



Drivers of value creation

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02

We have a clear duty to consider how the assets we operate can continue to create value for a broad range of stakeholders.

TRANSITIONING TO CREATE SUSTAINED VALUE

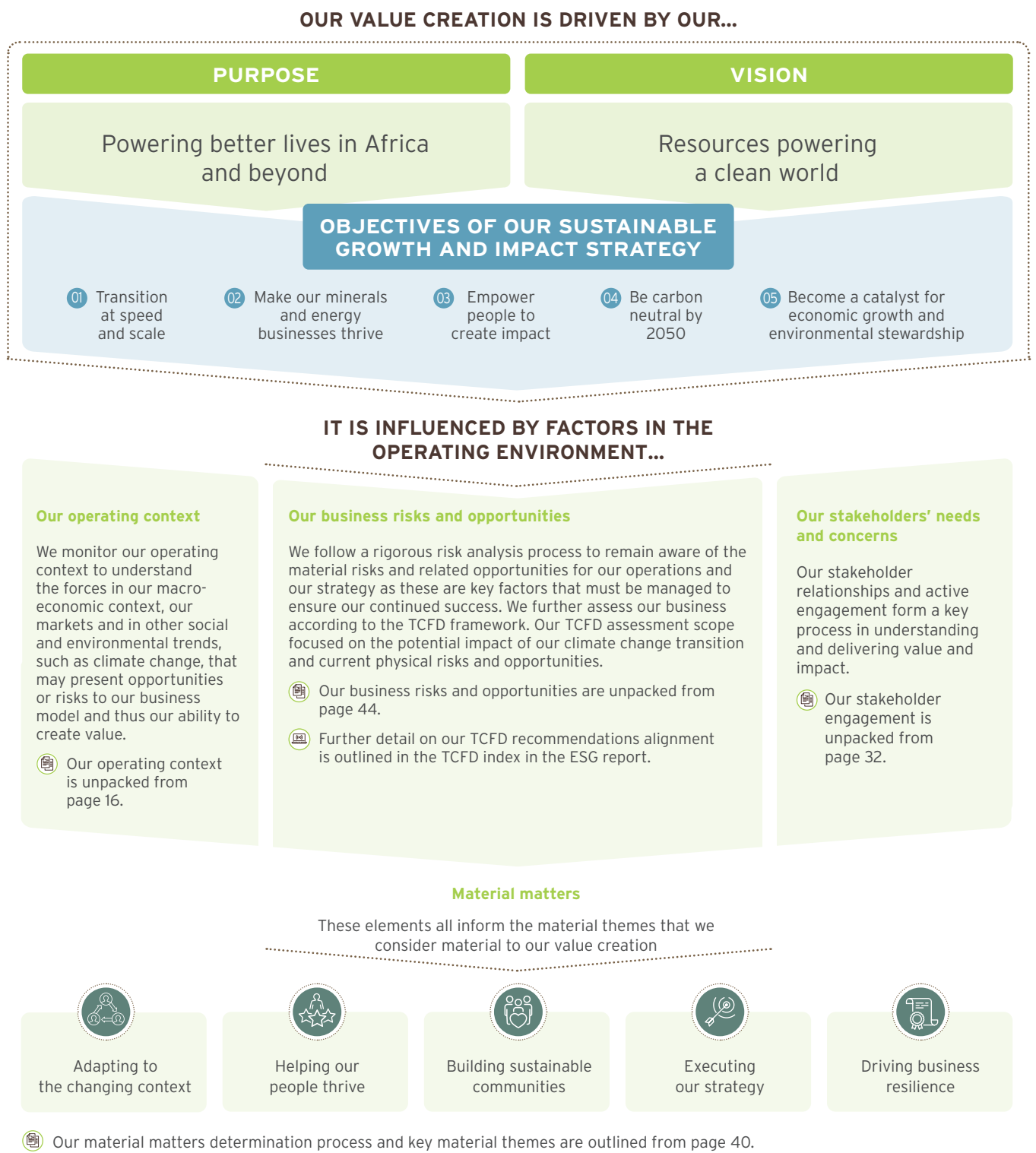
This chapter outlines the drivers of our value creation. It considers the value we create, preserve and erode in our business practices, and how we understand and respond to each of these. It unpacks the methods we use to interrogate the risks and opportunities our business model faces and what is material to our stakeholders and our long-term success.

Our value creation

Powering better lives through value creation.

Our purpose is the motivation that has informed everything that we have done since our inception and will continue to drive our direction in the future. Value creation is central to our purpose and our vision as we aim to have a direct and positive impact through our business on external challenges such as climate change and socio-economic development.

Our overarching approach to value creation is driven by stewardship and a responsibility to minimise our negative impact, preserve value and, where possible, create value for our stakeholders and the natural environment on which we rely.



ACHIEVED DIRECTLY AND INDIRECTLY THROUGH OUR BUSINESS ACTIVITIES...

Mining responsibly	Delivering renewable energy products and services	Strategising for future relevance and a just transition	Delivering sustainable impact and responsible practices
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These activities and our strategy are key to our business creating value as we pursue a just transition to a sustainable new operating model that seeks to achieve carbon neutrality by 2050, while balancing our financial performance, South Africa's economic development needs, ecosystem protection and societal adaptive capacity in the face of a changing climate.

 Our business activities are unpacked in our business model on page 28.

RESULTING IN AN IMPACT ON VALUE ACROSS EACH OF THE FOLLOWING AREAS...

The six capitals

We are mindful of our impact on each of the capitals we utilise to conduct our business activities and aim to enhance each capital where possible.



NATURAL CAPITAL



HUMAN CAPITAL



SOCIAL AND RELATIONSHIP CAPITAL




MANUFACTURED CAPITAL



INTELLECTUAL CAPITAL



FINANCIAL CAPITAL

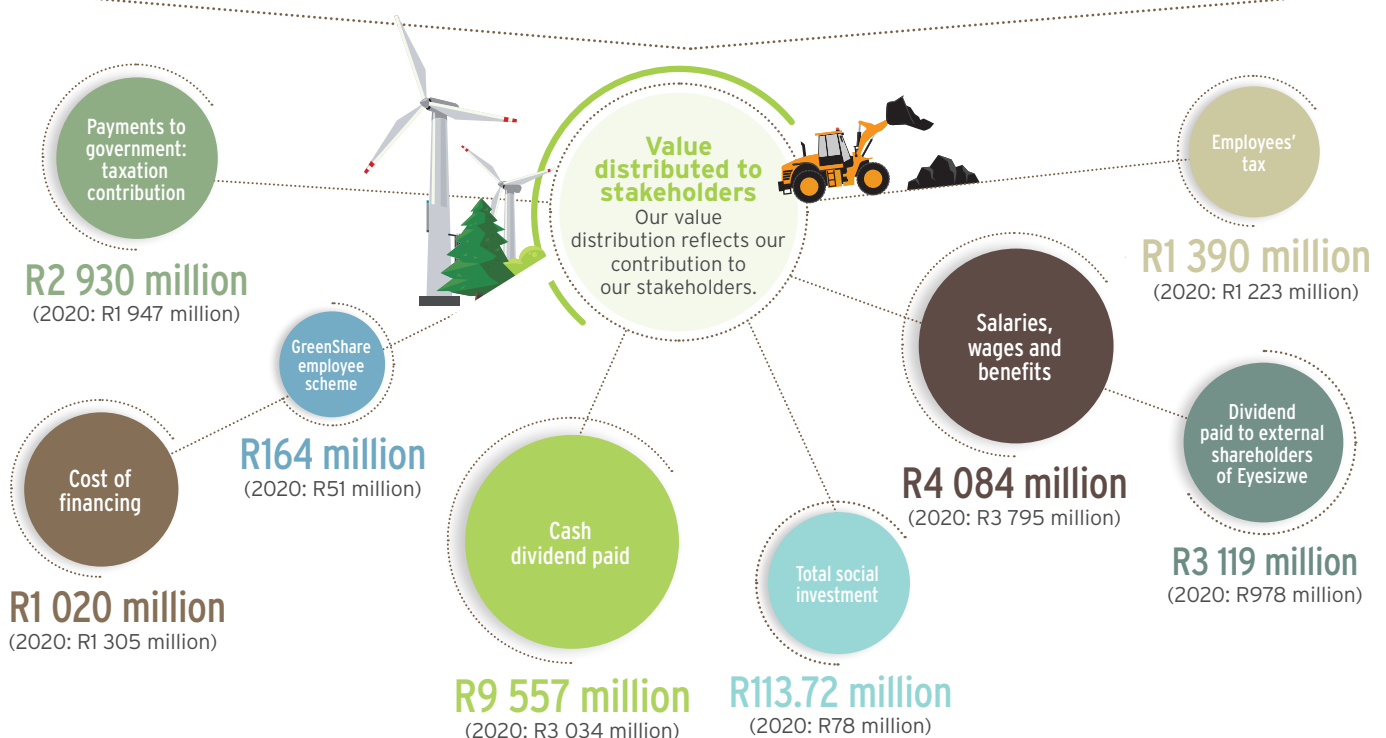
 Our use of and effect on the capital is unpacked in our business model on page 28.

DELIVERING VALUE TO OUR STAKEHOLDERS

- **Government (regulators):** supporting South Africa's socio-economic development
- **Employees:** growing skills and protecting livelihoods
- **Labour unions:** relationships to better serve employees
- **Communities:** responsible community participant, invested in local development and job opportunities
- **Investors:** delivering returns as a trusted ESG performer
- **Customers:** safely providing a reliable and continuous supply of coal
- **Suppliers:** fair and transparent procurement

ENSURING BROADER IMPACT

We are committed to driving a positive impact on the SDGs we have identified as being areas where we can make a difference, and to fulfilling our commitment to the TCFD principles.



Our business model

Our business model depicts the capital inputs we need to conduct our activities and deliver our products.

Our inputs*

The resources and relationships we rely on



NATURAL CAPITAL

The natural resources we rely on to run our business and create our products

- **RoM:** 69.4Mtpa (2020: 81.0Mtpa)
- **Land managed for six mining operations**
- **Water withdrawal:** 10.28Mm³ (2020: 10.92Mm³)
- **Diesel:** 84 852kL (2020: 96 131kL)
- **Electricity:** 60 171MWh (2020: 605 770MWh)
- Biodiversity



HUMAN CAPITAL

The people who manage our business and perform our operational activities

- **Employees:** 6 745 (2020: 6 739)
- **Contractors:** 12 068 (2020: 15 726)
- **Investment in skills development and talent management:** R276 million (2020: R227 million)
- **Investment in employee remuneration:** R4.1 billion (2020: R3.8 billion)
- **Culture:** connect2NEXT



SOCIAL AND RELATIONSHIP CAPITAL

The relationships that provide our social licence to operate

- **Investments in social and labour plan (SLP) projects:** R56.44 million (2020: R27.53 million)
- **Investments in ESD:** R127.7 million (2020: R79.8 million)
- **Corporate social investment (CSI) (including COVID-19 relief funds):** R57.28 million (2020: R78 million)
- Stakeholder relationship growth

The capital constraints and trade-offs we face

- Natural resources, including the Mineral Resources we rely on, are finite and must be managed carefully
- Balancing the need for energy that supports economic growth (currently primarily fuelled by coal) with the need to transition to a low-carbon economy

- Attracting and retaining the right employees with the necessary skills for now and into the future remains challenging in a competitive market

- Growing negative sentiment towards companies in the fossil fuels sector
- Increasing expectations on companies to solve societal issues
- Increased reputational risks due to conduct of employees, contractors and suppliers

Our activities

What we do

Our business activities align with our strategy of strengthening our resilience and ensuring we deliver sustainable value through a robust portfolio in a low-carbon economy.

