

EXXARO RESOURCES
LIMITED

2016

INTEGRATED
REPORT



exxaro

POWERING POSSIBILITY

ABOUT THIS REPORT

Exxaro produces an integrated report each year, covering our financial and operational, governance, social and environmental performance as well as the challenges and opportunities ahead.

Continuing the approach introduced last year (recognised in the Ernst & Young Excellence in Integrated Reporting awards for innovation), we segment our report into three perspectives:

- › The board - as ultimate custodian of the company's strategy - comments on the strategic context for material issues and key governance aspects, including the focus of board committees during the year
- › The executive review details salient features of the year and how the group performed against its targets, our stakeholder engagement and activities and associated strategic risks (operational performance context)
- › Outlook for the year ahead and beyond.

In line with our corporate value of honest responsibility, this report reflects our commitment to sustainable development, given the South African socio-economic and environmental context, and determination to entrench effective governance and global best practices in all operations. It also reflects maturing reporting processes and confidence in our ability to set and measure progress towards targets, as disclosed on the performance dashboard. We disclose key performance indicators across the six sustainability capitals, with targets and actual performance, for an informed evaluation of our progress.

This report (only available online) covers the financial year to 31 December 2016, as well as key subsequent developments, and follows the 2015 report. It should be read with the group and company annual financial statements, comprehensive supplementary report, and mineral resources and reserves statement on our website.

Notice of the annual general meeting, form of proxy and summarised financial statements were mailed to shareholders as per statutory requirements.

Content is guided by our strategic objectives, legislative and regulatory requirements, including the Companies Act of South Africa, 71 of 2008, as amended (Companies Act), the mining charter and the JSE Limited Listings Requirements. We are also guided by global best practice standards, including the International Integrated Reporting Council's (IIRC) framework for integrated reporting, United Nations Global Compact, Global Reporting Initiative (GRI), King Report on Governance for South Africa 2009 (King III) and AccountAbility 1000SES.

The audited group and company annual financial statements are prepared according to International Financial Reporting Standards (IFRS).

DISCLAIMER

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

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

BOARD RESPONSIBILITY

The board acknowledges its responsibility for the integrity of Exxaro's integrated and supplementary reports. Although the process of integrated reporting is still evolving, we have integrated all the elements of our business and aligned this report with the IIRC framework. Continuous efforts are made to incorporate best practice and improve our level of reporting, including an independent assessment of key aspects of sustainability reporting and disclosure by PricewaterhouseCoopers Incorporated (PwC).

The board reviewed and approved the content of the integrated report and accompanying statutory information (mailed to shareholders) prior to publication.



Len Konar
Chairman

12 April 2017



Mxolisi Mgojo
Chief executive officer

CERTIFICATE BY GROUP COMPANY SECRETARY

In terms of section 88(2)(e) of the Companies Act I, Carina Wessels, in my capacity as group company secretary and legal, confirm that, to the best of my knowledge, for the year ended 31 December 2016, Exxaro Resources Limited (Exxaro) has filed with the Companies and Intellectual Property Commission all such returns and notices as required of a public company in terms of the Companies Act and that all such returns and notices appear to be true, correct and up to date.



Carina Wessels
Group company secretary and legal
Pretoria

12 April 2017

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FEEDBACK

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

Hanno Olinger
 Manager: Sustainability







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UNDERSTANDING OUR STRATEGIC DASHBOARD

The sustainability capitals

Definition: A capital is a stock of anything (physical, intangible or virtual) from which an organisation can extract either a qualitative or quantitative benefit.

NATURAL CAPITAL	HUMAN CAPITAL	SOCIAL CAPITAL	INTELLECTUAL CAPITAL	MANUFACTURED CAPITAL	FINANCIAL CAPITAL
 <ul style="list-style-type: none"> > All renewable and non-renewable environmental resources and processes that provide goods or services that support the past, current or future prosperity of an organisation > Natural resources (mineral resources, water, energy and matter) > Processes (our environment, water, air and biodiversity) 	 <ul style="list-style-type: none"> > Safety, wellness, occupational health and hygiene > Relationships and rights > People's competencies, capabilities and experience 	 <ul style="list-style-type: none"> > The institutions and the relationships within the organisation, between communities, groups of stakeholders and other networks > The ability to share information to enhance individual and collective well-being > Trust and reciprocity 	 <ul style="list-style-type: none"> > Organisational, knowledge-based intangibles > Ability and motivation to innovate 	 <ul style="list-style-type: none"> > Manufactured physical objects (as distinct from natural physical objects) that are available to an organisation for use in the production of goods or the provision of services > Assets, infrastructure, material goods, technology, networks, business processes and systems 	 <ul style="list-style-type: none"> > Pool of available funds > Reflects the productive power of the other types of capital > Currency, share price, ownership, governance

Exxaro strategic performance dashboard

The tool we use to determine whether we are on track to achieve our objectives is the Exxaro strategic performance dashboard. As explained in the board review, this dashboard has built-in risk appetite thresholds to ensure the company's decisions in pursuing its strategic objectives are in line with the risk threshold which, as a whole, makes up the risk appetite of the group.

How to interpret the dashboard

- > The dashboard lists all key performance indicators (KPIs) linked to a strategic priority/sustainability capital/strategic objective and material issue. Current performance and the status of the indicator (shown as a bulb) reflects whether the KPI is within our risk appetite thresholds. We aim to be within the target threshold: anything outside worst tolerable and target means we act outside our defined risk appetite in pursuing our strategic objectives. This will require additional controls or improving existing controls.

Example of KPI measure

- > Exxaro has a strategic objective of improving our portfolio; one of many KPIs linked to this objective is core operating margin. Anything outside of worst tolerable and target will mean that we act outside our defined risk appetite in pursuing our strategic objectives and this will require additional controls or improving existing controls.

KPI current performance

KPI	Current Performance	Legend (indicator)
Core operating margin (%)	24%	

KPI threshold

KPI	Threshold				
	Out of appetite	Worst tolerable	Best realistic	Target	Possible waste/opportunity
Core operating margin	Less than 15%	15%	Between 15% and 20%	20%	More than 20%


Legend

 Out of appetite	 Worst tolerable	 Best realistic	 Target	 Possible waste/opportunity (exceeding target)
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2016 PERFORMANCE AT A GLANCE

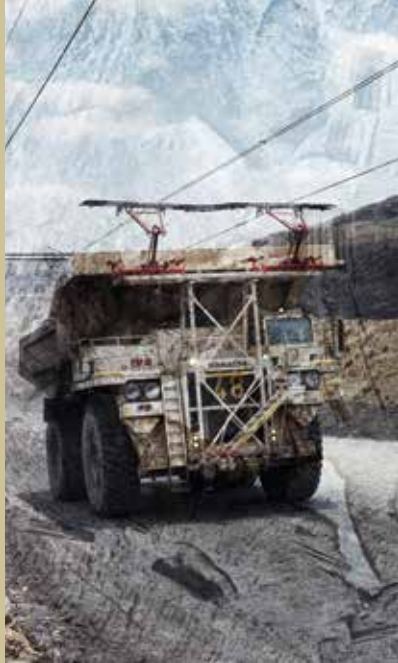
Sustainable operations

- › Lost-time injury frequency rate (LTIFR) **improved 47%** to **0,09**
- › **Over 2** consecutive calendar years **without a fatality**



Returning cash to shareholders

- › Final dividend of **410 cents per share at 2016** core attributable earnings cover of **3,2 times**




Strong profit margins and resilient balance sheet

- › Core net operating **profit margin of 24%, up 6%**
- › **R2,4 billion** income from equity-accounted investments, **up 309%**
- › Headline earnings at **1 302 cents per share**
- › Net debt to equity at **3,8%**
- › Cash generated from operations at **R5,5 billion, up 23%**

Growth in coal

- › **R5,2 billion** coal net operating profit, **up 101%**
- › Operating **profit margin of 25%**
- › Export volumes – **7,9Mt up 27%**



Strategic dashboard - selected key financial performance indicators (KPIs)

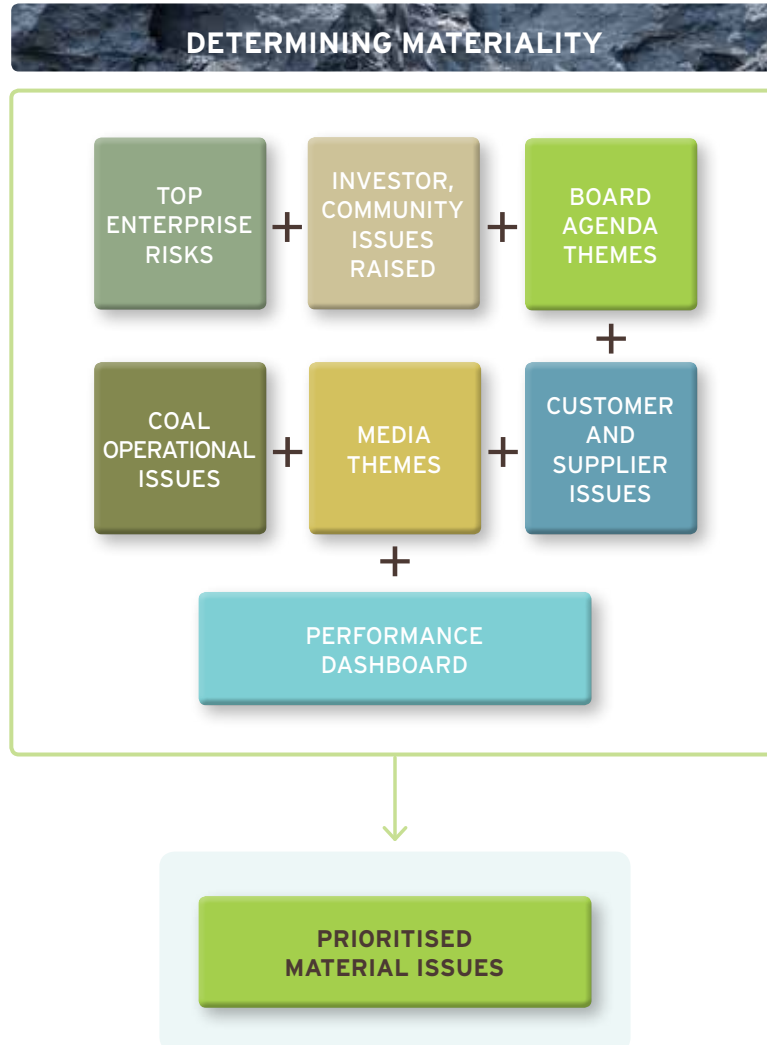
KPI	2016		2015	
	Actual	Indicator	Actual	Indicator
Core operating margin	24%		18%	
Funds from operations to net debt	476%		2%	
Return on capital employed (ROCE)	23%		6%	
Return on equity based on core headline earnings	15%		4%	
Core HEPS (short-term target)	1 457c		425c	
Net debt to equity*	12%		23%	
Net debt to annualised EBITDA (times)*	0,6		1	
EBITDA interest cover (times)*	11		12	

* Calculated according to loan covenant agreements with loan providers

MATERIAL ISSUES

Materiality

Materiality is determined by careful analysis of our risks, strategic goals and outcomes of ongoing consultation with stakeholders. The top risks facing our group are summarised on page 26 and discussed under the appropriate material issue.



