

Exxaro Resources Limited

Tax report

for the year ended 31 December

2022

exxaro

POWERING POSSIBILITY




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Overview


Exxaro Resources Limited (Exxaro, the company or the group) uses the Integrated Reporting Framework and the Global Reporting Initiative Standard 207: Tax 2019 (GRI 207) for public reporting on tax to demonstrate value creation and transparency to our stakeholders.

This report discusses Exxaro's approach to tax, tax risk management (TRM), tax governance and how we engage with our stakeholders. Exxaro also wishes to demonstrate how our taxes align with our sustainability commitments and give context to our financial reporting performance.

In this voluntary report, we wish to:

- Show the contribution we make in the countries where we operate
- Promote confidence and credibility in our tax practices
- Enable stakeholders to make informed judgements
- Support the development of socially desirable tax policy

Tax transparency allows us to demonstrate that our tax affairs are conducted in accordance with tax law and ethical business practices. Providing information that complies with recommended standards ensures we are transparent beyond mandatory legislative requirements.

 This report should be read together with Exxaro's 2022 integrated report (IR) and environmental, social and governance (ESG) report, available at www.exxaro.com

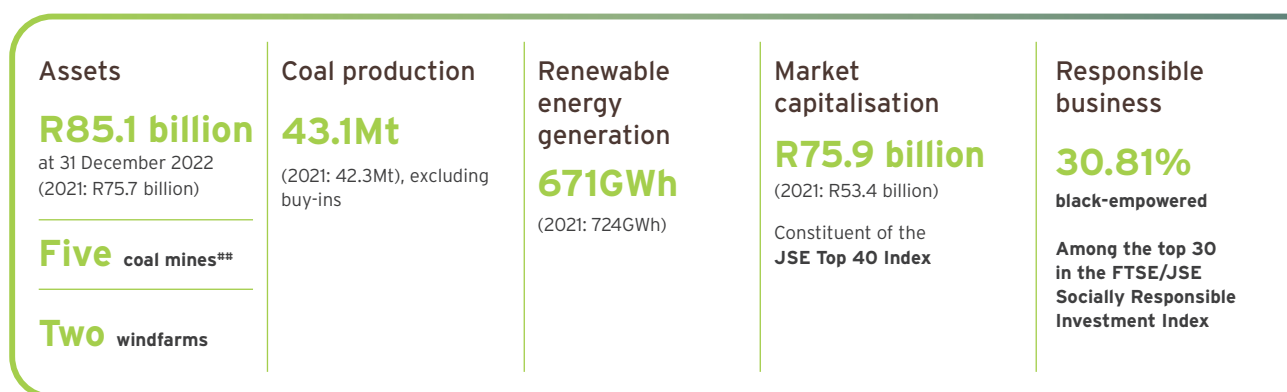


About Exxaro

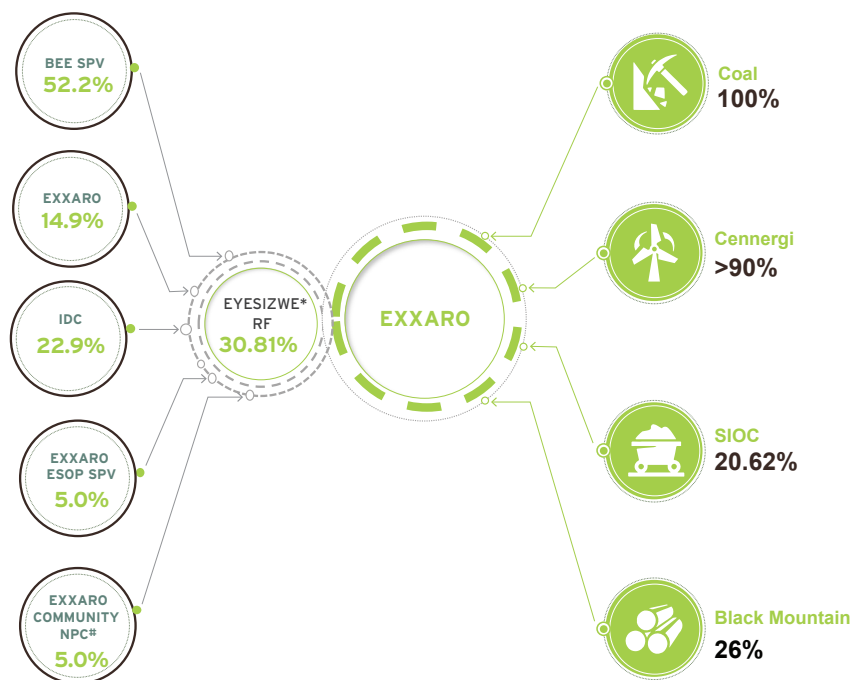
Our business's sustainability and impact depend on our contribution to accelerating economic growth, practicing environmental stewardship and driving positive change.

Our diversified asset portfolio comprises interests primarily in thermal coal (where we are among the top five South African coal producers), a growing renewable energy solutions business and equity-accounted investments in ferrous (iron ore) and zinc among other base metals. We will contribute to a more sustainable future by expanding our business portfolio to include manganese, bauxite and copper. Our business interests in Europe comprise a marketing and logistics office in Switzerland. A joint operation with Anglo Coal Grosvenor Proprietary Limited, the Moranbah South project, is conducted in Australia.

We are aiming to be carbon neutral by 2050, and are committed to being an active participant in the just transition to a low-carbon economy. The renewable energy solutions business and our scope 1 and 2 emissions reduction efforts are critical activities in this regard. Reduction of scope 3 emissions is a longer-term goal influenced by the country's energy mix.



Ownership structure



Our core operation is thermal, semi-soft coking and metallurgical coal mining, supplying Eskom, other domestic markets and offshore markets.

Our coal mining business is structured under four legal entities, all managed and operated by Exxaro, supplemented by a 50% joint venture with Thungela Resources Limited in Mafube and a 12.04% legal equity interest in RBCT.

Our renewable energy business, Cennergi, consists of 229MW of wind generation assets in the Eastern Cape that contribute to the national energy supply.

SIOC is a leading supplier of high-quality iron ore to the global steel industry and a subsidiary of Kumba Iron Ore.

Black Mountain operates two underground mines and a processing plant in the Northern Cape that produces zinc and other minerals.

We continue evaluating our options to dispose of our shareholding in Black Mountain.

* Eyesizwe (RF) Proprietary Limited (Eyesizwe), a special purpose vehicle (SPV) private company, incorporated under South Africa's laws, holds the black economic empowerment (BEE) shares.

Exxaro Matla Setshabeng NPC.

**Including joint venture, Mafube.

Our assets

Minerals business

Our minerals business comprises coal operations and our equity investments in iron ore and zinc. We have deep roots in mining with a track record of operational excellence and delivering value. Our coal asset base is a key differentiator and critical part of how we create value for our stakeholders. Only mineral assets with Measured and Indicated Resources are listed in this report. Inferred Resources are reported in the supplementary [CMRR report](#).



