South Africa's business sentiment improves, albeit slightly.**

From the Tronox proceeds, the board declared a special dividend of R12,55 per share, or around R4,5 billion, paid to shareholders on 5 March 2018. Considering Exxaro's cash generation and strong balance sheet, the board declared a final dividend of R4,00 per share.

We are also making good progress in addressing our key environmental risks and broader societal commitments:

- › The revision of our climate change strategy to align with COP21 is being finalised
- › Our carbon emission intensity reduced by 10%
- › We beat our water intensity target by 18%, with Grooteegeluk, Leeuwpán and North Block Colliery recycling 60% to 80% of their water
- › We continue to deliver on our social and labour plan (SLP) projects, with only 15% behind schedule. Our social spend is concentrated at our operations in the Mpumalanga and Limpopo provinces
- › In 2017, we established the Exxaro enterprise supplier development forum to drive our projects, with a new emphasis on supplier development to ensure the sustainability of projects and growth of small business entrepreneurs.

Operational performance is summarised on page 80, and detailed in our results announcement at <http://www.exxaro-reports.co.za/results/annuals-2018/index.php>. Importantly, our confidence in the future of our core coal business is reflected in the scale (R15,6 billion) of projects now under way:

- › In the **Waterberg**: at Grooteegeluk, the R4,8 billion expansion of the GG6 plant will add around 1,7Mtpa of semi-soft coking coal by 2020. The R1,3 billion rapid load-out station will enhance our operating efficiency and support our export drive by the first half of 2019. Phase 1 (early works costing R67 million) has been initiated for Thabametsi mine and will be completed by end-2018. This mine will supply around 4Mtpa of thermal coal to the new independent power producer, but we will only proceed with full implementation (phase 2) once a final notice to proceed has been obtained from the independent power producer.
- › In **Mpumalanga**, our R3,3 billion Belfast mine is under way, with first production of 2,7Mtpa thermal coal scheduled for the first half of 2020. A project to extend the life of Leeuwpán and add 2,7Mtpa of thermal coal is under construction, with first production expected in the second half of 2018. Disappointingly, the project to relocate the shaft at Matla mine 1 still awaits Eskom approval.

Outlook

Snapshot of 2018 expectations

Global

- › Strong economic growth momentum and high levels of investor and business confidence
- › Stable international coal markets: China's domestic coal policy will continue driving markets
- › Strong Chinese steel production to partly offset additional iron ore supply.

South Africa

- › Favourable global environment and positive foreign sentiment expected to support South Africa's growth prospects
- › Stable thermal coal trading conditions
- › Encouraging political developments: downgrade of local currency to sub-investment grade by Moody's unlikely
- › Volatile rand exchange rate.

In 2017, the best global economic growth rate in seven years was supported by sound macro-economic policies. This enabled key world economies to grow at or above trend. Barring any shock, this global expansion momentum is expected to continue into 2018.

Relatively stable international coal markets are expected in 2018, with China's domestic coal policy remaining instrumental in determining the seaborne price determination and/or direction of change. However, given the tight current thermal coal market in China, price declines are expected to be slow and limited, despite ongoing domestic policy intervention.

In South Africa, the current favourable global environment - strong global growth outlook and rising global trade volumes - and positive foreign sentiment are expected to support the country's growth prospects. However, in the longer term, structural impediments continue to restrict the full economic growth potential.

Following recent encouraging political developments, a downgrade of the local currency to sub-investment grade by Moody's is now unlikely, but fiscal budget deficit challenges and the recent strength of the US dollar will prolong the extreme volatility of the rand exchange rate.

For our industry, the state president's call to all parties to return to the drawing board to find a negotiated settlement on the mining charter is encouraging. Mining is still an important sector in the national economy, and an end to the impasse that has done so much damage is good news.

Our coal portfolio optimisation is on track and, while the debate on climate change risk continues, we are looking beyond coal.

Looking first at prospects for our coal business, we expect improved operational results in the first half of 2018 primarily driven by:

- › Good export prices, leading to a shortage of coal in domestic markets, in turn underpinning stronger domestic prices
- › Medupi offtake is expected to follow minimum coal supply agreement volumes. This will be the first commercial year for agreed minimum contract volumes
- › Stable seaborne demand internationally. A relatively stable international thermal coal market is expected for the first half of 2018. The iron ore market remains well supplied and is expected to soften somewhat as further volumes enter the market
- › Our operational excellence process delivering sustainably improved results, as well as technology and innovation improvements starting to contribute after establishing the innovation project office.

Although coal remains Exxaro's primary business commodity, as a purpose-driven business, we are slowly exploring other opportunities to develop, prioritise, fund and commercialise new businesses in a stage-gate governed process that will add value to people's lives. We are exploring new businesses in smart renewable energy, water and food, believing that we can provide solutions to global challenges in these areas.

The types of businesses we are exploring are capital-light, fast-growing with high returns and rapid development. A small team is exploring select opportunities in the water and agriculture segment.

Underpinned by steady progress in our renewable energy joint venture, we are confident of our success in these areas. Our business of tomorrow team has evaluated over 200 local and international opportunities in the last 18 months. While these are not expected to make a significant contribution in the next five years, our coal business would by then have reached steady state from current projects under development.

Appreciation

Dr Len Konar retires as both a non-executive director and chairman of our board in May 2018. On behalf of the board and my executive team, we thank Len for his leadership and valuable contribution throughout his tenure. His resilience, acumen and deep business knowledge have stood Exxaro in good stead.



MDM Mgojo
Chief executive officer

18 April 2018

FINANCIAL REVIEW

Finance director's review

Replacement BEE transaction

Shareholders approved the replacement BEE transaction on 20 November 2017 and, on 11 December 2017, Exxaro implemented the transaction. The accounting impact of the replacement transaction on the group is that Eyesizwe (RF) is consolidated as Exxaro has control over Eyesizwe (RF) in terms of IFRS 10 *Consolidated Financial Statements*:

- › The shares held by Eyesizwe (RF) in Exxaro are treated as treasury shares
- › The preference share liability of Eyesizwe (RF) of R2 478 million, raised as part of its funding structure, is recognised as a financial liability for the Exxaro group
- › A share-based payment expense of R4 245 million is recognised in profit or loss, which relates to the potential benefit obtained by the BEE parties.

Financial performance

The group's net operating profit for 2017 increased by 17% (R860 million) to R6 060 million compared to 2016. The coal business benefited from higher selling prices and volumes while the group's results were impacted by various once-off transactions, including costs associated with implementing the replacement BEE transaction (R4 339 million), and a net gain realised on partial disposal of our shareholding in Tronox Limited (R5 191 million).

Income from equity-accounted investments of R2 123 million for 2017 (2016: R2 373 million) decreased by 11%. Although there was a positive impact from a recovery in iron ore export prices coupled with Exxaro's share of an impairment reversal of property, plant and equipment (R716 million net of tax) from SIOC, this was partly offset by R1 271 million, constituting Exxaro's share of the loss incurred by Tronox on disposing of its alkali chemicals business in September 2017.

Comparability of results

Corporate transactions implemented in 2017 and 2016 have required a change in segmental reporting structures and the manner in which operating results are reported to the chief

operating decision maker. Refer to notes 4 and 5 of the reviewed condensed consolidated annual financial statements for additional information.

The key transactions shown on the following page should be taken into account for a better understanding of the comparability of results for the two years.



A significant uptick in **commodity prices** was recorded in 2017. The API4 coal price averaged **US\$84 per tonne**, compared with US\$64 in 2016. Iron ore fines prices increased **22%**, averaging **US\$71 per tonne** compared to US\$58 in the previous year. The **26%** increase in average titanium dioxide (TiO₂) pigment prices in 2017 also contributed to our group results.

Key transactions impacting comparability

Reporting segment	Description	2017 Rm	(Re-presented) 2016 Rm
Coal	<ul style="list-style-type: none"> – Insurance claim received by Leeuwpan from external parties¹ – Loss on disposal of property, plant and equipment¹ 	3 (62)	(10) 100 203 (45)
Ferrous			(100) (1)
TiO ₂ and alkali chemicals	<ul style="list-style-type: none"> – Loss on dilution of shareholding in Tronox Limited¹ – Gain on partial disposal of investment in Tronox Limited including recycling the foreign currency translation reserve, offset by a loss on recycling the financial instruments revaluation reserve to profit or loss^{1,2} 	(106) 5 191	(36)
Other	<ul style="list-style-type: none"> – Receivable from Mayoko iron ore project written off – Loss on disposal of property, plant and equipment¹ – Fair value adjustment on contingent consideration relating to acquisition of ECC – Recycling foreign currency translation reserve on liquidation of foreign entities to profit or loss¹ – BEE credentials expense and transaction costs 	(27) (2) (354) (58) (4 339)	670 10 (445) (87)
Group	Total net operating profit impact	246	259
Coal	<ul style="list-style-type: none"> – Tax on disposal of property, plant and equipment¹ – Tax on insurance claim received by Leeuwpan¹ 	18 (1)	13 35 (16) 1
Ferrous	<ul style="list-style-type: none"> – Post-tax share of SIOC loss on disposal of property, plant and equipment¹ – Post-tax share of SIOC reversal of impairment of property, plant and equipment¹ 	(11) 716	27 221 (28) (1)
TiO ₂ and alkali chemicals	<ul style="list-style-type: none"> – Post-tax share of Tronox Limited loss on disposing of alkali chemical business¹ – Post-tax share of Tronox gain on disposal of property, plant and equipment¹ 	(1 271) 1	(9) 4
Net financing cost	– Eyesizwe (RF) preference dividend accrued (consolidation impact)	(11)	
Group	Total attributable earnings impact	(313)	506

¹ Excluded from headline earnings.² The loss on recycling of the financial instruments revaluation reserve to profit or loss of R1 million is not a headline earnings adjustment.

Group segment results

Rm	Revenue		Net operating profit/(loss)	
	2017 Audited	2016 Audited	2017 Audited	2016 Audited
Coal	22 553	20 673	6 009	5 166
– Tied ¹	3 256	3 483	133	226
– Commercial	19 297	17 190	5 876	4 940
Ferrous	243	170	53	(47)
– Alloys	243	170	54	(75)
– Other			(1)	28
TiO₂ and alkali chemicals			5 085	(36)
Other	17	54	(5 087)	117
Total	22 813	20 897	6 060	5 200

¹ Mines managed on behalf of and supplying their entire production to Eskom in terms of contractual agreements.

Financial and operational results

Group financial results

Revenue

Consolidated group revenue increased 9% to R22 813 million (2016: R20 897 million) mainly due to higher coal selling prices and higher Eskom commercial volumes at Grootegeluk based on demand from Medupi power station. The average price per tonne achieved on export sales was US\$69 (2016: US\$50). A stronger average spot exchange rate of R13,30 to the US dollar for 2017 (2016: R14,69) was realised, an appreciation of around 9%.

Earnings

Earnings, which include Exxaro's equity-accounted investments in associates and joint ventures, were R5 982 million (2016: R5 679 million) or 1 923 cents per share (2016: 1 600 cents per share), impacted by the various once-off transactions.

Headline earnings were 66% lower at R1 560 million (2016: R4 621 million) or 502 cents per share (2016: 1 302 cents per share), primarily driven by replacement BEE transaction costs of R4 339 million (1 395 cents per share), which are not adjusted for in headline earnings.

Equity-accounted income/(loss) (Rm)

	Equity-accounted income/(loss)		Dividends received	
	2017 Audited	2016 Audited	2017 Audited	2016 Audited
SIOC ¹	3 303	2 416	1 390	
Tronox ²	(1 643)	(384)	109	298
Mafube	259	238		450
Black Mountain	226	100		
Cennergi	2	3		
RBCT ³	(24)			
Total	2 123	2 373	1 499	748

¹ 2017 includes R716 million (net of tax) for Exxaro's share of property, plant and equipment impairment reversal; 2016 includes R221 million excess of fair value over the cost of the investment which arose on the 0,64% increase in Exxaro's shareholding in SIOC.

² Tronox Limited investment (excluding the 26% shareholding in South African and UK operations) has been classified as a non-current asset held-for-sale on 30 September 2017 when application of the equity method ceased. 2017 includes R1 271 million for Exxaro's share of the loss on disposing the alkali chemicals business.

³ 2017 includes R35 million excess of fair value over the cost of the investment which arose on the increase in the shareholding in RBCT, offset by R35 million equity-accounted loss.

Cash flow and funding

Cash flow generated by operations increased R1 277 million to R6 826 million (2016: R5 549 million), mainly due to higher revenue.

Cash flows from investing activities rose R6 575 million to a net inflow of R4 377 million (2016: R2 198 million net outflow), mainly due to the partial disposal of our investment in Tronox Limited, realising net proceeds of US\$474 million (R6 525 million) and dividends received of R1 499 million (2016: R748 million) comprising R1 390 million from SIOC (2016: Rnil) and R109 million (2016: R298 million) from our investment in Tronox Limited.

Cash flows from financing activities decreased R7 844 million to a net outflow of R6 361 million (2016: R1 483 million net inflow), mainly due to repurchasing Exxaro ordinary shares worth R3 524 million from Main Street 333 (majority shareholder in our first BEE transaction) in January 2017, using cash generated from our own operations, as well as the second repurchase of R2 695 million from Main Street 333 as part of implementing the replacement BEE transaction.

Debt exposure

The group had net cash of R84 million at 31 December 2017 compared to net debt of R1 322 million at 31 December 2016.

The net cash position of R84 million includes R2 478 million preference share liability recognised as a result of consolidating Eyesizwe (RF).

Exxaro's balance sheet structure remains strong. In 2017, Standard & Poor's upgraded our domestic credit ratings to zaBBB.

Coal business performance

Unreviewed coal production and sales volumes (000 tonnes)

	Production		Sales	
	2017	2016	2017	2016
Thermal	42 843	40 811	43 258	42 489
Tied	7 400	7 900	7 403	7 893
Commercial	35 443	32 911	35 855	34 596
– Domestic			28 243	26 738
– Export			7 612	7 858
Metallurgical	2 132	1 985	1 190	1 298
– Commercial domestic	2 132	1 985	1 190	1 298
Total coal	44 975	42 796	44 448	43 787
Semi-coke	86	54	88	65
Total coal (excluding buy-ins)	45 061	42 850	44 536	43 852
Thermal coal buy-ins	504	606		
Total coal (including buy-ins)	45 565	43 456	44 536	43 852

International seaborne trade remained strong in 2017, largely owing to sustained demand in Asia Pacific. The slow increase in coal demand out of China was met with production challenges in both Indonesia and Australia due to adverse weather conditions (heavy rainfalls in Indonesia and cyclone Derby in Australia). South Africa filled the gap left by Australia in South Korea and the sustained freight arbitrage favoured South African supply.

India, on the other hand, remained the flagship market for South African coal as demand was relatively stable for lower-grade material after a sluggish start to the year. European coal demand increased slightly after France placed some of its nuclear power plants under care and maintenance. Overall, there were strong fundamentals supporting bullish sentiment that saw international API4 coal prices across indexes trading around US\$100 per tonne at year end.

Trading conditions in the domestic market were strong in 2017, as consumers sought all grades of coal. Demand from the export market remained buoyant on strong international thermal coal prices offset by a stronger rand/US\$ exchange rate. Exxaro recorded strong demand for all its products in domestic segments.

The benchmark API4 RBCT export price averaged US\$84 per tonne versus US\$64 in 2016, ending the year at US\$95 per tonne.

Export volumes decreased from 7,9Mt in 2016 to 7,6Mt in 2017, mainly on lower volumes from ECC, lower buy-ins and congestion at RBCT due to adverse weather. The group realised an average export price of US\$69 per tonne in 2017 against US\$50 in 2016.

Production and sales volumes

Overall coal production volumes (excluding buy-ins) were 5% (2 179kt) higher than 2016. This is mainly due to higher production at Grootegeluk in line with addendum 9 to the Medupi coal supply agreement. Although production was higher, sales volumes were only 2% higher (661kt) due to strategic stockpiling at Grootegeluk.

Metallurgical coal

Grootegeluk's metallurgical coal production was 147kt (7%) higher on additional production from its GG10 plant and fewer unplanned operational interruptions as a result of increased maintenance and improvements to the plant waste system (backfill and plant conveyors).

Thermal coal

Tied mines

Power station coal production from Matla was 500kt (6%) lower due to the shortwall stop from December 2016 to May 2017 and unfavourable geological conditions.

Commercial mines

The commercial mines' thermal coal production rose by 2 532kt (8%). This reflected increased production, mainly at Grootegeluk, of 2 789kt (14%) after ramping up volumes in line with the Medupi coal supply agreement and higher production from ECC of 156kt (4%) mainly as a result of higher production at DCM West and FZO South.

The increase was partly offset by lower production at Leeuwpán of 419kt (11%) due to lower production in the crush and screen plant, dismantling of the jig plant, lower run of mine availability, industrial action and lower overburden removal, as well as lower production at Mafube of 112kt (18%).

Domestic thermal coal sales from commercial mines rose 1 505kt (6%) on increased sales at Grootegeluk of 1 988kt (10%) to Medupi and higher sales at ECC 171kt (34%) mainly due to more sized product available and more discard rewash product available for sale at FZO South.

The increase was partly offset by no power station coal sales from Leeuwpán in 2017 (2016: 416kt) after the Eskom supply agreement was terminated and this coal redirected into the export market, as well as lower other domestic sales by Leeuwpán of 480kt (17%) and lower North Block Complex (NBC) sales of 162kt (5%) after its coal supply agreement with Eskom expired. This contract has subsequently been extended to June 2018.

Semi-coke production was 32kt (59%) higher on increased demand in the ferrochrome industry.

Revenue and net operating profit

Coal revenue of R22 553 million was 9% above 2016 (R20 673 million). Increased revenue from commercial mines reflects higher selling prices and increased Eskom volumes. This was partly offset by lower semi-coke domestic sales volumes.

Net operating profit of R6 009 million (2016: R5 166 million) rose 16%, at an operating margin of 27%, mainly due to higher prices (R2 242 million); higher volumes (R445 million) and net scope changes on environmental rehabilitation provisions (R168 million).

This was partly offset by exchange rate variance due to stronger local currency against the US dollar (R272 million); inflation (R505 million); product mix variance at Exxaro International Trading AG (R307 million); closure of Inyanda and subsequent disposal (R235 million); additional outside services for mining contractors (R255 million); and proceeds on sale of South Dunes Coal Terminal (SDCT) in 2016 (R203 million).

Ferrous business

Net operating profit

Net operating profit rose R100 million to R53 million in 2017 from the net operating loss of R47 million reported for 2016. The increase is mainly the result of a R100 million pre-tax impairment charge of the ferrosilicon plant at FerroAlloys accounted for in 2016.

Equity-accounted investments

The R887 million increase in equity-accounted income from SIOC to R3 303 million in 2017 largely reflects higher export iron ore prices, and Exxaro's share of a post-tax impairment reversal of R716 million for property, plant and equipment. An interim dividend of R1 390 million was received from SIOC in 2017 (2016: nil). A final dividend, of which Exxaro's share will be R1 306 million, was declared on 8 February 2018.

Titanium dioxide and alkali chemicals

Equity-accounted investment

Equity-accounted losses from the Tronox investment increased from R384 million in 2016 to R1 643 million in 2017, mainly due to our share of the loss realised on disposing of the alkali chemicals business in September 2017 of R1 271 million.

The Tronox Limited investment was classified as a non-current asset held-for-sale on 30 September 2017 and application of the equity method ceased on that date. As the Tronox investment represents a major geographical area of operation and represents the majority of the TiO₂ and alkali chemicals reportable operating segment, the nine months' results of Tronox Limited were presented as a discontinued operation.

Subsequent to classification as a non-current asset held-for-sale, Exxaro completed an initial offering of 22,4 million class A Tronox Limited shares. This partial disposal reduced our shareholding from 51,2 million to 28,8 million shares, representing 23,66% of the total outstanding voting shares of Tronox Limited at 31 December 2017.

We will continue to assess market conditions for further possible sales of our remaining investment.

Energy business

Equity-accounted investment

Equity-accounted income from Cennergi, a 50% joint venture with Tata Power, was flat at R2 million for 2017 (2016: R3 million). The two windfarm projects brought into commercial operation in 3Q16 are running at planned capacity. 2017 represents a full year of revenue generation, offset by a full year of depreciation and finance costs expensed to profit or loss.