* Inputs are measured at closing year-end balances for consistency.



Our activities comprise:

RESPONSIBLE MINING

- Delivering resources to support the country's energy needs
- Responsible environmental stewardship

RENEWABLE ENERGY OPERATIONS

- Deliver renewable energy products and services
- Build a leading global renewable energy solutions business by 2030

In line with our purpose of powering better lives in Africa and beyond, we aim to manage and mitigate any negative impact we may have on the capitals and drive value creation overall.



MANUFACTURED CAPITAL

The physical mining, energy and property assets that enable us to deliver our products

- **Four mines, one coal project and two windfarms**
- **Sustaining capital:** R1.6 billion (2020: R2.2 billion)
- **Expansion capital:** R0.8 billion (2020: R1.0 billion)
- **Investment in property, plant and equipment:** R2.5 billion (2020: R3.2 million)

- Manufactured capital remains costly with delays in project completions hampering growth



INTELLECTUAL CAPITAL

The unique combination of knowledge, experience, innovation and systems that differentiate Exxaro

- Continued investment in world-class digitalisation
- Business excellence integrated into the business
- Leadership and management training: 322 (2020: 184) people attended
- Significant investment in updating and aligning our strategy to our purpose and long-term goals
- Continued investment in leading governance structures: changes in board and engagement with investors

- As the world evolves at an unprecedented pace, technologically and in terms of the operating context, rapid innovation and ideation is more important than ever and remains challenging



FINANCIAL CAPITAL

The financial assets that enable us to deliver on our strategy

- **Core equity-accounted income:** R9.8 billion (2020: R6.5 billion)
- **Core EBITDA:** R10.7 billion (2020: R7.3 billion)
- **Cash dividend paid (including special dividend):** R9.6 billion (2020: R3 billion)
- **Revenue:** R32.8 billion (2020: R28.9 billion)
- Balance sheet strength

- In a low-growth environment, financial capital remains costly and scarce

Our purpose guides our activities, ensuring we continue providing critical resources that support South Africa's sustainable economic and social development in a way that will accelerate change and ultimately safeguard the value we create for our stakeholders over time. We are committed to making a deliberate positive impact through our physical outputs and the way we do business.

STRATEGISING FOR FUTURE RELEVANCE AND A JUST TRANSITION

- Developing a roadmap for a just transition to a low-carbon economy

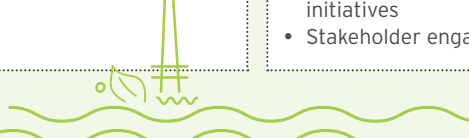
DIVERSIFIED EQUITY INVESTMENTS

- SIOC (iron ore)
- Black Mountain (zinc)

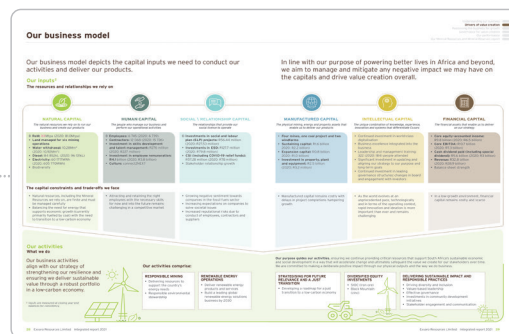


DELIVERING SUSTAINABLE IMPACT AND RESPONSIBLE PRACTICES

- Driving diversity and inclusion
- Values-based leadership
- Effective governance
- Investments in community development initiatives
- Stakeholder engagement and communication



Our business model continued



Our outputs

What we produce



COAL

42.5Mt product volumes
(2020: 47.4Mt)



RENEWABLE ENERGY

724GWh wind energy
(2020: 727GWh)

We recognise that, although we strive to create value through our business activities and our Sustainable Growth and Impact strategy, we have a negative impact on some capitals.

Our outcomes

Creating, preserving or eroding value: Our strategy recognises that, to ensure sustainability, our positive impacts must reach far and wide. We must be a catalyst for meaningful change with our legacy measurable long after mining ceases.



Despite a focused approach to environmental stewardship, we have an overall negative impact on the environment and thus erode natural capital. This is because we extract natural resources as part of our business activities and depend on these natural resources.



As part of ensuring we have the right people to drive us forward, we invest in, upskill and offer our employees an attractive value proposition, thereby increasing our overall human capital. This investment extends to potential future employees and the communities who provide labour to our operations.

We preserve the value of our human capital by being mindful of the safety and health of our employees and host communities, and striving to achieve zero harm through collective responsibility, commitment and risk awareness.



We deliver value to our host communities through our impact at scale initiatives, SLP commitments, stakeholder engagements, attracting participation from black-owned suppliers and our commitment to the UNGC principles.

We are aware of the impact mining operations have on host communities, now and at the end of a mine's lifecycle. We aim to mitigate this by ensuring a just transition of our operations and our communities' long-term sustainability.

How we are improving our outcomes

- Mine responsibly
- Minimise our environmental impacts
- Actively participate in the just energy transition to a low-carbon economy
- Reduce the risk of stranded assets
- Increase the proportion of high-quality coal in our product mix
- Continue improving our good cost control and resource efficiency

- Remain committed to achieving zero harm
- Work with employees and contractors to eradicate any safety incidents
- Continue to invest in employees

- Continuously seek ways to engage and maintain relationships of mutual respect and benefit with our stakeholders
- Maintain a robust ESG framework to enable strategic decision making and governance while considering our long history and purpose to guide our transition within the context of our local and global realities

- Carbon intensity: 13% increase (2020: down 9%)
- Water intensity: 9% increase (2020: 38% increase)
- Environmental incidents: zero level 3 (2020: zero level 3)
- Valid mining rights: 100% (2020: 100%)
- Stoppage directives: two (2020: three)

- Employee and contractor fatalities: zero (2020: zero)
- Lost-time injury frequency rate (LTIFR): 0.08 (2020: 0.05)
- Occupational health incident frequency rate (OHIFR): 0.16 (2020: 0.19)
- Scarce skills retention: 3.7% (on target)

- Community incidents: 14* (64% at Matla LoM project. (2020: three))
- Top-quartile mining performer in ESG
- Governance structure ESG analyst rating: 3.7 out of 5 (2020: 4.6)
- BEE level 2 (2020: level 2)

* Incidents are protests that did not lead to production stoppage.

Affected SDGs



Impact on value:

- Net increase in value
- Net value preservation
- Net value erosion

Year-on-year change:

- Positive increase
- Unchanged
- Negative decrease

Our business model does not operate in isolation. It impacts and is impacted by our:

- **Risks and opportunities:** page 44
- **Strategy and resource allocation:** page 66
- **Performance:** page 114
- **Stakeholders:** page 32



IRON ORE (SIOC)

R9 billion core equity-accounted income
 (2020: R6.1 billion)



WASTE

520t hazardous waste (2020: 1 511t)
 995ktCO₂e emissions (2020: 1 035ktCO₂e)

We remain committed to negating these negative impacts while creating positive impacts beyond compliance using our recognised ESG, brand and culture.

This should be embodied in creating opportunities and economies that sustain communities and broader society for future generations.



Our investment in our portfolio of quality assets to meet changing market demands increases our manufactured capital.



However, these investments decrease our financial capital and natural capital.



We continue increasing our competencies across mining and renewable energy. Our focus on business resilience, investments in innovation, digitalisation and technology – for example, our renewable energy risk and opportunity domain analysis (RRODA) tool/platform – increase intellectual capital.



Our collective knowledge, skills and resources positively impact human, social and relationship, and manufactured capital.



To ensure we positively impact financial capital and create value over time, we have a strong balance sheet and cash-generative coal business, a strategy that builds off our core purpose and capabilities, and a leadership team fully aligned with the need to create a carbon-resilient business. We deliver financial value and empower people to create impact and self-sustaining economic activity.



We invest and distribute our financial resources to support our strategy, increase efficiency, expand operations and maximise value.

- Optimise our manufactured assets
- Fast track our decarbonisation and investments to generate predictable long-term cash flows and increase portfolio diversification

- Marginal cost overruns in mega-projects
- Implementation timelines for mega-projects on target

- Maintain our competitive advantage through innovation and digitalisation
- Build on an already successful business as we mature, using our intellectual capital and differentiation with a long-term vision to develop a sustainable, growth-orientated, value-driven company
- Become a leading international renewable solutions provider by the end of the decade

- Core system availability: 99.55% (2020: 98.86%)
- Cyberintrusions: zero (2020: zero)

- Continue focusing on initiatives designed to lower costs, increase quality and manage our risk profile to deliver financial value
- Carefully consider how we allocate capital to achieve our strategic goals and invest in our current operations and future growth plans
- Create value for our broader stakeholders by continuously delivering solid returns to shareholders and ensuring we have the financial resources to implement our growth plans and social development objectives

- Core EBITDA margin: 33% (2020: 25%)
- Return on capital employed (ROCE): 45% (2020: 25%)
- Core headline earnings per share (HEPS): 4 683 cents per share (2020: 2 973)
- Market capitalisation: R53.4 billion (2020: R50 billion)



Creating value through stakeholder engagement

We engage proactively with our stakeholders to create shared value from facilitating business activities and demonstrate our purpose, to power better lives in Africa and beyond.


Our stakeholder environment was largely stable during 2021, which enabled us to produce the results we achieved and reported. The following highlights are elaborated on in this section:

- Our employee engagements were consistent and remained heightened from the prior year given the prevailing context of COVID-19. Engagements with recognised labour unions were constructive.
- We had no regulatory stoppages, particularly in relation to safety performance following the record breaking five-year fatality-free achievement and adhering to our 0.08 LTIFR target
- We experienced some community unrest at some of our operations, but these did not result in production stoppages or incidents to people
- We had several engagements with shareholders regarding the future of Exxaro in a low-carbon future, outlining our strategy, short to medium-term capital allocation outlook and expected results
- From a customer perspective, Eskom, our largest customer, continued to take volumes
- We had more engagements with TFR through the Minerals Council on the issue of rail availability for our export sales volumes



EXXARO'S STAKEHOLDER UNIVERSE

We utilise a holistic approach to stakeholder engagement, which recognises the interconnectedness of stakeholders in our operating environment. Our stakeholders have varying degrees of influence on executing our strategy and whilst we categorise stakeholders into four main clusters, as illustrated in the image above, we acknowledge that in reality stakeholders interact and the boundaries are constantly traversed, hence our key account management approach.