- Largest high-quality Coal Reserves remaining in the country, providing a platform for early value returns
- Largest supplier of energy coal to Eskom and ArcelorMittal South Africa Limited
- Produced 43.1Mt of thermal and metallurgical coal (2021: 42.3Mt), up 1.9% in 2022 - the majority of power station coal is supplied to Eskom
- Grootegeluk is one of the largest integrated mining and beneficiation operations globally, running the largest coal beneficiation complex, and the only producing mine in the coal-rich Waterberg, adjacent to Eskom's Matimba and Medupi power stations
- As at 31 December 2022, 15% of R1.7 billion capital expenditure was spent on greenfield and brownfield expansion projects (2021: 34%, R2.5 million)

Limpopo



1 Grootegeluk complex

Location: West of Lephalale
Market: Domestic and export
Product: Thermal and metallurgical coal
Coal Resources (inclusive):
 • Measured: 3 039Mt
 • Indicated: 967Mt
Coal Reserves:
 • Proved: 2 034Mt
 • Probable: 550Mt
Mining method: Open-cut
Run of mine (RoM): 56.52Mt
Life of mine (LoM): 19+ years*



2 Thabametsi

Location: West of Lephalale
Market: Domestic
Product: Thermal coal
Coal Resources (inclusive):
 • Measured: 270Mt
 • Indicated: 749Mt
Coal Reserves (inclusive):
 • Probable: 130Mt
Mining method: Open-cut
RoM: Project
LoM: 24 years

Mpumalanga



3 Belfast

Location: South of Belfast
Market: Export (alternative domestic)
Product: Thermal coal
Coal Resources (inclusive):
 • Measured: 101.6Mt
 • Indicated: 8.0Mt
Coal Reserves:
 • Proved: 35.8Mt
 • Probable: 1.4Mt
Mining method: Open-cut
RoM: 2.65Mt
LoM: 11 years

Mpumalanga



4 Leeuwpaan

Location: South-east of Delmas
Market: Domestic and export
Product: Thermal coal
Coal Resources (inclusive):
 • Measured: 65.8Mt
Coal Reserves:
 • Proved: 36.1Mt
 • Probable: 3.3Mt
Mining method: Open-cut
RoM: 3.71Mt
LoM: 7 years



5 Matla

Location: West of Kriel
Market: Domestic (Eskom)
Product: Thermal coal
Coal Resources (inclusive):
 • Measured: 657Mt
 • Indicated: 91Mt
Coal Reserves:
 • Proved: 130Mt
 • Probable: 38Mt
Mining method: Underground
RoM: 6.16Mt
LoM: 2+ years*



6 Mafube joint venture (50%)

Location: East of Middelburg
Market: Domestic and export
Product: Thermal coal
Coal Resources (inclusive):
 • Measured: 125.0Mt
 • Indicated: 16.3Mt
Coal Reserves:
 • Proved: 80.6Mt
 • Probable: 40.8Mt
Mining method: Open-cut
RoM: 5.44Mt
LoM: 21+ years*

7 Moranbah South project (50%)

Location: Queensland, Australia
 Undertaking prefeasibility study to inform decision for development prospects.

* Adequate Reserves well beyond expiry of mining right.



Renewable energy business

Our energy business comprises interests in renewable energy through our wholly owned subsidiary, Cennergi.



Cennergi is a southern African-based independent power producer (IPP) that focuses on developing, owning and operating renewable assets. Cennergi has two established wind projects (the Tsitsikamma community and Amakhala Emoyeni windfarms).

The renewable energy business is also developing the 68MW Lephhalale solar project in a ring-fenced SPV that will supply renewable energy to Grootegeluk, reducing the carbon footprint and electricity costs of this mining operation. The energy business has also concluded a joint development agreement with Enertrag, an established German IPP, to develop projects in Mpumalanga for the mining industry.

Eastern Cape



8 Tsitsikamma community windfarm

Location: Near Tsitsikamma
Capacity: 95MW
Number of turbines: 31 x 3.1MW
Performance: Generation output in line with P50 targets since 2016
Customer: Eskom
Power purchase agreement: 20 years
Commercial operation: 2016
Shareholding: Cennergi (75%), RE Times (16%) and the Tsitsikamma Development Trust (9%)



9 Amakhala Emoyeni windfarm

Location: Near Bedford and Cookhouse
Capacity: 134MW
Number of turbines: 56 x 2.4MW
Performance: Consistent performance since 2016, albeit at lower than planned P50 generation numbers
Customer: Eskom
Power purchase agreement: 20 years
Commercial operation: 2016
Shareholding: Cennergi (95%), Cookhouse Community Trust (2.5%) and the Bedford Community Trust (2.5%)

Limpopo



10 Lephhalale solar project

Product: Solar energy
Capacity: 68MW
Customer: Exxaro Coal Proprietary Limited (Grootegeluk)
Power purchase agreement: 25 years
Commercial operation: 2025
Shareholding: 100% Cennergi Holdings Proprietary Limited
Financial close: 31 March 2023
Estimated commercial operation: 2025

Statement from the finance director

Riaan Koppeschaar
Finance director



Transparency, ethics and integrity are among the material considerations that sustain our commitment to principled governance and guide Exxaro in reporting how it creates value to stakeholders. In this tax report for the year ended 31 December 2022, we demonstrate this commitment by reporting beyond compliance with legal requirements, meeting stakeholders' legitimate and reasonable information needs.

Exxaro's tax contribution of more than R7 billion to government and society, and our transparent reporting thereof, contributes to value creation and preservation and the prevention of value erosion. This contribution is manifold, and we believe:


- Our taxes are central to macro-economic stability in the jurisdictions in which we operate (including investment in public infrastructure and services)
- Our contribution to socio-economic development within local communities and society at large through our tax contribution supports the United Nations Sustainable Development Goals

Transparent and comprehensive tax reporting reinforces our purpose and vision to achieve direct and positive impact on society and the environment. To this end, we are guided by GRI 207, which enables Exxaro to appropriately communicate relevant information to all our stakeholders.

Our tax compliance also encourages our peers to do the same, and thereby reduces the costs associated with tax regulation and enforcement. In addition, public reporting on tax not only upholds our reputation, and that of the tax regime, but also informs debate and supports stakeholder-inclusive tax policy development.

As reiterated by a panel of tax experts at the Investing in African Mining Indaba 2023, taxes are among the most significant expenses of a mining company, and the mining sector is often the largest contributor to fiscal revenue (corporate income tax, royalties and dividends as well as indirect, employee and supplier taxes) in many developing countries, including South Africa (where we operate).

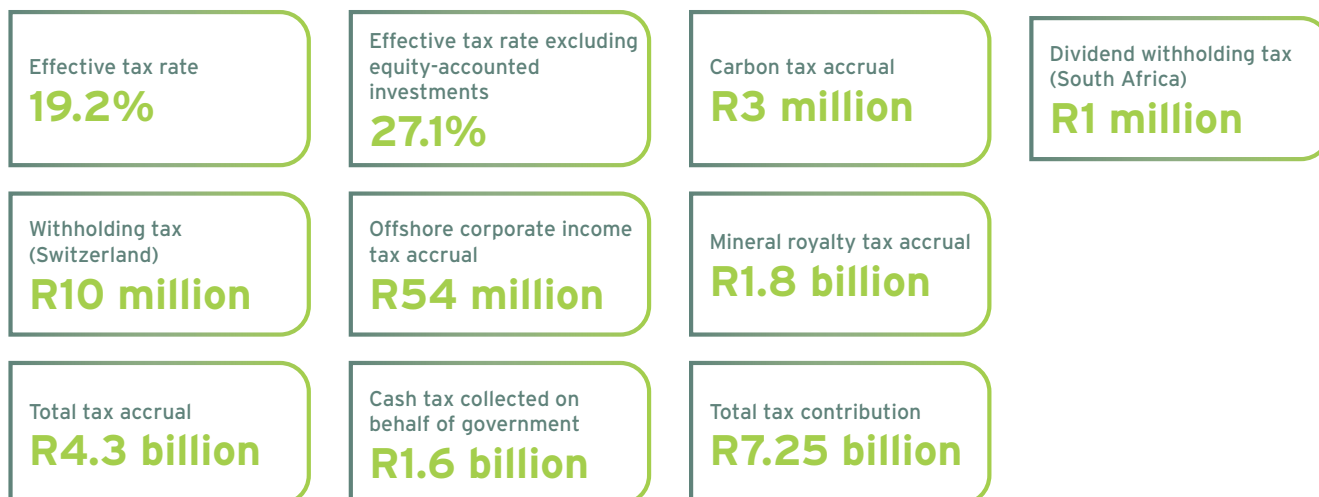
Understanding that our tax contributions impact investment decisions and the sustainability of our business in a country competing for investors, we remain committed to the highest ethical standards in our reporting.

