POWERING POSSIBILITY

Exxaro Resources Limited

tax report for the year ended 31 December 2019

Tax landscape

POWERING POSSIBILITY INTO THE FUTURE THROUGH . . .

HOW TO NAVIGATE THIS REPORT
Global Reporting Initiative (GRI) elements in the integrated report are cross-referenced for a fuller perspective.

Read more online Refer to strategy

In this report you will see a few hashtags. We will be using these throughout the year when we are sharing news about a topic, making it easier to follow us on social media and stay tuned to our activities during the year.

Feedback

We welcome feedback from stakeholders. Please send your suggestions to:

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About Exxaro

Our purpose: to power better lives in Africa and beyond

Exxaro is among the top five coal producers in South Africa with a diversified portfolio of assets, a solid resource base and the only producing mine in the coal-rich Waterberg region, Grootegeluk, which is acknowledged as one of the most efficient mining operations globally.

The company is also a constituent of the JSE Top 40 Index and is among the top 30 in the FTSE/JSE Socially Responsible Investment Index.

While coal is the core commodity of our business, we understand the finite nature of the fossil fuel sector and changing global imperatives. This understanding has underpinned our strategic direction for the year under review and will continue to define our course into the future.

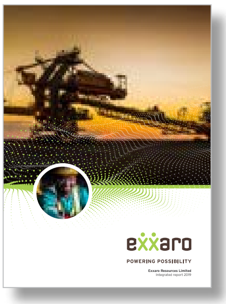
For more information on Exxaro, please refer to our integrated report at https://www.exxaro.com/investor/integrated-reports2019/index.php.

Report overview

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

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

This report should be read in conjunction with the Exxaro integrated report 2019 at www.exxaro.com



DIGITALISATION AND A CULTURE OF TRUST WITH ALL STAKEHOLDERS

Tax report for the year ended 31 December 2019

Internal and external environment

Taxation is an integral part of our business and the natural outflow of each business decision. However, tax can be managed effectively within the parameters of tax law to support Exxaro's goal to create value and apply good corporate governance. It is useful to understand the external and internal factors that influence value creation in terms of taxation.

Regulatory changes

Carbon tax

The implementation of carbon tax took effect from 1 June 2019. The effect on Exxaro in 2019 has been conservatively calculated at R3.5 million based on direct scope 1 carbon emissions. Although the payment procedures have not yet been finalised, registration opened on 2 January 2020. Exxaro's first payment for the seven-month period from 1 June to 31 December 2019 is due and payable on 31 July 2020.

Royalty taxes

During the year, the South African Revenue Service (SARS) made significant progress in launching an e-filing platform for mineral royalty compliance that enables taxpayers to e-file annual royalty returns and make provisional payments. Exxaro expects the system to be fully operational by June 2020.

Following the outcome of the United Manganese of Kalahari Proprietary Limited (UMK) case with the commissioner of SARS in October 2017 (and the subsequent appeal case finalised in March 2020), Exxaro Coal Proprietary Limited claimed its capital transport and handling costs incurred during the 2019 year of assessment in calculating the mineral royalty liability.

Diesel rebates

During the year, Exxaro had several engagements with SARS on Exxaro's diesel-rebate audits. However, the separation of the diesel rebate system from the VAT system has not been completed, making it increasingly difficult for Exxaro to maintain its tax compliance status.

Accounting changes

IFRS 16 *Leases*

The new accounting standard on leases, IFRS 16, was implemented during the year. Implementation of the standard did not have a material impact on the tax position of the legal entities within the Exxaro group of companies.

Political changes – SARS

Exxaro welcomes the appointment of Mr Edward Kieswetter as the new SARS Commissioner in 2019 and SARS' vision statement of:

"Our 2024 vision is to build a smart, modern SARS with unquestionable integrity, trusted and admired by government, the public as well as our international peers."

To achieve its 2024 vision, SARS committed to, among others, the following:
- Ethical stakeholder engagement
- The use of technology and data
- High-value knowledge
- Regaining public trust and confidence
- High level of voluntary compliance.