 For more information about engagements with our key stakeholders, please see page 27 of our ESG report.

Exxaro's approach to stakeholder management

Our KAM approach to stakeholder management is based on the global best practice AccountAbility 1000 Stakeholder Engagement Standard. It is a responsive and proactive method for building stakeholder relationships and managing key business risks, better enabling us to achieve our strategic objectives.

A key tenet of the KAM approach is internal engagement among key relationship managers to share or exchange perspectives, facts and experiences of their stakeholder engagements, and provide insights on possible opportunities and risks to the business strategy that may arise from individual or a combination of stakeholder relationships.

Stakeholder relationship rating scale

- 0 No existing relationship or the relationship has challenges
- 1 Established relationship but can be improved
- 2 Good relationship with opportunity for improvement
- 3 Very strong relationship based on mutual trust and respect

The stable environment is reflected in relationship scores of 2/3 for all stakeholders. Relationships are perceived to be good but we believe there is always room for improvement.

GOVERNMENT

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- We collaborate to find solutions for socio-economic challenges, participate in shaping policies at all levels of government and invest for South Africa's socio-economic development. Proactive engagement supports our efforts to drive business resilience and manage country risk
- Government requires us to engage and partner in socio-economic development regarding employment creation, community development, capacity building and, more recently, to support government's COVID-19 response strategies

Outcomes and value delivered to stakeholders in 2021

- We made contributions of R61 million through our SLP projects, particularly infrastructure, skills, local procurement and small, medium and micro-enterprises (SMMEs) development
- We made contributions of R15 million to the Solidarity Fund and practical support for the Department of Health's COVID-19 vaccination initiatives
- We committed R1.5 million over three years to government's anti-gender-based violence fund
- We made tax payments of R4.320 billion comprising PAYE of R1.390 billion and company tax contributions of R2.930 billion



Our response to stakeholder needs and expectations – important conversations during 2021

- We consult and partner with local government in municipal Integrated Development Plans for the implementation of our SLP projects
- We explored and started capacity building opportunities in the Waterberg district municipality in partnership with the Department of Cooperative Governance and Traditional Affairs (COGTA) and NBI in the Technical Assistance, Mentorship and Development programme
- Exxaro participated in the Department of Mineral Resources and Energy's (DMRE) call to action for the coal industry's active voice in South Africa's response to climate change
- Over the past two years, we have engaged extensively with the health departments in Limpopo and Mpumalanga, supporting COVID-19 response strategies, including the vaccine and booster vaccine roll-out programme at mine level
- We are engaging with COGTA and the South African Local Government Association to find innovative responses to address service delivery challenges at local government level
- We engage regularly with the provincial leadership of Limpopo and Mpumalanga to discuss development priorities and provide feedback on Exxaro's socio-economic development initiatives
- We engaged with the Presidential Climate Change Commission regarding our just transition response strategy to positively manage the transition of communities who will be affected by the energy transition
- Exxaro commissioned a pilot assessment of the quality of our relationships with three key departmental stakeholders in government. Generally, the survey shows that Exxaro enjoys good to high levels of relational capital, which enables effective engagement and mutual value creation

Engagement outlook for 2022

- We are planning the next five-year SLP programmes for Grootegeluk and Belfast, incorporating impact principles to include combined social, environmental and economic returns
- We will continue with the municipal capacity building programme for the Waterberg district, building on the success of the first phase of the programme and enhance the potential impact of the District Development Model, thus improving service delivery and attracting investment to the region
- We intend to increase engagements about our strategic response to climate change and the transition to a lower-carbon environment to foster an understanding of and collaboration on our Sustainable Growth and Impact strategy

Further reading

-  Refer to our outcomes in our business model for information on how we are creating or preserving value
-  See the stakeholder management section in the ESG report

Creating value through stakeholder engagement continued

REGULATORS

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- We engage to manage compliance with regulatory requirements, align with government initiatives and collaborate in shaping policies. Maintaining effective regulatory compliance ensures the success of our current and future businesses
- The JSE expects us to protect a broad range of stakeholder interests, particularly those of investors

Outcomes and value delivered to stakeholders in 2021

- Good compliance performance
- No regulatory stoppages
- Engagements with SARS led to new standard operating procedures, the appointment of a new service provider and ultimately a reduction in the number of disallowed diesel rebate claims from 20% to 2%
- Since the introduction of the internal section 54 standard, there has been a decline in the number of safety stoppages from seven in 2019 to three in 2020 and two in 2021
- Outcome of DMRE call to action

Our response to stakeholder needs and expectations – important conversations during 2021


- We have adopted new internal auditing processes and strategies as well as implemented management controls that improve our compliance and mitigate risks
- We engaged the dtic to lessen the impact of a significant increase in the revised NPAT forecast on our overall B-BBEE performance (used to determine ESD and socio-economic development contributions). The dtic agreed that funding commitments signed off before 31 December 2021 could count towards spend recognition, and payment will be made in the first quarter of 2022
- We engaged with the DMRE to address authorisation delays for Leeuwpans and Matla mine SLPs
- We engaged with SARS to better understand issues around our diesel rebate submissions and the high number of disallowed claims.
- We work closely with our sponsors to ensure we fully comply with JSE Listing Requirements, make inputs into changes and engage proactively on areas of concern

Engagement outlook for 2022

We will continue:

- Proactive internal auditing for continuous compliance improvement
- Monitoring the process towards the finalisation of the Companies Amendment Bill
- Engaging with SARS to clarify uncertain draft regulations on diesel rebates
- Monitoring developments in the implementation of voluntary global standards for ESG reporting

Further reading

 Tax report



Water quality monitoring at ECC in accordance with our licence to operate

EMPLOYEES

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- We ensure that our employees' focus, profile and development efforts are aligned with our strategy and culture, empowering them with information to manage change and uncertainty, and identify opportunities for skills development as we embark on a business transformation and transition
- Our employee engagement and culture survey in 2020 indicated that we must focus on improving diversity across the organisation and ensure fairness in promotion processes, including effective reward systems
- Engagement with employees contributes to strengthening business culture, distinguishing competitive advantage and promotes resilient business performance

Outcomes and value delivered to stakeholders in 2021

- We paid employment benefits to the value of R4.084 billion, including salaries, a housing scheme for qualifying employees, medical aid and a GreenShare, an employee share ownership plan (ESOP) payment of R164 million
- In line with Exxaro's integrated health and wellness strategy, which focused on diagnosis, management and prevention of diseases, the company's response to the pandemic prioritised avoiding, reducing and managing COVID-19 infections
- We achieved five years without a fatality (as at 3 March) and our LTIFR target of 0.08
- We provided COVID-19 care such as constructing two on-site testing facilities, group-managed quarantine facilities and vaccination programmes
- As at 2 March 2022, 81.45% of employees and contractors have been vaccinated, with no loss of life recorded during the fourth wave


Our response to stakeholder needs and expectations – important conversations during 2021

- In 2021, action plans for each business unit (BU) addressed the outcomes of the employee engagement and culture survey
- Our 2021 internal communication strategy addressed our evolving strategy, ESG priorities (climate change, social justice and diversity, equity and inclusion), the CEO transition, the new group STI scheme, our community and ESD initiatives and mental health and wellbeing during the pandemic
- Safety is one of the most important conversations we have with our employees. Senior management regularly engages at operations and the board, union and executive leadership annually engage on the issue at our Sustainability Summit

Engagement outlook for 2022

- In 2022, we will follow up on the results of our employee engagement and culture survey

Further reading

 Our people (page 122)

LABOUR UNIONS

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- We have a policy of freedom of association, and have entered into recognition agreements with several labour unions. Employees are free to be part of any union
- We strive for proactive issues resolution, relationship building and collaboration to maintain workplace harmony and professional working relationships with labour unions. This ultimately minimises the risk of labour unrest
- We value input in business operations and community engagement and therefore engage with unions at least twice a year about our performance and strategic outlook and more regularly during wage negotiations
- We respect unions' objectives to ensure fair labour practices, remuneration, benefits and better working conditions for their members

Outcomes and value delivered to stakeholders in 2021

- Well-established engagement and communication structures
- Union input on business growth strategies
- Training and development
- Regulatory compliance ensures unions are able to negotiate fairly and equitably with Exxaro on behalf of their members
- Recognition agreements are forever green

Our response to stakeholder needs and expectations – important conversations during 2021

- All wage negotiation processes were concluded peacefully without industrial action, thus securing labour stability for the next three years

Engagement outlook for 2022

- We will continue:
- Engaging with unions through structures created and contained in recognition agreements
 - Delivering sub-committees' agendas emanating from wage agreements
 - Engaging on union procedural agreements as necessary
 - Monitoring other issues, including the Climate Change Response strategy

Creating value through stakeholder engagement continued

COMMUNITIES

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- We engage through the delivery of our SLP projects, affirmative procurement and ESD programmes to address community challenges in infrastructure development (roads, water, health and education infrastructure), employment creation, skills development and small business development. These needs have deepened since the onset of the COVID-19 pandemic
- Our objective is to understand community needs and how we can respond better and overcome challenges in local employment, procurement opportunities and community development initiative
- Our engagements go beyond regulatory requirements and aim to maintain good relationships that provide for success for our current and future businesses and thriving communities

Our response to stakeholder needs and expectations – important conversations during 2021

- Exxaro employed 18 813 people during the year, consisting of permanent and contractor employees
- During the execution of our R17 billion coal capital expansion programme, we employed 6 901 people, with 7% being from local communities
- Our ESD programme enabled participation in our supply chain through procurement and enterprise development opportunities, supporting SMMEs in business development and creating local employment
- In our continuing support to the national economic recovery plan, all SMMEs have been placed on immediate early payment terms and are paid within 14 days of invoicing. We increased local procurement by 11.3% of total procurement spend on local SMMEs to R1.05 billion – exceeding the company's target of 10% and more than doubling the 4.5% achieved in 2020. Through this focus on local businesses, Exxaro empowered 241 local black-owned SMMEs
- In a virtual engagement with our board, led by our SERC over three days, community members in Mpumalanga and Limpopo expressed their concerns about the negative effects of the current economic climate, called for greater empowerment of, and employment and business opportunities, for youth and women, and called for the provision of land for both subsistence and commercial farming, among other local needs


Outcomes and value delivered to stakeholders in 2021

- An evergreen NPC with section 18A status was implemented for the benefit of Exxaro communities in areas surrounding our operations in the Waterberg and Nkangala districts, and the Eastern Cape
- Infrastructure projects to the value of R52 million benefited 196 people through temporary construction jobs and 50 946 people through the provision of water, sanitation, sports facilities, etc
- Education projects and support programmes to the value of R29.39 million benefited 8 512 learners