Scope and boundary

Under the reporting requirements of the Department of Mineral Resources (DMR) for the mining charter scorecard, Exxaro discloses its performance per mining right for the review period on its website. Group performance against the scorecard is disclosed in this report (annexure).

This report, produced in English, has been prepared in accordance with the GRI's 'core' application level, and the GRI G4 index is on the website. The supplementary report provides detailed disclosure on key aspects of our operations. Methods for determining specific GRI indicators are summarised in the text or detailed in our glossary.

Each year, key indicators are selected for external assurance. Where possible, we present comparable information for trend analysis. Corporate activity since Exxaro's inception makes data comparability challenging in some areas; this is explained where it will aid understanding.

This report includes limited information on operations where we do not have management control but have a significant equity interest or joint control, namely Cennergi Proprietary Limited (Cennergi), Sishen Iron Ore Company Proprietary Limited (SIOC) and Tronox Limited (Tronox). As our acquisition of Total Coal South Africa Proprietary Limited (TCSA), renamed Exxaro Coal Central Proprietary Limited (ECC) was only effective August 2015, we include limited data on these operations while the process of standardising systems and indicators is under way.



01

GROUP PROFILE

GROUP PROFILE

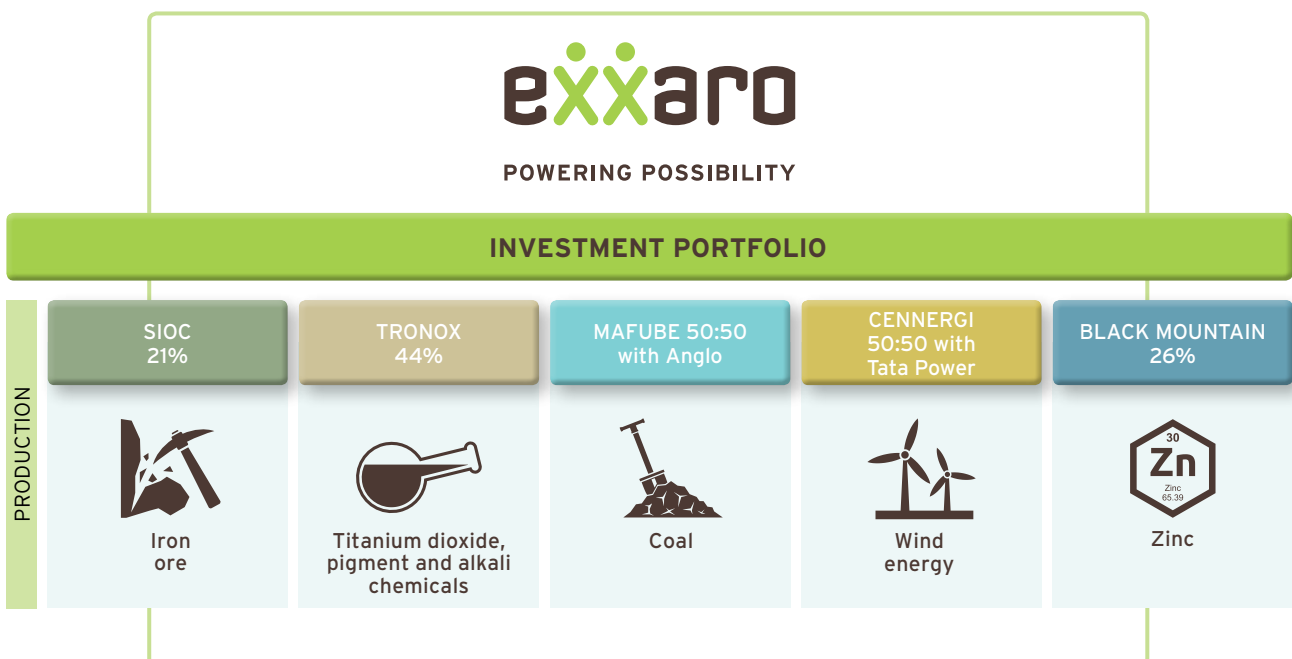
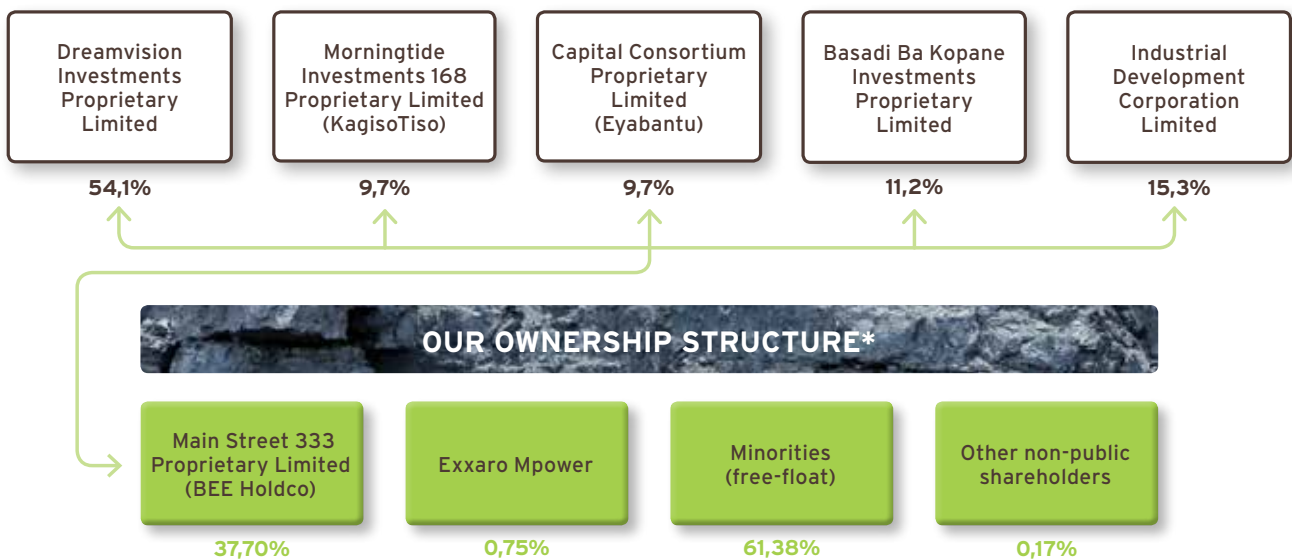
Exxaro is a diversified black-owned resources group with interests in specific markets: coal (controlled and non-controlled), titanium dioxide and alkali chemicals (non-controlled), ferrous (non-controlled) and energy (non-controlled). The group has business interests in South Africa, Europe, the United States of America and Australia.

Our asset portfolio includes coal operations and investments in iron ore, pigment manufacturing, renewable energy (wind) and residual base metals. Exxaro is listed on the JSE and was a long-standing constituent of the Socially Responsible Investment (SRI) index, reconstituted as the FTSE Russell ESG Index in 2015. Exxaro is now included in the FTSE/JSE Responsible Investment Index.

In 2016, Exxaro produced 42,8 million tonnes of coal per annum (Mtpa) (2015: 43,0Mtpa), reflecting contributions from our expanded flagship Grooteegeluk mine as well as the first full-year contribution from ECC.

At 31 December 2016, Exxaro had assets of R59,9 billion and a market capitalisation of R32 billion (US\$2,3 billion). Although just 10 years old, Exxaro's pedigree and skills were built over decades as a company rooted in South Africa and respected by its peers for its research and development, ethics and integrity.

Exxaro ownership structure



* At 31 January, post share buyback on 17 January 2017.

Investment proposition

Competitive advantages

- › Large multiproduct and long-life coal reserve base
- › Established domestic (short and long-term contracts) and international customer base
- › Adequate export and rail allocation to support export growth
- › Building a resilient ownership structure

Key financial strengths

- › Strong balance sheet - net debt:equity below 10%
- › Cash-generative operations
- › Returning cash to shareholders: dividend policy of 2,5 to 3,5 times core attributable earnings

Growth prospects

- › Organic coal production growth to supply Eskom and independent power producers
- › Domestic and offshore coal revenue growth (new projects and cost management)
- › New, stable revenue model from renewable energy

Leadership and governance

- › Experienced, growth-orientated leadership team
- › Established governance structures - proven economic, social and governance model
- › Stakeholder-orientated



GROUP PROFILE (CONTINUED)



Only mineral assets with measured and indicated resources are illustrated. Inferred resources are reported in the supplementary consolidated mineral resources and reserves report (CMRR).



	1 ARNOT	2 DORSTFONTEIN COMPLEX (74%)	3 FORZANDO COMPLEX (74%)
Location	South of Middelburg	West of Kriel	North of Bethal
Market	Domestic (Eskom)	Export	Export
Product	Thermal coal	Thermal coal	Thermal coal
Resources (inclusive)	139Mt measured; 64,0Mt indicated	85,7Mt measured; 41,5Mt indicated	75,7Mt measured; 53,4Mt indicated
Reserves	–	34,5Mt proved; 9Mt probable	11,4Mt proved; 37,1Mt probable
Mining method	Open-cut and underground	Open-cut and underground	Underground
Run-of-mine	–	3,3Mt	2,3Mt
Life-of-mine	Coal-supply agreement with Eskom terminated on 31 December 2015	15 years	12+ years*

	4 NORTH BLOCK COMPLEX	5 GROOTEVELUK	6 LEEUWPAN
<i>Location</i>	West of Belfast	West of Lephalale	South-east of Delmas
<i>Market</i>	Domestic	Domestic and export	Domestic and export
<i>Product</i>	Thermal coal	Thermal, metallurgical and coking coal	Thermal and metallurgical coal
<i>Resources (inclusive)</i>	19,7Mt measured	3 025Mt measured; 837Mt indicated	128Mt measured
<i>Reserves</i>	1,9Mt proved; 1,9Mt probable	2 534Mt proved; 421Mt probable	13,7Mt proved; 52,9Mt probable
<i>Mining method</i>	Open-cut	Open-cut	Open-cut and underground
<i>Run-of-mine</i>	4,4Mt	43,7Mt	6,4Mt
<i>Life-of-mine</i>	0,5 years	24+ years*	13 years