 Please read this report in conjunction with the other reports in our [2022 suite](#) for a holistic perspective on our commitment to responsible tax reporting and other business practices.

Riaan Koppeschaar
Finance director

14 April 2023

Our tax contribution at a glance



Tax approach

Exxaro believes in sustainable value creation, enabled by carefully considering the relationship between the capitals it uses and affects. These capitals are natural, social and relationship, manufactured, human, intellectual and financial, and Exxaro has integrated them in its business model and strategy. Exxaro continuously strives to positively contribute to and negate any adverse impacts on these capitals. This ensures sustained success and fosters a more sustainable operating environment for Africa and beyond.

Our tax philosophy

Taxation is an integral part of our business strategy as tax is the natural outflow of each business decision. Exxaro manages taxation as part of its enterprise risk management (ERM) framework, which strives to create sustainable value for all stakeholders through operational efficiency, continuous improvement, regulatory compliance and responsible citizenship, within acceptable risk parameters. Exxaro's TRM philosophy is aligned to its overall risk management philosophy, business strategy and objectives. At a high level, Exxaro's TRM strategy aims to create value, protect Exxaro against loss, ensure effective tax planning and compliance with tax legislation and appropriate financial reporting.

Exxaro's TRM framework articulates our tax strategy and is our primary means of managing our tax approach. The framework is aimed at an internal audience and is not available publicly. All information deemed relevant for an external audience is included in this report annually.

The TRM framework is reviewed on an ad hoc basis when significant changes occur that affect Exxaro and its risk appetite. Any changes to the TRM framework must be approved by the audit committee. The group tax manager, through the finance director, is accountable to the board of directors (board) for designing, implementing, monitoring and reporting the TRM process.

Our approach to tax supports and contributes to the group's sustainable value creation goals by:

- Complying with tax laws as accurately and timeously as possible
- Applying good corporate governance and sound business practices
- Effectively managing our tax risks with continuous assessment and mitigation
- Paying our tax liabilities accurately and on time
- Building relationships of trust and transparency with our stakeholders
- Ensuring material and complex tax transactions are supported by sound technical opinions
- Ensuring we maintain documentary evidence of tax filings and tax positions
- Reporting and correcting material inadvertent errors, non-disclosures and failures of controls immediately to regulatory authorities and/or our overseeing function (executive committee and/or audit committee)
- Using opportunities to minimise tax liabilities within the parameters of tax law
- Protecting Exxaro against financial loss and reputational damage

Dealing with tax authorities

Exxaro maintains good relationships with the revenue authorities in the jurisdictions in which we operate. Exxaro applies for rulings where tax legislation is uncertain, and we endeavour to attend to tax information requests and audits from the South African Revenue Service (SARS) in a comprehensive and timely manner. In 2022, SARS officers conducted a business review of Exxaro's coal business, for which we shared specific requested information and discussed the future outlook of our coal business.

 Refer to [SARS audits](#) (page 8).

In prior years, we commented on the litigation processes of Mafube Coal Mining Proprietary Limited (Mafube), Exxaro's 50% joint venture with Thungela Resources Limited (Thungela Resources), regarding additional mineral and petroleum resources royalties assessments by SARS, amounting to R190 million plus penalties of R19 million (Exxaro exposure: R105 million). Court dates for the appeal have been set for 30 August and 1 September 2023.

Public policy advocacy

Exxaro participates in local tax reform and the development of effective tax systems through tax workgroups of the Minerals Council South Africa. Exxaro's tax manager is also an executive team member of the South African Institute of Taxation mining group. During the development of the carbon tax and mining royalties tax legislation, Exxaro actively participated in industry working groups and responded to proposed draft legislation.

Exxaro will continue to play an active role in the industry and be involved in relevant discussions as they arise.

Tax havens

Tax havens are countries or jurisdictions offering certain tax benefits such as lower tax rates, credit mechanisms or deductions resulting in limited or no tax levying on certain profits. Switzerland is generally considered a tax haven due to its low corporate tax rate of 8.5%. Additional cantonal and municipal rates can increase the maximum corporate tax rate (including federal, cantonal and communal taxes) to a maximum of 21.6%.


Exxaro has a logistics and marketing office, Exxaro International Trading AG (EITAG), in Zug, Switzerland. Zug is considered a trading hub for various commodities, including coal. Exxaro's operation in Zug is based on sound business principles; the company does not derive a tax benefit from operating in Switzerland.

Although Exxaro pays 12% corporate tax in Switzerland (federal and cantonal taxes combined), the company's profits are imputed and included in the taxable income of Rocsi Holdings Proprietary Limited in terms of section 9D of the Income Tax Act, 1962 (Act 58 of 1962) (Income Tax Act).

 Refer to [country-by-country information](#) (page 15).

Tax incentives

Exxaro recognises the value of its human capital and continues to invest in training. Grootegeluk and Matla claimed learnership allowances for 378 new registered learners during 2022 (2021: 281) and 34 other learners completed their training agreements (2021: 86). These mines claimed total learnership allowances amounting to R13.3 million (2021: R15.5 million), resulting in a total tax saving of almost R3.7 million (2021: R4.3 million).


 Refer to the [people](#) (page 60) section in our ESG report (page 60).

No other incentives were claimed as deductions in calculating the taxable income of the relevant taxpayers in 2022.

In support of Exxaro's goals to continue lowering its energy consumption, we will again pursue the benefits of energy efficiency allowances offered in terms of the Income Tax Act. We appointed a new service provider to verify claims. For more information on Exxaro's climate change response and decarbonisation strategy, refer to the Climate change and Energy management sections of our ESG report.

Stakeholder engagement

Exxaro engages proactively with our stakeholders to create shared value. Stakeholder views and concerns are managed through a holistic stakeholder engagement approach. Our stakeholder engagement procedures enable us to respond to any tax-related matters that may arise, ensuring engagement is targeted, meaningful and transparent.

 Refer to the ESG report for more information on our [stakeholder management](#) (page 24).