Sale of non-core assets and investments

As part of optimising our coal portfolio, we concluded a sale of shares agreement with Universal for ECC's 100% shareholding in Manyeka, which includes a 51% interest in Eloff. The sale is conditional on competition approval and section 11 approval under the MPRDA to transfer the mining right. The investment in Manyeka has been classified as a non-current asset held-for-sale on 30 September 2017. On 31 December 2017, conditions precedent to the sale agreement had not yet been met.

In addition, we decided to divest from the NBC operation in a process that began in August 2017. On 31 December 2017, the NBC operation has been classified as a non-current asset held-for-sale. On 2 March 2018, Exxaro concluded a sale agreement.

Performance against new BBBEE codes and mining charter

Exxaro currently has a level 6 contribution status. Gaps to improve this status have been analysed, with enterprise and supplier development identified as an area to receive greater focus in future.

The revised mining charter (mining charter III) has not yet been gazetted, and the industry should have clarity by the end of 2018 on new legislation. So far, interactions with South Africa's new president and minister for mineral resources on this subject have been encouraging.

Additional information on replacement BEE transaction

In the circular to shareholders dated 23 October 2017, Exxaro noted that a portion of its shareholding in Eyesizwe (RF) is earmarked for the empowerment of communities and employees. We have undertaken to finalise an appropriate structure to transfer no less than 10% of Exxaro's equity holding in Eyesizwe (RF) for the empowerment of relevant employees and communities by 30 June 2018 and, in consultation with the IDC and PIC, to pursue the possibility of listing the shares of Eyesizwe (RF) on a stock exchange that restricts trading to HDSA parties by no later than 30 November 2018, to further broaden our BEE shareholding base.

Mine closure and environmental liabilities

Financial provisioning regulations in terms of NEMA were republished on 10 November 2017 for comment, reflecting favourable changes from the original December 2015 version.

The latest version of the NEMA financial provisioning regulations (GNR 1228) will have less of an impact on Exxaro. In principle, Exxaro already complies with most of the requirements.

Special dividend

In October 2017, Exxaro sold a portion of its shareholding in Tronox Limited. In assessing the application of these proceeds, the board of directors considered Exxaro's growth prospects, future capital commitments, repayment of debt and return of capital to shareholders. On 13 February 2018, Exxaro declared a special dividend of R4 502 million out of income reserves, which equates to 1 255 cents per share. The dividend was paid on 5 March 2018 to shareholders on the register on 2 March 2018.

Final dividend

Exxaro's dividend policy is based on a cover ratio of 2,5 to 3,5 times core attributable earnings. We continuously review this policy to ensure our dividend payouts are sustainable. As such, we are proud that we were able to declare a final dividend of 400 cents for the review period, bringing our total 2017 dividend to 700 cents per share.



PA Koppeschaar
Finance director

18 April 2018

OPERATIONAL OVERVIEW

This summary is focused on our progress against strategic objectives. Please refer to detailed results announcement on our website at <http://www.exxaro.com/>.

Total coal production
5%

Total coal sales
↑ 2%

Export sales volumes
↓ 3%
(congestion at RBCT in 1H17)

Thermal coal production from commercial mines
↑ 5%
Ramp-up at Medupi

Thermal coal production and sales from tied mines
↓ 6%
(five-month stoppage at Matla mine 3, requested by Eskom, to manage qualities)

Coal capital expenditure
↑ 38%
(mainly maintenance and sustaining capex at Grootegeluk)

Major contracts - update

Arnot - arbitration on contractual arrangements with Eskom under way

Matla - large capital projects unfunded by Eskom, arbitration under way. Mine 1 on care and maintenance, mines 2 and 3 producing 75% of contracted volumes

Waterberg - coal export agreement signed with Transnet, guaranteeing rail capacity at affordable tariffs to support Grootegeluk's export growth projects

Major projects - update

Thabametsi - coal supply and infrastructure agreements being finalised. Construction of bulk water pipeline and power line completed in December 2017 (page 41)

Belfast - with all licences authorised, construction began in October 2017. First production expected in 1H20

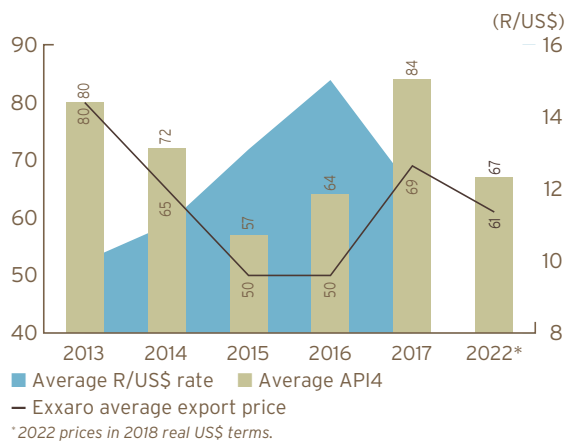
Leeuwpan - required licences granted and construction under way

Strategic objectives

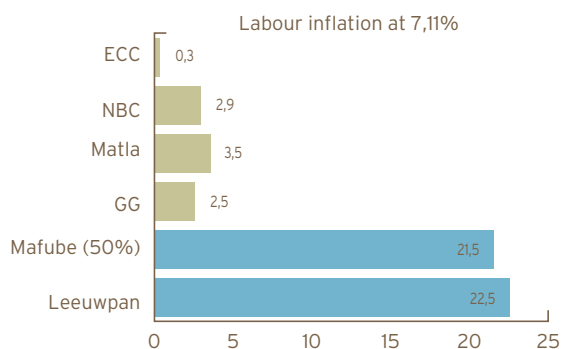
PILLAR	OBJECTIVES	PROGRESS
Portfolio excellence	Robust portfolio composition	
	Well-packaged, timely divestments	Sales of North Block Complex and Eloff under way
	Value creating acquisitions	R119 million on investigating new business opportunities - business of tomorrow
Marketing excellence	Market-to-resource, value-in-use	Diversified product portfolio supports strong increase in average prices realised
	Step change in marketing practices	
Innovation excellence	Data collection and visibility	R900 million allocated provisionally to digitisation initiatives over five years at all business units to enhance operational efficiency R500 million for future water management requirements
	Next generation mining	Identified over 500 digitisation/innovation opportunities across our core and support functions. We are implementing prioritised initiatives to drive value in key areas: increased production, throughput and uptime; reduced cost, improved quality; improved safety and environmental performance; enhanced people performance; improved vendor and contractor management; greater visibility across operational and functional areas and better access to information
	Agile business model	
Operational excellence	Optimised throughput	Production up 5%
	Unit cost reduction	Labour unit cost increase below inflation at all mines, except Leeuwpans (only 8% of total production)
	Entrench improvement culture	Operational excellence process focused on improving volume, cost and productivity Top five initiatives at business units reduced costs 4% year on year. Integrated process is the basis of changing and improving business plans - each business unit defines top five initiatives focused on improving most sensitive KPIs and addressing key opportunities
Capital management excellence	Systematic capital allocation	Stringent internal governance processes, expansion capex of R600 million ramps up to R3,8 billion in FY18
	Project development	Projects totalling R13,8 billion under way
	Project execution	Detailed timelines in place, remuneration incentives against project KPIs

OPERATIONAL OVERVIEW (CONTINUED)

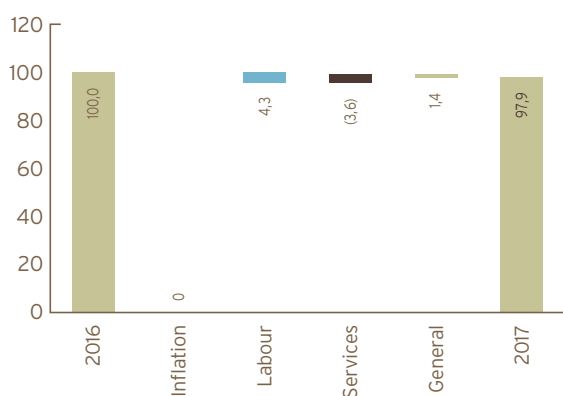
Average realised prices (US\$)



Labour unit cost (%)



Grootegeeluk cash cost in real terms (R/t indexed)

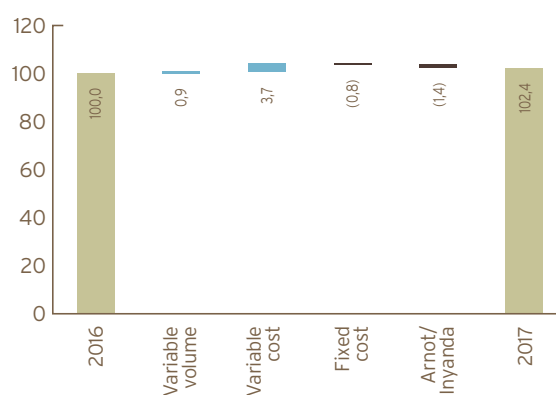


In 2017, we continued our drive for operational excellence throughout our coal business. This process is focused on continually improving the business in a structured programme focused on:

- › Increasing mine throughput
- › Decreasing total cost
- › Improving overall efficiencies.

As a result, our coal business has decreased the average unit cash cost annually and kept unavoidable increases below the targeted inflation line.

Coal cash cost in real terms (Rm indexed)



In the latter part of 2016, we initiated our drive towards digitisation and innovation by developing roadmaps for each business unit. These roadmaps will be completed in the current year, aimed at harnessing disruptive technologies and their subsequent improvement opportunities.

Innovation and information management

Innovation is imperative in a competitive, global industry facing multiple challenges. Successful mining companies of the future will be characterised by their flexibility in anticipating and meeting demand cost effectively, safely and profitably. Exxaro is pursuing innovation through digitisation in mining and beyond to drive diversification and growth.

In the past year, we assessed digitisation opportunities at all our coal business units, identifying almost 600 potential initiatives. In addition, functional innovation assessments identified over 600 possible opportunities to improve and realise value in several areas:

- › Increase production throughput and equipment uptime
- › Reduce cost
- › Improve quality
- › Increase safety and environmental performance
- › Increase people performance
- › Improve vendor and contractor management
- › Increase visibility of information across operational and functional silos
- › Improve ease of access to information.

To achieve the strategic objective of operational digitisation and functional innovation, we established an innovation programme office. This office manages initiatives emanating from operational business units and functional teams. Implementation began in the final quarter of 2017 with over 20 “quick wins” and continues with the first batch of prioritised 2018 initiatives.

To enable the innovation and digitisation journey, a cloud-based integrated Exxaro digital platform will be established to:

- › Provide seamless connectivity, ensuring we realise the full benefit of implementing digital innovation initiatives
- › Provide analytical capabilities across operational and functional boundaries
- › Enable the migration of all enterprise solutions to the cloud
- › Reduce hardware and software replacement costs significantly.

Titanium dioxide (TiO₂) and alkali chemicals

During the year, we reduced our holding in Tronox Limited from 43,66% to 23,66%, reflecting a key priority in delivering on our strategy. We intend to sell our remaining interest in a staged process. In line with our capital allocation strategy and the pillar of returning cash to shareholders, we paid a special dividend of R12,55 per share from these proceeds.

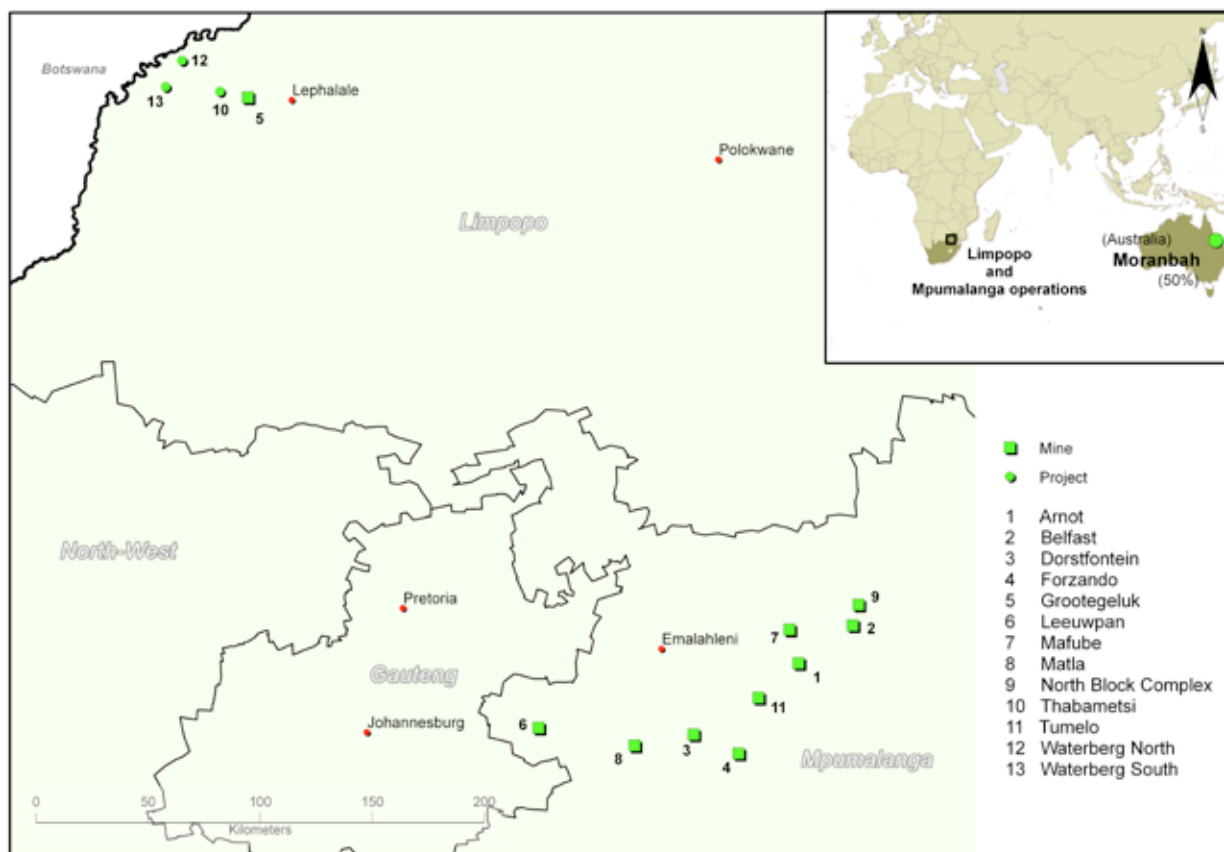


MINERAL RESOURCES AND RESERVES

The Belfast mine in Mpumalanga is under construction. This R3,3 billion development is the latest high value-add coal mine under Exxaro's stewardship. The mine will ensure a thriving coal business in the region and Exxaro's sustainability through strategic portfolio growth.

The R4,8 billion expansion of the Grooteegeluk Complex, the GG6 beneficiation plant, will ensure increased throughput and enhanced processing efficiencies to ramp up export coal production. The project aims to triple the capacity of the current GG6 plant, producing semi-soft coking coal, suitable for the export market, as well as power station coal.

Locations of our coal operations and projects at a glance



Exxaro has a world-class coal resource portfolio, comprising fully owned operations and projects and a number of jointly owned operations and projects in South Africa and Australia. The fully owned operations and projects in South Africa lie in both the large and highly prospective Waterberg coalfield in Limpopo and the more mature Highveld and Witbank coalfields in Mpumalanga.

Since inception in 2006, Exxaro's total attributable coal resource and reserve figures have been stable. This trend can primarily be ascribed to the relatively large Waterberg coal deposits, particularly the remarkable Grootegeluk Complex. Estimated to contain 40 to 50% of South Africa's remaining coal resources, the Waterberg is viewed as the future of South African coal mining. Exxaro holds an estimated 3 billion tonnes of measured and around 1,8 billion tonnes of indicated coal resources in the Waterberg, primarily in Grootegeluk mine and the adjacent mining right of Thabametsi. The complex provides thermal coal reserves to Eskom's Matimba and newly commissioned Medupi power stations, and produces semi-soft coking and metallurgical coal through eight beneficiation plants (annual production of 25Mt).

The Grootegeluk Complex is continuously evolving, illustrated by a number of large value unlocking projects. While these

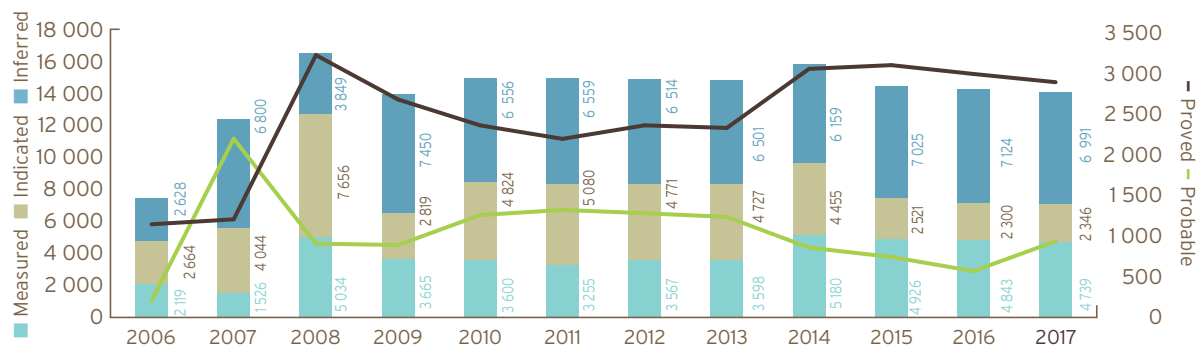
projects underline the resourcefulness of our people, they also demonstrate the successful implementation of innovative and breakthrough technology.

To an extent, the size of the Grootegeluk Complex obscures changes in mineral resource and reserve figures from events within the smaller Witbank and Highveld coalfields. Divestment from the New Clydesdale Colliery (NCC) coal mine, closure of Inyanda mine (both 2014), incorporation of Total Coal South Africa (renamed Exxaro Coal Central or ECC) in 2014 and divestment from the Eloff project (2017) had impacts on Exxaro's reported figures in recent years. The decrease in total coal resources but steady increase in the level of confidence (resource categories) of coal resources (2014 to 2017) in Mpumalanga are predominantly due to the continuous optimisation of the ECC asset portfolio.

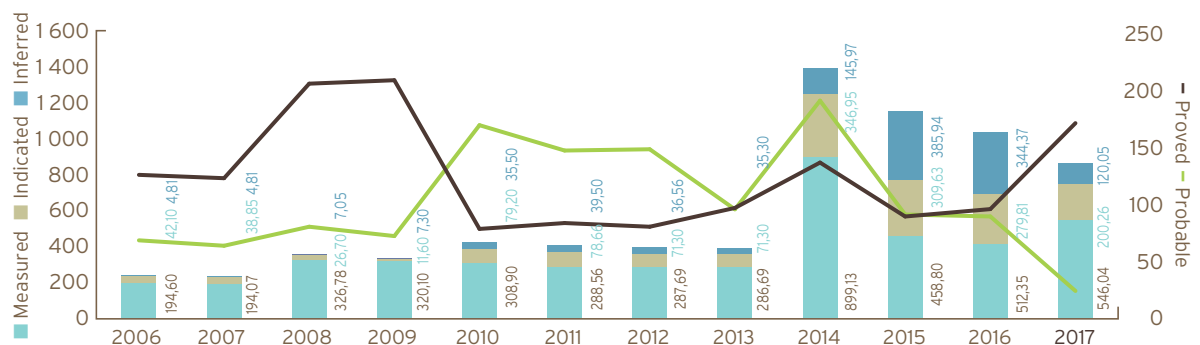
The 2017 Exxaro total attributable coal resource decreased slightly (some 1,5%) mainly due to mining depletion as well as our divestment from the Eloff coal project, near the town of Delmas in Mpumalanga. In contrast, total attributable coal reserves increased by around 7%, primarily due to the new Grootegeluk mine plan and mine planning optimisation at the Dorstfontein and Forzando coal operations.