	7 MATLA	8 BELFAST	9 ELOFF (51%)	10 THABAMETSI	11 GLISA SOUTH
<i>Location</i>	West of Kriel	South of Belfast	South-west of Delmas	West of Lephalale	West of Belfast
<i>Project stage</i>	–	Feasibility concluded	Concept phase	Feasibility concluded	Pre-feasibility phase
<i>Market</i>	Domestic (<i>Eskom</i>)	–	–	–	–
<i>Product</i>	Thermal coal	Thermal coal	Thermal coal	Thermal coal	Thermal coal
<i>Resources (inclusive)</i>	752Mt measured; 211Mt indicated	81Mt measured; 22,4Mt indicated	9Mt measured; 213Mt indicated	270Mt measured; 749Mt indicated	20Mt measured; 47Mt indicated
<i>Reserves</i>	221Mt proved; 34Mt probable	45,7Mt proved	Not yet declared	109Mt proved; 21Mt probable	Not yet declared
<i>Mining method</i>	Underground	Open-cut	Open-cut and underground	Open-cut	Open-cut
<i>Run-of-mine</i>	7,9Mt	–	–	–	–
<i>Life-of-mine</i>	8+ years*	17 years	–	29+ years*	–

	12 TSHIKONDENI MUTALE	13 ZONDERWATER	14 MAFUBE (50%)	15 TUMELO (49%)
<i>Location</i>	East of Musina	West of Lephalale	East of Middelburg	North-west of Hendrina
<i>Project stage</i>	–	Concept phase	–	–
<i>Market</i>	AMSA (discontinued)	–	Domestic and export	Export
<i>Product</i>	Coking coal	Thermal coal	Thermal coal	Thermal coal
<i>Resources (inclusive)</i>	3,7Mt measured; 25,1Mt indicated	22,7Mt indicated	133,6Mt measured; 10,1Mt indicated	6Mt measured
<i>Reserves</i>	In closure	Not yet declared	4,8Mt proved; 64Mt probable	Not yet declared
<i>Mining method</i>	Open-cut and underground	Underground	Open-cut	Underground
<i>Run-of-mine</i>	Exhausted	–	4,1Mt	–
<i>Life-of-mine</i>	–	Prospecting right lapses in 2017	12 years	Under care and maintenance

* Adequate reserves exist well beyond expiry of mining right

GROUP PROFILE (CONTINUED)

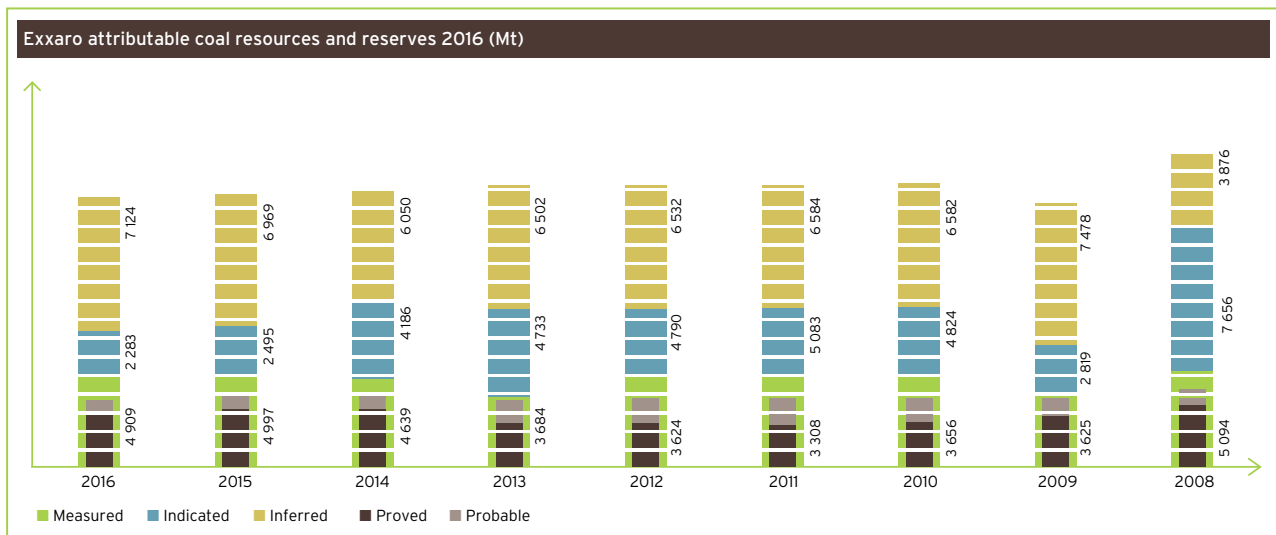
Coal

Strong South African presence and market:

- › Solid resource base - **the biggest locally**
- › Our Waterberg resources **offer significant growth opportunities and play a major part in our strategy**

Grootegeluk is acknowledged as one of the most efficient mining operations in the world, and runs the world's largest coal-beneficiation complex. It is the **only producing mine in the coal-rich Waterberg**, adjacent to Eskom's existing Matimba and new Medupi power stations

- › Eight managed coal mines produced 42,8Mtpa power station, steam and coking coal, similar to 2015. Most power station coal is supplied to the national power utility, Eskom
- › Robust pipeline of greenfield and brownfield expansion projects:
 - The R3,2 billion Belfast mine is scheduled to be commissioned by 2019, depending on progress with a rezoning objection. At full capacity, the mine will deliver around 2,7Mtpa of thermal coal
 - After the Thabametsi power project was selected as a preferred bidder in the first window of South Africa's coal-baseload independent power producer procurement programme, phase 1 of the Thabametsi mine is under way. At a projected cost of R2,8 billion, phase 1 will supply some 3,9Mt of thermal coal per year at full capacity, with first production expected in 2020, in line with the development ramp-up schedule of the associated power station.



Attributable resources

Mt	2016	2015	2014	2013	2012	2011	2010	2009	2008
Measured	4 909	4 997	4 639	3 684	3 624	3 308	3 656	3 625	5 094
Proved	2 961	3 052	2 973	2 308	2 340	2 183	2 349	2 666	3 208
Probable	596	785	797	1 278	1 304	1 340	1 245	914	931
Indicated	2 283	2 495	4 186	4 733	4 790	5 083	4 824	2 819	7 656
Inferred	7 124	6 969	6 050	6 502	6 532	6 584	6 582	7 478	3 876

Ferrous

- › FerroAlloys produces gas-atomised ferrosilicon for use in dense medium separation plants
- › The Mayoko iron ore project in the Republic of the Congo was sold in September 2016 to a Congolese consortium.

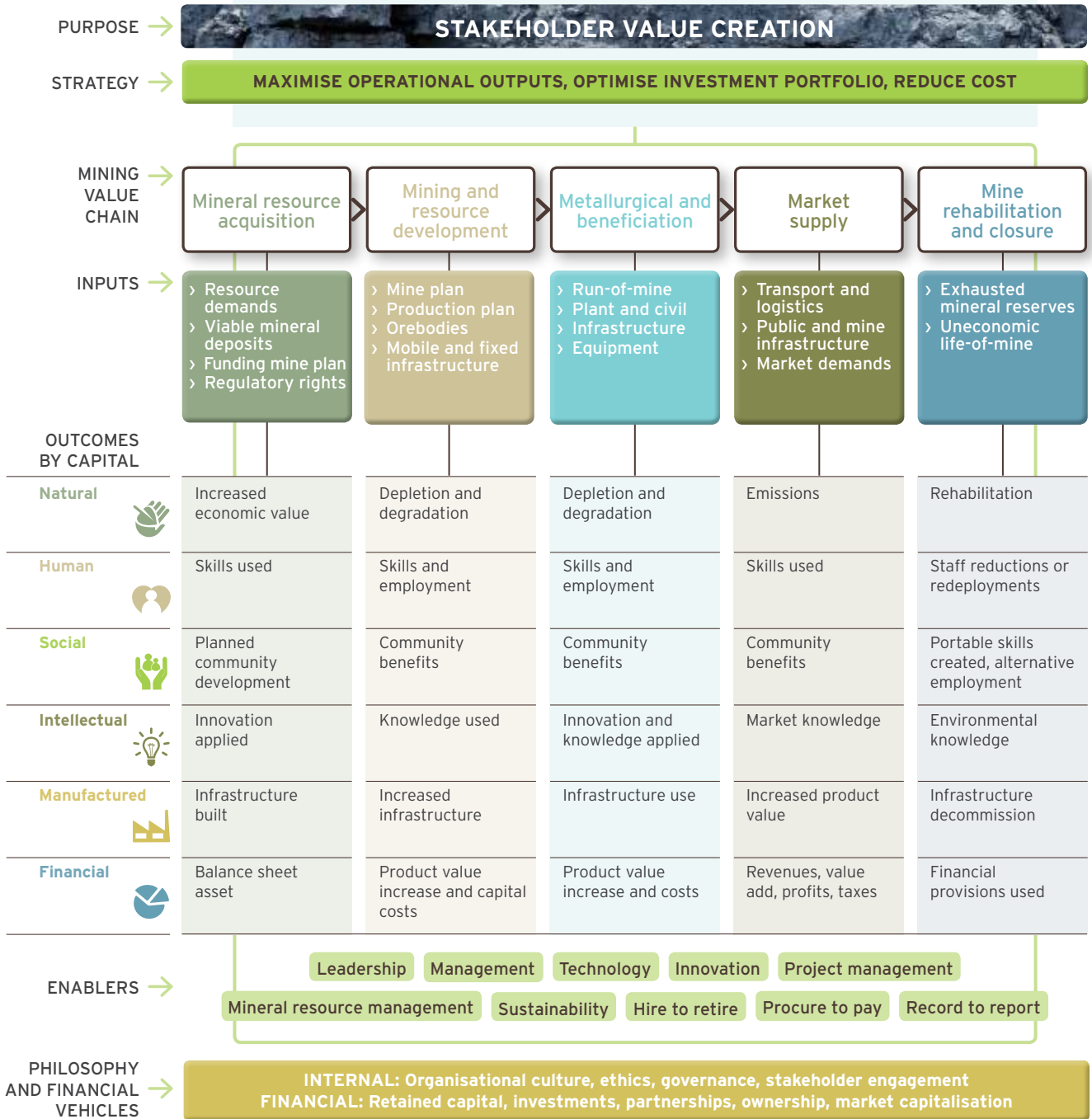
Investment portfolio

- › **Iron ore:** 21% of SIOC, a leading supplier of high-quality iron ore to the global steel industry, and a subsidiary of the listed Kumba Iron Ore Limited (KIO)
- › **Titanium dioxide, pigments and alkali chemicals:** 26% direct interest in both KZN Sands and Namakwa Sands, as well as 44% interest in US-listed Tronox, a global leader in mining, production and marketing inorganic minerals and chemicals. Tronox operates two vertically integrated businesses: titanium dioxide (TiO₂) and alkali chemicals

- › **Renewable energy:** Exxaro contributes to national energy supply through Cennergi, its joint venture with Tata Power. Two wind projects in the Eastern Cape achieved commercial operation in the third quarter of 2016: Amakhala Emoyeni near Bedford (134MW) and Tsitsikamma Community Wind Farm on Mfengu community land (95MW)
- › **Coal:** Mafube - joint venture with Anglo American in Mpumalanga
- › **Zinc:** 26% of Black Mountain, a subsidiary of Vedanta, in the Northern Cape.