Tax approach continued

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






| Stakeholder group | Key concerns and expectations | Our response |
|--|---|--|
| SARS | <ul style="list-style-type: none"> • Non-compliance with tax laws causes reputational damage and financial loss • Capacity constraints due to ongoing SARS audits and information requests • Complex restructuring transactions, sales or acquisitions of investments or assets expose Exxaro to adverse tax consequences • Complicated and regular changes to tax legislation pose risks and increase the cost of tax compliance | <ul style="list-style-type: none"> • Regular interaction with SARS relationship manager to build trust and support ethical behaviour – guided by the King IV Report on Corporate Governance™ for South Africa, 2016 (King IV)¹ – and ensuring SARS is administratively compliant and upholds its service charter for refunds and finalisation of audits • Manage tax risks within a board-approved framework • Transparent behaviour with prompt response to requests, audits, voluntary disclosure programmes and detailed tax return submissions • Value-added tax (VAT) analytics tool identifies incorrect VAT treatments proactively • Regular revision and external audit of transfer pricing policies • Employ qualified people and manage their performance • Engage with expert legal advisers for transactions that have a tax impact above R30 million² or involve: <ul style="list-style-type: none"> – Acquisitions or sales of investments – Projects in foreign jurisdictions – Group restructuring projects |
| Financial reporting audiences (shareholders and financiers) | <ul style="list-style-type: none"> • Tax reporting does not fairly represent Exxaro's financial position | <ul style="list-style-type: none"> • Automated tax consolidation tool developed by external tax and information technology (IT) specialists to calculate tax disclosure required by the International Accounting Standard 12 accounting treatment for income tax • Qualified professionals manage tax reporting |
| Communities | <ul style="list-style-type: none"> • Communities in areas surrounding Exxaro's operations do not benefit from money spent on approved public benefit activities | <ul style="list-style-type: none"> • The Exxaro Matla Setshabeng Development, a non-profit company (NPC) with section 18A status, was established in 2020, and is now operational, benefiting Exxaro employees and communities in areas surrounding our operations. Senior employees are directors of the NPC to ensure compliance with applicable laws and governance. Exxaro also invests in public benefit activities as listed in the Ninth Schedule to the Income Tax Act, such as social upliftment, education and building critical infrastructure in the communities it operates through the Exxaro Chairman's Fund and the Exxaro Foundation |
| Industry | <ul style="list-style-type: none"> • The mining industry's unique challenges and requirements are not considered in the development of tax systems and legislation | <ul style="list-style-type: none"> • Exxaro actively participates in public policy advocacy through the Minerals Council South Africa, the South African Institute of Taxation, the National Business Initiative and Business Unity South Africa |

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² This amount has increased from R10 million and is effective from 2023 due to the implementation of Exxaro's new TRM policy.

Performance management

Exxaro undertakes the following performance management initiatives:

- 
The group tax manager consults Exxaro's recruitment policies to ensure employees are qualified with the necessary skills and experience for each tax function role and its responsibilities
- 
Exxaro invests in training and formal postgraduate studies, and employees regularly attend courses and seminars
- 
Formal development programmes are in place for tax employees
- 
Personal performance appraisals assess employees' commitment to risk management
- 
Bonus and share option schemes retain tax function employees with rewards for excellent performance, and non-performance is addressed by Exxaro's human resources business unit

Tax digitalisation

Robotic process automation (RPA) and artificial intelligence assist Exxaro's tax function to become a valued strategic partner by improving efficiency and effectiveness. RPA eliminates repetitive, time-consuming manual tasks and mitigates tax risks. The following digital automation projects have been approved and are in different stages of implementation:

| Project | Status |
|---|--|
| Automation of VAT apportionment calculations | <ul style="list-style-type: none"> • Completed and implemented |
| Automation of data extraction from e-filing | <ul style="list-style-type: none"> • Completed and implemented |
| Monitoring dashboard on tax compliance and administration | <ul style="list-style-type: none"> • Implementation expected early in the 2023 financial year |
| Automation of IT14SD returns | <ul style="list-style-type: none"> • Project stopped since SARS discontinued the return |

Tax governance

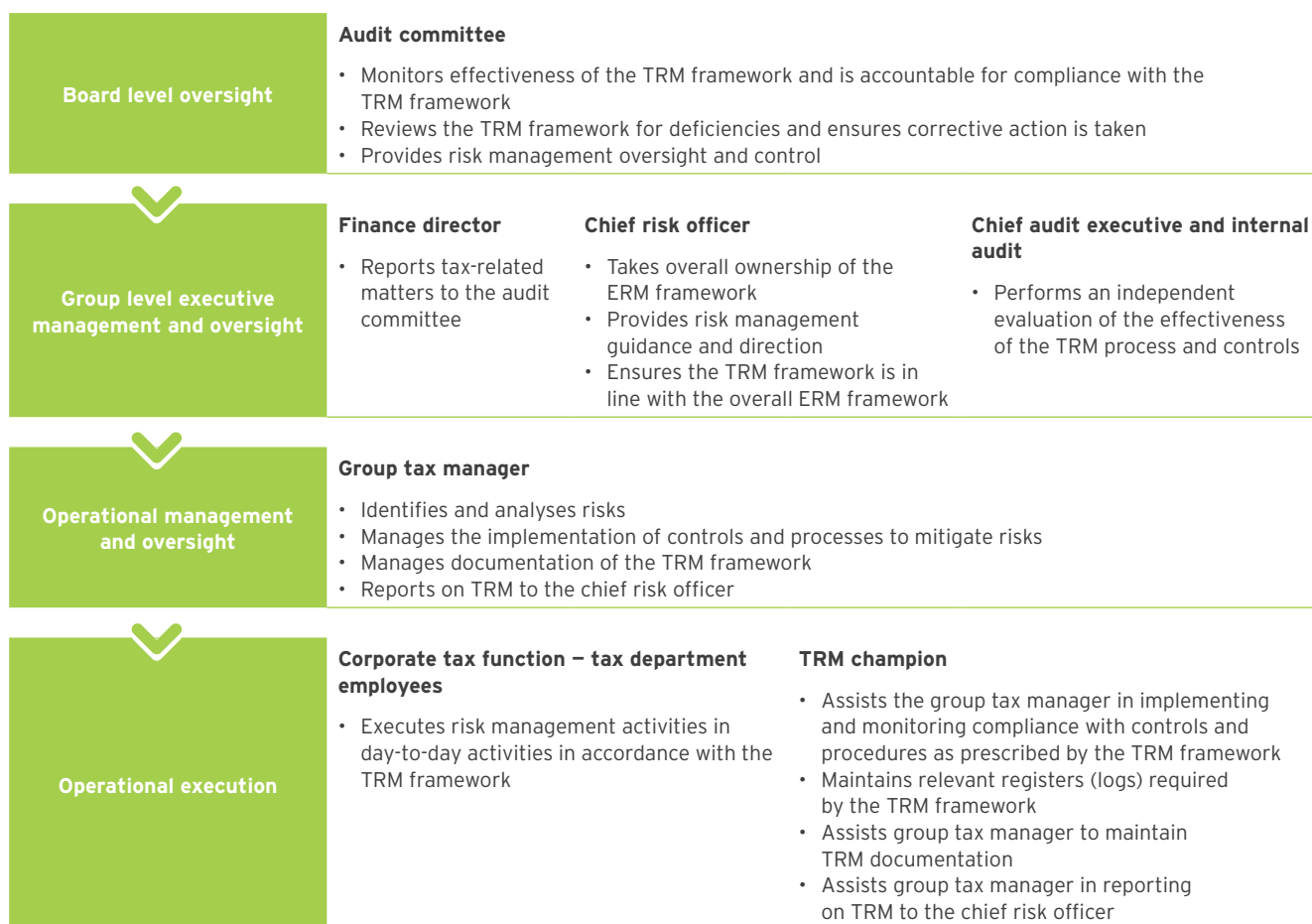
Governance oversight

An awareness of TRM throughout the organisation, from the operations to the boardroom, is important to ensure a proactive approach and appropriate governance oversight. TRM should be core to every business decision, from a transaction's inception to its completion and post-implementation.