Exxaro supports SARS' new vision and looks forward to a fruitful relationship based on trust and ethical behaviour. The SARS Large Business Centre re-opened during the tax year and its new service charter was also launched. The SARS Large Business Centre is the service centre used by Exxaro.

Tax report for the year ended 31 December 2019 continued

Tax digitalisation

PwC* noted the following statistics through various benchmark studies and digital IQ surveys:

40% of effort could be realigned to more value-driven activities through the use of automation[1]	**80%** improvement in productivity of individual processes[4]
62% of executives are making significant investments in artificial intelligence (AI) over the next three years[2]	**40%** of employees' time is spent gathering rather than analysing data due to inefficient processes[5]

46% of time is saved in completing key data-gathering processes[3]

* *PwC Synopsis August 2019.*
[1] *PwC Finance Effectiveness Benchmark Study 2017.*
[2] *PwC's 2017 Global Digital IQ Survey.*
[3] *PwC Finance Effectiveness Benchmark Study 2017.*
[4] *Strategy business, 2018.*
[5] *PwC Finance Effectiveness Benchmark Study 2017.*

A rapidly emerging trend is tax through automation. Trends such as robotic process automation (RPA) and artificial intelligence (AI) assist the tax function in becoming a strategic partner within the organisation. New technologies such as Block-Chain and cloud computing provide new possibilities for improving efficiency and effectiveness. RPA executes processes that take up valuable resource time as tax functions are often tied up in repetitive, manual and time-consuming tasks. Tax automation will enable the tax function to free up time and focus on tasks that add real value to the business.

SARS committed, in its annual performance plan, to increase its data analytics capability to enable better decision making and improved internal efficiencies. This will benefit Exxaro by reducing the number of audits through better risk profiling and reducing the time and cost of tax compliance.

In keeping with Exxaro's digital trends, Exxaro's tax function (in consultation with EY) embarked on a VAT digitalisation project in the prior year. A visualised analytics dashboard was implemented in 2019. The aim is to proactively identify and manage VAT risks and benefits.

A decision has also been taken to employ a dedicated VAT accountant in the Exxaro corporate tax function in 2020 to assume the accounting and compliance responsibilities currently performed by the transactional finance function at the Exxaro corporate head office. The VAT accountant will, among others, be responsible for monitoring the VAT analytical dashboard.

Plans for digital automation by Exxaro's corporate tax function include robotic processes to facilitate:
- VAT apportionment calculations
- Monitoring income tax compliance deadlines
- User-friendly tax asset registers
- Automation of the completion of IT14SD returns
- Facilitating mining mineral royalty calculations.

A cost benefit and risk analysis will be performed before implementation of these tools.

Exxaro's offshore tax structure

Exxaro Resources Limited is classified as a multinational enterprise and is obliged to lodge a master file, local file and a country-by-country report to SARS.

Exxaro has business interests in two countries for commercial purposes:
- Switzerland (marketing coal)
- Australia (prospecting operations of Moranbah project).

The group has equity-accounted investments in:
- China (Hongye Zinc smelter)
- Israel (Lightapp and Curapipe investment)
- UK (investments in Tronox UK LLP were redeemed in February 2019).

Exxaro therefore has to report the following offshore companies as controlled foreign companies and impute their income in terms of section 9D of the Income Tax Act, 1962 (Act 58 of 1962):
- Exxaro International Trading AG (EITAG) (Switzerland)
- Exxaro Base Metals China Limited (Hong Kong)
- Exxaro Australia Iron Holdings Proprietary Limited (Australia)
- Exxaro Australia Proprietary Limited (Australia).

During the year, Exxaro received a refund of approximately R34 million from the Dutch revenue authorities relating to a withholding tax suffered on a deemed dividend from the Netherlands in 2012. This is directly related to a recent court case ruling that the "most favoured nation" clause should be applied to the Netherlands South African treaty. The clause allows for the dividend withholding tax rate to be reduced from 5% to 0% between the Netherlands and South Africa.

Tax report for the year ended 31 December 2019 continued

Stakeholder engagement

Honest and transparent engagements with stakeholders on tax matters are summarised below.