BUSINESS MODEL



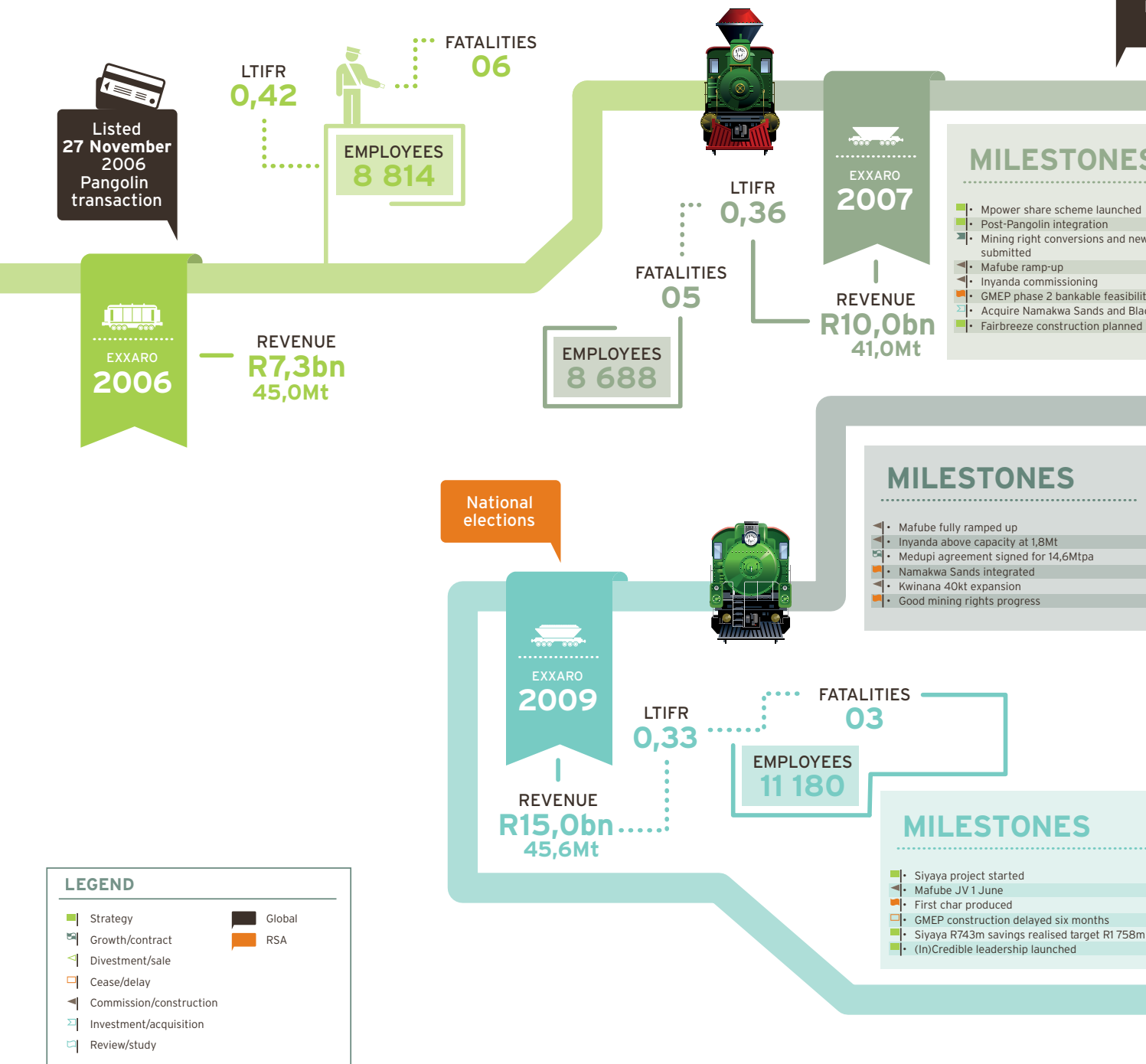
Exxaro Resources is a mining company. Each year, we extract over 40Mt of graded coal from eight mines in the Limpopo and Mpumalanga provinces of South Africa. Since the group's formation and listing on the JSE in 2006, we have lived up to our promise of being a responsible corporate citizen through our commitment to good corporate governance, compliance, environmental stewardship and investing in our communities.

As shown above, we have a resource-to-market mining value chain that is supported by various inputs, enablers and financial vehicles. By considering the impact of our activities on all stakeholders and all capitals in developing and implementing our strategy, we have proved that mining can have a net positive effect. We have considered the cumulative outcomes on the various capitals over the lifecycle of our mines and plotted these on a relative plus-minus scale.

THE PAST, PRESENT AND FUTURE OF EXXARO



POWERING POSSIBILITY



sub prime housing crisis and housing bubble

applications
study
ck Mountain

- Igoda Sasol partnership withdrawal
- Cease Fairbreeze mine development
- Reconfigure zinc business
- Mafutha prefeasibility study
- Moranbah South prefeasibility study

Quantitative easing 3

EXXARO
2011

REVENUE
R21,0bn
42,0Mt

FATALITIES
03

LTIFR
0,20

EMPLOYEES
10 513

MILESTONES

- Siyaya: implementation of new operating model
- Char 2 bankable feasibility study
- GMEP commissioning
- Clean energy - participate in independent power production
- Mayoko project consideration
- AlloyStream™ demonstration campaign
- Territory offer made (iron ore)
- New Tronox listing
- Fairbreeze construction
- Rosh Pinah divestment
- Cessation of zinc production
- Tshikondeni closure plan implemented
- Glen Douglas sale



New Companies Act

E-tolls implemented



First economic recession in 17 years
Soccer world cup

Marikana: Mining industry will never be the same again

Gautrain construction

LTIFR
0,19



FATALITIES
00

EMPLOYEES
7 920



Global financial crisis

EXXARO
2008

REVENUE
R13,8bn
45,0Mt

LTIFR
0,39

EMPLOYEES
10 458

FATALITIES
05

FATALITIES
01

LTIFR
0,25

EMPLOYEES
10 937

EXXARO
2010

REVENUE
R17,0bn
45,7Mt

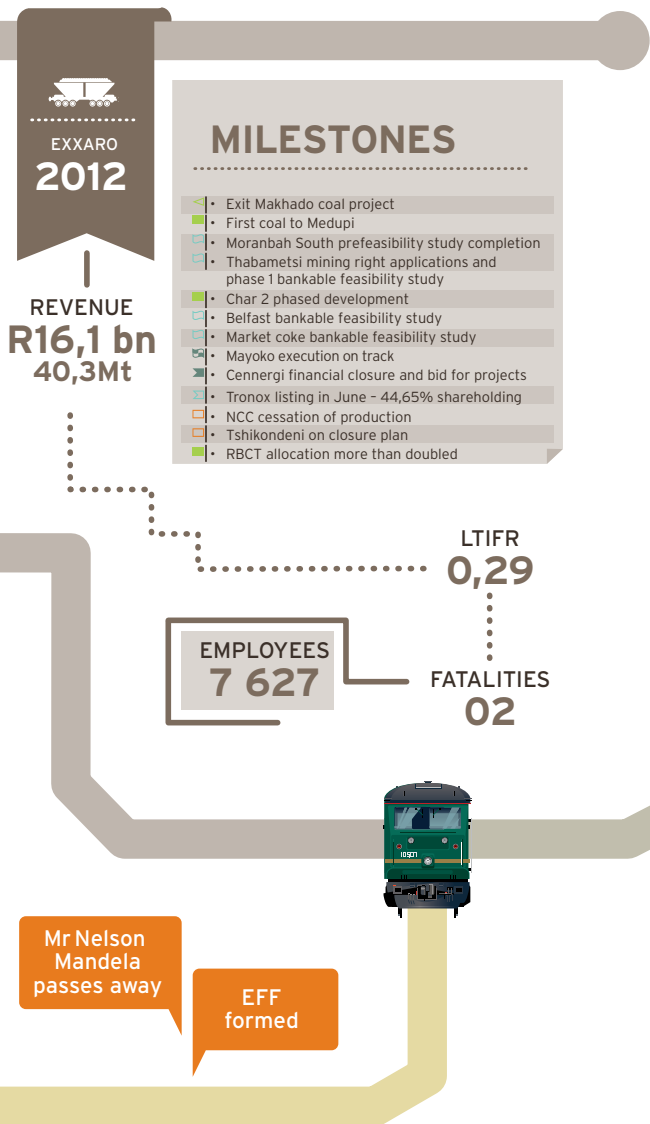
MILESTONES

- Siyaya finalisation
- GMEP construction
- GMEP definitive agreement signed with Eskom
- Mafutha prefeasibility study continues
- Rosh Pinah sale to Glencore
- Fairbreeze bankable feasibility study board approval
- Kwinana pigment expansion commissioning

Three weeks of industrial action

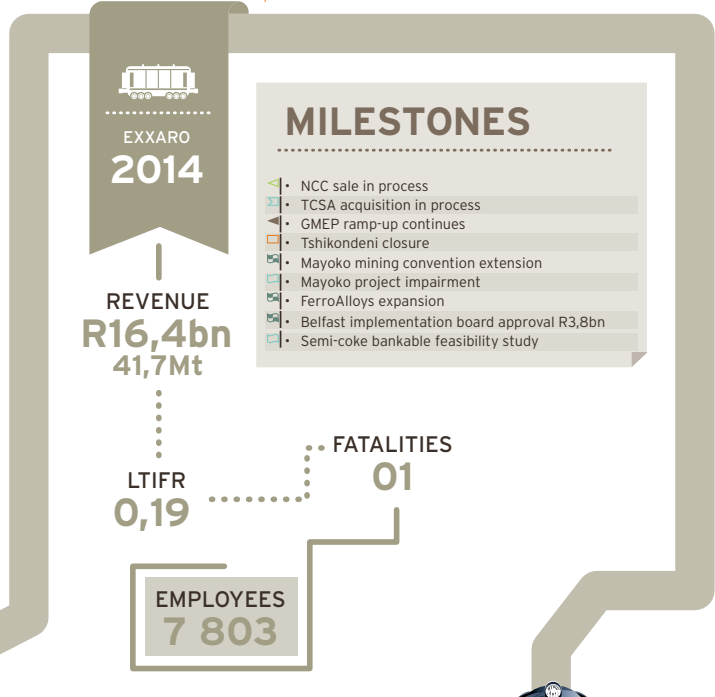
EXXARO
2013

REVENUE
R13,5bn
40,2Mt



- #### MILESTONES
- Exit Makhado coal project
 - First coal to Medupi
 - Moranbah South prefeasibility study completion
 - Thabametsi mining right applications and phase 1 bankable feasibility study
 - Char 2 phased development
 - Belfast bankable feasibility study
 - Market coke bankable feasibility study
 - Mayoko execution on track
 - Cennergi financial closure and bid for projects
 - Tronox listing in June - 44,65% shareholding
 - NCC cessation of production
 - Tshikondeni on closure plan
 - RBCT allocation more than doubled