Engagement outlook for 2022

- We aim to increase engagement with communities and traditional authorities around the implementation of government's District Development Model
- We will continue addressing and responding to issues raised during board stakeholder engagement sessions
- We have commenced engagement with local government regarding the next five-year SLP projects at Grootegeeluk and Belfast

Further reading

 Social licence to operate: enabling our legitimacy (page 132) and our environment: stewardship and compliance (page 136)

INVESTORS

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- Exxaro has been on a transformation process since 2015/16, guided by our objectives and key priorities, including portfolio optimisation, operational excellence (cost management), growth (strategy) and capital allocation (dividends versus future investment)
- We have refined our objectives in response to climate change, This led to the development of our Sustainable Growth and Impact strategy with embedded key ESG principles
- Investor interests in Exxaro's ESG performance has heightened, especially regarding the energy transition and its social impact (employees and communities)
- These strategic shifts require consistent engagement with shareholders to provide information and insights on our progress in implementing these objectives and priorities, governance processes in place for risk management and implications arising from challenges and achievements of executing our strategy
- We report our operational and financial performance twice a year. Each report is preceded by the FD's preclose letter to sell-side analysts (and financial media) to share expected operational performance which will impact financial results. This minimises unexpected developments to the financial results

Outcomes and value delivered to stakeholders in 2021

- We expect the revised export outlook to be lower and in line with export capacity, assuming that TFR will perform to this minimum level given interventions implemented to date
- We hosted a Capital Markets Day where we presented our Sustainable Growth and Impact strategy and expected targets to 2030 (EBITDA contribution of 45%, 30% and 25% from coal, energy and minerals respectively) – shareholder interests and enquiries on further details is encouraging
- We delivered a record dividend pay-out of R9.557 billion (the total dividend distribution for the year is R32.52/share)
- Exxaro received several acknowledgements of our ESG performance, including the Sunday Times Top 100 company (13th) and leading mining company in the FTSE Russell index

Our response to stakeholder needs and expectations – important conversations during 2021

- We held more than 60 meetings with shareholders through investor conferences, solicited meetings, and non-deal roadshows following results presentations
- We have maintained our momentum on portfolio optimisation, completing the ECC disposal and remained on track with the sale of Leeuwan by the second half of 2022
- We remain intent on the sale of Black Mountain and await the results of the prefeasibility study to inform our decision regarding Moranbah South in Australia
- We continue to guide for our cost performance to be in line with mining inflation, which we achieved for the 2021 financial year
- The poor performance of TFR and resulting impact on our coal exports is of concern to investors. The resolution of the TFR issues will take time. Exxaro and the industry (through the MCSA) is engaging, among others, TFR, Transnet, Department of Public Enterprises and Office of the President
- We will not be investing further growth capital into the coal business – rather, we will be harvesting the completed R17 billion investment (and completing the Matla LoM projects), thus maximising the value of the coal business through the early value coal strategy to prevent stranded assets, and ensuring continued energy security from the Eskom coal (base load) power stations we supply; executing the Sustainable Growth and Impact strategy through acquisitive growth in minerals and renewable energy solutions; and developing just transition investment opportunities for the benefit of communities who will be affected by the energy transition
- We have further modified our executive remuneration policy and structures following investor engagements in 2019. A new STI structure is in place, effective 1 January 2022, aligned to the strategy, incorporating shared value/risk principles and material business sustainability targets to ensure long-term shareholder and stakeholder value creation

Engagement outlook for 2022

- We aim to increase investor engagements through investor conferences, non-deal roadshows. Meetings will continue as Exxaro implements the Sustainable Growth and Impact strategy
- We are planning a governance roadshow, led by the board chairperson, during the second half of 2022 to share board priorities and engage on changes made to Exxaro's remuneration policy in response to investor concerns voiced during our last engagement

Further reading

-  Chairperson's statement (page 6), CEOs' reports (page 62) and FD's overview (page 102)

Creating value through stakeholder engagement continued

CUSTOMERS

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- Our domestic and offshore customers have enabled the performance of the business during 2021
- Eskom remains our largest customer, taking 71% of our sales (66% in 2020). AMSA remains critical to our metallurgical coal sales. These are translated to high-value thermal coal sales when the opportunity arises
- Export sales were 37% down due to poor rail performance
- We maintain expectations on quality products (coal and ferro-silicon), consistent and reliable supply of product, and responsive service (renewable energy supply)

Our response to stakeholder needs and expectations – important conversations during 2021

- As we started communicating our Sustainable Growth and Impact strategy to stakeholders – customers in particular have sought clarity on what gradual divestment means for the coal business
- Key conversations included logistics and its challenges in the domestic market and exports
- Our rail logistics partner, TFR, is experiencing numerous challenges, resulting in poor rail performance, which continue to negatively impact our ability to move coal to customers and ports. These issues include security-related challenges (cable theft, sabotage, vandalism and community interruptions) as well as challenges related to the availability and reliability of locomotives. The latter is a function of challenges to procure critical spare parts for locomotives. The industry, Minerals Council and Exxaro are engaging extensively at ministerial level with Transnet and TFR to understand these challenges and offer support


Outcomes and value delivered to stakeholders in 2021

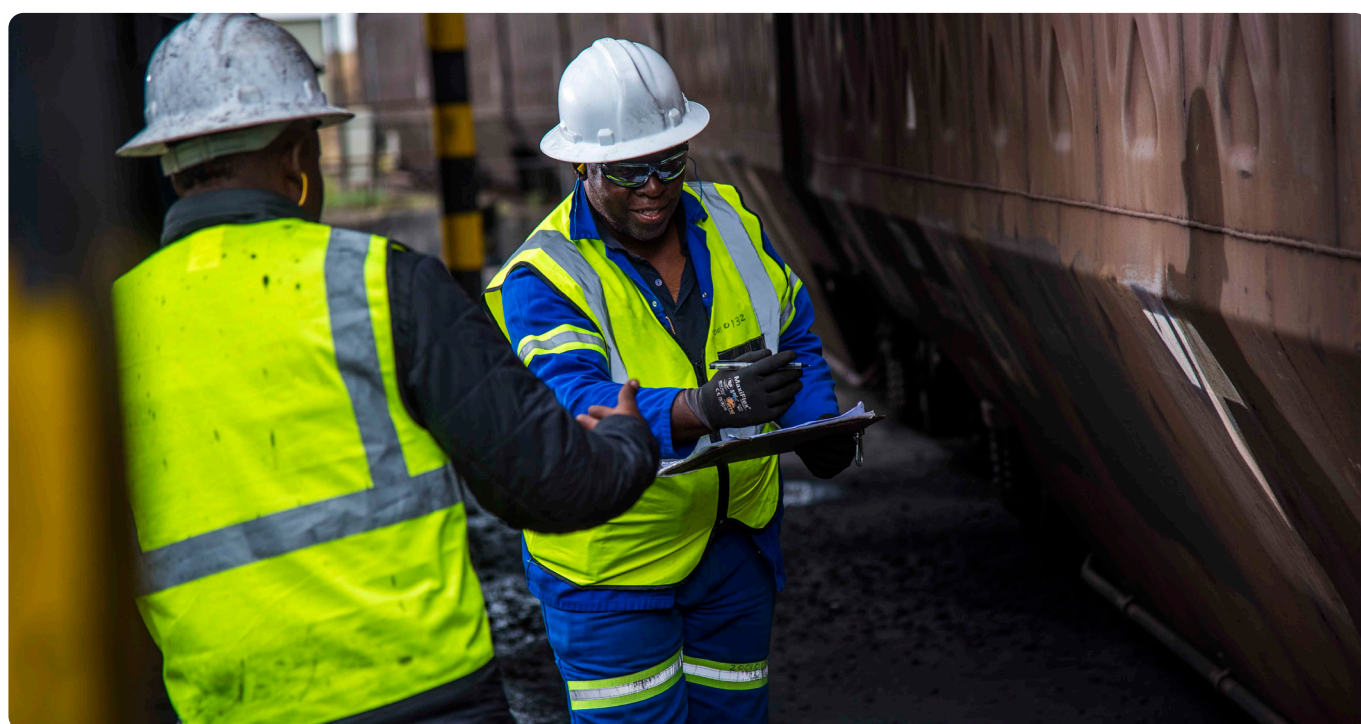
- Safe production
- Reliable and continuous supply of coal to all customers in terms of quantity/volumes, quality and affordability

Engagement outlook for 2022

- As restrictions ease and where possible, we hope to have more in-person engagements with our customers to maintain the current relations and establish new relationships,
- To have closer collaborations with rail and road transporters, and port owners for more capacity in 2022

Further reading

-  Operational performance (page 114)



Coal loading at our Leeuwpan coal mine siding

SUPPLIERS

Quality of relationship: 2/3

Why we engage – stakeholder needs and expectations

- Our supplier relationship management programme supports Exxaro's strategies by leveraging value chain partner capabilities
- Supply chain management achieves this through joint initiatives aimed at business sustainability through cost savings, supplier diversity and transformation (black ownership and participation), supply security and business risk exposure mitigation
- Exxaro is thus at an advantage to extract discretionary value and emerge as a "customer of choice" among strategic suppliers
- Suppliers look to Exxaro for business opportunities, timeous and full payment and collaboration for shared value (risk and opportunity management)

Outcomes and value delivered to stakeholders in 2021

- We were able to place all black-owned SMMEs on immediate payment terms
- Achieving R1.05 billion procurement or over 11% of our procurement spend with local SMMEs
- We are constantly looking at ways to improve our systems and processes to improve the ease of doing business with Exxaro
- We are investing money in creating infrastructure and policies to make easier for emerging suppliers to work with Exxaro


Our response to stakeholder needs and expectations – important conversations during 2021

- Exxaro's sourcing strategies set out to concurrently optimise for performance and supply risk, financial and fraud risk and supply chain sustainability through agile strategic and group sourcing, contract negotiation and innovation discussions
- We constantly review and update our policies and procedures to respond to the proliferation of procurement scams and fraud attempts
- Ongoing improvements to our procurement processes are aimed at risk management and increasing transactional speeds for our suppliers
- In delivering on our purpose, our supply chain activities are aimed at increasing the participation of black-owned suppliers and those from host communities, reducing the environmental impact of our business and enhancing our reputation while upholding sound corporate governance
- Exxaro is fully compliant with the preferential procurement requirements of the B-BBEE codes and mining charters
- We remain committed to working with our supply chain partners to ensure our annual input costs remain below inflation
- In 2021, we tested the readiness of our strategic suppliers for climate change and we are now working with our top 10 up and downstream suppliers to reduce our scope 3 emissions
- We are engaging suppliers to encourage transformation and promote industrialisation and local economic development

Engagement outlook for 2022

- We want to work with our supply chain partners to build climate change resilience within our supply chain
- We continue collaborating with suppliers to achieve cost savings and reduce fraud
- We continue increasing beneficial participation of black youth-owned and women-owned SMMEs. This is increasingly critical given the negative social impact of youth unemployment in our host communities

Further reading

 ESD programme (page 112 of our ESG report))

Our material matters

Our material matters reflect those risks and opportunities that impact our ability to deliver sustainable value creation and preservation. These matters are reflective of our context, constraints, strategy and stakeholders, and act as a guide to our integrated reporting.