Exxaro is committed to complying with the code of corporate practices and conduct set out in King IV. In terms of this code, Exxaro's board and audit committee assume responsibility for managing tax risks and ensuring Exxaro's tax strategy is aligned with its business strategy. Tax and tax risks are always on the audit committee's agenda. Operationally, the group tax manager is accountable for this function, reporting directly to the group finance director.

The corporate tax function is organisationally and physically separate from the finance function and centralised at Exxaro's head office.

The group tax manager reviews tax implications of projects presented to the investment review committee and executive management committee to keep the tax function informed of transactions at inception stage, particularly decisions with significant impact. This ensures effective tax planning and TRM for operational cost savings.



Policies and control

The TRM framework was updated in 2022 and approved by the board in November 2022. The updated framework includes standard operating procedures for VAT and diesel refunds in terms of the diesel rebate scheme, as well as for carbon tax.

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

Our board, audit committee, executive management and other internal and external stakeholders are informed about TRM activities. Exxaro's risk reporting is driven by stakeholder expectations and requirements and our open and transparent reporting objective.

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

- Status of compliance with income tax filing 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 R30 million, where controls are inadequate to mitigate identified risks)
- The tax effect of material transactions such as acquisitions and disposals of assets, investments and businesses


Exxaro maintains transfer pricing policies for offshore transactions with connected parties. In addition to applying the local tax laws of the jurisdictions in which we operate, we follow the Organisation for Economic Co-operation and Development's principles on transfer pricing and other international tax matters to ensure we pay tax in the jurisdictions in which we operate.

Tax governance continued

Our tax function upholds group document retention policies and uses the SARS e-filing system as an additional document database.

Mechanisms for reporting tax-related concerns

Exxaro's stakeholders can anonymously report any concerns, breaches of Exxaro's code of ethics, fraud or misconduct that includes tax matters on an independent platform.

 Our ESG report provides more detail on Exxaro's [fraud and ethics hotline](#) (page 97).

Assurance

Exxaro mitigates tax risk through four lines of defence:

- First line of defence: Daily operational management and controls
- Second line of defence: Executive committee and audit committee oversee operational management
- Third line of defence: Internal and external assurance of TRM on an ad hoc or rotational basis for objective, independent appraisal of the framework and processes
- Fourth line of defence: SARS performs ad hoc audits to ensure compliance with relevant tax legislation

Internal audits

In 2022, our internal auditors conducted follow-up audits on carbon tax, VAT on export transactions and diesel refunds as per the internal audit team's assessment. All internal audit findings were cleared by 31 December 2022. Standard operating procedures were adjusted to address internal control deficiencies. There were no new audit findings in 2022.

SARS audits

The following SARS audits were conducted during 2022:

| Legal entity | Tax type | Period audited | Status of audit | Result of audit |
|---|----------------|----------------------------------|-----------------|--|
| Exxaro Coal Proprietary Limited (Exxaro Coal) | Income tax | 2018 year-of-assessment | In progress | SARS issued audit findings; Exxaro responded to the findings. We are awaiting SARS's response. |
| Exxaro Coal Mpumalanga Proprietary Limited (Exxaro Coal Mpumalanga) | Income tax | 2018 to 2020 years-of-assessment | In progress | SARS issued audit findings; Exxaro responded to the findings. We are awaiting SARS's response. |
| Exxaro Coal Mpumalanga | Diesel refunds | December 2018 to February 2021 | Completed | SARS issued a letter of demand in April 2022 in conclusion of the audit. |

Open years of assessments

The following tax years are open to SARS for assessment. Income tax filings to SARS prescribe after three years in terms of the Tax Administration Act, 2011 (Act 28 of 2011) (Tax Administration Act) and after five years in terms of Swiss tax legislation.

| Entity | Open years of assessment |
|--|--------------------------|
| Major subsidiaries | |
| Exxaro Coal | 2018 to 2021 |
| EITAG | 2017 to 2021 |
| Material to the group | |
| Exxaro Coal Mpumalanga | 2018 to 2021 |
| Exxaro Resources | 2019 to 2021 |
| Amakhala Emoyeni Renewable Energy Project 1 Proprietary Limited (Amakhala Emoyeni) | 2019 to 2021 |
| Tsitsikamma Community Wind Farm Proprietary Limited (Tsitsikamma community windfarm) | 2019 to 2021 |

Only entities classified as major subsidiaries or material to the group have been listed. A major subsidiary represents 25% or more of total assets or revenue of the consolidated group results (JSE Limited Listings Requirements service issue 25). Material entities do not meet the 25% criteria but are material to the group.

Tax risk management

Framework

Exxaro's ERM framework considers today's uncertain operating environment in effective risk management to achieve our strategic objectives. Embedding risk management in existing processes is important for informed decisions and proactive planning. An effective approach to uncertainty and stakeholder expectations requires focus on TRM.

TRM includes operational risk management techniques, regulatory requirements for transparency and disclosure, a restrictive mindset in tax planning and a focus on good corporate governance. It is a proactive, systematic analysis of possible unwanted events and responses (including controls and treatment plans) rather than a reactive mechanism for detected events.

TRM is part of Exxaro's ERM structure to ensure the tax function's independence.

Tax risk appetite

Although Exxaro views tax planning as a legitimate business lever within the parameters of tax legislation, the group has zero tolerance for evading any tax liability or facilitating the evasion of any tax liability on behalf of a third party. Exxaro has no appetite for transactions that have no valid commercial purpose other than obtaining a tax benefit. Exxaro avoids tax practices that are misaligned with its approach to tax and tax strategy.

Tax risk identification and assessment

Risk can be defined as the chance of an event occurring and impacting objectives. The objective of risk assessment is to identify, analyse and evaluate the impact of events and associated risks on the strategic objectives of the company. Analysing and assessing risks include estimating both the likelihood of events occurring as well as the impact, financial or otherwise, on the group.

Exxaro has identified the key activities that drive tax risk and documented standard operating procedures and controls to mitigate the identified risks.

The five top risks identified by the risk assessment process is captured in the ERM risk assessment and management tool – SAP GRC10.1 (SAP GRC). The SAP GRC allows group tax and the chief risk officer to monitor improvements and treatment plans.

Tax risk reporting

It is important to keep the board, the audit committee, executive management and other internal and external stakeholders abreast of TRM activities.

The following TRM information will be reported:

| Type of information | Reporting responsibility | Timing | Format of the report | Forum for discussion and evaluation |
|--|--|---|------------------------------------|--|
| The initial formal TRM framework | Group tax manager assisted by TRM champion | Once off | TRM framework | Chief risk officer and chief financial officer |
| Feedback on the effectiveness of the TRM process | Internal audit department | Ad hoc | Internal audit reports | Audit committee |
| Feedback on changes to the TRM process | Group tax manager assisted by TRM champion | Significant changes are reported on an ad hoc basis | TRM memorandum | Chief risk officer |
| Identification of new risks with a moderate impact factor that has a possibility of occurring where controls are in place | Group tax manager and tax risk champion | Annual | As prescribed by the ERM framework | Chief risk officer |
| Unwanted events with an impact factor greater than 35% (thus a tax impact greater than R10 million – increased to R30 million from 2023) | Group tax manager and tax risk champion | Quarterly | Audit committee report | Executive committee and audit committee |

Tax risk management continued

Material tax risk, opportunity and strategic response

- Relevant tax matters are identified by considering:
 - [Our business risks and opportunities](#) (IR page 26)
 - [Stakeholder management](#) (ESG report page 24) and [creating value through stakeholder engagement](#) (IR page 36)

Risk can be defined as the probability of an event happening that will impact your objectives and it can be quantified as the:

- Likelihood of an event occurring and the impact thereof

Inherent risk does not consider any controls (except baseline controls, which are intrinsic to the hazard).