- Service delivery protests increase
- National elections
- Platinum strike



- #### MILESTONES
- NCC sale in process
 - TCSA acquisition in process
 - GMEP ramp-up continues
 - Tshikondeni closure
 - Mayoko mining convention extension
 - Mayoko project impairment
 - FerroAlloys expansion
 - Belfast implementation board approval R3,8bn
 - Semi-coke bankable feasibility study

Low oil and commodity prices

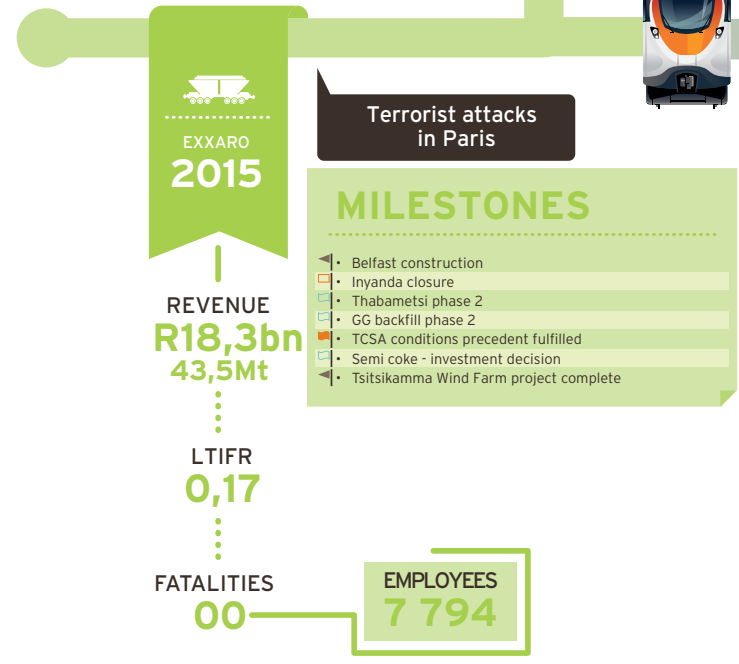
- Mr Nelson Mandela passes away
- EFF formed

- Miner unc...
- Stat...
- Att...
- financ...
- Pol...
- ec...
- unc...

- #### MILESTONES
- Thabametsi bankable feasibility study complete
 - GMEP ramp-up
 - GG backfill
 - Belfast bankable feasibility study
 - CSA with Marubeni on Thabametsi
 - Cennergi: construction of wind projects
 - Mayoko phased approach announced
 - AlloyStream under review
 - Tshikondeni nearing end of life
 - NCC care and maintenance

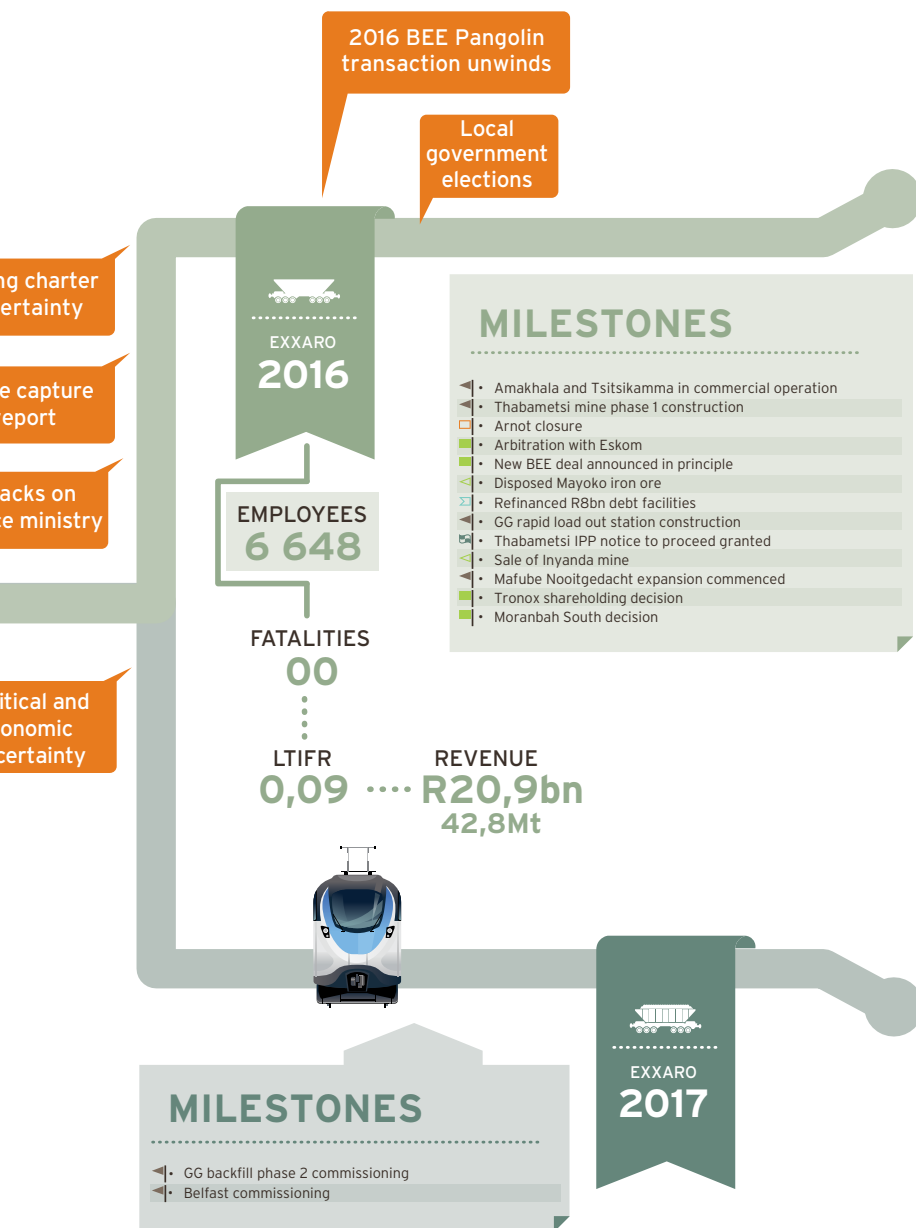
- #### MILESTONES
- Belfast construction
 - Inyanda closure
 - Thabametsi phase 2
 - GG backfill phase 2
 - TCSA conditions precedent fulfilled
 - Semi coke - investment decision
 - Tsitsikamma Wind Farm project complete

Terrorist attacks in Paris



Exxaro 10-year timeline key indices

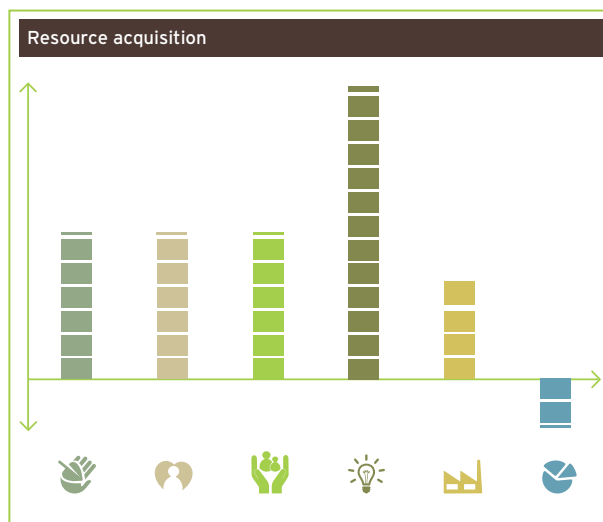
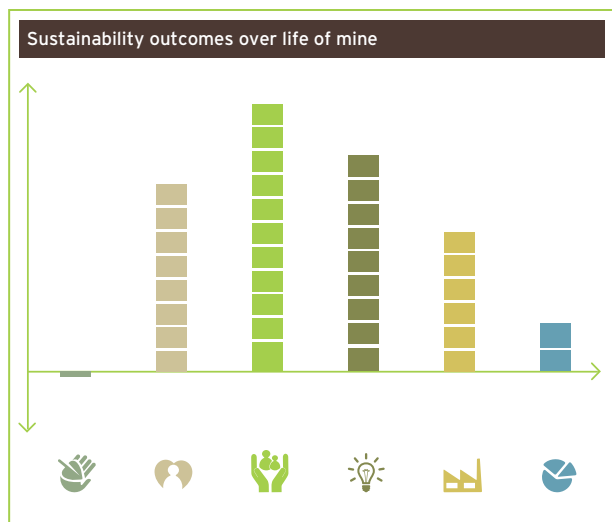
	Unit of measure	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Coal price RBCT (RB1)	US\$/t	51	63	121	64	92	116	93	80	72	57	64
Iron ore price CFR China (62% Fe)	US\$/dmt	56	74	143	78	143	166	129	136	97	56	58
Pigment price (CIF)	US\$/t	1 847	1 883	2 265	2 123	2 284	3 222	3 429	2 812	2 689	2 205	2 092
Zircon price (bulk)	US\$/t	744	789	885	864	930	1 900	2 340	1 200	1 080	1 035	897
Share price as at 31 December	ZAR	56	103	72	105	136	168	169	146	104	44	90



YEAR EVENTS AND AWARDS

- 2006** > Lists on the JSE on 27 November 2006
- 2007** > Siphon Nkosi takes helm as CEO and named as President of the Chamber of Mines
 - > Deal of the Year Award
 - > Best employers South Africa 2007
- 2008** > Signatory to the UN Global Compact
 - > Inclusion in the JSE SRI
- 2009** > Evergreen Awards instituted in Exxaro
- 2010** > Reduced HIV/Aids prevalence to 13%
- 2011** > Progress with energy and carbon management to measure across the business
 - > Top 10 of EY integrated reporting awards
- 2012** > Zeeland Water treatment receives Blue Drop certification
 - > Top 10 in Financial Mail for financial excellence
 - > Carbon Disclosure Project Leadership Index (CDLI) top score of 100 points - for carbon and energy management
 - > 7th best company worldwide for delivering the highest returns to shareholders over a 10-year period, at 39,2% (Value Creation in Mining 2012 report by the Boston Consulting Group)
 - > Top 10 of EY integrated reporting awards
- 2013** > Frost and Sullivan Africa Award for Visionary Innovation
 - > Deloitte Best Company To Work For (BCTWF) - 2nd place for mining
 - > Dow Jones Sustainability Index inclusion
 - > CDLI score of 97 points
 - > Best Risk Information System implementation award by Institute of Risk Management South Africa
 - > Top 10 of EY integrated reporting awards
- 2014** > Top employer in the mining industry in South Africa (Top Employers Institute 2014)
 - > Best Company to Work For (Top SA Employer Certification 2014 in Resources)
 - > Top 10 of global leaders of CPLI
 - > Overall winner in the Nkonki Integrated reporting awards
 - > Top 10 of EY integrated reporting awards
- 2015** > Global Bronze medal in the RobecoSAM 2015 Sustainability Reference Guide (for ESG performance)
 - > Best corporate governance award for the Africa region (Ethical Boardroom magazine 2015)
 - > Merit Award in the EY integrated reporting awards (concise reporting on complexity)
- 2016** > Mxolisi Mgojo takes the helm as CEO
 - > Merit Award in the EY integrated reporting awards (innovative reporting)
 - > Exxaro 10-year BEE ownership structure unwinds
 - > International Institute of Risk Management Innovation Award

Outcomes and impacts on sustainability capitals



Cumulatively, we believe our mining activities have a net positive impact: significantly greater for human, social and intellectual capitals. To quantify this impact, in 2016 we have:

- › Spent an average 5% of total payroll costs on training and development
- › Invested R49 million in our communities benefiting over 10 000 people directly
- › Invested R20,7 million in education alone, through which 1 237 learners participated in education improvement programmes and 164 teachers were trained
- › Contributed to the body of knowledge in the global mining industry through proprietary developments such as ultra-high dense medium separation technology, and improved smelting processes for the ferrosilicon industry.