Our resource and reserve estimates over time

Exxaro attributable coal resources and reserves (Mt)



Mpumalanga: Coal resources and reserves (excluding Matla and Arnot) (Mt)

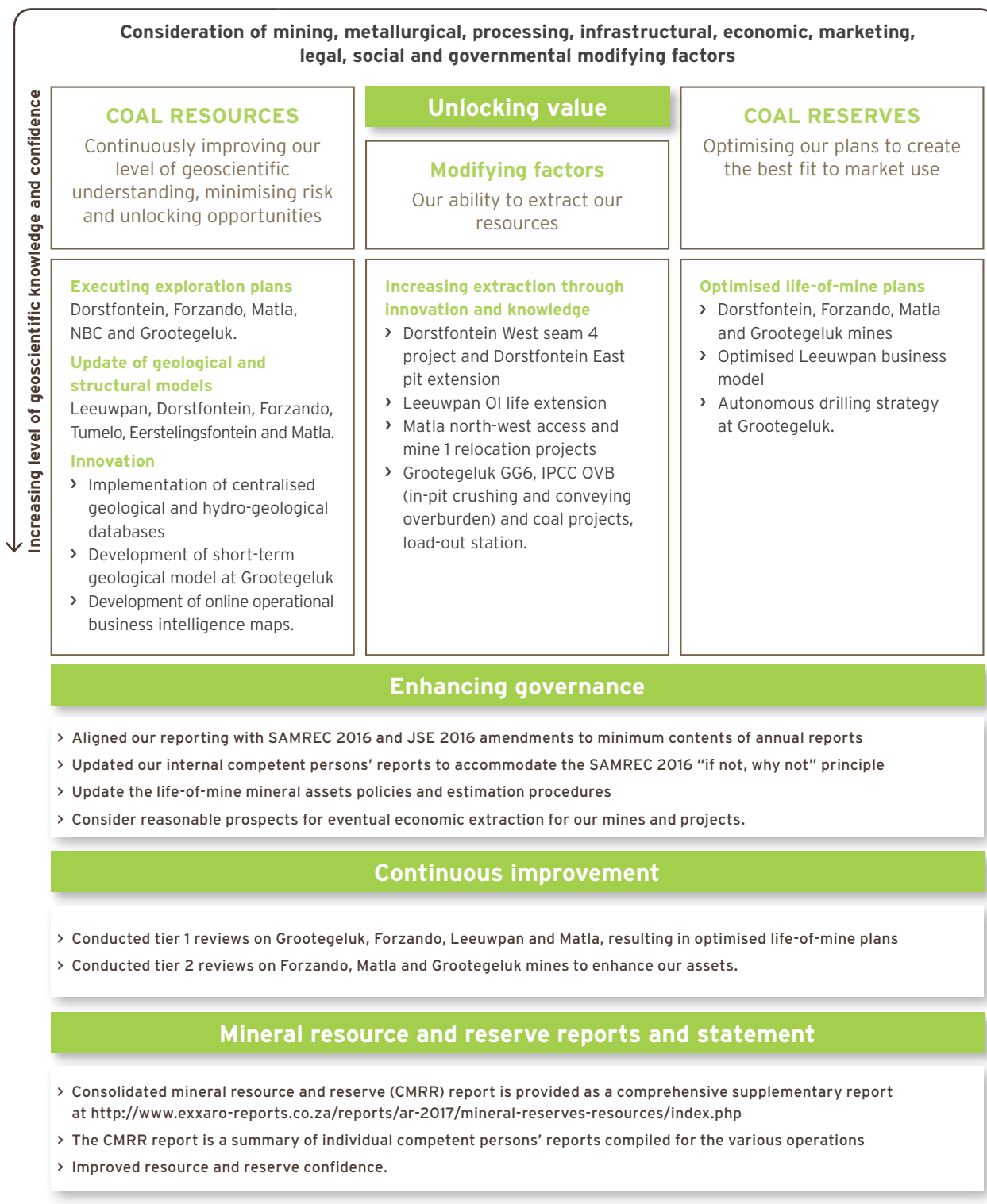


MINERAL RESOURCES AND RESERVES (CONTINUED)

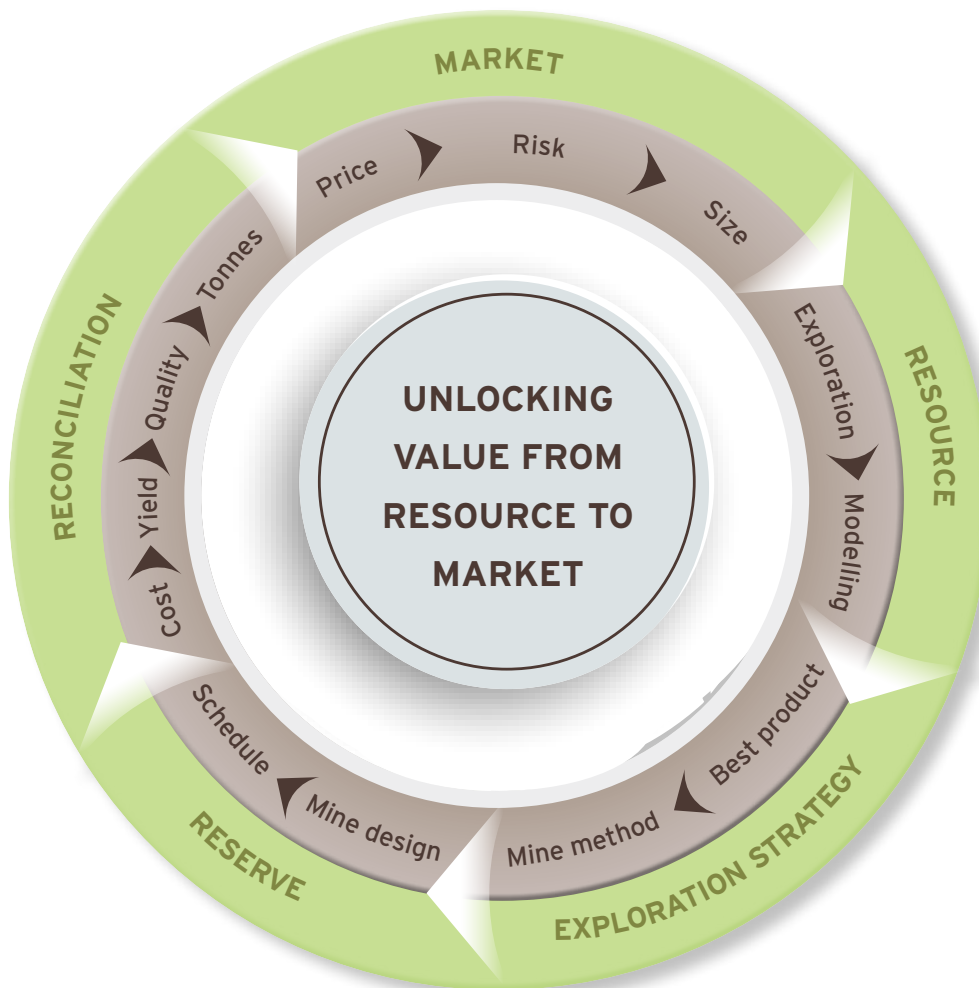
Unlocking value in the estimation process

In 2017, we continued to focus on unlocking value at our operations.

We are acutely aware that our success as a mining company is built on the integrity of our mineral resources and the effectiveness with which we exploit and extract these resources. Below, we illustrate our value creation approach to coal resources and reserves and some related successes in the reporting period.



The purpose of the life-of-mine planning underlying our resource and reserve estimation is to unlock maximum value from the coal in the ground for Exxaro, taking margin and net value into consideration. Each orebody has a unique mining methodology, processing parameters and targeted market segment that delivers maximum value to shareholders. This is impacted by updated resource information, developments in mining and processing technology and changes in market dynamics. Consequently, the optimum exploitation strategy needs to be continually reviewed to ensure applicable resources end up in the most lucrative markets. This ongoing iterative process is conceptually illustrated below. A relentless drive to reduce the environmental footprint of operations is embedded in the process, and the continuous impact of the evolving legislative landscape is reflected in designs.



> CONTINUOUS DRIVE TO UNLOCK VALUE FOR OUR EXXARO OPERATIONS AND PROJECTS

Case study: Coal price and yield maximisation



At ECC, the mines traditionally supplied a higher-quality export product. The total profit margin per tonne of mined material is continuously monitored, as higher washed quality comes at lower yield. A narrowing price between higher and lower-quality indexes prompted a recalculation, resulting in the yield increase compensating for the marginally lower price for a lower-energy export product. ECC increased its profitability substantially by moving to this market.

Case study: GG6 project at Grooteegeluk



The Grooteegeluk life-of-mine plan was reviewed and optimised in the reporting year. Substantial value was unlocked by introducing the GG6 beneficiation plant, an expansion that adds a second stage of beneficiation to the existing GG2 plant. This development will provide the option to produce a high-ash semi-soft coking coal (SSCC) suitable for the export market, in addition to power station coal. The profitability of the two options (SSCC versus power station coal) can be continuously compared, giving Exxaro the flexibility to react to changes in market conditions.

OUR REPORTING PRINCIPLES

06

Mineral resources and reserves

Exxaro is committed to the principles of materiality, transparency and competence, and continuously strives to enhance the level of estimating and reporting mineral resources and ore reserves:

We provide all the **relevant information** that investors and their **professional advisers** would reasonably require, and expect to find, to make a **reasoned and balanced judgement**

We provide **sufficient, clear and unambiguous information**

We have **qualified and experienced competent persons** who are subject to an **enforceable professional code of ethics**



OUR CONSOLIDATED EXXARO RESOURCES LIMITED MINERAL RESOURCE AND RESERVE REPORT

<http://www.exxaro-reports.co.za/reports/ar-2017/mineral-reserves-resources/index.php>

Our comprehensive mineral resource and reserve statement is included in the **consolidated Exxaro Resources Limited mineral resource and reserve (CMRR) report**, a supplementary report on our website. The content of the CMRR report is compiled from detailed independent reports received from appointed competent persons at our various operations and projects, and available on request from the group company secretary. The reported mineral resources and reserves presented here and in the CMRR report are therefore summarised versions of these reports.

In addition, each operation and project maintains an individual competent person's report (CPR) that encapsulates the systematic and detailed estimation process conducted or supervised by that person. These reports are aligned with the checklist and guideline of the reporting and assessment criteria of the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC, 2016 edition) and scrutinised and updated when required. Exxaro continuously examines various aspects of the mineral resource estimation process and, in 2017, we have aligned ourselves with the guidelines of SAMREC (2016). Exxaro has subsequently updated the internal CPRs for our operations and, in 2018, will update the project CPRs. No material changes as defined in the code have triggered the update but we considered the introduction of the "if not, why not" principle (SAMREC, 2016) as significant enough to warrant the updates.

The CMRR report is aligned with JSE Listings Requirements (section 12) and provides comprehensive information on reporting governance, competence, tenure, risk, assurance and the mineral resources and ore reserves estimates underpinning Exxaro's current operations and growth projects. Auxiliary descriptions are provided for projects and operations directly under Exxaro's management control. For projects and operations included in the Exxaro mineral resource and ore reserve statement but in which we do not have management control, the reader is referred to that company's website (referred to in the CMRR report) for supplemental information. This approach ensures maximum compliance to the principles of materiality and transparency.

OUR MINERAL RESOURCES AND RESERVES STATEMENT

06

Mineral resources and reserves

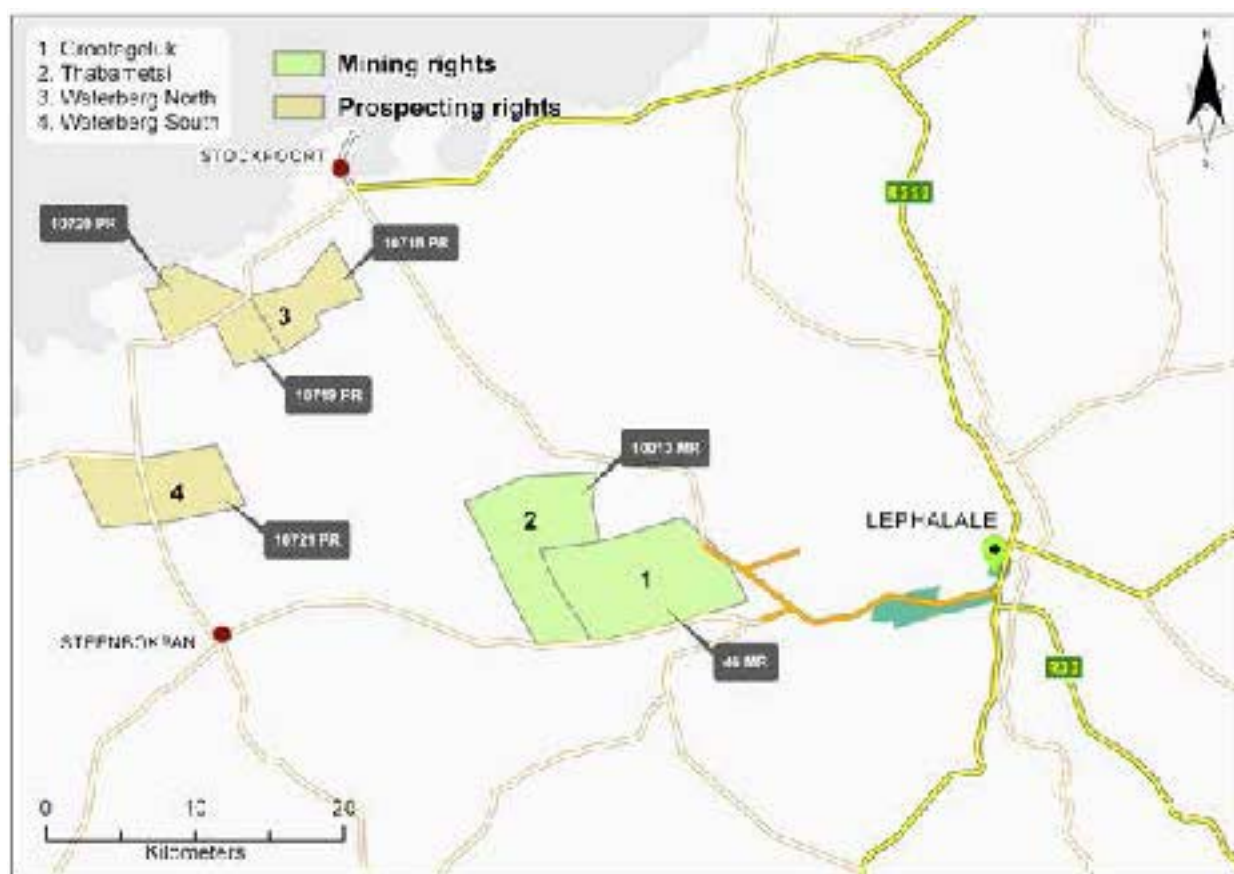
The mineral resources and ore reserves summarised in the CMRR report are reported as those remaining on 31 December 2017 and compared with the corresponding estimates reported on 31 December 2016.

There were no material changes in our total reported coal resources and reserves between 2016 and 2017.

Waterberg, Limpopo province

Based on a geological review, we have reclassified specific geological structural areas at our Grootegeluk mine to a lower resource category. This change, which resulted in a minor movement between resource categories, will be addressed in 2018 through the execution of surface geophysical surveys and subsequent infill open-hole vertical drilling. The Grootegeluk life-of-mine plan (LoMP) was reviewed and updated in the reporting period, with the construction of the GG6 (upgrading GG2 plant) beneficiation plant being the most visible value-adding initiative. The introduction of the new and fairly larger plan resulted in an increase of total resources inside the LoMP and an associated increase in reserves (around 11%).

Mining and prospecting rights in the Waterberg



The existing Grootegeluk 2 (GG2) plant historically produced power station coal and the project aims to convert the single-stage beneficiation plant to a new double-stage beneficiation plant, namely Grootegeluk 6 (GG6). The project will introduce a new small coal beneficiation plant (SCP), enabling the processing of fragments of less than 10mm and improve plant fines beneficiation using reflux classifier technology. Associated benefits are the addition of a dewatering plant, an upgrade of the two tip-bins to higher capacity and expansion of the current stockyard.

The project aims to triple the capacity of the current GG6 plant, producing a high-ash semi-soft coking coal suitable for the export market, as well as power station coal.

OUR MINERAL RESOURCES AND RESERVES STATEMENT (CONTINUED)

With production at the site expected to begin in 2020, the new GG6 plant will enable an additional throughput of 600 tonnes per hour on the run-of-mine (RoM) feed, as well as higher, more valuable yields through enhanced operational efficiencies and better beneficiation processes. In addition, the LoMP update will enhance pit geometry, creating an optimal energy stripping ratio for the mine and ensuring effective quality contaminant management (ie sulphur).

Overburden mining at Grootegeluk is continuously evolving in volume and complexity. A study to address this challenge is the in-pit crushing and conveying overburden (IPCC OVB). The project aims to replace the existing load-and-haul mining method with a more cost-effective alternative by considering mining and transporting overburden material via a bulk materials handling system. The concept study indicated significant savings from implementing a fully mobile sizing station (FMSS), bucket wheel excavator (BWE) or semi-mobile sizing station (SMSS), along with an overland conveying system and new spreader for the rehabilitation layer on top of the upper discard layer. A pre-feasibility study (PFS) is under way to identify the preferred alternative to further investigate the viability of a bulk materials handling system for overburden material.

The Grootegeluk short-term stockpile environmental impact assessment (EIA) and integrated water use licence (IWUL) were approved in May and June 2017 respectively, while the appeal against the Grootegeluk atmospheric emissions licence (AEL) was dismissed. An approval for ministerial

consent (section 102) was submitted in September 2017 to include two mine dump areas that currently fall outside the mining right. Approvals are pending and the legislative process following the submission is under way.

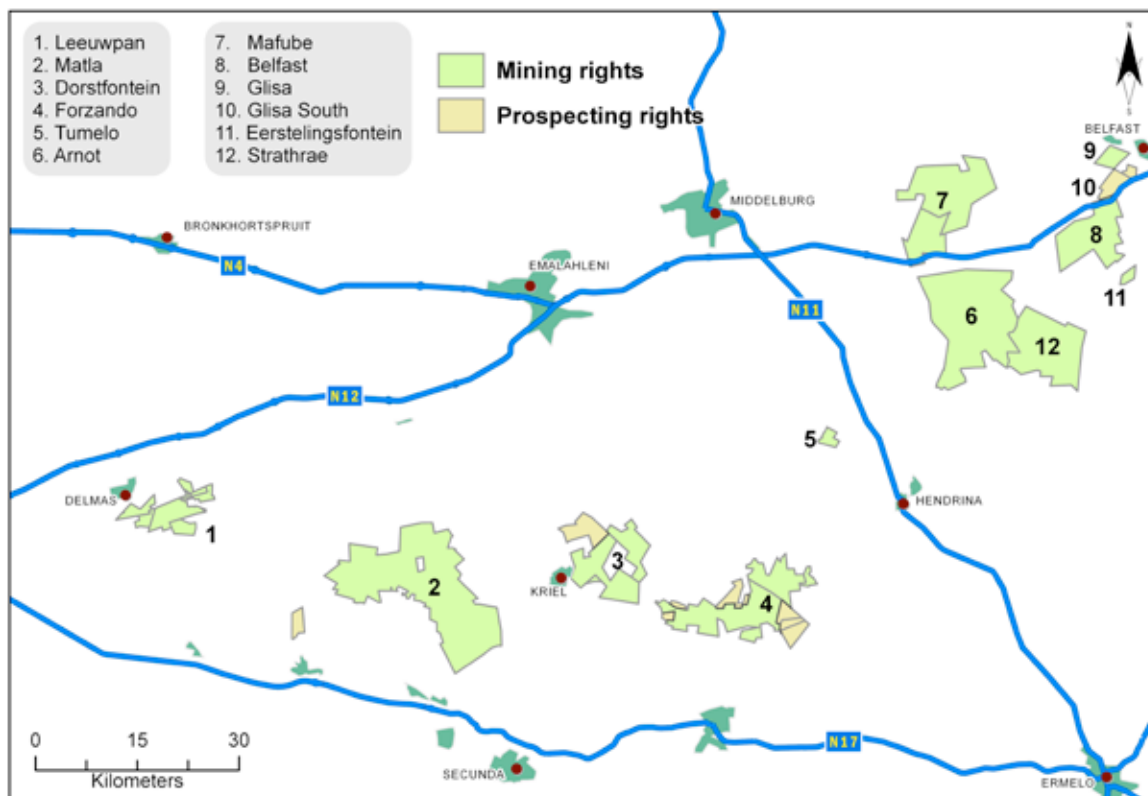
Exxaro is considering the options on four prospecting rights located some 30km north-west of Grootegeluk mine. These prospecting rights are grouped within two projects, Waterberg North and Waterberg South, and include around 3 billion tonnes of inferred resources. Two of the Waterberg North prospecting rights (Pentoville: 10719PR and Dartmore: 10720PR) renewals have been granted and executed for a period of three years. The remaining two Waterberg prospecting rights (Carolina: 10718PR and Swelpan: 10721PR) are pending renewal. A section 11 of the Mineral and Petroleum Resources Development Act, 2002 (MPRDA) to cede the rights to a prospective party for the Waterberg South project was halted after cancellation of the commercial agreement. A decision on these assets will be taken in the first half of 2018.