Stakeholder group	Key concerns and expectations	Our response
SARS	Non-compliance with tax laws resulting in reputational damage and financial loss in the form of penalties, interest and additional taxes Capacity constraints in the tax department due to numerous, ongoing SARS audits Complex restructuring transactions or sale/acquisition of investments/assets can expose Exxaro to adverse tax consequences Complex and regular tax legislation changes pose additional tax risks	Regular interaction with a dedicated SARS relationship manager, building a relationship of trust and ethical behaviour as guided by the King IV™* Managing tax risks within a board-approved framework Transparent behaviour by timeously responding to information requests, audits, application of voluntary disclosure programmes and detailed tax return submissions Implementation of a VAT analytics tool to proactively identify possibly incorrect VAT treatments Update and external audit of existing transfer pricing policies Using the Tax Ombud to ensure SARS is administratively compliant and adheres to its service charter for paying refunds and finalising audits Employing appropriately qualified tax staff and managing their performance Using approved expert legal tax advisers for all transactions: • With a tax impact above R10 million • Acquisition and sale of investments • Projects in foreign jurisdictions • Group restructuring projects
Users of tax financial reporting such as shareholders and financiers	Tax reporting does not fairly represent the financial position of the Exxaro group of companies	An automated tax consolidation tool was developed and customised by Deloitte according to Exxaro's needs to assist in calculating and preparing tax disclosure notes as required by IAS 12 Employing qualified tax professionals in the tax function to manage tax reporting
Communities	A new non-profit company (a public benefit organisation with section 18A exemption) was established for the benefit of Exxaro employees and communities surrounding the areas in which Exxaro operates as there is a risk that communities are not benefiting, and money is not spent on approved public-benefit activities	Senior Exxaro employees will serve as directors of the new non-profit company to ensure compliance with applicable laws and governance

Tax report for the year ended 31 December 2019 continued

Tax risk management

Framework

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

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

TRM is a proactive, systematic analysis of possible unwanted events and responses (including controls and treatment plans) rather than a reactive mechanism to events detected. TRM form part of the group ERM and ensures the independence of the tax function in the group.

Philosophy and risk appetite

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

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

To this end, Exxaro will look at tax planning as a legitimate business lever within the parameters of tax legislation.

Material tax risk, opportunity and strategic response

Relevant tax matters are identified by considering issues identified through:

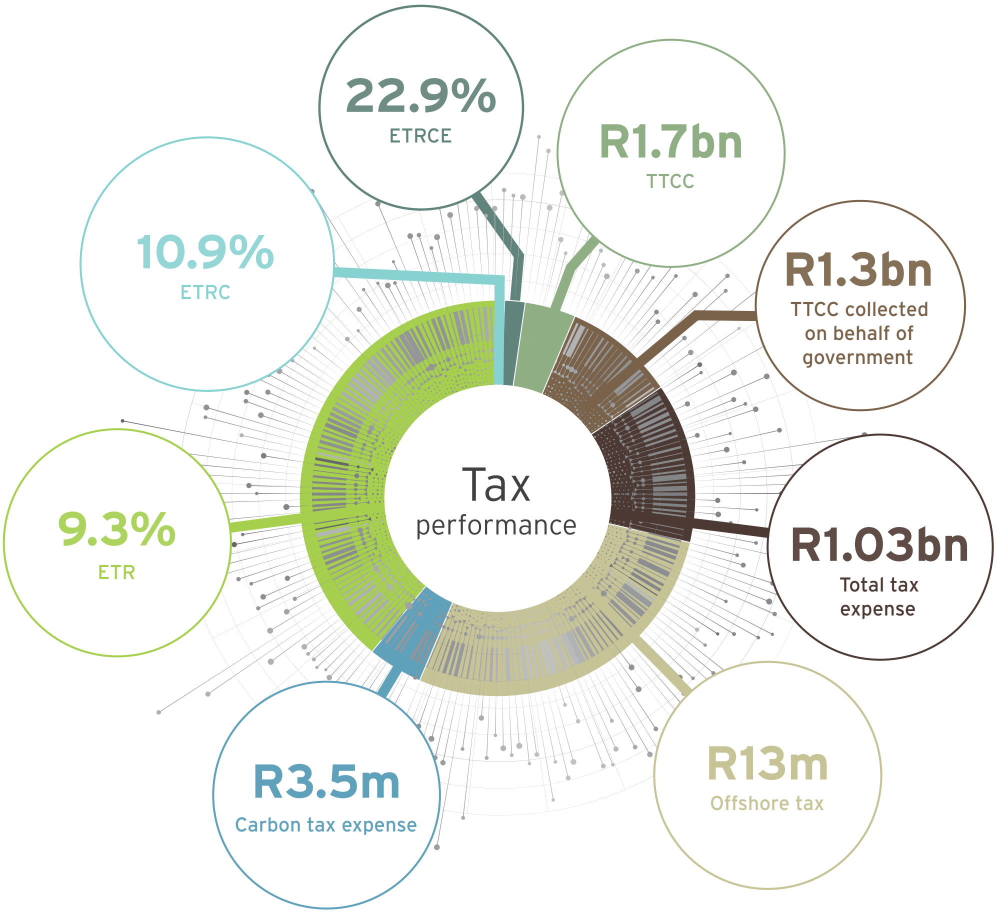
- Risk and opportunity arising from internal and external influences (page 2)
- Key expectations raised by stakeholders (page 4)
- Our enterprise risk management process (page 6).