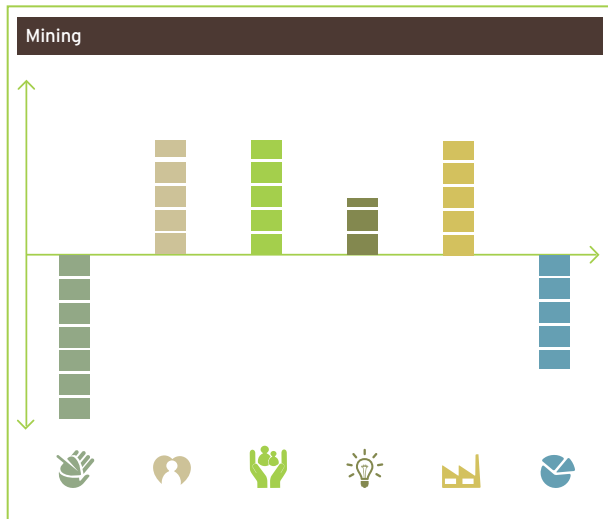
Even where the net positive impact is smaller, we have made a difference: relocating vulnerable species of flora and fauna, protecting biodiversity, developing more efficient rehabilitation methods to leave the land better than we found it and suitable for economic use by the local communities.






In 2006, we made a promise to power possibility. We believe we are living up to that promise.

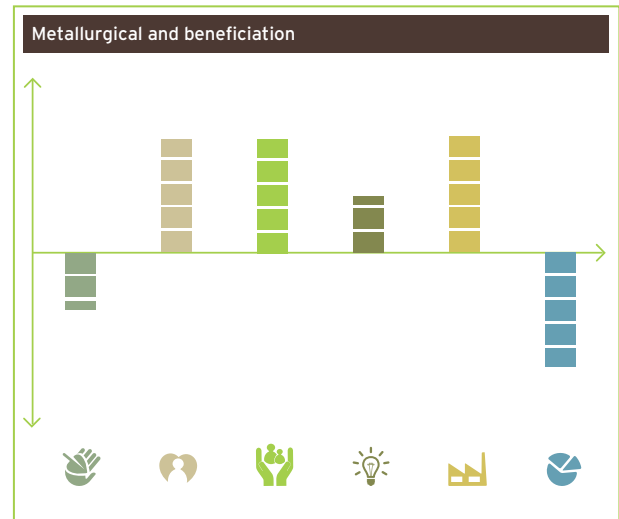
Acquiring a resource generally means buying land that has been proven mineral-rich through comprehensive prospecting.







- Moderate positive impact on natural capital: economic value of the mineral resource and its potential for development, slightly offset by prospecting and drilling processes that disturb a relatively pristine environment.
- Moderate positive impact on human capital: skills of a number of specialists deployed in prospecting, evaluation and acquisition processes.
- Positive impact on social capital via community development and enhancing Exxaro's reputation.
- High positive impact of intellectual capital reflects innovation via technical knowledge and executing corporate strategy.
- Small positive gain for manufactured capital as infrastructure is built.
- Negative impact on financial capital: high exploration and acquisition costs mitigated by adding an asset or secured mining right to Exxaro's balance sheet.

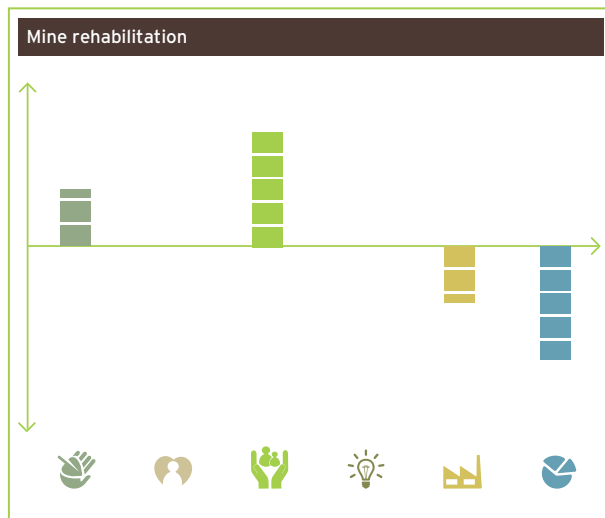
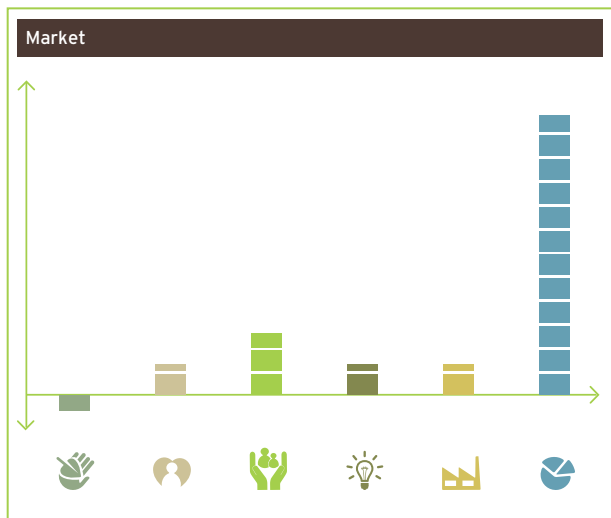
BUSINESS MODEL (CONTINUED)



-  Establishing a mine has a large negative impact on natural capital as resources are depleted and physical environment is disturbed and degraded.
-  Positive impact on human capital: growing employment opportunities slightly offset by safety, health and hygiene issues.
-  Social capital benefits, with communities receiving training and skills development, equity and local procurement opportunities.
-  Small but ongoing positive impact on intellectual capital: technical, people, leadership, innovation and stakeholder engagement skills in corporate and resource management processes.
-  Increased infrastructure and run-of-mine operations have a positive impact on manufactured capital, but negative for financial capital, marginally offset by rising product value.



-  Negative impact on natural capital: water and energy use, emissions and waste. Every effort made to minimise this impact.
-  Positive impact on human capital: wider set of skills required for more specialised jobs. Safety, health and hygiene issues mitigate positive impacts.
-  Positive impact on social capital: ongoing operations benefit corporate reputation, while procurement benefits local communities.
-  Moderate benefit on intellectual capital: using specialist skills for normal operations.
-  Positive impact on manufactured capital: increased infrastructure, multiple product development, sales and associated benefits.
-  Financial capital: ongoing funding requirements and operating costs, offset by product value increases.



- The move from mining to transport and logistical activities has a minimal negative impact on natural capital due to transport emissions.
- Smaller positive impact on human capital: fewer people employed, and in specialised jobs.
- Moderate positive impact on social capital: procurement, transport and logistics contracts, using public and private infrastructure, ongoing reputational benefits by meeting market demand for product.
- Moderate positive impact on intellectual capital: identifying ways to improve logistical challenges and sales.
- Elements of manufactured capital merely maintained at this point, with a low but positive impact.
- Very high positive impact on financial capital: revenues accrue, offset by operational costs, royalties and taxes.

- Moderate positive impact on natural capital: major rehabilitation begins after closure, restoring the environment.
- Neutral impact on human capital: number of jobs falls, risk of unemployment can grow, although we do our best to minimise this. Small teams wrap up closure and rehabilitation activities.
- Major boost to social capital: sustainable initiatives over the life of the mine for socio-economic development, including enterprise and supplier development, benefit local communities - creating infrastructure, building skills, and reducing unemployment. In addition, rehabilitating the environment improves both the natural surroundings and quality of life. These activities generate reputational benefits for Exxaro.
- No impact on intellectual capital: applying best practice closure and rehabilitation procedures.
- Small negative impact on manufactured capital: ongoing maintenance of community infrastructure, most mine infrastructure removed.
- Moderate negative impact on financial capital: costs of closure as rehabilitation provisions are depleted.

PERFORMANCE AGAINST STRATEGIC OBJECTIVES 2016

Our strategic objectives continued to guide our actions over this period despite a changing environment that called for further tough decisions to weather the subdued outlook for our commodities. Our performance is summarised on pages 3 and 57, and our strategy is outlined on page 28.