Mpumalanga province

Arnot, an Eskom tied mine, is in closure after Eskom terminated its coal-supply agreement.

Matla mine, an Eskom tied underground operation, is some 20km west of Kriel in Mpumalanga. A meaningful amount of new drillhole information resulted in updating the geological model and an optimised LoMP.

Mining and prospecting rights in Mpumalanga province





The updates did not result in any significant resource or reserve changes. The necessary capital for a number of projects for Matla to overcome its operational challenges has not yet been approved. As such, Matla has to access coal reserves under challenging geological and mining conditions. Thinning coal seams and inferior coal quality and roof conditions, due to the impact of intrusive dykes and sills, as well as geological faulting present challenges for coal extraction in a number of mining sections.

The high variability of seam thickness and coal quality necessitates focused exploration activities, including surface and downhole geophysical surveys as well as vertical and horizontal drilling. The operation has in addition tested the application of horizontal geophysical radar surveys which yielded only limited success.

The relocation project for mine 1 aims to provide safe access to the remaining coal reserves, and to improve efficiency after the original mine 1 entrance was closed due to safety concerns. The project consists of developing a new boxcut and tunnels to access current coal reserves. It will require the construction of new surface infrastructure, including pollution control dams, offices, overland conveyors, and crushing and screening equipment.

The second initiative is the shortwall (SW) replacement project. Mines 2 and 3 currently have both SW and continuous mining (CM) operations, but geological conditions to support SW mining methods are decreasing and will end. Remaining coal reserves will need to be mined using CM methods (5 CM and 1 stonework section), and the aim of this project is to replace soon-to-be redundant SW equipment with its CM equivalent, to ensure continued supply to Matla power station. The sections that will be acquired to replace the SW will be placed in the new mine 1 ground.

The implementation of two additional projects (the north-west access and mine 3 vent shaft) is pending. Mines 2 and 3 produce coal from seams 2 and 4 which is blended to

provide the quality of product necessary for Matla power station. Both coal seams' mineable reserves are rapidly diminishing, and both mines will have to access additional reserves. This access will be established through a decline and incline (respectively) below and above current workings. However, the current ventilation system is insufficient for increased activity in these sections, and will need to be improved. Additional ventilation will ensure worker health and safety as these new resources of coal are exposed and mined. Approval for a ministerial consent (section 102) to update the mining works programme and environmental authorisation (EA) to address changes and include stoping was submitted in the reporting period.

In line with Exxaro's commitment to unlock value, an expansion project to extend the life of mine of Leeuwpán, an open-pit operation in Delmas, Mpumalanga, by 10 years was implemented in the review period. The updated plan incorporates changes in the price structure of the export market, with higher prices for lower-energy products leading to higher yields. The R500 million optimisation project will enhance Leeuwpán's performance by better aligning access roads to the site, as well as upgrades to the existing plant and producing high-quality thermal and metallurgical coal for both the domestic and export markets. The consolidated environmental management plan (EMP) for Leeuwpán was approved in April 2017 and the environmental authorisation amendment for the expansion project was approved in November 2017. Construction of the boxcut is progressing well. Changes in the total coal resource (around -9%) and coal reserves (some -3%) are primarily the result of mining and disposal of a number of remnant resource blocks due to geotechnical considerations. Significant dyke activity and a prominent dolerite sill that overlies both the resource blocks of UB and OI (Leeuwpán expansion), negatively affecting both slope stability and coal quality, presents operational challenges for the mine. The implementation of surface geophysical surveys, infill drilling and grade control practices will be used to address these challenges and minimise possible losses.

OUR MINERAL RESOURCES AND RESERVES STATEMENT (CONTINUED)

Mafube Coal is an existing 50/50 joint venture between Exxaro and Anglo American. This open-cast mine, east of Middelburg in Mpumalanga, is constructing new infrastructure to connect its Nooitgedacht reserves to the existing Springboklaagte operations. The life extension project under way will extend the life of the mine to 2030, with commissioning expected in the second quarter of 2018.

The ECC Complex comprises the Dorstfontein, Forzando and Tumelo operations. The most pertinent change to ECC was the submission of a mining right for the Eloff project in the first quarter and the subsequent sale of the project in the third quarter of the year. Commercial agreements were completed and the section 11 to transfer the rights is in progress.

Dorstfontein Complex lies just north-east of the town Kriel, in Mpumalanga. The complex comprises DCMW (West), an underground mine and DCME (East), an open-cast operation, as well as Rietkuil (Vhakoni), a project for which the approval of a section 102 of the MPRDA to incorporate this right into the DCME mining right is pending. Considerable new information (130 holes) triggered an update of the geological model, resulting in an increase in both the total coal resource (some 17%) and level of geological confidence (increase in resource category). Geological conditions (sills and dykes, undulation and coal thickness and quality variability) pose challenges for mining activities. However, effective grade control and reconciliation practices prove to be effective levers for improving coal extraction and coal resource utilisation. The introduction of the DCMW seam 4 project promises to unlock excellent value for the complex, in which seam 4 lower reserves will be accessed through an incline in existing mine infrastructure. Developments to extend DCME pit 1 as well as pit 3 are under way, illustrating the continuous and successful drive to unlock value for ECC. We view the approvals of amendments to the IWUL for both DCMW and DCME as notable achievements in the reporting period.

Forzando (FZO) Complex is 10km north of Bethal, and just south of the Dorstfontein Complex. FZO Complex comprises two underground mines, Forzando North (FZON) and Forzando South (FZOS), and both mining rights were executed in 2013 for a period of 16 years. Currently only FZOS is in operation, with FZON placed under care and maintenance in February 2014. Both FZON and FZOS amendments to their IWULs were approved in April and June 2017 respectively. An update of the geological model with new information was offset by mining depletion and the enhancement of geological loss domains resulted in a decrease in total coal resources (roughly 10%). FZO mining is affected by geological faulting and dolerite (sill and dyke) activity, resulting in poor roof conditions restricting access to potential resource areas. The team is addressing the impact of these challenges through focused infill drilling (characterisation) and effective grade control practices (managing mining losses). A focus on fall-of-ground and pillar-safety criteria aim to unlock further potential for FZO.

The review of the geological structure model and subsequent update of the Tumelo geological model resulted in an increase in total coal resources (some 4Mt). The Tumelo mining right was registered in January 2013 but lapsed in 2015. A renewal was timeously submitted and approval is pending. The operation is currently under care and maintenance.

How do we report?

The annual estimation and reporting process is managed through the Exxaro geosciences policy and associated mineral resource and reserve reporting procedure. The documents dictate technical requirements for estimation and reporting, and include guidelines on methodologies, templates and assurance.

Both the policy and procedure are aligned with the guidelines of the SAMREC Code (2016) and, for South African coal reporting, SANS 10320:2004. Processes and calculations associated with the estimation process have been audited by competent persons.



Resource estimations are based on the latest available geological models, which incorporate all new validated geological information and, if applicable, revised seam, resource definitions and resource classifications. For Exxaro operations and projects, we use a systematic review process that measures the level of maturity of the exploration

work done, extent of the geological potential, mineability, licence-to-operate considerations and associated geological risks/opportunities to establish eventual extraction (EE). We have enhanced our methodology this year to ensure that all factors as outlined in table 1 (4.3) of SAMREC 2016 have been considered to ensure reasonable prospects for eventual economic extraction.

For our resources, the location, quantity, quality and continuity of grade/quality and geology are known to varying degrees of confidence and continuously tested through exploration activities such as geophysical surveys, drilling and bulk sampling. Mineral resources are classified into inferred, indicated or measured categories, based on the degree of geological confidence. Distribution of points of observation (drilling positions, trenches, etc), quality assurance and quality control in sample collection, evaluation of structural complexities and, in the case of operations, reconciliation results, are considered in classifying resources. An annually compiled exploration strategy outlines activities planned to investigate areas of low confidence and/or geological or structural complexities to ensure resources of a high level of geological confidence are considered for mine planning.



Ore reserves have the same meaning as mineral reserves, as defined in the applicable reporting codes. Ore reserves are estimated using relevant modifying factors at the time of reporting (mining, metallurgical, processing, infrastructure, economic, marketing, legal, environmental, social and regulatory requirements). Modifying factors are reviewed before and after reserve estimation by the persons responsible for ensuring all factors are timeously and appropriately considered. Signed off reserve fact packs that record losses, recoveries/yields, cost, commodity prices, exchange rates and other required factors applied are documented in each LoMP and independent CPRs. Reported ore reserves are primarily derived from indicated and measured mineral resources, although limited inferred resources may be included in the LoMP at the discretion of the competent person. These inclusions are scrutinised and their impacts are known.

Mineral resources and ore reserves quoted fall within existing Exxaro mine or prospecting rights. Rights are of sufficient duration (or convey a legal right to convert or renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules.

The person in Exxaro designated to take corporate responsibility for mineral resources, Henk Lingenfelder, the undersigned, has reviewed and endorsed the reported estimates. Mr Lingenfelder is a member of the Geological Society of South Africa and registered (400038/11) with the South African Council for Natural Scientific Professions. He has a BSc (hons) in geology and 22 years of experience as an exploration and mining geologist in coal, iron ore and industrial minerals.

A handwritten signature in black ink, appearing to read 'JH Lingenfelder'.

JH Lingenfelder
BSc geology (hons)
Pr Sci Nat (400038/11)
Group manager geoscience
Roger Dyason Road
Pretoria West
0183

The person in Exxaro designated to take corporate responsibility for ore reserves, Chris Ballot, the undersigned, has reviewed and endorsed the reported estimates. Mr Ballot is a mining engineer, registered (20060040) with the Engineering Council of South Africa. He has 21 years of experience as a mining engineer in iron ore, mineral sands and coal in various technical and management roles.

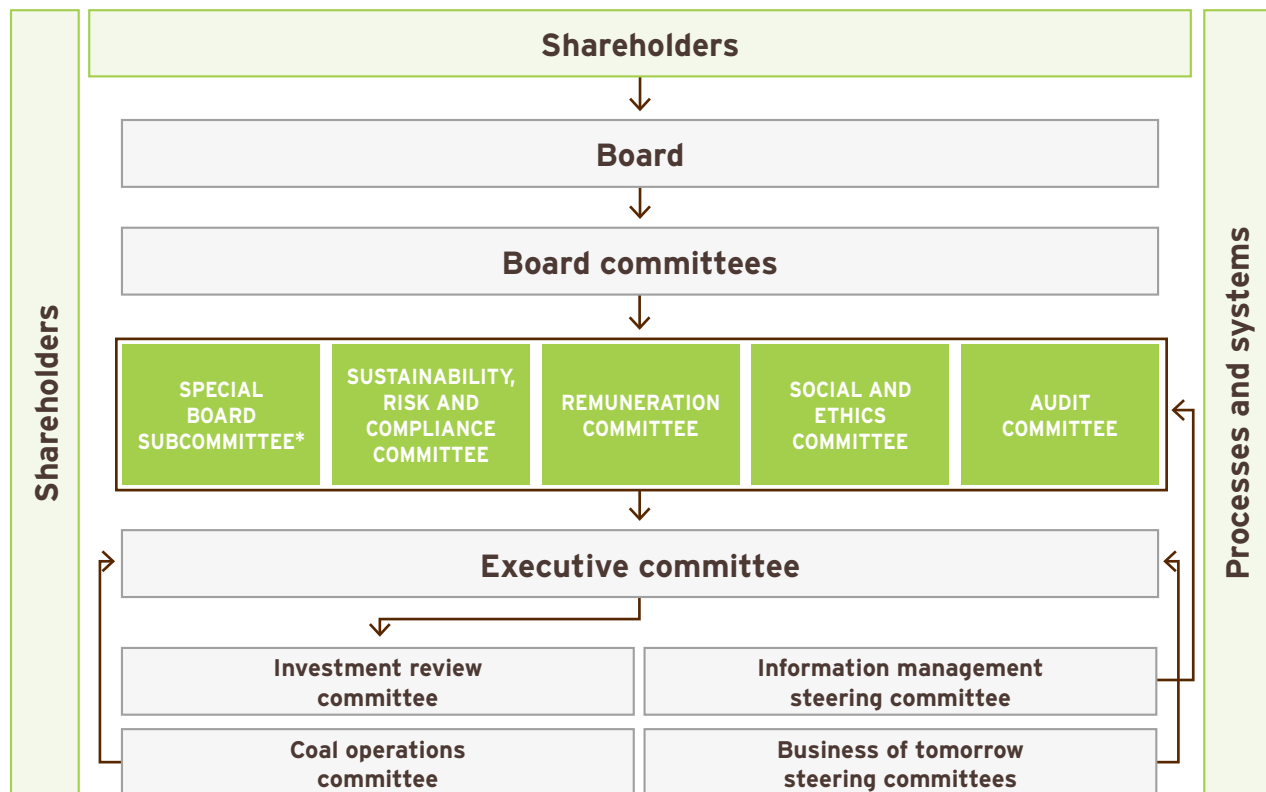
A handwritten signature in black ink, appearing to read 'CC Ballot'.

CC Ballot
MEng mining ECSA 20060040
Group manager mining processes
Roger Dyason Road
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0183

CORPORATE GOVERNANCE

Exxaro recognises that effective and efficient governance processes and practices are one of the foundational layers to achieve our strategic objectives. Transparency, accountability and integrity, the pillars of good corporate citizenship, permeate everything we do and ultimately deliver value to our shareholders as well as our broader stakeholders, including the communities in which we operate.

Our corporate governance framework



* Special board subcommittee that provided oversight of the BEE transaction.

King III and King IV

"The 21st century has been characterised by fundamental changes in both business and society. These fundamental changes provided the context within which the King Committee set out to draft King IV, and have influenced both its content and approach."
Mervyn E King SC, chair of the King Committee.

The review period marked a year of transition for Exxaro in terms of aligning our business processes, standards and practices to the principles set out in the King IV Report on Corporate Governance for South Africa, 2016 (King IV). We understand that, in terms of King IV, compliance to the principles is assumed. We are, however, making great progress in ensuring that corporate governance per se is no longer seen as a tick-box exercise towards effective governance, but rather instilling a culture of transparency, which is aligned to the Exxaro value of *honest responsibility*.

During the year, we conducted a gap analysis (signed off by the board) which indicated priority areas in subscribing to the principles in King IV.

We made significant progress in communicating King IV to our people, as part of Exxaro's *excellence in action* journey. For the first time, training at strategic, tactical and operational level has ensured that every director and employee understands the importance of good corporate governance and that all need to play a part in ensuring Exxaro acts as a good corporate citizen.

Training included:

- › Senior leadership excellence in action sessions
- › Sessions at business units with management teams
- › Open townhall sessions where all employees could ask questions of an independent, seasoned corporate governance professional
- › Focused sessions with the executive committee and board.

Other activities included:

- › Developing a disclosure framework to ensure compliance to King IV
- › Reviewing and updating the board charter and board committee terms of reference to ensure more effective decision making and compliance to King IV
- › Developing functional delegation of authority frameworks aligned to group delegations of authority.

In addition to implementing the group's new strategy and addressing the material issues summarised on page 30, our focus for much of the year was on finalising Exxaro's new black economic empowerment (BEE) shareholding structure, and reconstituting the board in the most appropriate way. My report therefore focuses on these initiatives, and should be read with the chief executive and finance director's reports (pages 68 and 74 respectively).

New shareholding structure

Exxaro's BEE credentials underpinned much of the group's progress in its first decade and we created much value for those shareholders. While the logistics and complexities of unwinding that structure were considerable, developing a new structure to take the group forward was equally vital to ensure both its sustainability and compliance to current legislation.

Although we communicated regularly with affected stakeholders throughout this process, it is pertinent to summarise it for this integrated report.

Completing a process that began early in 2016, in September 2017 we finalised the agreements supporting various components of our replacement BEE transaction. After shareholders approved this transaction in November 2017, in December 2017 we implemented the underlying and indivisible transaction components, being the Main Street 333 unwind, second repurchase and specific issue (with our apologies for the inescapable legal terminology):

› Main Street 333 unwind

Main Street 333 was Exxaro's BEE holding company from 2006. Unwinding this structure enabled exiting Main Street 333 shareholders to sell their interests, while correctly balancing holdings to enable reinvesting shareholders and the Industrial Development Corporation (IDC, previous holding 15,3%) to invest in the new empowerment structure

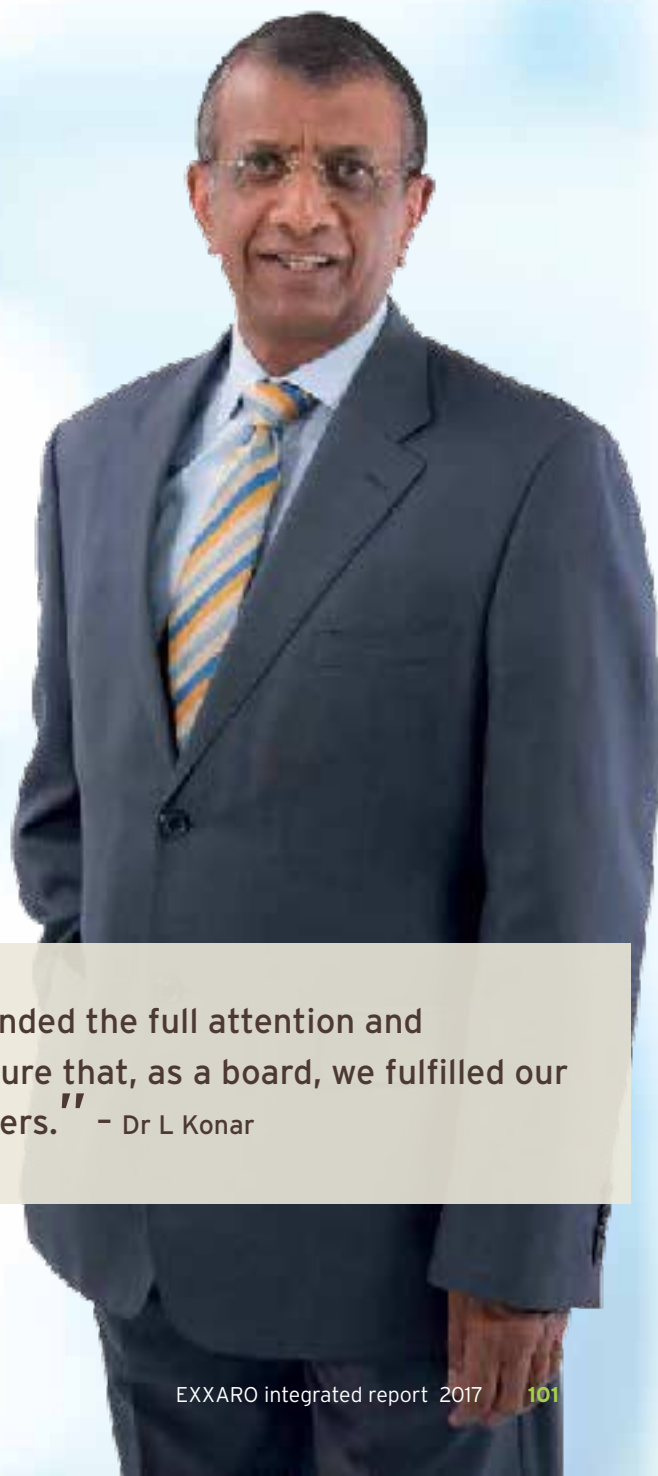
› Second repurchase

To reduce the dilutionary impact of the transaction on Exxaro's independent shareholders, we repurchased 22,7 million ordinary shares from Main Street 333 at R118,76 each. This was funded from cash reserves and they were immediately cancelled as issued ordinary shares

› Specific issue

We then issued 67,2 million ordinary shares at R73,92 each to NewBEECo, resulting in it holding 30% of our ordinary shares. NewBEECo acquired these shares via third-party funding raised in terms of the preference share liability as well as funding from Exxaro (we invested R2,5 billion for an equity stake of 24,9% in NewBEECo). This portion has been earmarked for further community and employee empowerment as well as a possible listing on the BEE exchange).

On 14 March 2018, NewBEECo was renamed Eyesizwe (RF) Proprietary Limited.