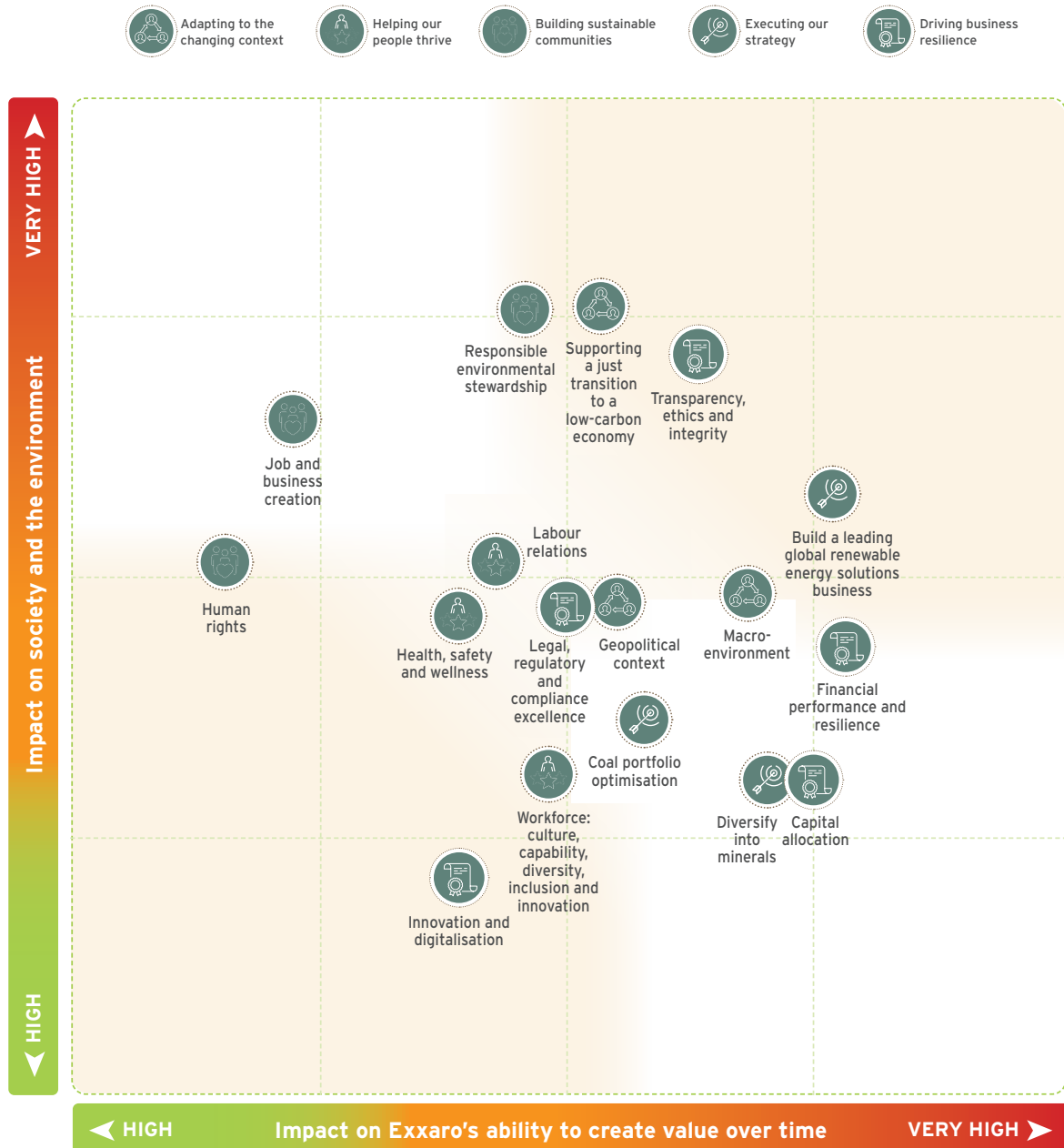
DETERMINING MATERIALITY

We determine these matters through a detailed materiality determination process. We enhanced our materiality process this year by applying a double materiality lens. The approach considers our impact on society and the environment as well as those matters that impact our ability to create and preserve value over time. These material matters have been prioritised and grouped into themes that link to the resources we use and affect.



Materiality matrix

Our materiality determination process identified 17 material matters, grouped into five broad themes. These are shown in the matrix that follows, reflecting their impact on Exxaro, and Exxaro's impact on society and the environment.



Our material matters continued

OUR MATERIAL THEMES



ADAPTING TO THE CHANGING CONTEXT

The operating context is changing rapidly. Social, political and economic issues all impact our ability to create value. We operate in a long-term asset class with significant infrastructure investment. To remain a leader, we must respond to the current context and anticipate the future.

Material matters

- Geopolitical context
- Macro-environment
- Supporting a just transition to a low-carbon economy

Related risks

- Eskom systemic risk
- COVID-19 concerns
- Cost competitiveness of products
- Climate change concerns
- Country risk (political)

Strategic response

- Transition at speed and scale
- Make our minerals and energy businesses thrive
- Be carbon neutral by 2050
- Become a catalyst for economic growth and environmental stewardship

Related capitals



Related SDGs



Refer to our operating context on page 16 and our business resilience on page 116 for more information.



HELPING OUR PEOPLE THRIVE

Exxaro's employees are the organisation's lifeblood. To deliver on our strategic goals, we need to foster a culture that supports adaptability and innovation while leveraging the strength of diversity and inclusion.

We are deeply committed to protecting our people's health, safety and wellness, and building relationships based on trust.

Material matters

- Health, safety and wellness
- Workforce: culture, capability, diversity, inclusion and innovation
- Labour relations

Related risks

- COVID-19 concerns
- Inability to achieve financial targets
- Community unrest
- Employee safety and health concerns

Strategic response

- Make our minerals and energy businesses thrive
- Empower people to create impact
- Become a catalyst for economic growth and environmental stewardship

Related capitals



Related SDGs



Refer to our people on page 122 for more information



BUILDING SUSTAINABLE COMMUNITIES

We operate in an environment of stakeholder capitalism[#] and where our business activities impact our stakeholders who respond to these impacts. Our social licence to operate is dependent on how we look after our communities and the natural world around us.

We are committed to a just transition that is executed in a manner that is socially just and sensitive to the potential impacts for Exxaro, its communities, South Africa and the planet.

[#] Where organisations are oriented to serve the interests of all their stakeholders.

Material matters

- Human rights
- Job and business creation
- Responsible environmental stewardship
- Supporting a just transition to a low-carbon economy

Related risks

- Unavailability of rail capacity
- Community unrest
- Cost competitiveness of products
- Climate change concerns

Strategic response

- Empower people to create impact
- Become a catalyst for economic growth and environmental stewardship

Related capitals



Related SDGs



Refer to our social licence on page 132 for more information.



EXECUTING OUR STRATEGY

Climate change is no longer a refutable occurrence. We are committed to the Paris Agreement and have established business objectives to respond to the risks and opportunities presented by climate change.

Material matters

- Coal portfolio optimisation
- Diversify into minerals
- Build a leading global renewable energy solutions business

Related risks

- Unavailability of rail capacity
- COVID-19 concerns
- Employee safety and health concerns
- Climate change concerns

Strategic response

- Transition at speed and scale
- Make our minerals and energy businesses thrive
- Empower people to create impact
- Be carbon neutral by 2050
- Become a catalyst for economic growth and environmental stewardship

Related capitals



Related SDGs



Refer to our strategy on page 66 for more information.



DRIVING BUSINESS RESILIENCE

Underpinning our strategic goals is the drive to enhance our business resilience through the delivery of financial results, effective capital allocation, compliance excellence as well as entrenching innovation and capitalising on digitalisation. Over and above these, the way we conduct ourselves as a business strengthens our reputation and resilience.

Material matters

- Financial performance and resilience
- Legal, regulatory and compliance excellence
- Capital allocation
- Innovation and digitalisation
- Transparency, ethics and integrity

Related risks

- Unavailability of rail capacity
- Eskom systemic risk
- COVID-19 concerns
- Inability to achieve financial targets
- Community unrest
- Cybersecurity concerns
- Cost competitiveness of products
- Country risk (political)

Strategic response

- Make our minerals and energy businesses thrive
- Become a catalyst for economic growth and environmental stewardship

Related capitals



Related SDGs



Refer to our business resilience on page 116 for more information.

Our business risks and opportunities

As a company, we faced many challenges in 2021, including COVID-19-related risks, macro-economic volatility and logistical constraints.

THE ENTERPRISE RISK MANAGEMENT PROCESS AND GOVERNANCE

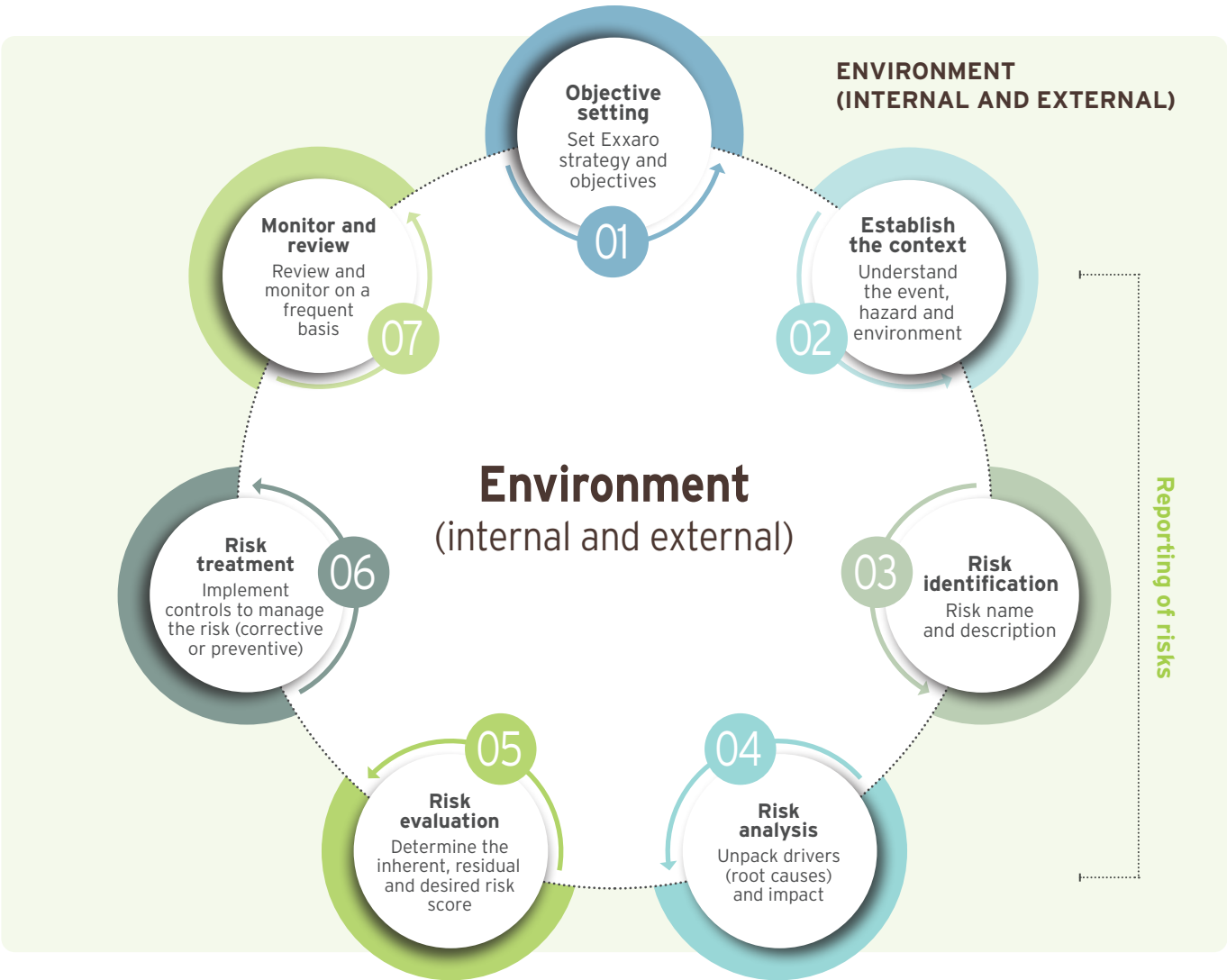
In a volatile economic environment characterised by change and uncertainty, risk management is a critical success factor for us to achieve strategic and business objectives. Embedding risk management into existing processes is key to making informed decisions and proactively planning for possible future events stemming from internal and external sources.