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

Tax report for the year ended 31 December 2019 continued

Ranking	Risk	Context	Strategic treatment
1	Diesel-rebate audits	Uncertainty of the SARS compliance requirements relating to diesel rebates threatens non-payment by SARS of diesel rebates Audits by SARS are prolonged for unreasonable periods	Continuous engagement with SARS to understand their requirements Meetings with new service providers to assist with updating logbooks to meet SARS requirements
2	Understatement penalties	The scope of the definition of "prejudice" to SARS in the Tax Administration Act, 2011 (Act 28 of 2011) is very wide, leaving little room for genuine inadvertent errors or any disclosure errors Understatement penalties for the taxpayer are severe, even if SARS suffered no financial loss due to taxpayer disclosure errors SARS penalties imposed due to incorrect tax returns filed as a result of incorrect Annual financial statement ("AFS") disclosures. SARS penalties imposed for late submission due to the late issuance of AFS	The group tax manager performs detailed reviews of submissions to SARS instead of high-level reviews Automation of the tax return pack assists in ensuring errors are not made Tax consultants are more involved in the day-to-day business operations to ensure a better understanding of the business to enable tax consultants to question incorrect inputs into the tax return packs from business units AFS are completed in terms of the latest international financial reporting standards and reviewed by various levels of senior management and directors of the legal entity. Timeous issuance of AFS by strict adherence to the corporate financial reporting calendar
3	Exxaro group companies are not able to obtain tax clearance certificates (TCCs)	Exxaro companies cannot conduct business and therefor suffers cash flow constraints without TCCs State-owned entities use different government systems to check a supplier's tax status and not the SARS system – these systems are not always aligned, so the supplier incorrectly appears to be non-compliant Diesel-rebate audits are not finalised resulting in the SARS VAT system showing short payments. The absence of a separate SARS diesel-rebate e-filing system leads to constant tax-compliant status failures	Exxaro maintains good relationships with dedicated SARS relationship officers and SARS Large Business Centre reacts promptly when there appear to be system failures The Exxaro tax team will employ another team member in 2020 to alleviate the tax-compliance burden Exxaro is also investigating alternative systems to comply with SARS requirements for diesel refunds (refer to point 1 above)
4	Disposals and acquisitions of investments	Understanding the tax effects of complex transactions	Exxaro's tax function signs off submissions to the investment review committee and executive committee's decisions on capital spent Using expert legal advice for complex restructuring transactions
5	Document retention	Exxaro's policy is to retain documents for a period of seven years in line with the Companies Act, 2008 (Act 71 of 2008) but SARS sometimes requests information for periods exceeding seven years Inability to comply with SARS requests can lead to negative tax adjustments	Exxaro strives to adhere to SARS requirements for tax submissions to ensure return prescription periods do not exceed the seven-year period for document retention

Tax report for the year ended 31 December 2019 continued



TTCC Total tax cash contribution.
ETR Effective tax rate.
ETRC Effective tax rate – continuing operations.
ETRCE Effective tax rate – continuing operations – excluding equity-accounted investments.