"The review period was one that demanded the full attention and contribution of the Exxaro board to ensure that, as a board, we fulfilled our obligation to create value for stakeholders." – Dr L Konar

CHAIRMAN'S REVIEW (CONTINUED)

Our new empowerment structure is in place for 10 years, subject to the lock-in release mechanism (of seven to 10 years) and interim liquidity mechanisms.

One of the criticisms of earlier BEE structures was their lack of liquidity. In response, Eyesizwe (RF) will have several mechanisms to create interim liquidity in our new empowerment structure:

- › Trade sale: After the third anniversary and subject to Exxaro approval, reinvesting Main Street 333 shareholders, including the IDC, will be entitled to sell their shareholding to any party with the same status (defined as HDSA or historically disadvantaged South African)
- › Public offering: Exxaro may at any time, and Eyesizwe (RF) may after the third anniversary (subject to Exxaro's approval), list Eyesizwe (RF)'s ordinary shares on a stock exchange that restricts trading to HDSA parties
- › Put option: Eyesizwe (RF) has the right to require Exxaro to buy back, at a discount to the market price, a certain number of shares. These proceeds may only be used to settle Eyesizwe (RF)'s preference share liability. This option can only be exercised if Exxaro's share price is above 150% of the closing price on implementation date.

Clearly, these liquidity mechanisms are subject to Exxaro remaining compliant with empowerment shareholding legislative and contractual requirements. Additionally, all required regulatory, contractual and shareholder consents need to be obtained.

Eyesizwe (RF) was created solely to provide Exxaro with BEE credentials and as a structure to hold Exxaro shares. Our replacement transaction will protect the stability of our operations, reinforce the sustainability of relationships with key stakeholders, equip the group for growth by positioning it with market-leading empowerment credentials in the South African mining sector and create long-term value for shareholders.

Governance

Directors were unchanged in the review period. However, as a result of our new BEE structure, the following directors who were nominated by their shareholder constituencies resigned on 6 March 2018:

- › Dr Fazel Randera
- › Rain Zihlangu
- › Salu Dakile-Hlongwane
- › Zweli Mntambo
- › Monhla Hlahla.

The board sincerely appreciates their dedication to the business during their tenure.

Eyesizwe (RF) is entitled to nominate four individuals for consideration as directors. After carefully considering the nominations, the board appointed (or reappointed) the following non-executive directors (biographical details on page 106) on 6 March 2018:

- › Monhla Hlahla
- › Zweli Mntambo

- › Likhapha Mbatha
- › Daphne Mashile-Nkosi.

We believe their diverse skills and experience will contribute to the development and execution of the Exxaro strategy.

The board also welcomes Anuradha Singh as an independent non-executive director, and the rich skills she will bring to augment the board.

I have been an independent non-executive director since November 2006 and served as chairman of the board for 10 years. I will retire by rotation at the annual general meeting in May 2018 and, regrettably, will not be available for re-election. Jeff van Rooyen has been appointed lead independent director and will act as chairman while the formal process to appoint a new chairman is under way. Dr CJ (Con) Fauconnier, a seasoned mining professional and independent non-executive director since 2013, recently turned 70 and will retire in terms of Exxaro's memorandum of incorporation. We thank Dr Fauconnier for his immense contribution over the years, which has lent credence to the maturity and expertise of the board.

As Anglo American has sold its entire interest in Exxaro, Saleh Mayet, a non-executive director since 2015, will retire at the AGM. His technical and commercial insights on mining were invaluable to the team.

On page 106, we illustrate the depth and breadth of Exxaro's board - both in the review period and for the future. We believe the composition of the board is appropriate for the challenges facing the group and the direction it is taking for sustainable growth.

Appreciation

My tenure at Exxaro has been most rewarding. Over the past decade, I have seen it grow from fledgling company with the strongest BEE credentials in the industry to a mature and representative operation, clearly focused on its future while honouring its commitments to power the nation through its products and power possibility through its approach.

I thank my fellow board members for their counsel and commitment. It has been a pleasure working with you. I believe Exxaro is well positioned for the future, guided by a strong, disciplined board and management team intent on adding value to its growth.



Dr Len Konar
Chairman

18 April 2018

ROLE OF THE BOARD

07

Corporate governance

The board acknowledges its crucial role in exercising ethical and effective leadership in the group, aimed at the following outcomes:

- › Exxaro being recognised as having an ethical culture
- › The group creating value as defined in King IV
- › The board having effective control over the performance and affairs of the group
- › The legitimacy of the group not being compromised.

To achieve these objectives, the board is committed to ensuring good corporate governance throughout the group in line with the recommendations of King IV. At all times, it will ensure the appropriate application of King IV's 16 principles by adopting the required practices, or appropriate alternative practices, across both the company and the group.

The board therefore serves as the focal point and custodian of corporate governance in the group and exercises its leadership role by:

- › Steering the group and setting its strategic direction
- › Approving policy and planning that give effect to the direction provided
- › Overseeing and monitoring management's implementation and execution of strategy
- › Ensuring accountability for performance by means of reporting and disclosure.

How the board added value in 2017

Value distribution | 2017

OUR PEOPLE

R3 029 million

Salaries and wages

R223 million

Mpower distribution

R231 million

Training and bursaries



INVESTORS

R2 214 million

Dividends



GOVERNMENT

R854 million

Direct tax and levies

R434 million

VAT

R133 million

Royalties



COMMUNITY

R51 million

Investment and volunteerism



BOARD OF DIRECTORS

The board assumes ultimate accountability for the performance and affairs of the company. In doing so, it effectively represents and promotes the legitimate interests of the company and, as a responsible corporate citizen, simultaneously considers the legitimate interests and expectations of material stakeholders.



Dr D Konar
Independent
non-executive
chairman



S Dakile-Hlongwane
Non-executive



V Nkonyeni
Independent
non-executive



Dr MF Randera
Non-executive



PCCH Snyders
Independent
non-executive

LENGTH OF SERVICE
OF DIRECTORS (Both executive
and non-executive directors)
as a whole



- 28,6% – 0 to 3 years
- 28,6% – 3 to 6 years
- 14,2% – 6 to 9 years
- 28,6% – 9 years or more

EXECUTIVE
DIRECTORS
AS AT 30 JUNE 2017



14,3%

Board composition



Dr CJ Fauconnier
Independent
non-executive



MW Hlahla
Non-executive



S Mayet
Independent
non-executive



VZ Mntambo
Non-executive



EJ Myburgh
Independent
non-executive



J van Rooyen
Independent
non-executive



D Zihlangu
Non-executive



Executive

PA Koppeschaar
Finance director

MDM Mgojo
Chief executive officer



NON-EXECUTIVE
DIRECTORS
AS AT 30 JUNE 2017

85,7%

Board composition

- Non-executive directors
- Executive directors
- Founding members of the company

BOARD OF DIRECTORS (CONTINUED)

The board is constituted in terms of Exxaro's memorandum of incorporation (MoI) as well as the board charter, in line with the requirements of King IV. The majority of board members are independent and individual directors bring diverse skills and experience to the boardroom. This ensures directors take decisions prudently and effectively in exercising their fiduciary duties.

Dr D Konar (64)

Chairman

Independent non-executive director

Tenure: 1 November 2006

Qualifications: BCom, CA(SA), MAS, DCom, CRMA

Experience: After completing his articles at Ernst & Young, Len began a 15-year academic career at the University of Durban-Westville. He spent six years with the Industrial Development Trust as head of investments and internal audit, prior to becoming a professional director of companies and consultant. Len is deputy chairman of Steinhoff International and a board member of Lonmin plc and Sappi. He is a past member of the ad hoc ethics panel of the United Nations, safeguards panel of the International Monetary Fund in Washington, co-chairman of the risk implementation oversight panel of the World Bank, and past chairman and member of the external audit committee of the International Monetary Fund.



Mrs S Dakile-Hlongwane (67)

Non-executive director

Tenure: 21 February 2012

Qualifications: BA (econ and stats), MA (development econ)

Experience: Salukazi chairs Nozala Investments, which she co-founded in 1996. She was previously senior investment officer at Lesotho National Development Corporation; country programme officer and then principal corporation officer at African Development Bank (Abidjan/Côte d'Ivoire); senior manager, structured finance division/FirstCorp Merchant Bank; and assistant general manager at BOE Specialised Finance. She is a non-executive director of Nozala's investee companies including Basadi Ba Kopane, Woodlands Dairy, Tshwarisano (Sasol Oil BEE consortium), PPC, Kyocera, Lanseria International Airport, Constantia Afripack and Diamcor Mining. She is also a non-executive director of MultiChoice South Africa Holdings Limited, and trustee of Nozala Trust and the National Movement of Rural Women.



Dr CJ Fauconnier (70)

Independent non-executive director

Tenure: 1 November 2013

Qualifications: BSc (eng) (min), BSc (hons) (eng), MSc (eng), DEng (Pretoria), MBA (Oregon), DSc (honoris causa) (Free State), strategic leadership programme (Oxford), senior executive finance programme (Oxford), registered international professional engineer

Experience: From 1969 to 1974, Con worked for mining companies in the Anglo American group. For the next two years, he was a student and research assistant at the College of Business Administration, University of Oregon. From 1976 to 1995 he held senior positions in Gencor and JCI. In 1995 he joined Iscor and later became managing director of Iscor Mining. In 2001, he was appointed chief executive of Kumba Resources and, in 2006, chief executive officer of Exxaro Resources. He was an executive council member of the Chamber of Mines of South Africa and president from 2003 to 2005. He is a fellow of the South African Institute of Mining & Metallurgy, Institute of Directors of Southern Africa and South African Academy of Engineering. He has been an honorary professor in the department of mining engineering at the University of Pretoria and a fellow at the Gordon Institute of Business Science since 2007.



Ms HW Hlahla (55)

Non-executive director

Tenure: 4 June 2015

Qualifications: MA (urban planning, UCLA School of Architecture and Planning), advanced management programme (Insead, France), certificate in accounting and finance

Experience: Monhla spent a large part of her career in the infrastructure sector, starting in 1994 at the Development Bank of Southern Africa, which later seconded her to establish and lead the municipal infrastructure investment unit as chief executive officer. At the same time, she was non-executive chair of Johannesburg Water. She was managing director of Airports Company South Africa (ACSA) from 2001 to 2011, and appointed chair of Royal Bafokeng Holdings and the Industrial Development Corporation (IDC) at the end of 2011. After completing her three-year term with IDC in 2015, she was appointed to the board of Liberty Holdings and its subsidiary Stanlib. She is an executive coach and founded RutaThari, which invests in smart and innovative skills development and training solutions across Africa.



Audit committee



Remuneration and nomination committee



Social and ethics committee



Sustainability, risk and compliance committee

Mr S Mayet (62)

Independent non-executive director

Tenure: 18 August 2015**Qualifications:** BCom, BCompt (hons), CA(SA), advanced management programme (GIBS)

Experience: Saleh has over 30 years' financial experience. After completing articles in 1982, he joined the finance division of Anglo American South Africa Limited (AASA) and gained experience in all aspects of financial reporting with ultimate responsibility for a significant number of listed and unlisted subsidiaries in that group. In 1993, he was transferred to the international planning department where he became involved in managing AASA's offshore structures. After Anglo American plc's London listing in 1999, he filled various roles in the finance division in Johannesburg and London, becoming head of finance in 2008. He currently serves on the boards of AASA and its strategic subsidiaries and trusts. He is also a member of senior management committees tasked with strategy, driving value initiatives and engaging with key stakeholders.

Mr VZ Mthambo (60)

Non-executive director

Tenure: 28 November 2006**Qualifications:** BJuris, LLB (Univ North West), LLM (Yale)

Experience: Zwelibanzi is executive chairman of Xalam Performance. He was previously senior lecturer at the University of Natal; executive director of IMSSA; director-general of Gauteng Province and chairman of the Commission for Conciliation, Mediation and Arbitration. He is chairman of Main Street 333 Proprietary Limited. He is also a director of SA Tourism Proprietary Limited and trustee of the Paleo-Anthropological Scientific Trust.

**Mr EJ Myburgh (59)**

Independent non-executive director

Tenure: 1 September 2016**Qualifications:** BEng (elec) (Pretoria), BSc (hons) (energy) (Johannesburg), MBL (Stellenbosch), executive programme (Virginia)

Experience: Over 1982 to 1996, Ras held operational and executive positions in operating, maintenance, engineering and power station management at Eskom. In 1997, he joined Iscor Mining to lead company-wide cost improvement, business re-engineering and transformation and empowerment projects. He was managing director of Kumba Resources' coal business in 2000 and headed up the transformation unit from 2003, managing its empowerment and mineral rights conversion, including project managing the empowerment transaction and unbundling into Exxaro and Kumba Iron Ore. He was appointed the first chief executive officer of Kumba in 2006. After the 2008 electricity crisis, Ras was seconded to Eskom to develop and implement a long-term coal supply strategy. In 2011, he co-founded Hindsight Financial and Commercial Solutions, a boutique advisory firm (investment banking, business development, specialist commercial solutions, strategy and business improvement services) to the resources, energy and industrial sectors. He is a member of the Institute of Directors of Southern Africa, independent non-executive director of The Heartlines Centre NPC and serves on the international advisory board of Unashamedly Ethical NPO.

**Mr V Nkonyeni (48)**

Independent non-executive director

Tenure: 3 June 2014**Qualifications:** BSc (inf proc), BSc (hons), postgraduate diploma in accounting, CA(SA)

Experience: Vuyisa has over 20 years' experience in investment banking and private equity. He qualified as a CA with PricewaterhouseCoopers in 1996. He joined Deutsche Bank in 1997, gaining investment banking experience primarily in corporate and project finance advisory work. He serves on the boards of Emira Property Fund and MMI Holdings. He was financial director of Worldwide African Investment Holdings and chief executive officer of Kagiso Tiso Holdings from 2012 until December 2017. He is now a sole proprietor pursuing private equity opportunities in the investment sector.

**Dr MF Randera (69)**

Non-executive director

Tenure: 13 June 2012**Qualifications:** MRCS, LRCP, DRCOG

Experience: Globally, Fazel has served as board and council member of the World Medical Association (1997 to 2000), participated in the World Health Organisation international inquiry into the tobacco industry (1998 to 1999) and chaired the global initiative on HIV/Aids reporting (2004). In South Africa, he sat on the Truth and Reconciliation Commission (1995 to 1998), founded the Ethics Institute and served as chairman (1997 to 2000), and served on the Human Rights Commission (1997 to 1999). Working in hospitals and facilities in the UK and South Africa, he specialised in a range of medical disciplines, including occupational health and HIV/Aids. Fazel chaired the Private Healthcare Forum (2004 to 2007) and was a member of the South African Centre for Survivors of Torture (2006 to 2011). He was inspector general for South Africa's intelligence services (1999 to 2001) and served on several ministerial advisory bodies. He was health adviser at the Chamber of Mines and is chairman of NEHAWU Investment Holdings and MediTech South Africa.

**Mr J van Rooyen (68)**

Independent non-executive director

Tenure: 13 August 2008, lead independent director March 2018**Qualifications:** BCom, BCompt (hons), CA(SA)

Experience: Jeff is a director of companies in the Uranus Group, non-executive director of MTN Group and Pick n Pay Stores. He was chair of the Financial Reporting Standards Council (FRSC), trustee of the International Accounting Standards Foundation and member of the University of Pretoria's faculty of economic and management sciences' oversight board. He was a partner at Deloitte & Touche, chairman of the Public Accountants and Auditors Board, chief executive officer of the Financial Services Board and advisor to the former Minister of Public Enterprises during the Mandela administration. Jeff is a founder member and former president of the Association for the Advancement of Black Accountants of South Africa.



Audit committee



Remuneration and nomination committee



Social and ethics committee



Sustainability, risk and compliance committee

BOARD OF DIRECTORS (CONTINUED)

Mr PCCH Snyders (57) Independent non-executive director

Tenure: 1 July 2016

Qualifications: BEng (min), dipl marketing management, MCom (business management), mine manager's certificate of competence, registered with ECSA

Experience: Peet has 35 years' experience in the mining industry, including Sasol Coal, Amcoal, Iscor Mining, Kumba Coal, Anglo Platinum, Riversdale Holdings, Continental Coal, Keaton Energy, Sable Mining Africa, Mmakau Mining and Submex Investment. He also has over 10 years' board experience in the industry.



Mr D Zihlangu (51) Non-executive director

Tenure: 28 November 2006

Qualifications: BSc (eng) (mining) (Wits), management development programme (Unisa), MBA (Wits)

Experience: Rain is chief executive officer of Eyabantu Capital Consortium. Over 1989 to 1994, he was a stoper/developer and shift boss at Vaal Reefs Gold Mining Company. From 1995 to 2002 he was shift boss, mine overseer, operations manager and mine manager at Impala Platinum, then chief executive officer of Alexkor Limited from 2002 to 2005. From 2006 to 2012, he was an independent non-executive director of the South African National Oil and Gas Company (PetroSA) and served on its business performance monitoring committee. He also serves on the board and audit and risk committee of Unicorn Capital Partners, formerly Sentula Mining.



Mr PA Koppeschaar (47) Finance director

Tenure: Executive director, 1 June 2016

Qualifications: CA(SA), advanced and associate programmes in treasury management, advanced diploma in taxation, advanced management programme (Insead), certificate in theory of accounting. Member of the Association of Corporate Treasurers

Experience: Riaan completed articles with Coopers and Lybrand, then branched into treasury, investment management and corporate finance. He held senior management positions at Iscor, Kumba Resources and Exxaro Resources until his current appointment in July 2016. He is a director of several Exxaro subsidiaries and joint ventures, and a trustee and investment committee member of the Exxaro pension and provident funds.

Mr MDM Mgojo (57) Appointed as chief executive officer 1 April 2016

Tenure: Executive director, 4 June 2015

Qualifications: BSc (computer science), BSc (hons) (energy), MBA, advanced management programme (Wharton)

Experience: At Eyesizwe Coal, Mxolisi was responsible for marketing and logistics. After Exxaro's formation, he managed the base metals and industrial minerals units before heading our coal operations from August 2008. He was appointed chief executive officer designate in May 2015 and chief executive officer in April 2016. He is a director of several Exxaro subsidiaries, Tronox Limited, Talent 10 Holdings and Dynamo Investment Holdings. He was elected president of the Chamber of Mines in May 2017.

Ms D Mashile-Nkosi (59) Non-executive director

Tenure: Director since 6 March 2018

Qualifications: Small business management diploma (Wits Business School)

Experience: Ms Mashile-Nkosi is the executive chair of Kalagadi Manganese, a trustee and chair of the Women's Development Bank Trust, chair of Women's Development Bank Investments Holdings Proprietary Limited, chair of Bakhazi-Banalima Proprietary Limited and a trustee of FirstRand Empowerment Trust. She has a strong development background as an activist on gender issues, and encourages business to improve the quality of life of poor communities and nurture women entrepreneurs and business leaders. In 1993, she was nominated by Women's Development Bank to study development economics in Japan. She is the founder and a director of Temoso Telecommunication Proprietary Limited. She also represents shareholder interests as a director of various companies, including Eyesizwe Mining, Interfile, Kalahari Resources, Temoso Holdings, Traxys Africa Proprietary Limited and Kalagadi Manganese.

Ms L Mbatha (64) Non-executive director

Tenure: Director since 6 March 2018

Qualifications: LLM (gender studies) (Wits), LLB (Lesotho NUL)

Experience: Ms Mbatha currently coaches National Movement of Rural Women coordinators in development methods and systems. She also coaches them on project preparation; financing and management; supervises, monitors and evaluates small and medium development projects.

She represents shareholder interests as a director of various companies, including Nozala Trust and Eyesizwe Mining.

Ms Anu Sing (47) Independent non-executive director

Tenure: Director since 6 March 2018

Qualifications: BSc (mech eng), MBA (Wits Business School)

Experience: Ms Sing started her career at South Africa's Sasol and completed her MBA in 1999. From 2000 to 2015, she worked in investment banking, covering the mining, energy and industrial sectors. She is currently an executive for strategic business operations at MTN Group. She has been a member of the board of Development Bank of South Africa since 2014, chairs its credit and investments committee, and serves on the audit committee. She is also a director of MTN South Sudan and MTN Guinea Bissau.

* In keeping with the Listings Requirements, the profiles of the directors - appointed outside of the review period - standing for election at the annual general meeting to be held on 24 May 2018, are included herein.