Residual risk is where the likelihood is reduced by controls that address the root cause and/or the trigger/driver of the unwanted event and, where the impact is reduced by controls, minimising those impacts.

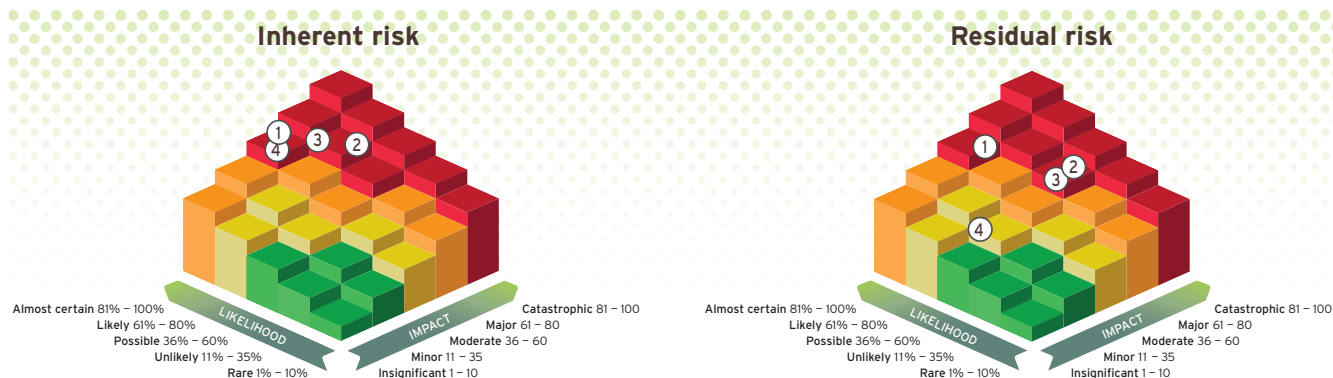
Risks are prioritised based on inherent risk, a predetermined risk appetite, the likelihood of the matter arising and its impact on value creation. Exxaro's top four material tax risks are discussed below.

These risks have been rated using the impact scales below which have been approved by the board in Exxaro's TRM policy. The impact scales for tax were specifically reduced from those set in terms of group ERM in line with Exxaro's reduced appetite for tax risks.

| Impact scale | | |
|---------------|--|---------------|
| Description | Indicator | % risk factor |
| Catastrophic | Tax impact >R75 million | 81 to 100 |
| Major | Tax impact >R50 million to R75 million | 61 to 80 |
| Moderate | Tax impact >R10 million to R50 million | 36 to 60 |
| Minor | Tax impact >R5 million to R10 million | 10 to 35 |
| Insignificant | Tax impact <= R5 million | <10 |

| Likelihood scale | | |
|------------------|--|---------------|
| Description | Indicator | % risk factor |
| Almost certain | Potential to occur every year | 81 to 100 |
| Likely | History of occurrence | 61 to 80 |
| Possible | Has occurred in the last five years and is expected to occur again | 36 to 60 |
| Unlikely | Theoretically possible | 10 to 35 |
| Rare | Very unlikely to occur and/or has not occurred to date | <10 |

The outcome of the ratings was as follows:



Risk trend

| Ranking | Risk name | Trend |
|---------|--|-------|
| 1 | Understatement of penalties for non-compliance | |
| 2 | Tax and accounting disclosure differences | |
| 3 | Negative tax adjustments due to inability to supply documentary evidence | |
| 4 | Cash flow constraints due to delay in obtaining tax clearance certificates | |
| 5 | Diesel refund audits not finalised | |

- The residual risk score decreased from the previous year
- The residual risk score stayed unchanged from the previous year
- This is a new risk identified and did not exist in the previous year
- This risk existed in the previous year but increased controls reduced the risk to insignificant levels, and it is no longer considered a risk



Tax risk management continued

1 Understatement of penalties for non-compliance

| | |
|--|--|
| Drivers The scope of “prejudice” defined by the Tax Administration Act is broad with potential for inadvertent errors and non-disclosure | Strategic performance KPIs Core operating profit |
| Impacts <ul style="list-style-type: none"> Financial losses Reputational damage Loss in stakeholder confidence | Treatments <ul style="list-style-type: none"> Group tax manager conducts detailed reviews of SARS submissions Automation of income tax return packs VAT dashboard that indicates potential VAT errors for proactive follow-up Automation of VAT apportionment calculation |
| Lines of defence | 1 and 2 |

2 Tax and accounting disclosure differences

| | |
|--|--|
| Drivers International Financial Reporting Standards (IFRS) and tax law disclosures misaligned | Strategic performance KPIs Core operating profit |
| Impacts <ul style="list-style-type: none"> Financial losses Reputational damage Increased audits by SARS Capacity constraints on tax personnel to deal with increased audits rather than focus on value-add initiatives | Treatments <ul style="list-style-type: none"> Detailed reviews of transaction source document IFRS training to understand classifications and disclosures Communication between financial reporting and tax on changes in IFRS |
| Lines of defence | 1 |

3 Negative tax adjustments due to inability to supply documentary evidence

| | |
|--|---|
| Drivers Documentary evidence is not available as documents are retained for seven years in line with the Companies Act, 2008 (Act 71 of 2008), as amended, but SARS requests older information | Strategic performance KPIs Core operating profit |
| Impacts <ul style="list-style-type: none"> Financial losses Reputational damage Increased audits by SARS Capacity constraints on tax personnel to deal with increased audits rather than focus on value-add initiatives | Treatments Adherence to SARS requirements for tax submissions to ensure return prescription periods do not exceed the seven-year documentation retention period |
| Lines of defence | 1 and 4 |

4 Cash flow constraints due to delay in obtaining tax clearance certificates

| | |
|--|---|
| Drivers <ul style="list-style-type: none"> Delay in obtaining tax clearance certificates results in delayed receipt of income from customers State-owned entities use different systems to check supplier tax status and not the SARS e-filing system | Strategic performance KPIs Core operating profit |
| Impacts <ul style="list-style-type: none"> Financial losses due to increased interest charges Increased burden on treasury function to plan cash flows | Treatments <ul style="list-style-type: none"> A tax compliance dashboard is being developed and implemented to inter alia alert Exxaro to tax status changes on e-filing Maintain good relationships with dedicated SARS relationship officers and large business centre to resolve issues Timely submission of returns to stay compliant |
| Lines of defence | 1 |