Our enterprise risk management (ERM) process is a strategic initiative fully supported by the board and executive management.

The ERM framework provides a proactive, systematic and integrated approach to risk management. The principles outlined in the framework form the foundation for the risk management philosophy, mission and vision.

The ERM framework and process are based on principles published by the Committee of Sponsoring Organisations of the Treadway Commission, the ISO 31000 international guideline on risk management and King IV. It also considered applicable codes of best practice such as ISO 9001, 14001 and 18001.

The ERM framework is regularly reviewed to ensure it remains relevant and effective.



We were able to manage these risks to be within our risk appetite due to our mature risk and crisis management process. We contained costs, focused on M2R and leveraged opportunities to create and preserve shareholder value.

We identify risk events at the organisation's strategic, tactical and operational layers. Significant risks from the strategic layer are filtered down to the tactical and operational layers and are supplemented by the identification of risks that have an impact across the organisation. Significant risks originating at an operational layer will also be elevated to a strategic or tactical layer if the residual risk and residual risk gap exceed certain thresholds. In this way, the process incorporates a top-down/bottom-up view of risks within the organisation.

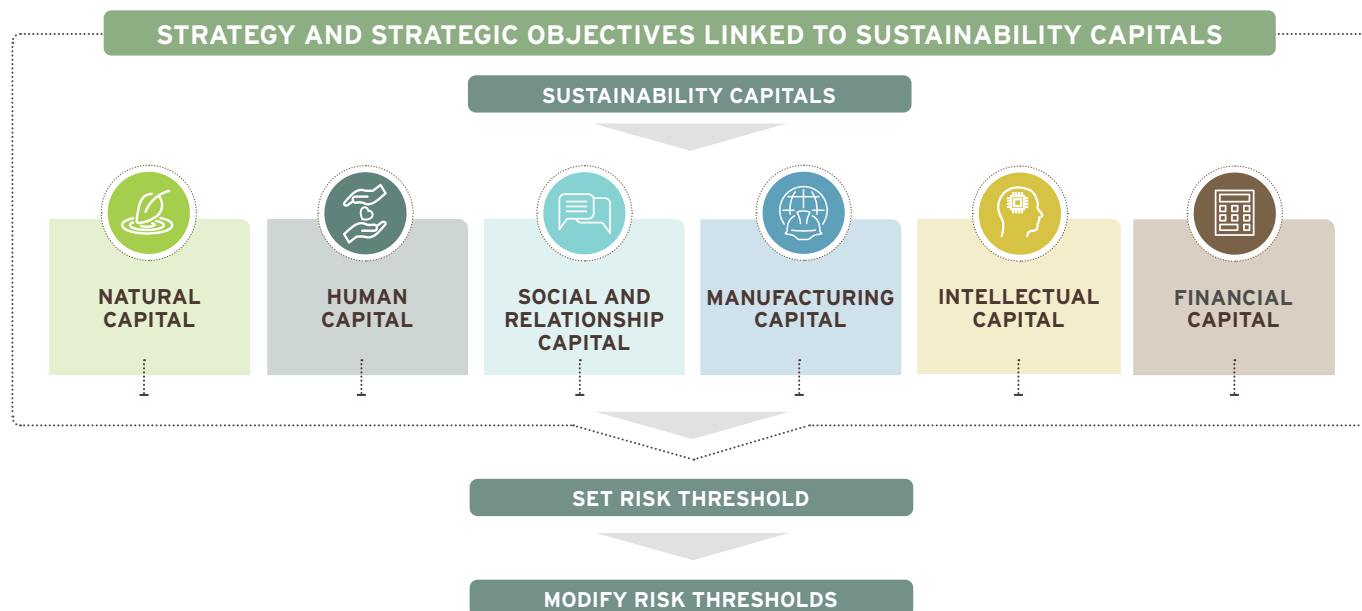


Our business risks and opportunities continued

RISK APPETITE AND THRESHOLDS

Exxaro's risk management philosophy identifies risk management as a strategic enabler rather than being compliance-driven. This ensures that we think and act proactively at every layer to pursue the company's strategic objectives.

The board and executive committee monitor KPIs quarterly to ensure all risks and key metrics are within Exxaro's risk appetite. The risk appetite framework is updated annually or when deemed necessary as part of the strategic planning process.



For details, please refer to performance against our strategy on page 70.

OPPORTUNITIES

We use the ERM framework to identify and realise opportunities – for example, early value coal extraction to maximise value in the short to medium term in view of the climate change risk. We believe that, for Exxaro to remain sustainable in the short term, it is important to adapt the minerals business to change and identify and pursue possible opportunities that ultimately create value, such as reducing stranded high-value coal reserve risk.

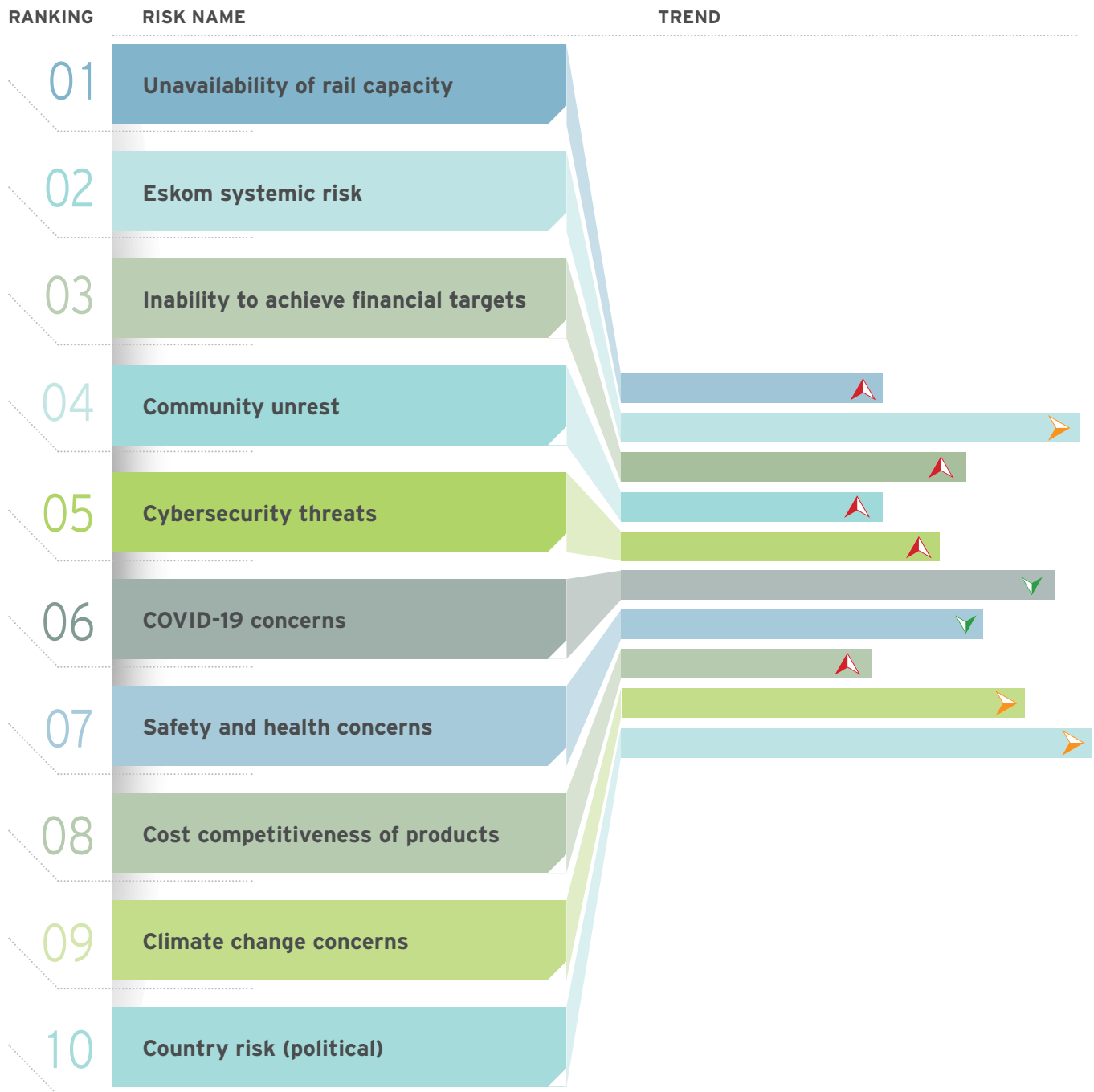
The opportunities we identified in 2021 informed our Sustainable Growth and Impact strategy.