Audit committee



Remuneration and nomination committee



Social and ethics committee



Sustainability, risk and compliance committee

COMMITTEE						
Name and designation	Appointment date	Board	Audit	Remuneration	Sustainability, risk and compliance	Social and ethics
Dr D Konar Chairman	01/11/2006	Chair	Invitee	Member	Invitee	Invitee
Mrs S Dakile-Hlongwane Non-executive director	21/2/2012	Member			Member	Member
Dr CJ Fauconnier Independent non-executive director	01/11/2013	Member	Member	Chair	Chair	Member
Ms HW Hlahla Non-executive director	04/06/2015	Member				
Mr PA Koppeschaar Finance director	01/06/2016	Member	Invitee		Invitee	Invitee
Mr S Mayet Independent non-executive director	18/08/2015	Member				
Mr MDM Mgojo Chief executive officer	04/06/2015	Member	Invitee		Invitee	Invitee
Mr VZ Mthambo Non-executive director	28/11/2006	Member		Member		
Mr EJ Myburgh Independent non-executive director	01/09/2016	Member		Member		Member
Mr V Nkonyeni Independent non-executive director	03/06/2014	Member	Member			
Dr MF Randera Non-executive director	13/06/2012	Member				Chair
Mr J van Rooyen Independent non-executive director	13/08/2008	Member	Chair	Member		
Mr PCCH Snyders Independent non-executive director	01/07/2016	Member			Member	
Mr D Zihlangu Non-executive director	28/11/2006	Member			Member	

BOARD OF DIRECTORS (CONTINUED)

Skills and experience matrix

Directors' name	Diversity			General management experience																	Technical experience				
	Ethnicity	Gender	Experience as a director (number of years)	Leadership	Finance	Human resources	Legal	Governance and compliance	Economics	Health and safety	Risk and opportunity management	Innovative technology and information governance	Environmental sustainability	Sales and marketing	Health and safety	Tax	Stakeholder relations	Project management	International	Local	Mining industry	Mining engineering	Renewable energy	Water technology	Agricultural/food security
D Konar	Indian	Male	31	●	●	●		●	●		●	●				●	●	●	●	●	●				
MW Hlahla	Black	Female	10	●	●		●	●			●						●		●					●	
S Dakile-Hlongwane	Black	Female	17	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CJ Fauconnier	White	Male	27	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
S Mayet	Indian	Male	17	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
VZ Mntambo	Black	Male	17	●	●		●	●	●	●	●	●	●				●	●	●	●	●				
V Nkonyeni	Black	Male	17	●	●	●	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●
MF Randera	Indian	Male	17		●			●		●							●	●							
J van Rooyen	Coloured	Male	12	●	●	●	●	●		●	●			●		●	●	●	●	●	●	●			
D Zihlangu	Black	Male	16	●	●	●	●	●	●	●	●	●	●	●	●		●	●		●	●	●	●	●	●
EJ Myburgh	White	Male	9	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
PCCH Snyders	White	Male	14	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●

- Significant skills and experience (10+ years, in-depth, main focus area, weekly use of skills, line accountability)
- Average skills and experience (five to 10 years, ad hoc, but regular and fairly in-depth exposure/use of skills, ie monthly)
- Limited skills and experience (five years, very irregular or superficial exposure/use of skills, ie quarterly/biannual)

Board attendance

NAME	ATTENDANCE %
Dr D Konar	100
Mrs S Dakile-Hlongwane	100
Dr CJ Fauconnier	100
Ms HW Hlahla	91
Mr PA Koppeschaar	100
Mr S Mayet	91*
Mr MDM Mgojo	100
Mr VZ Mthambo	60
Mr EJ Myburgh	100
Mr V Nkonyeni	89
Dr MF Rander	90
Mr J van Rooyen	89
Mr PCCH Snyders	100
Mr D Zihlangu	80

* Required to recuse himself on conflict of interest.

Attendance is based on quarterly meetings, ad hoc special committee meetings, two governance sessions, two strategy days and three special board meetings and calculated against the number of meetings the individual was required to attend.

Board leadership

The board is led by an independent chairman, in compliance with paragraph 3.84 of the JSE Listings Requirements.

The role of the chairman is separate and distinct from that of the chief executive officer and the separation of powers and responsibilities, as set out in the board charter, ensures that no single person has unfettered decision-making powers and that the appropriate balance of power exists at board level.

FUNCTIONS	RESPONSIBILITIES
Chairman	<ul style="list-style-type: none"> › Is an independent non-executive director › Represents the board to shareholders, and indirectly to other stakeholders, on performance › Ensures the integrity and effectiveness of the board's governance process › Maintains regular dialogue with the chief executive officer on all operational matters and consulting with the board promptly on any matter of major concern › Acts as facilitator at board meetings to ensure that no director dominates discussion, appropriate discussion takes place among members, resulting in logical and understandable outcomes › Plays a crucial role in ensuring the board is properly led › Provides the necessary direction for an ethical and effective board and forms the link between the board, the chief executive officer and management.
Chief executive officer	<ul style="list-style-type: none"> › Leads implementation and execution of approved strategy, policy and operational planning and is the chief link between management and the board › Monitors and manages the day-to-day operational requirements and administration of the company › Develops and recommends business plans, policies and objectives for consideration by the board and takes cognisance of business, economic and political trends that may affect the operations of the company › Manages/ensures submission of reports, financial statements and consolidated budgets for consideration by the board › Oversees the financial management of the company including financial planning, cash flow and management reporting › Involves himself in group affairs by chairing the executive committee › Not causing or permitting any practice, activity or decision by or in the company that is contrary to accepted good business practice, good corporate governance or professional ethics.

BOARD OF DIRECTORS (CONTINUED)

The new board charter was adopted on 30 November 2017 and makes provision to appoint a lead independent director (LID), in line with the principles of King IV. The nominations committee considered candidates, from the pool of directors, for this position and the board appointed Mr J van Rooyen on 26 March 2018.

The company secretary

Mrs CH Wessels was the appointed company secretary until 30 September 2017, when she resigned. After a rigorous and transparent recruitment process, Mrs SE van Loggerenberg was appointed as group company secretary and legal.

The board recognises the pivotal role the company secretary plays in establishing effective processes and systems to ensure that good corporate governance forms part of the fibre of the organisation and is entrenched in its culture.

The company secretary's primary responsibilities are:

- › Guide directors collectively and individually on their duties, responsibilities and powers
- › Make directors aware of any law relevant to the company
- › Report any failure by the company or a director to comply with the MoI or the Act
- › Ensure board procedures are followed and reviewed regularly
- › Ensure compliance with applicable rules and regulations for conducting the affairs of the board
- › Facilitate a programme for the induction and ongoing development of directors

- › Maintain statutory records in line with legal requirements
- › Guide the board on how its responsibilities should be properly discharged in the best interests of the company
- › Keep abreast of, and inform the board of current and new developments on corporate governance thinking and practice
- › Fulfil all other functions assigned to the position by the Act and any other legislation.

In compliance with paragraph 3.84(i) of the JSE Listings Requirements, an annual evaluation of the incumbent company secretary was carried out to consider and satisfy itself of Mrs van Loggerenberg's competence, qualifications and experience. The formal evaluation confirmed:

- › Her competence score of 100%
- › The suitability of her qualifications (see page 127)
- › Her experience of over 10 years in the mining industry and 17 years in various capacities in the fields of governance, risk and compliance.

The board is comfortable she maintains an arm's-length relationship with individual directors and confirms that she is neither a director nor a public officer of the company or any of its subsidiaries.

Board composition

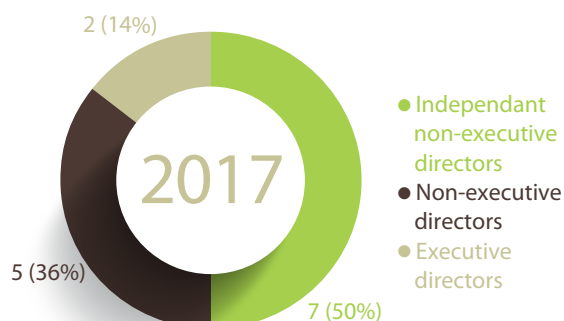
As shown below, the board has an appropriate balance of knowledge, skills, experience, diversity and independence to discharge its governance role and responsibilities objectively and effectively.

Director classification

In line with King IV, non-executive members may be categorised as independent if the board concludes that there is no interest, position, association or relationship that may unduly influence or bias decisions in the best interests of the company.

After a formal assessment, the board concluded that the majority of directors are independent.

Director classification

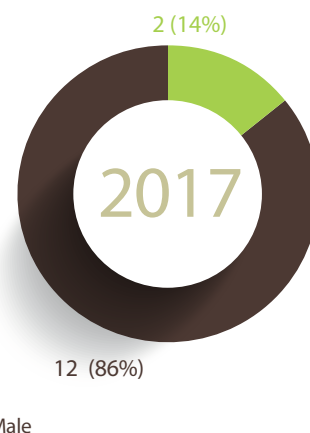
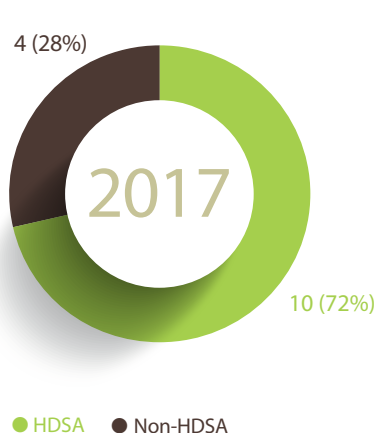


Gender and racial diversity

The 2017 board charter and remuneration committee (Remco) terms of reference included a policy on gender diversity, but no specific targets were set. In line with King IV, these have been amended to ensure that race and gender targets need to be set. Remco has set race and gender targets for board composition by 2022:

- › HDSA female 30%
- › HDSA 50%.

Directors' equity and gender status

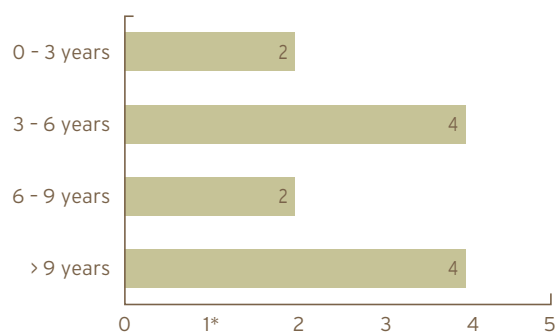


Director tenure

Directors' period of office is as follows:

- › New directors, appointed in casual vacancies during the year, will hold office only until the next annual general meeting at which they will retire and be available for re-election
- › All non-executive directors will be subject to retirement by rotation and re-election by shareholders at least once every three years, consistent with the MoI
- › If an executive director's employment is terminated for any reason, they will be deemed to have resigned as a director of the company on the same date.

Director tenure



* Number of non-executive directors

BOARD OF DIRECTORS (CONTINUED)

Diversity of age

The retirement age for an executive director is 63 and 70 for a non-executive director. The board is entitled to recommend the re-election of a non-executive director who has passed the age of 70, provided that Remco and the board recommend to shareholders that the individual is suitable for re-election. Such re-election will occur annually once the director has reached age 70.

To ensure continuity of experience and knowledge, the company has adopted a process of staggered continuity and re-election of directors, in terms of the Mol.

Key performance indicators (KPIs)

The board and committees set annual KPIs to ensure that, in addition to general requirements placed on these bodies, their attention is directed to key activities that support and enable management in achieving the group strategy. We recognise that these KPIs are still more quantitative in nature, but we aim to mature them into more meaningful qualitative measures to give stakeholders an in-depth understanding of the performance of the board and its committees. The board and committee evaluation for 2017 therefore only focused on whether these KPIs had been achieved.

The score is calculated between 1 (worst) and 4 (best).

2017 KPIs	EVALUATION SCORE
Shareholder approval for a sustainable and acceptable new broad-based black economic empowerment structure, implemented in 2017: independent board committee guidance and shareholder engagement	4
Active support of the company's innovation imperative and excellence in action journey: attending and participating in bespoke sessions as required, strategic guidance and support	3,5
Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other boards with the board/company	3

Committee KPIs are discussed in each committee report.

Appointment of directors

Directors are appointed in a formal process. Remco is responsible for identifying suitable candidates as independent non-executive directors to be proposed to the board and, on its recommendation, to shareholders for approval. Remco is also responsible for overseeing that independent background checks are done and that proposed candidates provide the required information as recommended in King IV.

Governance

The directors were unchanged during the review period. However, as a result of our new BEE structure, the following directors who were nominated by their shareholder constituencies resigned on 6 March 2018:

- › Salu Dakile-Hlongwane
- › Monhla Hlahla
- › Zweli Mntambo
- › Dr Fazel Randera
- › Rain Zihlangu.

The board sincerely appreciates their dedication to the business during their tenure.

Eyesizwe (RF) is entitled to nominate four individuals for consideration as directors. After carefully considering the nominations, the board has appointed (or reappointed) the following non-executive directors (biographical details on page 106) on 6 March 2018:

- › Monhla Hlahla
- › Daphne Mashile-Nkosi
- › Likhapha Mbatha
- › Zweli Mntambo.

We believe their diverse skills and experience will contribute to the development and execution of the Exxaro strategy.

The board also welcomes Anuradha Singh as an independent non-executive director, and the rich skills she will bring to augment the board.

Board evaluation

Formal evaluation of the board, committees and individual directors, including the chair and committee chairs, are performed at least every second year by an independent third party. In the review period, this assessment was conducted via an independent electronic survey process administered by the group company secretary.

The purpose of this evaluation process is twofold: to review the governance system and processes supporting effective leadership; and to assess group and individual performance against predetermined criteria. The outcome of the board evaluation process is shown below:



Induction and training

On appointment, new directors complete an induction programme to facilitate their understanding of the business environment and markets in which the company operates. This is facilitated by the group company secretary and includes, inter alia, information and guidance on:

- › Group structure and business objectives
- › Financial performance
- › Reciprocal expectations
- › Familiarisation through site visits and consultation with senior management
- › Corporate policies and procedures, and information on directors' roles and responsibilities in terms of legislation, regulatory requirements and best practice.

All directors undergo continuing professional development and are required to attend regular briefings arranged by the company on changes in legislation, governance and the business environment.

AUDIT COMMITTEE REPORT

Dear shareholders, I am pleased to present the audit committee report for the year ended 31 December 2017.

Purpose

The committee is constituted as a statutory committee of the company in terms of its statutory duties under section 94(7) of the Companies Act 71 2008, as amended (the Act), and a committee of the board of the company in terms of all other duties assigned by the board.

In terms of the Act, the committee has an independent role with accountability to both the board and the company's shareholders.

Its role is to fulfil the statutory functions set out in section 94 of the Act. In addition, it primarily assists the board in providing independent oversight of the:

- › Quality and integrity of the company's financial statements and related public announcements
- › Integrity and content of the integrated reporting process
- › Qualification and independence of the external auditor
- › Scope and effectiveness of the external audit function
- › Scope and effectiveness of the overall combined/integrated assurance process
- › Effectiveness of the company's internal controls and internal audit function
- › Integrity and efficacy of the risk management process specifically for internal controls and financial reporting risks through assurance over system controls and policies in place.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, prescribed officers and other members of senior management, nor does it assume accountability for functions performed by other committees of the board.

Composition

The committee consisted of three independent non-executive directors for the review period. The chairman of the board is not a member of the audit committee, although he attends all meetings as a permanent invitee. The chief executive officer, finance director, chief audit executive, as well as the internal and external auditors are also permanent invitees to meetings. The committee, however, debates matters without permanent invitees present, as required.

Two sessions (aligned with approval of the interim and annual financial results) are held with both the independent external auditors and internal auditors, respectively, where management is not present.



Meetings

NAME AND DESIGNATION	ATTENDANCE %
Mr J van Rooyen Independent non-executive director	100
Dr CJ Fauconnier Independent non-executive director	100
Mr V Nkonyeni Independent non-executive director	100

2017 in overview

External auditors

The group's independent external auditors are PwC. Fees paid to the auditors are disclosed in notes 7.1.3 and 7.1.4 to the annual financial statements for the year ended 31 December 2017 on our website. Exxaro has an approved policy to regulate the use of non-audit services by the independent external auditors. This differentiates between permitted and prohibited non-audit services and specifies a monetary threshold against which approvals are considered. In the review period, PwC was paid R36 million (2016: R35 million), which included R26 million (2016: R25 million) for statutory audit and related activities as well as R10 million (2016: R10 million) for non-audit services, mainly for assistance in resolving tax disputes as well as work done with the circular for the BEE transaction. The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that these did not affect its independence.

The committee annually assesses the independence of PwC and again completed this assessment at its meeting on 6 March 2018. PwC was required to confirm that:

- › It is not precluded from reappointment due to any impediment in section 90(b) of the Companies Act
- › In compliance with section 91(5) of the Companies Act, compared to membership of the firm on reappointment in 2016, more than one half of the members remain in 2017
- › It remains independent, as required by section 94(7)(a) of the Companies Act and JSE Listings Requirements.

Based on this assessment, the committee again nominated PwC as independent external auditors for 2017. Shareholders will therefore be requested to re-elect PwC in this capacity for the 2018 financial year at the annual general meeting (AGM) on 24 May 2018.

Internal auditors

The internal audit function is outsourced to EY and its responsibilities are detailed in a charter approved by the committee and reviewed annually. Its main function remains to express an opinion on the effectiveness of risk management and the internal control environment.

Annual financial statements

The committee reviewed the company and group annual financial statements and accounting practices in detail and is satisfied that the information contained in these statements as well as the application of accounting policies and practices are reasonable.

Statement on effectiveness of internal financial controls

With input and reports from the independent internal and external auditors, the committee reviewed the company's system of internal financial controls, as underpinned by the enterprise risk management framework, during the year. Informed by these reviews, it confirmed there were no material areas of concern that would render internal financial controls ineffective.

Finance director and finance function

The committee has reviewed an internal assessment of the expertise and experience of Mr PA Koppeschaar, the finance director, and is satisfied he has the appropriate skills to meet his responsibilities. The evaluation also considered the appropriateness of the expertise and adequacy of resources of the finance function.

Other key issues that received attention during the year

- › The impact of external factors on financial KPIs in the strategic performance dashboard and adjusting the best realistic measures to reflect this reality
- › Approval of impairment charges for the FerroAlloys operation
- › The benefits of digitising the finance (including tax) function
- › Attendance of independent non-executive directors at the combined assurance forum, which is a management forum focused on coordinating all assurance activities across the group
- › The impact of new and amended IFRS
- › Progress on rationalisation of the subsidiary structure
- › Review and implementation of the annual insurance renewal process in the insurance captive
- › The review of carrying values of Tronox Limited and Sishen Iron Ore Company by PwC

AUDIT COMMITTEE REPORT (CONTINUED)

- › Advising on processes to resolve overdue audit findings linked to individual performance contracts
- › Review and approval of the information management (IM) steering committee's terms of reference in line with the requirements of King IV
- › Impact of financial provision regulations, promulgated by the Minister of Environmental Affairs
- › Approval of the business continuity management framework policy
- › The outcome of various VAT apportionment rulings
- › The appointment of the Exxaro Resources Limited audit committee for Exxaro Insurance Company Limited
- › The need for proactive management of information technology (IT) risks
- › Key business developments that would impact the external audit plan for 2018.

Key performance indicators

The score is calculated between 1 (worst) and 4 (best).

2017 KPIs	EVALUATION SCORE
Support to new finance director: Active support and guidance to ensure optimal functioning. Ensuring sustained depth and capacity in finance function post the Exxaro improvement project	2,6
Greater oversight over implementation of the combined assurance model: one committee member attending combined assurance forum as observer on a rotational basis to further enhance understanding and enable better oversight	4
Sharing best practice: Individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,6

Key performance indicators 2018

- › Provide robust independent scrutiny of the company's values of assets in the balance sheet, the going-concern assumption and other judgement areas
- › Continue scrutinising risk assessment and ensure alignment on all assurance activities (combined assurance)
- › Maintain oversight of inventory, receivables and basis of determining valuation
- › Ensure the effectiveness of internal audit and IT is handled seamlessly and professionally, addressing challenges and needs comprehensively
- › Monitor developments in mandatory audit firm rotation in South Africa and implications for Exxaro, as well as tenure of current external auditors
- › Provide support and challenge to management in its endeavours to refinance Exxaro's debt from time to time on acceptable terms
- › Make itself available to support corporate action.