Strategic objective	Measures	Performance in 2016	Outlook or objective for 2017
Demonstrate responsibility and accountability to protect our reputation Protect and build Exxaro's reputation by being responsible and accountable to stakeholders through engagement, legislative compliance, transparent reporting, resource management, and social and environmental stewardship	› Stakeholder engagement that results in constructive relationships, and resolving issues to mutual benefit	› We identified and engaged with 17 major stakeholders on key issues during the year › Eskom: meetings, workshops as well as legal recourse to resolve key mine rehabilitation issues for the closed Arnot mine	› All key mutual issues to be resolved via appropriate engagements › Seeking mutually beneficial outcomes for Exxaro and each stakeholder
	› Compliance risk management plans in place	› Continuously expanding our enterprise-wide risk management system to more functional areas › Most recently, we introduced risk management for stakeholder engagement	› Continue improving our ability to actively manage all risk controls and better plan for future treatments
	› No reportable cases of environmental incidents	› Zero cases of reportable level 3 environmental incidents	› Maintain a clean record on reportable environmental incidents
	› Valid and enforceable mining rights secured	› By our conservative estimates, 98% of our mining rights are valid and enforceable	› 100% record of validity and enforceability
	› Reputation	› Exxaro applies all aspects of the King III code and complies with the JSE Listings Requirements and Companies Act	› Plan for implementation to apply King IV and maintain compliance with the JSE Listings Requirements and Companies Act

Strategic objective	Measures	Performance in 2016	Outlook or objective for 2017
Demonstrate responsibility and accountability to protect our reputation Protect and build Exxaro's reputation by being responsible and accountable to stakeholders through engagement, legislative compliance, transparent reporting, resource management, and social and environmental stewardship (continued)	<ul style="list-style-type: none"> › Commitment to environmental stewardship and community development 	<ul style="list-style-type: none"> › Zero-harm approach in all domains of sustainability; rehabilitation › Over 95% of all required environmental authorisations in place › Continuous compliance with regulatory conditions › 10-year community investment of R398 million 	<ul style="list-style-type: none"> › Maintain excellent performance in environmental stewardship
	<ul style="list-style-type: none"> › Brand perception as proxy for reputation 	<ul style="list-style-type: none"> › Not measured in 2016 	<ul style="list-style-type: none"> › To be measured and tracked in 2017
	<ul style="list-style-type: none"> › Stoppage directives 	<ul style="list-style-type: none"> › Five stoppage directives received – all immediately resolved to the satisfaction of the DMR 	<ul style="list-style-type: none"> › Our aim is to operate in a safe, compliant and uninterrupted manner
	Compliance to: <ul style="list-style-type: none"> › Mining charter and social and labour plan, per site and per element, but with ownership for overall group › BBBEE level – group performance against targets in dti codes 	<ul style="list-style-type: none"> › Fully complies with targets in the current mining charter › Exxaro achieved a commendable level 4 contribution status 	<ul style="list-style-type: none"> › Awaiting promulgation of mining charter III › Focusing on black ownership as well as enterprise and supplier development to improve BBBEE level in 2017
Optimise our commodity portfolio Top-quartile financial returns Diversified yet complementary portfolio of assets aligned with commodity strategy	<ul style="list-style-type: none"> › Healthy financial metrics 	<ul style="list-style-type: none"> › Revenue and net profit after tax have improved significantly 	<ul style="list-style-type: none"> › Further expand Exxaro's profitability
	<ul style="list-style-type: none"> › Diversified yet complementary portfolio of assets 	<ul style="list-style-type: none"> › Focused on coal as the cornerstone of Exxaro's revenue while exploring business opportunities in non-mining areas 	<ul style="list-style-type: none"> › Concentrate on business opportunities identified through our innovation focus and our business-of-tomorrow activities
Develop our leaders and people Developing strong leadership and empowered employees Ensuring a safe, healthy and skilled workforce	Safety <ul style="list-style-type: none"> › Fatalities › LTIFR 	<ul style="list-style-type: none"> › The best safety performance since inception › 30 consecutive months fatality-free › Record low LTIFR of 0,09 	<ul style="list-style-type: none"> › Target: zero fatalities › LTIFR target stretched to 0,11 (from 0,15) to drive sustainable safety performance
	Health <ul style="list-style-type: none"> › Accepted occupational disease rate › People tested positive and enrolled in HIV management programme 	<ul style="list-style-type: none"> › Occupational health incident frequency rate similar to target for 2016 › Lifestyle and non-communicable diseases identified as a greater risk than occupational diseases › Due to cost constraints, and lower risk, HIV/Aids awareness campaigns and programmes were scaled back from 2014 	<ul style="list-style-type: none"> › Revised strategy to address the overall wellness of our people, specifically lifestyle diseases
	Capability development <ul style="list-style-type: none"> › Talent pool › Skills provision › Skills retention 	<ul style="list-style-type: none"> › In 2016 Exxaro's improvement programme changed the normal course of talent management › Exxaro supplied some 65% of all required skills internally during the restructuring › Voluntary personnel turnover remained lower than targeted › Voluntary severance packages were accepted by 28 employees 	<ul style="list-style-type: none"> › Improve talent management › Ongoing skills development › Improve leadership pipeline
Achieve operational and financial excellence Low-cost and high-quality product from efficient operations	<ul style="list-style-type: none"> › Operating margin › Solvency and liquidity metrics › Return on equity › Return on capital employed 	<ul style="list-style-type: none"> › Core operating margin above target at 24% › Net debt:equity ratio and net debt:EBITDA exceeded target › Return on equity based on headline earnings of 15% was at a best realistic level › 23% ROCE exceeded target 	Improved performance in coal operations expected based on: <ul style="list-style-type: none"> › Stable trading conditions in domestic markets › Higher international coal prices than 2016 › Our operational excellence process delivering further results › Technology and innovation improvements

STAKEHOLDER ENGAGEMENT

Our approach to stakeholder engagement is detailed in our supplementary report. In this report, we summarise key issues raised in 2016, and how these tie into our material issues.

Material issue	Stakeholder	Issue	Response	Next milestone
Key customer dependency	Eskom	Arnot mine: termination of coal-supply agreement (CSA)	Exxaro and Eskom negotiating mine-closure provisions (rehabilitation trust, mine closure and post-closure costs) Parties in arbitration (mine-closure provisions are Eskom's responsibility under coal-supply agreement or CSA)	<ul style="list-style-type: none"> › Estimating full cost of closure and post closure › Eskom's acceptance of these costs › Awaiting Eskom's statement of defence
		Matla mine: Eskom delay in providing capital for development of mine 1 (and other capex requirements)	Exxaro's decision to invoke mediation clause in CSA created sense of urgency. Capital for mine 1 approved by Eskom board, submission made to Department of Public Enterprises (DPE) and National Treasury. Site visit by DPE	<ul style="list-style-type: none"> › Receive investment decision from DPE
		Medupi CSA: Eskom stockpile space expected to be full in Q1 2017, meaning it may not meet offtake levels in CSA addendum 9	Eskom creating additional stockpile space. Grootegeluk finalising contingency planning	<ul style="list-style-type: none"> › Detailed offtake plan discussion with Eskom. We expect Eskom to have additional capacity in 2H 2017
	ArcelorMittal South Africa (AMSA)	Financial viability of AMSA and potential impact on coal sales volumes	Monitoring progress of AMSA business restructuring and engaging management to anticipate potential severe impacts	<ul style="list-style-type: none"> › Ongoing monitoring. We have observed how AMSA has engaged with its key stakeholders to address this concern, eg 10% import tariff protection. We have also observed the global turnaround in steel prices
Licence to operate	Federation for a Sustainable Environment (FSE)	Belfast water licence (IWUL) appeal	IWUL appeal: Minister of Department of Water and Sanitation uplifted suspension of IWUL, and licence is now active	<ul style="list-style-type: none"> › Exxaro is free to implement IWUL as per project plan
	Highlands Organic (Pty) Ltd	Rezoning appeal: Highlands approached High Court contesting township board authority to hear appeal	High Court ruled in March 2017 that Nkangala municipality has jurisdiction to hear appeal	<ul style="list-style-type: none"> › Nkangala municipality to decide on appeal against rezoning our Belfast project
Capital projects	Department of Energy	Coal baseload independent power producer (IPP) procurement programme (CBIPPPP) designed to procure new coal-fired power stations operated by IPPs	Exxaro's Thabametsi's mine development* aligned to meet CBIPPPP process	<ul style="list-style-type: none"> › Power station obtained preferred bidder status in October 2016 › IPP developer working towards achieving financial close › High Court judgment issued in March 2017 in favour of Earth Life Africa's appeal** against the Thabametsi IPP power station environmental authorisation (EA). Minister Environmental Affairs to now consider EA taking cognisance of climate impact assessment (CIA) report

Notes:

* The notice to proceed is a contractual obligation and doesn't determine when mining activities must commence. Mining activities commence once the mine works programme is approved, and the mining right is awarded and executed, and the mining right has been registered.

** The High Court judgment in favour of Earth Life Africa's appeal against the Thabametsi IPP environmental authorisation (EA). Minister of Environmental Affairs to reconsider including the climate impact assessment (CIA).

Material issue	Stakeholder	Issue	Response	Next milestone
Business resilience	Transnet Freight Rail (TFR)	Increase rail capacity to handle potential increase in volumes from Waterberg	Ongoing engagement with TFR on rail development progress, and negotiating a Waterberg rail agreement to secure future capacity	<ul style="list-style-type: none"> › Approval of Waterberg rail agreement to secure capacity
	Department of Mineral Resources (DMR)	Optimising our coal portfolio may mean disposing of some commercial and tied operations	Our strategy is to maintain large-scale, long-life coal assets. We believe non-core assets will be better managed in a different structure and contribute to industry transformation	<ul style="list-style-type: none"> › Packages for disposal to be structured and considered by Exco and board › Obtain DMR support for section 11 approvals (transfer of mining right, and considering impact of draft mining charter) › Eskom approval for disposal of tied operations
	Shareholders	Regulatory compliance (mining charter) Shareholder dilution Protect share price Replacement BEE transaction	Comprehensive presentations to minority shareholders to present options and develop optimal solution	<ul style="list-style-type: none"> › Continued engagement to ensure support for a sustainable structure › General meeting to approve structure
Our people	Employees	Exxaro improvement project (section 189 consultation process on retrenchments and staffing new structure): <ul style="list-style-type: none"> › Implementation and communication of our strategy › Governance model › Operating model (including role clarification) Transitioning employees into the new way of working (leadership, team and culture interventions)	Implementation completed as per project plan: 94 forced retrenchments at end-November (40 transitional roles). Three retrenched employees filed disputes with the CCMA, which are unresolved after conciliation	<ul style="list-style-type: none"> › Employees with unresolved disputes need to apply to the labour court for further legal remedy. Exxaro awaits court referral documentation on all three matters. We believe our approach to the improvement project in terms of consultation and implementation will assist in managing these disputes › Implementing and embedding the new operating model › Culture initiatives focusing on leaders, workforce of the future and employee engagement
	Unions	Ensuring positive relationships	Ongoing employer/union forums, engaging with union leadership	<ul style="list-style-type: none"> › Continued positive interaction and issue resolution through formal engagement structures
	Communities	Integrate our efforts between employees and their families, and communities Enhanced enterprise development through operating and capex budget	Ensure risk management strategies/policies are understood throughout Exxaro and by our communities. Allocate capital more efficiently by strategically focusing on projects that can close the gap, eg Exxaro people development initiative, focused on education and skills development Collaboratively achieve cost savings through better management of community resources	<ul style="list-style-type: none"> › Conduct socio-economic development assessment to identify and evaluate potential risks and opportunities, which should be adapted and integrated into company policies and standards, and managed against Exxaro's governance standards

RISK MANAGEMENT

Risk and compliance management to ensure Exxaro's sustainability

Exxaro's philosophy on risk management has always been not to entrench a compliance-driven approach but rather to view risk management as a strategic enabler to ensure we think and act proactively at every layer (strategic, tactical and operational) in pursuing our objectives.