Opportunity	Strategic objective
The early value coal strategy and our ability to maximise resource to market opportunities by leveraging the low cost and flexibility of our coal assets and Reserves.	Make our minerals and energy businesses thrive
Accelerated expansion into renewable energy will support our low-carbon transition.	Be carbon neutral by 2050 Make our minerals and energy businesses thrive
Impact investments provide an opportunity for Exxaro to leverage this financing market to support our just transition ambitions and align with our Sustainable Growth and Impact strategy.	Empower people to create impact
The hydrogen economy was identified as a strengthening signal through our foresight process and market analysis conducted in 2021. Following this analysis, we concluded that hydrogen provides tailwind opportunities for our energy business and is not of significant interest to necessitate a horizon 2 shift at this stage.	Make our minerals and energy businesses thrive
Nature-based solutions to mitigate the impacts of climate change were identified as an opportunity, especially in lieu of the vast amount of viable land that Exxaro has at its disposal. We intend to maximise this opportunity through our Sustainable Growth and Impact strategy.	Be carbon neutral by 2050
Investing in self-generation facilities is an opportunity we are leveraging, which aligns with our renewable energy growth strategy. A memorandum of understanding was signed with Eskom and Seriti Resources in 2021.	Make our minerals and energy businesses thrive
The global energy transition provides opportunity to mine and supply the minerals that support green technologies. Through a rigorous screening process, Exxaro identified copper, manganese and bauxite as being most aligned to our experience, capabilities and market forecasts.	Make our minerals and energy businesses thrive




2021 RISK TREND

The trend report indicates changes in the residual risk score when comparing the 2020 and 2021 financial years.

Our risk scores are derived from the product of the likelihood and the impact of the unwanted event*. The top 10 risks are arranged from highest to lowest risk score.



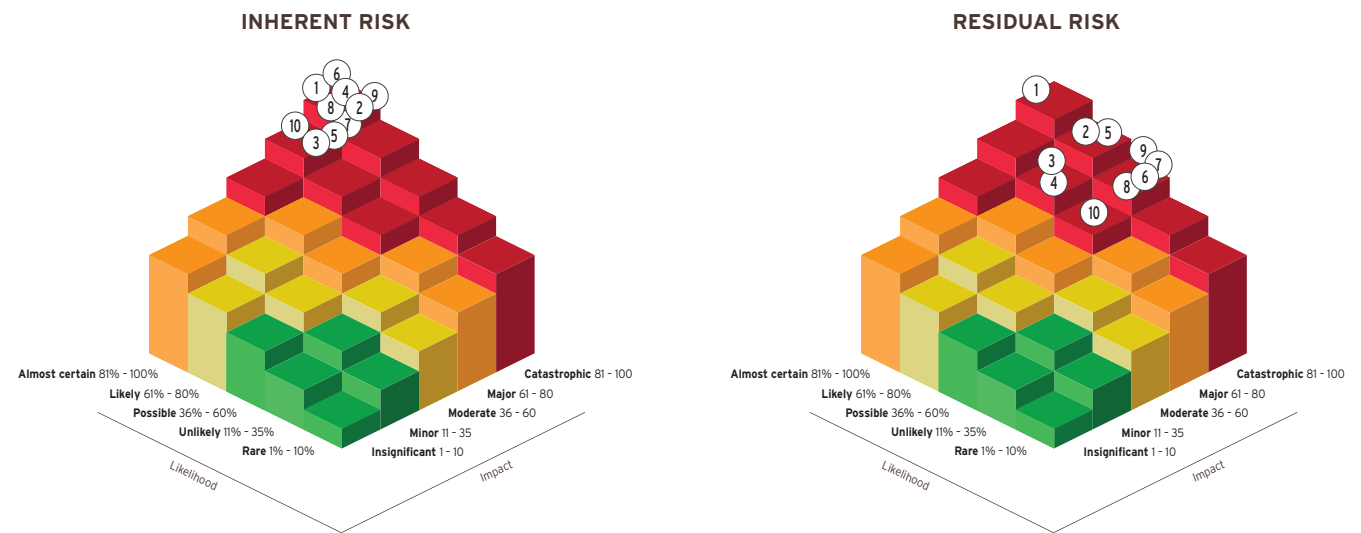
* Risk = f (Likelihood of risk occurring x Impact of the risk)

Legend:  Residual risk increased compared to previous year
 Residual risk remained unchanged compared to previous year
 Residual risk decreased compared to previous year

Our business risks and opportunities continued

TOP 10 HEAT MAP

Exxaro's top 10 risks are plotted inherently (before controls) and residually (after controls) on the heat maps below, followed by an outline of our key identified risks, the main drivers, their potential impacts and mitigating treatments. We have considered internal and external risks. Our mitigation strategies depend on the severity of impact and likelihood of occurrence.




Coal beneficiation plan at our Grootegeluk BU in the Waterberg

MANAGING OUR RISKS

Various risk treatment strategies are evaluated, including risk avoidance, reduction, sharing acceptance or transferring. When selecting risk treatment options, we consider the values and perceptions of stakeholders and the most appropriate ways to communicate them.

The decision to implement a treatment is based on risk tolerances, the effect the treatment will have on the impact and likelihood ratings, and the results of the cost versus benefit evaluation. Once a risk treatment is implemented, Exxaro develops ongoing mechanisms to monitor the implementation and effectiveness of the risk treatment.

Lines of defence	Risk trend
1 Management of risk (risk owner)	 Residual risk increased compared to previous year
2 Management support and oversight	 Residual risk decreased compared to previous year
3 Independent assurance	 Residual risk remained unchanged compared to previous year
	 New

1. UNAVAILABILITY OF RAIL CAPACITY (2020: 3)

Drivers

- Cable theft and derailments
- Transnet's locomotive availability
- Inadequate fleet maintenance due to lack of spares at TFR

Impacts

- Operational stoppages
- Financial loss
- Unable to meet contractual agreements and 2021 budget
- Unable to grow and execute the value extraction strategy
- Shareholder dissatisfaction

Treatments

- Marketing and logistics team exploring options to evacuate export-bound coal
- Continuous engagement with TFR to understand issues and provide assistance

Outlook

Operational and maintenance challenges are expected to continue to have a significant impact. Sustainable solutions to current challenges will be explored through proactive engagement with Transnet and the industry.

Strategic KPIs

- Core operating margin
- Annualised ROCE
- Annual core HEPS and net debt to annualised EBITDA

Strategic objective impacted

Make our minerals and energy businesses thrive

Material theme



Capitals impacted



Line of defence 1

Risk score trend



Our business risks and opportunities continued

2. ESKOM SYSTEMIC RISK (2020: 2)

Drivers

- Inadequate environmental financial provision at tied operations
- Environmental rehabilitation fund shortfall at Matla
- Realisation of approved funding for capital requirements (Matla capital project programme)
- Further delays in Eskom's Medupi power station operating at full capacity
- Eskom not honouring commercial rights and obligations as per coal supply agreements (Eskom liquidity)

Treatments

- Enforce coal supply agreements and award arbitration in terms of environmental funding
- Allocate capital expenditure to build siding to evacuate coal at Matla
- Actively participate in moving coal from Waterberg to Mpumalanga
- Engage with top management and interact with ministers when required
- Continue evaluating and discussing Matla's future

Strategic KPIs

- Core operating margin
- Annualised ROCE
- Annual core HEPS and net debt to core EBITDA

Impacts

- Cost of coal production becomes uncompetitive at Matla (lack of capital)
- Loss of revenue
- Reputational damage
- Cash flow constraints at Eskom resulting in late or no payment to Exxaro
- Operational constraints

Outlook

Eskom's financial challenges will remain a concern in the short to medium term as government continues to reform South Africa's electricity sector and Eskom implements its turnaround strategy and restructuring.

Strategic objective impacted

Make our minerals and energy businesses thrive

Material theme



Capital impacted






Lines of defence 1 and 2

Risk score trend



Part of the coal beneficiation plant at Grootegeluk with the Medupi power station in the background

3. INABILITY TO ACHIEVE FINANCIAL TARGETS (2020: 9)

Drivers <ul style="list-style-type: none"> Macro-economic factors Disaster Management Act, 2002 (Act 57 of 2002) directives issued Critical input supplies not available Counterparties not meeting contractual obligations (TFR, Eskom and AMSA) Claims from contractors due to the impact of COVID-19 on timelines Reduced rail capacity for exports in 2021 		Impacts <ul style="list-style-type: none"> Cash flow constraints Increased cost of production 	
Treatments <ul style="list-style-type: none"> Disposal of ECC* and the Leeuwpans operations (high on the cost curve) Ability to refinance loan facilities Focus on current operating excellence and digitalisation initiatives to reduce rand per tonne impacts Proactively draw down available borrowing facilities Evaluate claims from contractors in terms of process (supply chain and projects) Detailed daily cash flow management Monitor supplier financial status (critical and strategic suppliers) 		Outlook <p>Unavailability of TFR capacity is one of the main drivers that contributed to an increase in the risk rating. The focus still remains on the M2R strategy and to maximise value with our available capacity.</p> <p>The coal portfolio is continuously reviewed to focus on robustness of assets and drive value maximisation strategy.</p>	
Strategic KPIs <ul style="list-style-type: none"> Core operating margin Annualised ROCE Annual core HEPS and net debt to annualised EBITDA 		Strategic objective impacted <p>Make our minerals and energy businesses thrive</p>	
Material theme 	Capital impacted 	Lines of defence 1, 2 and 3	Risk score trend 

* Divestment concluded in September 2021.



Results presentation


Our business risks and opportunities continued

4. COMMUNITY UNREST (2020: 4)

Drivers

- Dissatisfaction with local economic development initiatives
- Political agitation
- High unemployment rate
- Poor/lack of service delivery by local government
- High demand for skills development, employment and local procurement
- Instability at most municipalities post-2021 municipal elections
- Perceived slow transformation at operations
- Conduct of contractors (employment practices) that Exxaro is seen as endorsing
- Fractured communities and competing interests
- Manipulation of information/community against Exxaro
- Lack of employment opportunities (worsening since COVID-19)
- Economic recession resulting in job losses during the pandemic
- Lack of procurement opportunities

Treatments

- Emergency response and crisis management plans
- Municipal capacity building programme
- Impact Catalyst projects (refer to the ESG report, page 110) 
- ESD programme (including contractors)
- Build local, provincial and national government relationships
- Invest in non-mining skills development programmes
- Roll out bursaries/skills development programmes
- Transparent and ongoing communication with communities
- Effective local procurement strategy
- Certified COVID-19 testing facilities in Mpumalanga and Limpopo for community members in place

Strategic KPIs

- B-BBEE contribution level
- Black ownership
- SLP project delivery
- Community benefit initiatives
- ESD performance

Impacts

- Production interruptions
- Negative media reports (reputation)
- Jobs/opportunities for sale (misrepresents Exxaro)
- Potential harm to mine employees and contractors
- Potential damage to mine equipment and property

Outlook

We drive long-term sustainable economic and social growth in the regions where we operate to ultimately leave a positive legacy beyond LoM.

The implementation of the Sustainable Growth and Impact strategy to expected expand on positive impact created in the communities we operate and beyond.