Conclusion

The committee is satisfied it has considered and discharged its responsibilities in line with its terms of reference.

On behalf of the committee

Mr J van Rooyen
Chairman

Pretoria
18 April 2018

REMUNERATION AND NOMINATION COMMITTEE REPORT

07

Corporate governance



Dear shareholders, I am pleased to present the remuneration and nomination committee report for the year ended 31 December 2017. The full remuneration policy and implementation report appear in our supplementary report online.

Purpose

For remuneration and nomination aspects, the role of the committee is to provide independent and objective oversight:

- Assist the board in ensuring the group remunerates fairly, responsibly and transparently to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term, and
 - Make recommendations to the board to ensure that:
 - The board and its committees have the appropriate composition to execute their duties effectively
 - Directors are appointed through a formal process
 - Induction and ongoing training and development of directors take place
 - Formal succession plans for the board, including executive directors, are in place
 - The performance of the board, its committees and individual members is regularly evaluated
 - The company's performance and progress against its social and labour plans are monitored.

The committee does not assume the functions of management, which remain the responsibility of executive directors, prescribed officers and other members of senior management, nor does it assume accountability for functions performed by other committees of the board.

Composition

The committee consisted of four independent non-executive directors for the review period. Attendees include the CEO, FD, executive head: human resources (HR) and other individuals with specific skills and expertise to assist members in their deliberations.

Meetings

NAME AND DESIGNATION	ATTENDANCE %
Dr CJ Fauconnier Independent non-executive director	100
Dr D Konar Independent non-executive director	100
Mr EJ Myburgh Independent non-executive director	100
Mr J van Rooyen Independent non-executive director	100
Mr VZ Mntambo Non-executive director*	0

* As Mr Mntambo was principally responsible on behalf of the BEE shareholders for the unwind of the existing BEE structure and implementation of the replacement transaction, his attendance was severely affected in 2017. With the finalisation and successful execution of this transaction, he will now be able to attend meetings of board committees for which he will be nominated.

To strengthen governance around meeting attendance, the board charter and committee terms of reference will be amended to ensure that members who do not attend two consecutive board or committee meetings will be subject to a mandatory evaluation process.



REMUNERATION AND NOMINATION COMMITTEE REPORT (CONTINUED)

CEO performance summary

Mxolisi DM Mgojo

Output	Weight	Target	Comment	Score
Operational excellence	25	Stretch in targets	Demonstrated stretching controllable drivers	4,00
		R/tonne/product group measured versus stretch budget	Budget not achieved	2,00
		Cash flow against budget	15% improvement on budget	5,00
Sustainability	10	LTIFR improvement	Actual achievement worse than target	2,00
		JSE SRI rating	No material findings on assurance report	3,00
Improve portfolio	10	Improvement in HEPS against peers	Delta HEPS 4% better than peers	5,00
		Value and fit of growth portfolio	Growth portfolio aligned with vision and strategy	3,00
Corporate citizenship	10	King IV (ethics and activities)	Ethics actively and frequently encouraged and acted on	3,00
Exxaro brand	5	Perception of the Exxaro brand among stakeholders	Perception of Exxaro brand well managed with frequent interactions	4,00
Compelling strategy	20	Development and implement a long-term strategy that will support the Exxaro vision	Developed, approved and communicated vision and strategy	3,00
Leadership and people	20	Progress against EE plan	Acceptable plan, 5% improvement against plan	4,00
		Preferential procurement	10% better than mining charter targets	5,00
		Employer of choice		4,00
Performance rating	100			3,40

FD performance summary

Pieter Adriaan Koppeschaar

Output	Weight	Target	Comment	Score
Vision and strategy	30	Group finance aligned with Exxaro strategy	Actively leading the formulation, finalisation, approval, communication and implementation	3,00
		Sufficient funding for growth, compliance with loan covenants	Net debt 150% covered and interest cover >8	5,00
Sustainability	15	Effective combined assurance framework, risk based and with sufficient cover	Methodology established, communicated and risks managed at committee level	4,00
		Audit findings resolved	% of outstanding ITMs - <2%	3,00
Reputation (Exxaro brand)	10	Positive contribution to the image of the company	Plays major role in improvement of image and perception survey	3,00
		Effective stakeholder relationships	100% according to stakeholder charter, plan and survey rating	3,00
Leadership and people	25	Talent management fast tracking and performance management of own employees	Talent bench defined. Performance tracked and measured	3,00
		Achievement of mining charter targets	0% better than mining charter targets	5,00
		Capital process roll-out in Exxaro and capital projects meet targets	Process defined and sufficient controls established	4,00
Improvement portfolio	5	Achievement of own cost budget, including labour cost reduction	10% improvement	4,00
Operational excellence	10	Effective financial, management reporting and budgeting process	Accurate on time, no uncontrollable delays and circumstances. Improvement disclosure to investors	4,00
Corporate citizenship	5	R210 million savings from strategic sourcing, BU CM and capital buying	100% target achievement	3,00
Performance rating	100			3,70

Other key issues that received attention during the year

- › Annual remuneration review of non-executive directors, the CEO, FD and group company secretary
- › Management share scheme offers for 2017
- › Approving mandate for 2017 reward allocation
- › Overseeing dividend payment of Mpower 2012
- › Cost savings from the restructuring process
- › Imminent changes to the board from the BEE transaction and other possible movements, and the need for detailed succession planning
- › The bargaining-unit wage negotiation mandate
- › Overseeing selection and appointment of group company secretary after the departure of Mrs CH Wessels.

Key performance indicators

- › The table shows the average rating for each key performance indicator. A rating of 1 (worst) to 4 (best) was used.

2017 KPIs	EVALUATION SCORE
Enhanced board succession planning: detailed board succession plan for next four years, especially ensuring the new skills and experience needs required to achieve a revised Exxaro strategy are incorporated	3,0
Support to new chief executive officer: active support and guidance to ensure optimal functioning	4,0
Improved use of strategic dashboard to manage and monitor the strategy: debate/ questions asked and remedial actions requested to address below-appetite performance on KPIs	3,3
Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,3

Key performance indicators 2018

- › Replacement share ownership plan for employees
- › Ensure appropriate director appointments as per the BEE transaction
- › Review metrics for annual incentives to ensure they are aligned with Exxaro's strategy
- › Consider effectiveness of current remuneration advisers and whether we need to change
- › Review all incentive plans to confirm whether they are having the desired impact.

Conclusion

The committee is satisfied it has considered and discharged its responsibilities in line with its terms of reference.

On behalf of the committee

Dr CJ Fauconnier
Chairman

Pretoria
18 April 2018

SOCIAL AND ETHICS COMMITTEE REPORT

Dear shareholders, I am pleased to present the social and ethics committee report for the year ended 31 December 2017.

Purpose

The committee is constituted as a statutory committee of the company for those statutory duties assigned to it in terms of section 72(4) of the Companies Act (read in conjunction with regulation 43 of the Companies Regulations, 2011), and as a committee of the board for all other duties assigned by the board.

The role of the committee is to:

- › Fulfil the statutory duties set out in Regulation 43 to the Act
- › Oversee and report on organisational ethics, responsible corporate citizenship, sustainable development and stakeholder relationships
- › Assist the board in facilitating and supporting the development of transformation objectives, ensuring the corporate culture supports the approach; monitoring and reporting actual performance against these objectives.

The committee does not assume the functions of management, which remain the responsibility of the executive directors, prescribed officers and other members of senior management, nor does it assume accountability for functions performed by other committees of the board.

Composition

The committee comprised a majority of independent directors throughout the period. The chairman of the board is invited to all committee meetings. Other attendees include the CEO and FD, as well as individuals with specific skills and expertise to assist members in their deliberations.

Meetings

NAME AND DESIGNATION	ATTENDANCE %
Dr MF Randera Non-executive director	100
Dr CJ Fauconnier Independent non-executive director	100
Mrs S Dakile-Hlongwane Non-executive director	100
Mr EJ Myburgh Independent non-executive director	100

From 2018, the board has decided that this committee will meet four times each year.

2017 in overview

Ethics programme

The committee oversees the company's ethics, and ensures the board is sufficiently equipped to meet its goal of a

sustainable ethical culture. Although this responsibility has been delegated, the board remains accountable for the way in which it is discharged.

The committee is supported by a management ethics committee that considers and addresses matters of ethics (including all hotline reports and forensic investigations) in detail. We consider their detailed reporting at all meetings in the year.



Risk control comparison (January to December)

	2017	2016	2015	2014
Investigations	492	623	457	448
Disciplinary inquiries	214	204	201	156
Criminal cases registered	44	131	148	171
Arrests	55	73	175	164
Copper theft				
Cases	38	60	68	55
Value (R)	800 370	6 840 272	9 171 997	4 692 479
Recovered (R)	260 577	1 471 948	2 721 239	1 076 598
Total value (including copper) (R)	5 243 136	30 575 455	18 479 396	16 619 805
Total recovered (including copper) (R)	1 661 544	22 766 214	11 044 407	10 491 166

Ethics programme

During the year, initiatives to support the annually approved ethics programme included:

- › Perform anti-fraud, bribery and corruption (ABC) due diligence on high-risk suppliers
- › Compile a fraud assessment and fraud risk register
- › Provide ABC refresher training to all disciplines
- › Perform a dedicated data analysis
- › Verify conflicts of interest in terms of audit-selected nominated vendors
- › Update the poster campaign
- › Update awareness campaign in communities on job sales scams
- › Update internal awareness on spoofing/mimicking of emails
- › Perform criminal conviction checks for new, own and contractor employees
- › Induction to include anti-fraud, bribery and corruption training.

Other key issues that received attention during the year

- › Policy on using contract labour
- › Outcome of the annual wage negotiation
- › The root causes in disciplinary cases and actions to ensure these are addressed
- › Capital assistance granted to first-time homeowners
- › Guidance and a presentation by EY on the enhanced role of the committee in light of the requirements in King IV
- › The four categories of disciplinary offences in the company, namely:
 - Absence without permission
 - Negligent work performance
 - Alcohol or drug-related offences
 - Non-compliance with company rules
- › The culture initiative journey to ensure Exxaro culture contributes to delivering the business strategy
- › Importance of enterprise supplier development in achieving the approved BBBEE strategy
- › Need for the private sector to capacitate municipalities to ensure support for local economic development projects and the importance of partnering with the DMR.

Key performance indicators

2017 KPIs	EVALUATION SCORE
Evaluating the impact of Exxaro's activities specifically on public safety, in addition to the standard MHSA discussions at the SRC committee	3,0
Evaluating the impact of Exxaro's activities on contractors, treatment of contractors and the contractor philosophy	2,5
Sharing best practice: Individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,5

Key performance indicators 2018

- › Ensure there is clear ownership of and accountability for the transformation policy
- › Ensure Exxaro submits all charter scorecard returns to DMR and engages positively and proactively to protect mining rights
- › Drive tangible delivery from the transformation programme, especially housing
- › Ensure we make early and demonstrable progress with new SLP commitments
- › Ensure management is addressing our social and ethics obligations in line with King IV
- › Liaise and improve working relationships with community leaders around our mines and proactively assist in ensuring the viability of the initiatives they are engaged in for Exxaro
- › Work on replacing gaps caused by departure of senior executives with similar skills and experience
- › Ensure incoming executives address housing, human resources and supply-chain management needs to the satisfaction of the committee and board.

Conclusion

The committee is satisfied it has considered and discharged its responsibilities in line with its terms of reference.

On behalf of the committee

Dr MF Randera
Chairman

Pretoria
18 April 2018

> SUSTAINABILITY, RISK AND COMPLIANCE COMMITTEE REPORT

Dear shareholders, I am pleased to present the sustainability, risk and compliance committee report for the year ended 31 December 2017.

Purpose

The role of the committee is to oversee the company's consideration of and performance on all material non-financial issues, including social, risk, compliance, safety, health and environmental issues, and to ensure these are integrated into strategy and economic performance.

The committee is responsible for:

- › Risk management: reviewing the enterprise risk management process, including key risks facing the company and group and responses in place to address these. Technical debate on managing financial risk will take place at the audit committee; however, financial risks will form part of the overall enterprise risk register, which this committee oversees
- › Compliance: reviewing legal and regulatory processes as well as monitoring compliance to all laws and regulations and codes of good practice in the regulatory universe. While this committee will oversee group compliance processes, technical discussions on social and labour plans, and labour laws and regulations will take place at the remuneration and nomination committee, with technical discussions on financial compliance aspects by the audit committee
- › Sustainability: oversight of technical and operational matters for the sustainability performance and reporting of the company.

The committee does not assume the functions of management, which remain the responsibility of executive directors, officers and other members of senior management nor does it assume accountability for functions performed by other committees of the board.

Composition

The committee consisted of a majority of independent directors throughout the period. The chairman of the board is invited to attend committee meetings. Other attendees include the CEO and FD, as well as individuals with the necessary technical experience to assist members in technical deliberations as required.



Meetings

NAME AND DESIGNATION	ATTENDANCE %
Dr CJ Fauconnier Independent non-executive director	100
Mrs S Dakile-Hlongwane Non-executive director	100
Mr PCCH Snyders Independent non-executive director	100
Mr D Zihlangu Non-executive director	75

2017 in overview

Safety

We are saddened and concerned to report that in 2017 we lost one colleague in a work-related fatality. Our deepest condolences go to the families, friends and colleagues of Mr Sihle Majosi.

As a company, we continue to strive for zero harm and numerous steps are being taken to ensure that we reduce our lost-time injury frequency rate (LTIFR). This is detailed in our supplementary report on our website.

Other key issues that received attention during the year

- › The outcome of the fatality at Matla mine, including root causes and lessons learned
- › Out-of-appetite KPIs on the strategic performance dashboard and measures to bring these within the required thresholds
- › Outcome of high-potential incident investigations as well as learnings to prevent future incidents
- › Compliance programme for 2017, which included updating the current legal register, compiling compliance control self-assessment questionnaires and a compliance calendar
- › Quarterly business-unit risk profiles, which indicate the top 15 risks and trend
- › External assessment on the maturity of the company's governance, risk and compliance processes
- › The continued industry-wide focus on closing the shortfall between different mine-closure scenarios and financial provisioning in place
- › Processes to ensure a level 3 BBBEE contributor status
- › A visit to the University of Pretoria virtual reality centre to investigate the use of digitisation, including virtual reality to reach zero harm
- › The committee continues to visit business units for first-hand reviews of sustainability, risk and compliance practices and policies. In 2017, it visited DCMW West and East, which form part of the ECC coal business unit
- › It received a risk deep-dive presentation for Grootegeeluk, focusing on Eskom, Thabametsi and community activism

- › Approval of a holding statement for companies receiving adverse media attention
- › The internal section 54 instruction process to assist our safety campaigns.

Key performance indicators

2017 KPIs	EVALUATION SCORE
Improved use of strategic dashboard to manage and monitor the strategy: debate/questions asked and remedial actions requested to address below-appetite performance on KPIs	3,5
SRC committee visible felt leadership initiatives: formal and informal visits to business units	3,25
Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,25

Key performance indicators 2018

- › Ensure safety remains a key priority for the company. Encourage management to maintain proactive momentum on improving safety performance and eliminating fatalities. Encourage management to maintain the focus on behaviour-based initiatives, including job observations and other leading indicators
- › Continue constructive engagement with the DMR so that real safety improvements are achieved
- › Ensure that improving our potential health and overall wellbeing remain a focus of the committee. Particular focus will be paid to maintain the improvement in health performance
- › Require solutions to material environmental exposures, water crises, sulphur issues, and mine-closure plans
- › Continue to challenge management after significant SHE incidents, and ensure management implements processes and policies to reflect specific and broad lessons learned from those incidents
- › Review SHE-related risks in the company's principal risks, and scrutinise mitigation plans
- › Ensure comprehensive compliance with our legislative requirements and ongoing best practice with codes, standards, regulations wherever we do business.

Conclusion

The committee is satisfied it has considered and discharged its responsibilities in line with its terms of reference.

On behalf of the committee

Dr CJ Fauconnier
Chairman

Pretoria
18 April 2018

ROLE OF THE EXECUTIVE

The board delegates authority to executive management, via the CEO, to manage, direct, control and coordinate the day-to-day business activities and affairs of the company, subject to statutory limits and other limitations set out in the delegation of authority framework.

Executive committee

Within the authorities delegated by the board, the key tasks of the committee are to:

- › Oversee the financial, operational and safety performance of the company
- › Guide the company in its relations with shareholders and other key stakeholders, including staff, regulators, politicians, environmental interests and the media
- › Develop and recommend group strategy for board approval
- › Oversee the implementation of board strategy within the risk appetite approach approved by the board
- › Receive and consider regular reports from the management committee to monitor and drive improvements in financial performance
- › Regularly review the adequacy of reporting arrangements and effectiveness of internal control and risk management

- › Approve expenditure and other financial commitments as specified in the delegation of authority framework
- › Where expenditure and other financial commitments are above authorities delegated to the committee, make recommendations to the board seeking the necessary approvals
- › Clear all papers (with minor exceptions only as a result of practical difficulties) intended for consideration by the board and its committees ahead of circulation or make recommendations to the board
- › Perform other functions as determined by the board from time to time
- › Review and approve terms of reference of the coal executive and investment review committees.

MDM Mgojo (57)

Chief executive officer

Qualifications: BSc (hons) (energy studies), MBA, advanced management programme (Wharton)

Expertise: Previously at Eyesizwe Coal, Mxolisi was responsible for marketing and logistics. After Exxaro's formation, he managed the base metals and industrial minerals commodity business before being appointed to head our coal operations from 2008 and as chief executive officer in 2016. He is a director of a number of Exxaro subsidiaries, Tronox Limited, Main Street 333, Talent 10 Holdings and Dynamo Investment Holdings.

PA Koppeschaar (47)

Finance director

Qualifications: CA(SA), advanced and associate programmes in treasury management, advanced diploma in taxation, advanced management programme (Insead), certificate in theory of accounting, member of the Association of Corporate Treasurers

Expertise: Riaan completed his articles in 1993 at Coopers & Lybrand, then branched into treasury, investment management and corporate finance. He has held senior managerial positions at Iscor, Kumba Resources and Exxaro Resources until his appointment as finance director in 2016. He is a director of several Exxaro subsidiary companies, joint ventures and a trustee and investment committee member of the Exxaro pension and provident funds.

AW Diedericks (50)

Executive head: business development

Qualifications: BEng (mining) (Pretoria), executive development programme (Darden)

Experience: Wim started his career as an Iscor bursar (1986 to 1990) and was appointed an engineer in training at Thabazimbi mine in 1992. He was also employed at Durnacol, Tshikondeni, SIOC, Rosh Pinah and Kumba Resources head office. Since Exxaro's formation, he has held senior leadership positions at KZN Sands, Grootegeeluk, Mpumalanga Coal commercial region and corporate office. He assumed his current role on 1 April 2015.

V Balgobind (45)

Executive head: human resources

Qualifications: BA (hons) (industrial psychology), MA (industrial psych), management development programme (GIBS)

Experience: Vanisha is a registered industrial psychologist with 19 years' experience in the mining industry. She was appointed as an HR assistant at Mondi Kraft in Richards Bay in 1996 and joined Iscor Mining in 1997 as an HR trainee. She served at Kumba Resources as an HR consultant and talent management consultant between 2001 and 2006. At Exxaro, she headed talent management and staffing for five years, was manager for corporate projects and HR optimisation for two years, and then group manager for talent and learning before assuming her current position.

JG Meyer (49)

Executive head: projects and technology

Qualifications: BEng (metallurgy) (Pretoria), MBA (Stellenbosch) and advanced management programme (Insead)

Experience: Johan started his career at Iscor Pretoria Steel Works in 1987. From 1997 to 2005, he was part of the heavy minerals management team in designing, commissioning and implementing the KZN Sands business. He spent two years as research and development manager for Kumba Resources before his appointment as Zincor manager in 2009. Following the successful closure of Zincor, he was general manager: technology prior to assuming his current role on 1 April 2015.

MI Mthenjane (48)

Executive head: stakeholder affairs

Qualifications: BSc (eng) (mining), senior management development programme (GIMT)

Experience: Mzila is a mining engineer with over 20 years' experience in mining and investment banking. This includes seven years in deep-level gold mining at AngloGold Ashanti and Gold Fields in senior mine management and corporate development roles, respectively; and six years in investment banking at RMB and Deutsche Bank. His knowledge of business sustainability was honed over six years as executive: business sustainability at Royal Bafokeng Holdings and Royal Bafokeng Platinum. He assumed his current role in 2013.