Tax performance

Total tax contribution borne and paid

Total tax contribution	2019 (Rm)	2018 restated (Rm)
Payments to government (taxation contribution)	1 693	1 652
Direct taxes per country	1 163	997
South Africa[1]	1 138	976
Switzerland	25	21
Indirect taxes	(139)	168
VAT	(155)	153
Levied on purchases of goods and services	(3572)	(2 992)
Charged on turnover	3 417	3 145
Dividend withholding tax – local	1	1
Dividend withholding tax – Switzerland	13	9
Securities transfer tax	2	5
Levies paid to government	669	487
Rates and taxes	22	6
Mineral and Petroleum Resources Royalty	568	413
Workmen's Compensation Fund[2]	20	14
Unemployment Insurance Fund	13	12
Skills Development Levy[2]	46	42

[1] *The number disclosed in the prior year incorrectly included the local and offshore dividend withholding tax that is also shown separately.*
[2] *The number disclosed in the prior year has been restated because it incorrectly excluded Forzando Proprietary Limited, Dorstfontein Proprietary Limited and Exxaro Coal Central Proprietary Limited.*

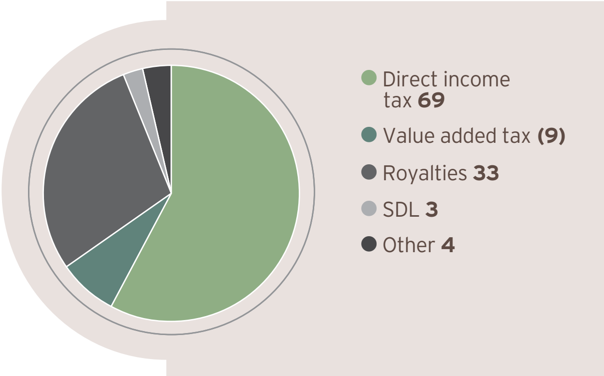
Tax report for the year ended 31 December 2019 continued

Total tax contribution collected on behalf of government

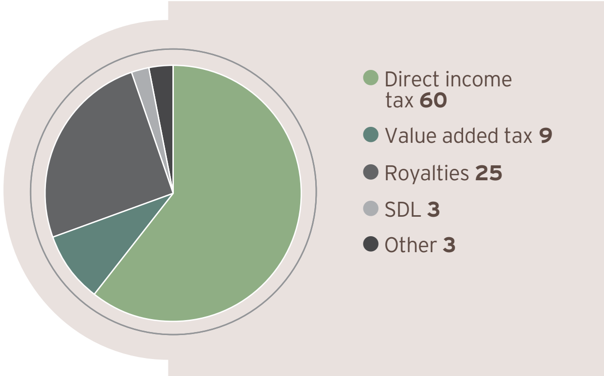
	2019 (Rm)	2018 restated (Rm)
Additional amounts collected by the group on behalf of government	1 328	1 155
Unemployment Insurance Fund	13	12
PAYE deducted from remuneration paid[1]	1 315	1 163

[1] *The number disclosed in the prior year has been restated because it incorrectly excluded Forzando Proprietary Limited, Dorstfontein Proprietary Limited and Exxaro Coal Central Proprietary Limited.*

Total tax contribution 2019 (%)



Total tax contribution 2018 (%)



Effective tax rate reconciliation

The effective tax rate for the Exxaro group is calculated as 9.3% (10.9% excluding discontinued operations). The difference in the standard rate of 28% is explained below:

Rate reconciliation	**Total %**	**Excluding discontinued operations %**
Standard tax rate	28	28
Capital gains, special allowances and exempt income[1]	(5.5)	(1.1)
Equity-accounted investment income[2]	(11.9)	(14.7)
Prior-year adjustments	(1.2)	(1.4)
Withholding taxes	0.1	0.1
Non-deductible expenditure[3]	1.5	1
Other non-taxable receipts and tax deductions	(3)	(2.6)
Remeasurement of foreign tax rates	(0.3)	(0.3)
Derecognition of deferred tax assets[4]	1.3	1.6
Imputed income from controlled foreign companies (CFC)	0.3	0.3
Effective tax rate	**9.3**	**10.9**