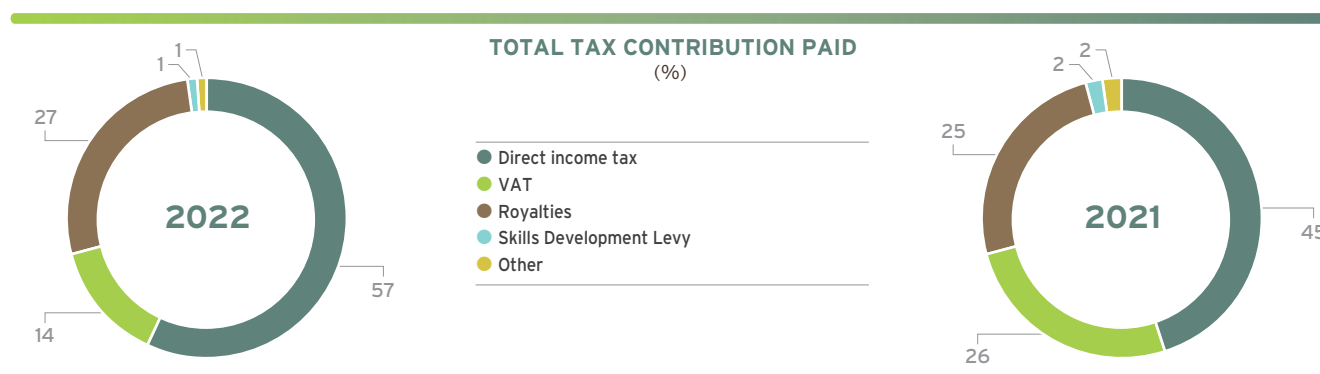
Tax performance

Total tax contribution paid

| | 2022 (Rm) | 2021 (Rm) |
|--|--------------|--------------|
| Payments to government (taxation contribution) | 7 250 | 2 933 |
| Direct taxes per country | 4 110 | 1 308 |
| South Africa | 4 086 | 1 289 |
| Switzerland | 24 | 19 |
| Indirect taxes | 1 036 | 787 |
| VAT | 1 025 | 775 |
| Levied on purchases of goods and services | (3 276) | (3 094) |
| Charged on turnover | 4 301 | 3 869 |
| Dividend withholding tax — local | 1 | 1 |
| Dividend withholding tax — Switzerland | 10 | 11 |
| Levies paid to government | 2 104 | 838 |
| Rates and taxes | 25 | 25 |
| Mineral and petroleum resources royalty | 1 988 | 733 |
| Compensation Fund | 17 | 15 |
| Unemployment Insurance Fund | 15 | 14 |
| Carbon tax | 3 | 2 |
| Skills development levy | 56 | 49 |

Total tax contribution collected on behalf of government

| | 2022 (Rm) | 2021 (Rm) |
|---|--------------|--------------|
| Additional amounts collected by the group on behalf of government | 1 622 | 1 404 |
| Unemployment Insurance Fund | 15 | 14 |
| Pay As You Earn tax deducted from remuneration paid | 1 607 | 1 390 |



Tax performance continued

Effective tax rate reconciliation

The difference in the standard rate of 28% is explained below.

| For the year ended 31 December | 2022 (%) | 2021 (%) |
|---|-------------|-------------|
| Tax as a percentage of profit before tax | 19.2 | 13.6 |
| Tax effect of: | | |
| — Net capital losses ¹ | 0.0 | (0.9) |
| — Impairments charges ² | (0.1) | 0.0 |
| — Expenses not deductible for tax purposes ³ | (0.2) | 0.7 |
| — Exempt income ⁴ | 0.1 | 0.1 |
| — Reduction in tax rate ⁵ | 1.4 | 0.0 |
| — Post-tax equity-accounted income ⁶ | 8.1 | 14.5 |
| — Remeasurements of foreign tax rate differences | 0.2 | 0.1 |
| — Prior year tax adjustments | 0.2 | 0.1 |
| — Deferred tax assets not recognised ⁷ | (0.3) | 0.0 |
| — ECLs on financial assets at amortised cost ⁸ | (0.1) | 0.0 |
| — Dividend withholding tax | 0.1 | 0.1 |
| — Imputed income from controlled foreign companies and investments ⁹ | (0.6) | (0.3) |
| Standard tax rate | 28.0 | 28.0 |
| Effective tax rate, excluding income from equity-accounted investments | 27.1 | 31.9 |
| | (0.2) | |
| — Consulting, legal and other professional fees | (0.1) | (0.1) |
| — Enterprise supplier development grants | (0.1) | |
| — Share-based payments | 0.2 | 0.3 |
| — Penalties and interest on taxes | 0.0 | (0.1) |
| — Distribution to beneficiaries of Exxaro ESOP Trust | (0.4) | (0.3) |
| — Other ¹⁰ | 0.2 | (0.5) |

⁴ Mainly relates to dividends received by Exxaro ESOP Trust and Exxaro Community NPC – tax exempt institutions.

⁵ The statutory company tax rate changed effectively for years of assessment beginning on or after 1 April 2022 from 28% to 27%. The deferred tax assets and liabilities closing balances as at 31 December 2022 therefore needed to be restated to the new tax rate of 27%.

⁶ Relates mainly to equity-accounted income of Sishen Iron Ore Company Proprietary Limited.

⁷ Due mainly to increased losses in The Vryheid (Natal) Railway Coal & Iron Company Proprietary Limited (Hlobane) and Coastal Coal Proprietary Limited, on which no deferred tax assets are recognised. In the prior year deferred tax assets that were not recognised were reduced by deferred tax assets reinstated in Forzando Proprietary Limited which was sold in the prior year.

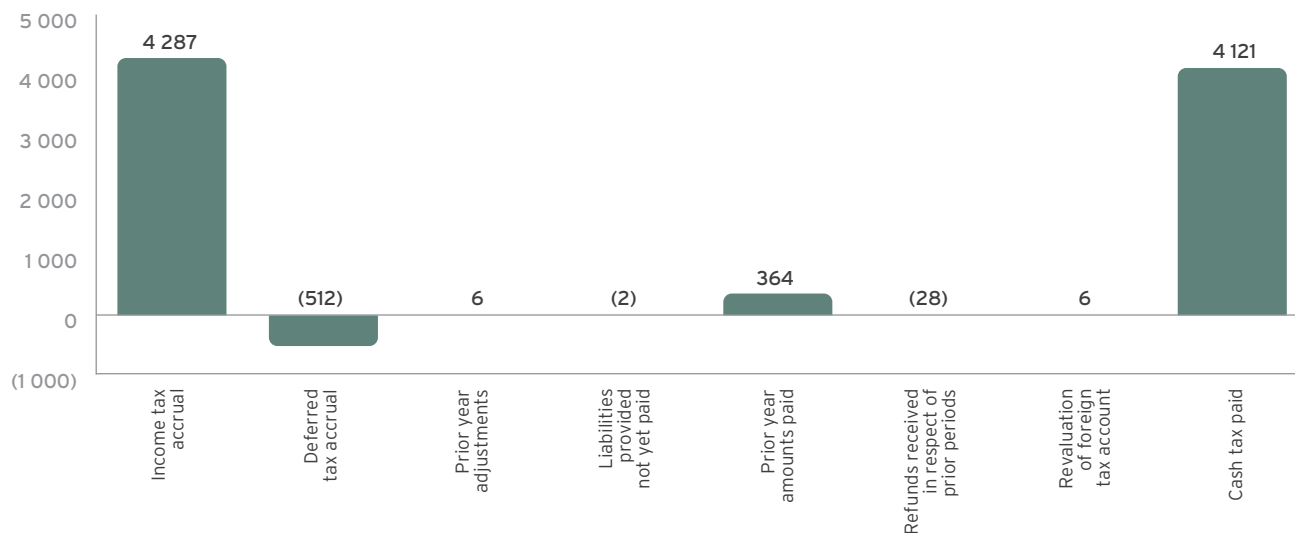
⁸ Relates to expected credit losses on loans which do not qualify for section 11(j).