Strategic objective impacted

Empower people to create impact

Material theme



Capital impacted



Lines of defence 1 and 2

Risk score trend



5. CYBERSECURITY THREATS (2020: 8)

Drivers

- Large number of devices connected to the corporate network increase our vulnerability, especially in operational systems (Internet of Things)
- Vulnerability due to lack of awareness
- Limited technology resources to accommodate remote working
- Most employees worked remotely during lockdown
- New ransomware models

Treatments

- Ensure we have security governance in place and that it is monitored
- Prevent data loss
- Stricter security practices
- Ensure regular and ongoing security awareness
- Monitor compliance with POPIA
- Business continuity management plan and disaster recovery testing

Strategic KPIs

- Microsoft Secure Score

Impacts

- Production and financial loss
- Information loss – Protection of Personal Information, 2013 (Act 4 of 2013) (POPIA) implications
- Business interruption
- Legal and regulatory impacts (POPIA implications)

Outlook

The prevalence of cybersecurity attacks, with ransomware the most prevalent, is expected to increase. Proactive action improves the robustness of the cybersecurity posture. Exxaro continues to benchmark its cybersecurity profile to enhance our efforts on vulnerability identification and management.

Strategic objective impacted

- Make our minerals and energy businesses thrive

Material theme



Capital impacted



Line of defence 1, 2 and 3

Risk score trend



Digital operation centre at our captive coal mine, Matla

Our business risks and opportunities continued

6. COVID-19 CONCERNS (2020: 1)

Drivers

- Commodity price volatility
- Disengaged and anxious workforce (permanent employees and contractors)
- Rapid spread of COVID-19
- Increased risk of cyberattacks due to remote working
- Deterioration of employee health (mental and physical)
- Uncontrollable cost of goods and services
- Unavailability of critical goods and services
- Community unrest due to loss of livelihoods impacting Exxaro's operations
- Counterparty risk (contractors/suppliers/customers)
- Productivity decline (operations not operating at full capacity and not complying with disaster management guidelines, among others)
- Possible resistance to vaccination and boosters
- Perpetual cycles of COVID-19

Treatments

- Implement strict security processes and tools, and increase monitoring
- Certified testing facilities in Limpopo and Mpumalanga to conduct mass testing
- Mental wellness programmes in place
- Monitor compliance with contractual agreements (cost of goods and services)
- Monitor critical goods stock levels and services required
- Ongoing engagement with Minerals Council, and provincial and local governments
- Ongoing monitoring of messaging and continuous updates of critical information
- Roll out and continuously update COVID-19 business continuity management plan at operations
- Human resource guidelines in line with government's lockdown regulations
- Activation of crisis management plan

Strategic KPIs

- Core operating margin
- Annualised ROCE
- Annual core HEPS and net debt to annualised EBITDA
- LTIFR
- Fatalities
- Project delivery KPIs including SLPs
- Mining Charter III and B-BBEE targets not achieved

Impacts

- Safety impacts (fatalities and incidents)
- Health and mental wellbeing impacts
- Financial losses
- Unable to meet financial targets
- Legal and regulatory non-compliance with the Disaster Management Act, 2002 (Act 57 of 2002)
- Production stoppages
- Delay in implementation of strategy
- Inability to obtain lines of credit

Outlook

The COVID-19 management plan will continue to be implemented with focus on disease management protocols given the anticipated wave of infections during winter.

With more than 80% of the workforce vaccinated, Exxaro will continue to roll out the vaccination programme, including administering booster vaccines.

Strategic objective impacted

Make our minerals and energy businesses thrive

Material theme



Capitals impacted



Lines of defence 1 and 2

Risk score trend



7. SAFETY AND HEALTH CONCERNS (2020: 5)

Drivers

- Rapid spread of COVID-19 infections among employees and contractors
- Anxious and disengaged workforce (additional COVID-19 regulations and some companies impacted by COVID-19 having to retrench contractors)
- High/excessive fatigue levels
- Poor procedures for maintenance of equipment and machinery
- Inadequate on-the-job training due to illiteracy
- Lack of awareness of health risks
- Lack of hazard awareness
- Non-adherence to procedures
- Lack of communication between teams working on equipment
- Lack of change management
- Design or modification of equipment without sign-off
- Inadequate supervision
- Perpetual cycles of COVID-19
- Demobilisation and divestment journey

Treatments

- Analyse historical incident data to identify trends and root causes
- Mental wellness programmes
- Certified COVID-19 testing facilities in Mpumalanga and Lephahle
- Ongoing safety, health, environment and community risk management
- Improve safety management with innovation (including wearables)
- Ensure proximity detection systems are implemented and maintained
- Ensure safety improvement plan is communicated and implemented
- COVID-19 response plan developed and rolled out

Strategic KPIs

- Fatalities
- LTIFR
- OHIFR
- Number of safety and health stoppage directives in terms of section 54 of the Mine Health and Safety Act, 1996 (Act 29 of 1996)

Impacts

- Unwanted health and safety incidents
- Operational stoppages
- High insurance premiums
- Loss of licence to operate
- Decrease in quality of life
- Section 54 and 55 fines and penalties imposed by the DMRE
- Loss of productivity (deaths, medical incapacity or sick leave)

Outlook

Our employees' safety remains a top priority. Although good safety performance has been demonstrated in the recent past, we continue to implement the safety strategy, focusing on safety improvement in our quest for zero harm.

Strategic objective impacted

Make our minerals and energy businesses thrive

Material theme



Capitals impacted



Lines of defence 1, 2 and 3

Risk score trend



Our business risks and opportunities continued

8. COST COMPETITIVENESS OF PRODUCTS (2020: 6)

Drivers

- Limited LoM
- Poor capital project execution
- Not achieving productivity indices (benchmark standards)
- Cost containment discipline not uniform
- Inflationary pressures
- Deteriorating mining conditions (decreasing yield and increasing stripping ratio)
- Not meeting production volumes
- Exchange rate volatility
- Commodity price decline
- Inaccurate financial modelling
- Higher fixed costs (corporate office costs charged to BUs)
- South African geographical constraints
- Frequent changes in legislation (cost of licence to operate)

Treatments

- Embrace technology and innovation initiatives to improve productivity performance
- Ensure BUs comply with concurrent rehabilitation
- Optimise operating model and avoid duplicated activities
- Create strategic partnership to leverage economies of scale
- Ensure balance between capital optimisation and prioritisation
- Investigate and divest non-core and non-robust assets
- Provide for post-production stoppage (rehabilitation cost)
- Review and monitor performance of suppliers and service providers
- Increased awareness of cost management
- Focus on sustainable cost reduction programmes and business improvement initiatives
- Planned reviews by coal operating company
- Rebalancing product chains for better use of infrastructure

Strategic KPIs

- Core operating margin
- Annualised ROCE
- Annual core HEPS and net debt to annualised EBITDA

Impacts

- Reputational damage
- Social impact
- Financial loss
- Margin squeeze
- Premature mine closure and allocation of costs to other operations
- Reduced earnings will impact approval of capital projects

Outlook

Inflationary pressure expected to continue to persist given challenges in the global economy exacerbated by the Russia/Ukraine conflict.

We continue tracking and monitoring initiatives to manage ongoing volatile conditions and cost pressures, focusing on reducing consulting costs and continued focus on production efficiencies.

Strategic objective impacted

Make our minerals and energy businesses thrive

Material theme



Capitals impacted



Lines of defence 1, 2 and 3

Risk score trend



9. CLIMATE CHANGE CONCERNS (2020: 7)

Drivers

- Poor plant or operations design unable to withstand extreme weather conditions
- Poor monitoring and reporting of climate change impacts
- Infrastructure vulnerabilities
- Lack of awareness of climate change impacts
- Increased non-governmental organisation activism
- International and local investor negative sentiment towards fossil fuels

Impacts

- Reputational damage
- Loss of licence to operate
- Financial loss (increased carbon tax, among others)
- Environmental impacts (extreme heat and drought)
- Legal claims against heavy polluters
- Health and safety impacts on employees (increased occupational incident rate due to heatstroke and increase in skin cancer, among others)
- Energy security and supply
- Loss of throughput
- Natural disasters (flooding)

Treatments

- Invest in renewable energy initiatives
- Raise awareness about climate change impacts
- Continuously investigate measures to reduce climate change impacts
- Engagement with regulators to anticipate policy changes
- Investigate suitable personal protective equipment for extreme weather conditions
- Link performance reward system to climate change mitigation
- Review conditions of work under extreme weather conditions
- Engage with government and other role players in the industry to align in the transition to a low-carbon future
- Invest in appropriate technology to reduce our emissions
- Embed climate change mitigations in design criteria for existing and new projects
- Plan and embark on our early value coal strategy to reduce stranded assets
- Develop a renewable energy strategy to transition to a low-carbon economy
- Adopt the TCFD framework to engage with stakeholders
- Align with the Paris Agreement
- Develop market intelligence on carbon pricing
- Effective water management processes for water security

Outlook

We will execute our decarbonisation plan and have implemented a process to create baseline measures and planning for decarbonisation initiatives.

Strategic KPIs

- Water intensity
- Carbon intensity

Strategic objective impacted

- Be carbon neutral by 2050

Material themes



Capitals impacted



Lines of defence 1, 2 and 3

Risk score trend



Our business risks and opportunities continued

10. COUNTRY RISK (POLITICAL) (2020: 8)

Drivers

- Lack of investment and low employment creation
- Uncertainty about land ownership and security of tenure
- Limited local government capacity to deliver services
- Potential for nationalisation sentiment
- Continued poor economic performance will influence policy and political outcomes
- Slow implementation of required reforms
- Corrupt practices (private and public sector)
- Rating agencies downgrade South Africa to junk status
- South Africa's real GDP growth forecast to be (3.1%) for 2021
- Limited fiscal capacity
- National party leadership elections every five years
- Nature of influence of opposition parties

Impacts

- Political instability
- Possibility of community unrest for political support
- Stakeholder dissatisfaction
- Potential regulatory penalties/oversight
- Increased compliance burden
- Potential increase in royalties/taxes
- Reduced investment opportunities (increase in cost of capital)
- Increased cost of doing business (due to increased compliance burden)
- Fewer opportunities for co-investment with government in community development
- Breakdown in government relationships with Exxaro
- Higher expectation from society and government for more social investment
- Potential for junk status rating and downgrade of Exxaro's credit status due to link to Eskom
- Pressure on revenue
- Policy uncertainty

Treatments

- Aligning our purpose with governance and ethics
- Continuous monitoring of independent country risk assessment report
- Engage with shareholders on coal business and capital allocation for new strategy
- Establish and participate in collaborative regional development platforms for community impact
- Develop renewables strategy that could result in new investment and electricity security
- Long-term investment perspective for growth, development and impact
- Municipal capacity building
- Ongoing engagement with Minerals Council and provincial and local governments
- Strive for full compliance with relevant legislation for business continuity
- Continued support of relevant business lobby groups to engage business and government
- Increased and improved analysis of dynamic political landscape and impacts on stakeholders
- Increased focus on provincial and local players and intensified engagement across local stakeholder networks to mitigate shocks "from above"

Outlook

Socio-political risks, policy certainty and sluggish South African economy expected to continue influencing this risk.

Strategic KPIs

- N/A

Strategic objective impacted

- All

Material theme



Capitals impacted



Line of defence 1

Risk score trend





Matla BU stockpile with the Matla power station in the background