[1] *The majority of capital gains realised in 2018 relates to the sale of the 14 million Tronox Limited shares as well as the redemption of Exxaro's membership interest in the Tronox UK LLP. The investment in Tronox Limited is classified for accounting purposes as a "discontinued operation" in 2019.*
[2] *A significant part of equity-accounted investment income comes from Sishen Iron Ore Company Limited amounting to R4 billion.*
[3] *Included in non-deductible expenses is a fair value adjustment relating to the expiry of the BEE put option agreement in 2019.*
[4] *Following the impairment of the assets in Forzando Proprietary Limited, a decision was taken not to recognise the deferred tax asset in Forzando on calculated tax losses and unredeemed capital expenditure since the budgeted future tax profits of the company does not support the recoverability of the asset. Other significant deferred tax assets that were not recognised were the deferred tax assets for Exxaro Coal Central Proprietary Limited and Exxaro Coastal Coal Proprietary Limited.*

Tax report for the year ended 31 December 2019 continued

Country-by-country reporting: current tax accrual expense

	Switzerland	Australia	South Africa	Total
Income tax (Rm)	13	–	1 006	1 019
Dividend withholding tax[1] (Rm)	–	–	14	14
Total (Rm)	13	–	1 020	1 033
Effective tax rate (%)	9	–	9.3	9.3
Statutory tax rate (%)	9	30	28	28

[1] *Included is a dividend withholding tax of R13 million paid by EITAG to the Swiss revenue authorities but incurred in ROCSI, a South African company.*

IFRIC 23 – Uncertain tax positions

In the prior year, the following two uncertain tax positions were reported:

1. A SARS dispute on imputing income from controlled foreign companies resulted in a tax liability of R255 million, including interest and penalties as at 31 December 2018:
   - After unsuccessful dispute resolution attempts, Exxaro and SARS litigated. The dispute has been favourably settled on 30 September 2019 with no further cash outflow to Exxaro.
2. An additional assessment for royalties received from SARS relating to Mafube Mining Proprietary Limited (Mafube), totalling some R280 million (Exxaro has a 50% joint venture with Anglo American hence R140 million Exxaro exposure), including interest and penalties:
   - Mafube objected to the assessment but SARS regretfully disallowed the objection. An appeal was lodged on 19 June 2019 against the disallowance of the objection. In December 2019, SARS communicated that it was willing to negotiate a settlement, which Mafube declined. On 5 March 2020, SARS was informed that Mafube would proceed with the appeal in the Tax Court.

No known uncertain tax positions relating to income tax exist for the 2019 financial year. Mineral royalties do not fall within the scope of IFRIC 23.

Tax report for the year ended 31 December 2019 continued

Tax governance

Governance oversight

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

It is the responsibility of the board (and audit committee) to manage tax risks. Operationally, the group tax manager is accountable for this function. The group tax manager reports directly to the group finance director. This is a change from the prior year when the tax function reported to the group manager: risk, compliance and assurance. The board has restructured the role of the group manager: risk, compliance and assurance to segregate the duties of a risk and compliance manager (now reporting directly to the chief executive officer) from that of the assurance manager, now called the chief audit officer.

The corporate tax function is organisationally and physically separated from the finance function and centralised at Exxaro's head office. It is currently not responsible for tax compliance, control and management of indirect taxes such as VAT and PAYE but plays an advisory role when required. The compliance, control and management of the VAT function will move to the corporate tax function in 2020.

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

Policies and controls

The Exxaro tax function has formally documented its TRM framework, which was approved by the board in 2017. Significant changes are reported as required and the framework is updated regularly. The TRM framework was updated in 2019 and the only significant change is in the organisational reporting lines discussed above.

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

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

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

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

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

Systems and assurance

Internal and external assurance is performed on TRM processes on an ad hoc or rotational basis to provide an objective independent appraisal of the effectiveness of the framework and processes. The effectiveness of the tax pack for return and reporting purposes was tested during the year and no audit findings were reported by the internal auditors.

Performance management

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

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

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

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

DISCLAIMER

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

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

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