⁹ Relates to increased imputed income from EITAG in terms of section 9D of the Income Tax Act due to favourable coal prices.

¹⁰ Mostly relates to foreign tax credits in respect of EITAG.


RECONCILIATION OF TAX ACCRUAL TO CASH TAX PAID

(Rm)



Country-by-country information

Exxaro Resources, as the ultimate parent of a Multinational Enterprise and reporting entity, is responsible for the preparation and submission of the country-by-country report for the Exxaro group in South Africa. The master file has been prepared in accordance with commentary in chapter V of the 2017 Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations issued by the Organisation for Economic Co-operation and Development, and in line with the requirements of the public notice published by SARS for the submission of the country-by-country report, master file and local file by persons specified therein.

 Exxaro is a diversified resources group with business interests in South Africa, Switzerland, China, Australia and Israel. Refer to pages 1 to 3 for a description of Exxaro's key business areas locally.

 Refer to the [annual financial statements](#) for a full list of Exxaro's entities per jurisdiction.

Offshore business areas

Switzerland

Coal extracted from the South African mines is sold into the overseas markets through the Swiss marketing company, EITAG, which is Exxaro's central offshore sales company. EITAG buys coal from Exxaro Coal and Exxaro Coal Mpumalanga and on-sells the coal products to the ultimate customer. The goods are delivered to Richards Bay Coal Terminal Proprietary Limited (RBCT) and other ports and, from there, directly to the foreign customer. EITAG is responsible for the coal blending process as well as the RBCT port cost.

EITAG attracts new customers and develops new markets for Exxaro coal products. Based on the contract concluded with customers, EITAG manages the scheduling of coal volumes, quality types and shipping dates.

EITAG's business strategy is to use the following regional advantages:

- Proximity of clients
- Intelligence gathering
- Product and market knowledge
- Access to ports to facilitate efficient logistics
- Cultural fit with customers

Having a central offshore sales company ensures the application of consistent policies and the growth of the Exxaro brand and offshore customer base. EITAG has five employees (one expat employee, one local employee and three contractors).

Australia

Exxaro Australia Holdings Proprietary Limited (EAH) is the holding company of the Australian group of companies (the EAH Australian tax group) and does not have any employees. Exxaro Australia Proprietary Limited, a subsidiary of EAH, holds a 50% interest in a joint venture with Anglo Coal (Grosvenor) Proprietary Limited (Anglo Coal) in the Moranbah project, which is currently an undeveloped coal resource in exploration stage. Anglo Coal manages the project.

The Moranbah project is located in the Queensland district of Australia.

China

Exxaro holds a minority investment in the Chifeng Hongye Zinc Smelting Co Limited smelting operations, incorporated in China.

United Kingdom (UK)

Exxaro owns a 25.85% interest in Insect Technology Group Holdings UK Limited, which is currently in the process of deregistration.

Israel

Exxaro owns a 28.01% interest in LightApp Technologies Limited.



Country-by-country information continued

Significant intercompany transactions

Important service arrangements within the Exxaro group are shown in the table below. During 2022, there were no loans between Exxaro and any of its foreign group companies outside South Africa. Exxaro does not maintain unilateral advance pricing agreements in support of its intercompany transactions, or tax rulings relating to the allocation of income across countries.

| Service | Supply entity | Supply country | Receiving entity | Receiving country | Transfer pricing policy |
|--|--|----------------|------------------|-------------------|-------------------------|
| Sale of coal | Exxaro Coal and Exxaro Coal Mpumalanga | South Africa | EITAG | Switzerland | Yes |
| Provision of warehousing, logistics and blending support | Exxaro Coal | South Africa | EITAG | Switzerland | Yes |
| Provision of various business and management support services, including but not limited to: <ul style="list-style-type: none"> • Financial and accounting services • Human resources • Legal and insurance services • IT, purchasing, business developments, operations and quality assurance • Communication and regional management services | Exxaro Resources | South Africa | Various | South Africa | Not applicable |

Country-by-country reporting for the year ended 31 December 2022

| | Revenue from third-party sales | Revenue from intra-group transactions with other jurisdiction ¹ | Net profit/(loss) before tax ² | Equity-accounted investment income ³ | Corporate tax paid/(received) in cash |
|---------------------------|--------------------------------|--|---|---|---------------------------------------|
| South Africa | | | | | |
| Coal | 23 581 | 20 524 | 14 273 | 1 892 | 3 802 |
| Ferrous | 224 | | 19 | | 2 |
| Base metals | | | 578 | 578 | |
| Iron ore | | | 4 077 | 4 077 | |
| Renewable energy | 1 159 | | 263 | | 10 |
| Other | 15 | | 22 216 | | 272 |
| Intercompany sales | | (20 524) | | | |
| Elimination | | | (19 528) | | |
| Total | 24 979 | — | 21 898 | 6 547 | 4 086 |
| Switzerland (coal) | | | | | |
| Coal — EITAG | 21 390 | | 453 | | 24 |
| Australia (coal) | | | (77) | | |
| Israel (energy) | | | 18 | (70) | |
| Grand total | 46 369 | — | 22 292 | 6 477 | 4 110 |

¹ Excludes fees received for administration services delivered by the Exxaro Coal head office.

² Equity-accounted investment income is included in net profit/(loss) before tax.

³ Equity-accounted investment income is reflected in the country of incorporation. Income is after-tax income.

⁴ The number of employees consists of permanent employees. It does not include full-time equivalents and contractors.

⁵ Deferred tax has been excluded from the total corporate tax expense therefore normal corporate tax expenses accrued represents only current tax expenses accrued.

| Normal corporate tax expense accrued | Dividend withholding tax accrued ⁵ | Dividend withholding tax paid | Statutory tax rate | Effective tax rate | Total number of employees ⁴ | Tangible assets |
|--------------------------------------|---|-------------------------------|--------------------|--------------------|--|-----------------|
| 3 456 | | | 28% | | 6 148 | 31 531 |
| 0 | | | 28% | | 78 | 32 |
| 10 | | | 28% | | 24 | 5 348 |
| 244 | 1 | 1 | 28% | | 493 | 412 |
| 3 710 | 1 | 1 | 28% | 19.23% | 6 743 | 37 323 |
| 54 | 10 | 10 | 12% | 12% | 2 | — |
| | | | | | | 123 |
| 3 764 | 11 | 11 | | 19.23% | 6 745 | 37 446 |

Disclaimer

Opinions expressed herein are, by nature, subjective to known and unknown risks and uncertainties. Changing information or circumstances may cause the actual results, plans and objectives of Exxaro Resources Limited (the company) to differ materially from those expressed or implied in the forward-looking statements. Financial forecasts and data given herein are estimates based on the reports prepared by experts who, in turn, relied on management estimates. Undue reliance should not be placed on such opinions, forecasts or data. No representation is made as to the completeness or correctness of the opinions, forecasts or data contained herein. Neither the company, nor any of its affiliates, advisers or representatives accepts any responsibility for any loss arising from the use of any opinion expressed or forecast or data herein. Forward-looking statements apply only as of the date on which they are made, and the company does not undertake any obligation to publicly update or revise any of its opinions or forward-looking statements, whether to reflect new data or future events or circumstances. Any forward-looking information has not been audited, reviewed or otherwise reported on by the external auditors.



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