Dr N Tsengwa (53)

Executive head: coal operations

Qualifications: PhD (agronomy) (Maryland, US), executive development programme (Insead)**Experience:** Nombasa has 16 years' executive management and board experience in the public and private sector. In 2003, she joined Kumba Resources as general manager: safety, health, and environment. In 2007, she was appointed executive general manager: safety and sustainable development. In 2010, she became directly involved in the coal operations, as general manager of tied mines, and general manager of Mpumalanga operations. She was appointed to her current position in May 2016.**M Vetli (54)**

Executive head: sustainability

Qualifications: National higher diplomas in metalliferous mining and coal mining (Technikon Witwatersrand), MBL (Unisa), advanced management programme (Wharton), mine overseer's certificate and mine manager's certificate of competency for fiery mines**Experience:** In the early 1980s, Mongezi worked for AngloGold at Western Deep Levels and joined Sasol Mining in 1994. In 2002, he became mine manager at Arnot, and was appointed an area general manager in Exxaro soon after the merger, before assuming his current role in 2015.**SE van Loggerenberg (41)**

Group company secretary and legal

Qualifications: BLC, LLB (Pretoria), Eur Int (cum laude), LLM (Eur) (European Institute, University of Saarland), certificate compliance risk management (Johannesburg), certificate mining law (Witwatersrand), advanced certificate corporate and securities law (Unisa). Fellow of the Institute of Chartered Secretaries, member of the International Institute of Risk Management**Experience:** Saret joined KPMG in 2002, advising clients on the legal aspects of information security, privacy and data protection. As senior manager of the regulatory and compliance services team, she advised clients on compliance programmes and reviews as part of internal and external audit. She joined Exxaro in 2008 as assistant company secretary, becoming manager: risk and compliance in 2012. She was appointed to her current role in October 2017.**Investment review committee (IRC)**

The purpose of this committee is to oversee the management review processes for major investments, ensuring that:

- › Each project meets the strategic, technical and investment requirements of the company, which includes identifying and managing project-related risks
- › Critical decisions, project parameters and governance processes are addressed before committing funds
- › Each project enhances Exxaro's portfolio value.

In addition, it also has authority to approve some projects to reduce the approval process timeframe for smaller projects.

Within the authorities delegated by the board to the executive committee, the key tasks of the IRC are to:

- › Consider economic parameters and commodity prices to assist with capital budgeting
- › Take note of the weighted average cost of capital and hurdle rates group-wide to determine whether a project qualifies for a funding commitment
- › Review reports from independent specialists on their support for/opposition to a project
- › Consider projects within strategic parameters determined by the portfolio review committee, ensuring any potential investments will complement the group's portfolio
- › Review all identified risks (including those identified in financial and technical analysis) and ensure appropriate risk management strategies are implemented at the respective project phases
- › Review the project pipeline for capital projects

- › Request technical interventions and reviews where appropriate
- › Assess financing options
- › Once satisfied that an investment is appropriate, approve projects within its approval mandate and recommend those beyond its mandate to Exco and the board, in line with the latest board-approved delegation of authority policy and matrix
- › Recommend any material scope changes (where the project was approved) for approval, in line with board-approved delegation of authority policy and matrix.

Information management steering committee

An effective information and technology (IT) function is at the forefront of the company's strategic direction on innovation, digitisation and automation. Our IT function contributes to a high-performing business by enabling superior production and the protection of core assets such as information. The purpose of the committee is articulated in King IV: principle 12.

As a subcommittee of the audit committee, it oversees information management governance, its implementation and enforcement. It also supports the audit committee's mandate to ensure business resilience and mitigate incidents including cyber attacks and adverse social media events.

Oversight and implementation of the Protection of Personal Information Act 4 2013 is a key function of this committee, on which Exxaro's information officer serves as a member.

PWC ASSURANCE REPORT

Independent assurance report to the directors of Exxaro Resources Limited

We have been engaged by the directors of Exxaro Resources Limited (the company) to perform an independent assurance engagement in respect of selected sustainability information reported in Exxaro's integrated annual report for the year ending 31 December 2017 (the report). This report is produced in accordance with the terms of our contract with the company dated 12 October 2017.

Independence, quality control and expertise

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA Code), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Part A and B).

The firm applies International Standard on Quality Control 1 and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Our engagement was conducted by a multi-disciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

Scope and subject matter

The subject matter of our engagement and the related levels of assurance that we are required to provide are as follows:

Reasonable assurance

The following selected sustainability information in the report (page 130) was selected for an expression of reasonable assurance:

- a) Number of lost-time injuries (employees and contractors)
- b) Lost-time injury frequency rate (LTIFR) (employees and contractors)
- c) Indirect CO₂ emissions – Scope 2 (CO₂ tonnes)
- d) Procurement from BEE entities (rand value and % of total procurement) capital, services and consumable goods.

Limited assurance

The following selected sustainability information in the report (page 130) was selected for an expression of limited assurance:

- a) Occupational health incident frequency rate (OHIFR)
- b) Number of accepted occupational health cases
- c) Direct CO₂ emissions from own operations – Scope 1 (CO₂ tonnes)
- d) Other indirect emissions – Scope 3 (CO₂ tonnes)
- e) Carbon intensity (ktCO₂e/total tonnes mined)
- f) Number of level 2 and 3 environmental incidents.

We refer to this information as the selected sustainability information.

We have carried out work on the data reported for 2017 only and have not performed any procedures with respect to earlier periods, except where specifically indicated, or any other elements included in Exxaro's integrated annual report and, therefore, do not express any conclusion thereon. We have not performed work in respect of future projections and targets.

Respective responsibilities of the directors and PricewaterhouseCoopers Inc.

The directors are responsible for selection, preparation and presentation of the selected sustainability information in accordance with the criteria set out on page 125 of the report. The directors are also responsible for designing, implementing and maintaining of internal controls as the directors determine is necessary to enable the preparation of the selected sustainability information that is free from material misstatements, whether due to fraud or error.

Our responsibility is to form an independent conclusion, based on our reasonable assurance procedures, on whether the selected sustainability information for reasonable assurance has been prepared, in all material respects, in accordance with the reporting criteria.

We further have a responsibility to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the selected sustainability information for limited assurance has not been prepared, in all material respects, in accordance with the reporting criteria.

This report, including the conclusions, has been prepared solely for the directors of the company as a body, to assist the directors in reporting on the company's sustainable development performance and activities. We permit the disclosure of this report within the report for the year ended 31 December 2017, to enable the directors to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and the company for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Assurance work performed

We conducted our assurance engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000 (Revised): Assurance Engagements other than Audits and Reviews of Historical Financial Information, and, in respect of greenhouse gas emissions, International Standard on Assurance Engagements (ISAE) 3410: Assurance Engagements on Greenhouse Gas Statements, issued by the International Auditing and Assurance Standards Board. These standards require that we comply with ethical requirements

and that we plan and perform the assurance engagement to obtain assurance on the selected sustainability information as per the terms of our engagement.

Our work included examination, on a test basis, of evidence relevant to the selected sustainability information. It also included an assessment of the significant estimates and judgements made by the directors in the preparation of the selected sustainability information. We planned and performed our work so as to obtain all the information and explanations that we considered necessary in order to provide us with sufficient evidence on which to base our conclusion in respect of the selected sustainability information.

Our work in respect of the selected sustainability information included the following procedures:

- › Reviewing processes that Exxaro has in place for determining the selected sustainability information included in the report
- › Obtaining an understanding of the systems used to generate, aggregate and report the selected sustainability information
- › Conducting interviews with management at the sampled operations and at head office
- › Applying the assurance criteria in evaluating the data generation and reporting processes
- › Performing control walkthroughs
- › Testing the accuracy of data reported on a sample basis for limited and reasonable assurance
- › Reviewing the consolidation of the data at head office to obtain an understanding of the consistency of the reporting processes compared with prior years and to obtain explanations for deviations in performance trends
- › Reviewing the consistency between the selected sustainability information and related statements in Exxaro's report.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement under ISAE 3000 (Revised). Consequently, the nature, timing and extent of procedures for gathering sufficient appropriate evidence are deliberately limited relative to a reasonable assurance engagement, and therefore less assurance is obtained with a limited assurance engagement than for a reasonable assurance engagement.

The procedures selected depend on our judgement, including the assessment of the risk of material misstatement of the selected sustainability information, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation of the selected sustainability information in order to design procedures that are appropriate in the circumstances.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusions.

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time.

In particular, where the information relies on factors derived by independent third parties, our assurance work has not included examination of the derivation of those factors and other third-party information.

Conclusions

Reasonable assurance

Based on the results of our reasonable assurance procedures, in our opinion, the selected sustainability information for the year ended 31 December 2017, has been prepared, in all material respects, in accordance with the reporting criteria.

Limited assurance

Based on the results of our limited assurance procedures nothing has come to our attention that causes us to believe that the selected sustainability information for the year ended 31 December 2017, has not been prepared, in all material respects, in accordance with the reporting criteria.

Other matters

The maintenance and integrity of Exxaro's website is the responsibility of Exxaro's directors. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the report or our independent assurance report that may have occurred since the initial date of presentation on the Exxaro website.



PricewaterhouseCoopers Inc.

Director: Jayne Mammatt

Registered Auditor

4 Lisbon Lane, Johannesburg

18 April 2018

PWC ASSURANCE REPORT (CONTINUED)

Indicators assured

Key performance indicator	Level of assurance	2014	2015	2016	2017
Fatalities	Reasonable	1	#	#	#
Fatality frequency rate (FFR) – employees and contractors	Reasonable		0	0	#
Lost-time injuries (LTIs) – employees and contractors	Reasonable	36	#	#	21
Lost-time injury frequency rate (LTIFR) – employees and contractors	Reasonable	0,19	0,17	0,09	0,12
Occupational health incident frequency rate (OHIFR) – reported cases – employees and contractors	Limited		0,36	0,35‡ 0,42‡	0,33
Total people participating in HIV/Aids voluntary counselling and testing (VCT)	Limited	1 642	#	#	#
Number of reported (and accepted) cases of pneumoconiosis	Limited	Reported = 12 Accepted = 2	#	#	Accepted = 6
Number of reported (and accepted) cases of occupational tuberculosis	Limited	Reported = 20 Accepted = 5	#	#	Accepted = 16
Number of reported (and accepted) cases of noise-induced hearing loss	Limited	Reported = 16 Accepted = 2	#	#	Accepted = 0
Total number of accepted occupational health cases	Limited	#	#	#	22
Total diesel used (gigajoules (GJ))	Reasonable	2 103 148	#	#	#
Total electricity used (GJ)	Reasonable	2 135 581	#	#	#
Electricity efficiency (kWh/kilotonnes)	Reasonable	4,2	3,72	12,86	#
Direct CO ₂ emissions from own operations (scope 1)	Limited	229 762	235 179	271 657	324 925
Indirect CO ₂ emissions from electricity (scope 2)	Reasonable	557 624	521 905	500 990	539 040
Other indirect emissions (scope 3)	Limited	74 768 143	73 846 816	71 651 102	76 461 529
Carbon intensity (ktCO ₂ e/TTM)	Limited	#	#	#	5,4
Total year-on-year change in scope 1 and scope 2 emissions	Reasonable	3,5	#	#	#
Number of level 2 and 3 environmental incidents	Limited	Level 2 = 3 Level 3 = 0	Level 2 = 18 Level 3 = 0	Level 2 = 5 Level 3 = 0	Level 2 = 1 Level 3 = 0
Procurement from BEE entities (R value and % of total procurement)	Reasonable		#	#	
Capital		1 545 247 148 57%	#	#	2 406 201 660 69%
Services		2 641 029 589 71%	#	#	2 805 143 977 78%
Consumable goods		3 091 454 498 75%	#	#	3 393 823 544 79%
Employment equity	Reasonable		#	#	#
Top management		67%		#	#
Senior management		42%		#	#
Middle management		57%		#	#
Junior management		73%		#	#
Core and critical skills		98%		#	#
Total potable water (municipal and Eskom) and metered potable water (Grootegeeluk only) (m ³)	Limited	2 304 686	2 194 398	#	#
Hazardous waste to landfill (tonnes)	Limited	1 542	1 814	#	#
Number of bursars	Limited	88	#	#	#
Number of professionals in training	Limited	86	#	#	#

Not assured.

MINING CHARTER PERFORMANCE

07

Corporate governance

Mining charter performance

Element	Metric		Actual 2017 ^{##}		Actual 2016 [#]		Actual 2015 ^{**}		Actual 2014 [*]		Actual 2013		Actual 2012
Ownership	Black ownership	●	30%	●	45,3% ^{##}	●	52,09%	●	52,09%	●	52,09%	●	52,14%
Beneficiation	Domestic use	●	Yes	●	Yes	●	Yes	●	Yes	●	Yes	●	Yes
Procurement and enterprise development	Capital goods	●	31%	●	71%	●	53%	●	34%	●	49%	●	59%
	Services	●	73%	●	48%	●	82%	●	69%	●	58%	●	37%
	Consumables	●	57%	●	63%	●	79%	●	71%	●	62%	●	47%
Employment equity	Top management	●	71%	●	71%	●	79%	●	67%	●	60%	●	None
	Senior management	●	33%	●	52%	●	34%	●	42%	●	53%	●	44%
	Middle management	●	64%	●	40%	●	56%	●	57%	●	55%	●	54%
	Junior management	●	77%	●	81%	●	75%	●	73%	●	65%	●	69%
	Core and critical skills	●	73%	●	78%	●	96%	●	98%	●	96%	●	98%
Human resources development	Percentage of payroll (excluding levies)	●	8%	●	6,1%	●	5,0%	●	6,8%	●	5,3%	●	6,6%
Community development	Percentage of net profit after tax or LED project completion	●	3%	●	80%	●	62%	●	1,8%	●	0,9%	●	4,7%
Housing and living	Hostel conversion and occupancy rate	●	100%	●	100%	●	100%	●	100%	●	Number of people sharing – 0	●	No employees
Sustainable development	Health and safety	●	91%	●	80,70%	●	90%	●	98%	●	Leadership strategies (programmes implemented)	●	Investigate and implement MOSH leading practices and MHSC research findings
	Research and development	●	100%	●	100%	●	100%	●	100%	●	100%	●	100%
Reporting	Annual reporting to DMR	●	Yes	●	Yes	●	Yes	●	Yes	●	Yes	●	Yes

● Missed target

● Missed target by <5%

● Met/exceeded target

* 2014 scorecard reflects the average across eight operational mining right sites only.

** 2015 scorecard reflects average across seven operational mining right sites only and excludes ECC mines.

Scorecard includes ECC.

As at 31 December 2017.

These figures exclude all sites for which a mining right is not applicable.

	INDICATOR	DEFINITION
Safety and health	Number of fatalities	A fatality includes all work-related incidents that resulted in a fatality
	Fatality frequency rate (FFR) - employees and contractors	Rate per 200 000 hours of fatalities due to all causes for both employees and contractors
	Number of lost-time injuries (LTIs) - employees and contractors	LTI is a work-related injury resulting in the employee/contractor being unable to attend work or perform the full duties of regular work on the next calendar day. Restricted work cases are counted as LTIs
	Lost-time injury frequency rate (LTIFR) - employees and contractors	Rate per 200 000 hours of LTIs due to all causes for both employees and contractors
	Total number of people participating in HIV/Aids voluntary counselling and testing (VCT)	Total number of employees who have received counselling and tested for HIV
	Number of reported and accepted cases of pneumoconiosis	Number of reported and accepted cases of pneumoconiosis in the reporting period. An occurrence of pneumoconiosis which is reported to Medical Bureau for Occupational Disease and DMR
	Number of reported and confirmed cases of occupational tuberculosis	Number of reported and accepted cases of occupational tuberculosis in the reporting period. An occurrence of occupational tuberculosis which is reported to Medical Bureau for Occupational Disease and DMR
	Number of reported and accepted cases of noise-induced hearing loss (NIHL)	Number of reported and accepted cases of NIHL in the reporting period. An occurrence of NIHL which is reported to Rand Mutual Assurance and DMR
	Occupational health incident frequency rate (OHIFR) - reported cases (employees and contractors)	<p>Number of reported cases of occupational diseases in the reporting period. An occurrence of an occupational disease which is reported to Medical Bureau for Occupational Disease and DMR, and for NIHL reported to Rand Mutual Assurance</p> <p>These occupational diseases are:</p> <ul style="list-style-type: none"> › Reported occupational tuberculosis › Reported cases of chronic obstructive airway disease › Reported cases of pneumoconiosis › Reported cases of NIHL › Reported cases of silicosis. <p>Occupational diseases are monitored and reported for employees and contractors. The rate is calculated per 200 000 hours for both employees and contractors</p>

GLOSSARY (CONTINUED)

	INDICATOR	DEFINITION
Environment	Total diesel used (GJ)	Direct energy consumption by diesel used
	Total electricity used (GJ)	Direct energy consumption by electricity used
	Total electricity (MWh/production tonnages)	Total electricity used, measured in megawatt hours (MWh), divided by production measured in kilo tonnes
	Direct CO ₂ emissions from own operations (scope 1)	Total scope 1 emissions include total litres of diesel oil used for primary production activities, fugitive emissions from mining activities and limestone emissions created through mining activities converted to tonnes CO ₂ e
	Indirect CO ₂ emissions from electricity (scope 2)	Total electricity purchased converted to tonnes CO ₂ e Electricity-based emissions are derived from the grid emissions factor for South Africa (0,94tCO ₂ e/MWh)
	Other indirect emissions (scope 3)	Total scope 3 emissions from use of sold products and upstream transportation and distribution
	Carbon intensity	Total kt CO ₂ e/total tonnes mined
	Number of integrated water use licence (IWUL) applications approved	An approved IWUL is a licence signed by the Department of Water and Sanitation director-general acting under authority delegated by the minister. An approved/signed licence authorises water uses applied for under section 21 of the National Water Act, 1998
	Number of IWULs pending	An integrated water use licence application lodged with the Department of Water and Sanitation for processing and awaiting decision by the department
	Number of level 2 and 3 environmental incidents	Level 2 - reportable environmental incidents with reversible on-site and immediate surrounding impacts, will involve over 48 hours clean-up activities and a negative impact on shareholder value of R50 000 to R500 000 worth of damage has definitely occurred
		Level 3 - reportable environmental incidents with irreversible on-site, immediate and remote areas impacts, will involve long-term clean-up activities and a negative impact on shareholder value of >R500 001 worth of damage has definitely occurred
Mining charter	Total potable water use	Total invoiced potable water (municipal and Eskom) and metered potable water (Grooteegeluk only) (m ³)
	Hazardous waste to landfill	Hazardous waste disposed of to legal landfill during the reporting period
Training	Procurement spend from BEE entities (R value per capital goods, consumables and services)	The support of BEE (black economic empowerment) suppliers in line with the Exxaro preferential procurement policy and mining charter requirements for the review period
	Employment equity	Demographic breakdown of workforce as per mining charter requirements for the review period
Training	Number of bursaries awarded	Total number of bursaries awarded in the reporting period. A student who receives a bursary that covers university fees and expenses from Exxaro (bursar). This student is offered work experience in university holidays (working bursar) and, on the successful completion of a degree, is offered employment from Exxaro
	Number of professionals in training	Total number of professionals in training in the reporting period. This is an employee holding a three-year contract to gain practical experience on the mines for professional registration and/or GCC/MMCC certification



ADMINISTRATION

Group company secretary and registered office

S van Loggerenberg
Exxaro Resources Limited
Roger Dyason Road
Pretoria West, 0183
(PO Box 9229, Pretoria, 0001)
South Africa
Telephone +27 12 307 5000

Sponsor

Absa Bank Limited (acting through its corporate and investment bank division)
Barclays Sandton North
15 Alice Lane
Sandton, 2196

Company registration number: 2000/011076/06

JSE share code: EXX

ISIN code: ZAE000084992

Auditors

PricewaterhouseCoopers Incorporated
2 Eglin Road
Sunninghill, 2157

Commercial bankers

Absa Bank Limited

Corporate law advisers

EOH Legal Services Proprietary Limited
Roger Dyason Road
Pretoria West
0183

United States ADR depositary

The Bank of New York Mellon
101 Barclay Street
New York NY 10286
United States of America

Registrars

Computershare Investor Services Proprietary Limited
Rosebank Tower
15 Biermann Avenue
Rosebank, 2196
(PO Box 61051, Marshalltown, 2107)

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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.