The group has made great strides in the past five years in managing risks, within its risk tolerance (risk-appetite thresholds), consistently, comprehensively and economically through effective

enterprise risk management. Risks and risk thresholds, which indicate the appropriate level of risk for Exxaro to achieve its strategic objectives, as approved by the board, are monitored quarterly. Our risk management governance, philosophy and process is set out in the Exxaro enterprise risk management (ERM) framework, which was approved by the board in 2011. This framework was reviewed in 2014 and significant changes made to the impact scale to ensure that consequence levels are aligned to our risk tolerance levels. The process of reporting risk at various levels is set out below:



Risk process

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

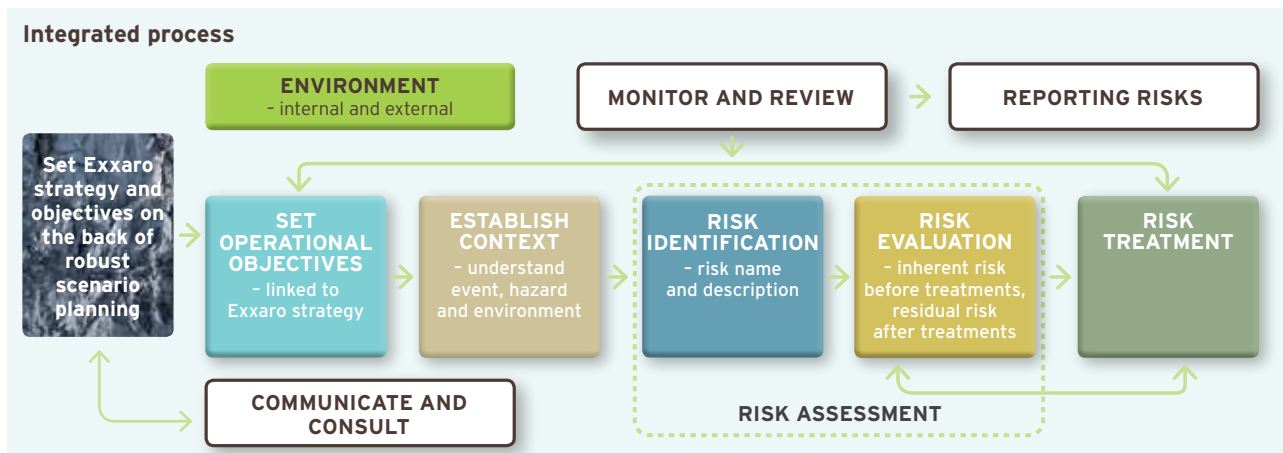
The ERM methodology is therefore followed across all functional areas and considers all hazards/root causes as well as all potential impacts (financial, operational, stakeholder, legal/compliance,

safety, health and environment) that the risk event may trigger. Exxaro does not have a separate risk methodology for every type of impact or functional area, as this would undermine true integration and building a risk culture.

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

Exxaro has reviewed its strategic risks and changes made to risk rankings reflect changes in the internal and external environment.

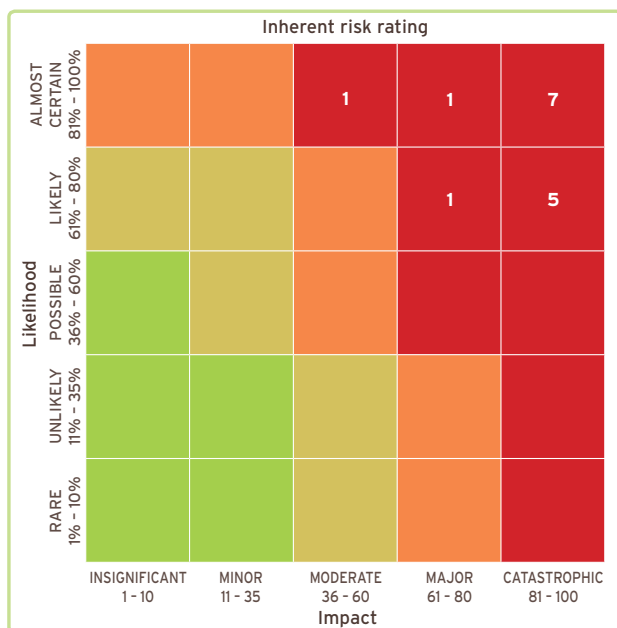
The integrated Exxaro risk process is illustrated below:



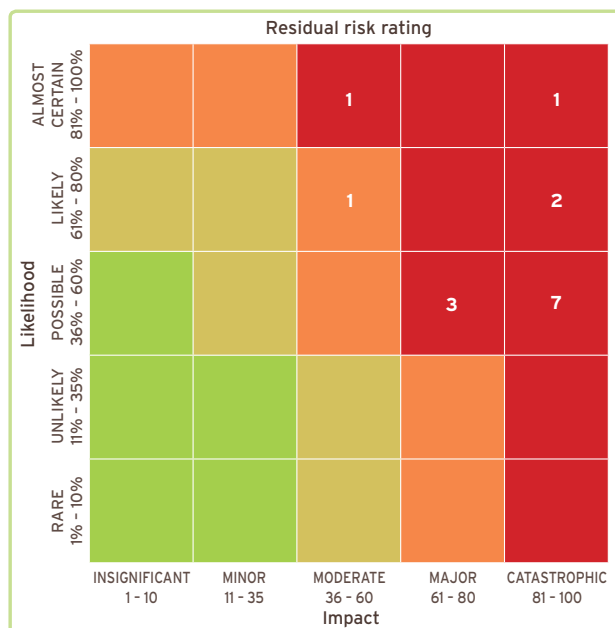
Top 15 heat map

Using Exxaro's heat map, management constantly monitors risks (red or orange) that would have an extreme impact on the group. Controls for these risks are considered critical and need to be monitored and reviewed constantly in line with the combined assurance approach. The heat map illustrates Exxaro's top 15 strategic risks inherently (before any controls) as well as residually (after controls), identified through our enterprise risk management (ERM) process and approved by the board. The figures represent the number (not ranking) of risks in each block. A list of the top 15 risks can be found on page 26.

Inherent risks - number per rating



Reducing risks through controls - number per rating



RISK MANAGEMENT (CONTINUED)

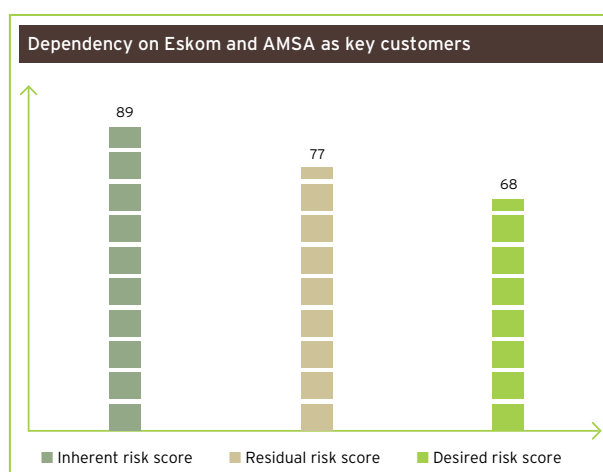
Residual risk trends over the last three years

Risks identified			
	2014	2015	2016
1	Key dependency on Eskom	Dependency on Eskom as a key customer	Key dependency on customers
2	Unable to meet production demands	Unavailability of electricity	Safety concerns
3	Safety concerns	Safety concerns	Commodity price volatility
4	Government bureaucracy	Commodity price volatility	Inability to be innovative
5	Commodity price volatility	Inability to meet production demands	Uncompetitive products (cost/tonne)
6	Unavailability of water	Unavailability of water	Health concerns
7	Infrastructure capacity, access, development and funding	Infrastructure capacity, access, development and funding	Ineffective capital project execution
8	Competitiveness of assets (cost/tonne)	Competitiveness of assets (cost/tonne)	Maintain a social licence to operate
9	State intervention in the mining sector	State intervention in the mining sector	Legal and regulatory non-compliance
10	Capital project execution	Capital project execution	Labour unrest
11	Compliance to environmental legislation	Mine rehabilitation	Product substitution
12	Maintain a social licence to operate	Government bureaucracy	Unable to meet production demands
13	Mine rehabilitation	Compliance to environmental legislation	Stranded assets
14	Inability to adequately calculate financial provision for environmental closure	Maintain a social licence to operate	Fraud and corruption
15	Labour unrest	Inability to accurately calculate financial provision for environmental closure	Compliance to environmental legislation

Examining top risks over the past three years, not only for Exxaro but also those facing the mining sector as a whole, there have been no major changes to the top 15 risks. Priorities or rankings may have changed due to certain external and internal changes that trigger these unwanted events.

Controlling the risks

On the following pages, we illustrate how we are controlling our key risks. In each chart, the first bar indicates the severity and likelihood of occurrence of the risk, the second how we are mitigating the impact and the third the acceptable level of risk in future. Our top 10 risks do not completely dovetail with our material issues, given the interrelated nature and overlap of risks. Collectively, however, they illustrate key controls in place to address our material issues.



▲ Current controls (selective)	● Future treatment plans (selective)
Established a rehabilitation trust fund	Engagement with Eskom and AMSA
Engagement with Eskom and AMSA	
Broadening local and international customer base	



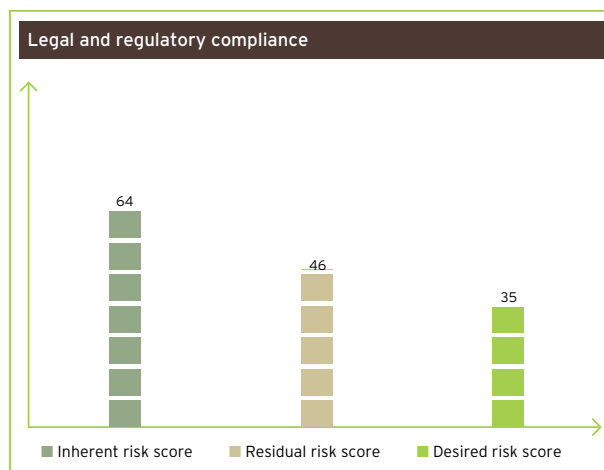
▲ Current controls (selective)	● Future treatment plans (selective)
Focus on sustainable cost-reduction programmes/business improvement initiatives and awareness	Optimise operating model and avoid duplicated activities
Create strategic joint-ventures to optimise economies of scale	Improve effectiveness of some or all controls
Focus on business-unit controllable efficiencies	
Investigate and divest non-core assets	
Continuously optimise capital in projects	



▲ Current controls (selective)	● Future treatment plans (selective)
Proactive involvement in sustainable socio-economic development initiatives	Improve effectiveness of some or all controls
Compliance to requirements of mining charter	
Pursue identified initiatives to progressively improve Exxaro's BEE rating	
Regular engagement with government	



▲ Current controls (selective)	● Future treatment plans (selective)
Disciplined execution of value engineering study review	Improve effectiveness of some or all controls
Establish robust governance structure, including role and responsibility clarification	Implement lessons learnt from previous project failures and successes
Implement an effective risk management and assurance process	
Monitor and track the progress of capital projects	



▲ Current controls (selective)	● Future treatment plans (selective)
Compliance and awareness training with weekly inspections through VFL (Visible Felt Leadership)	Improve effectiveness of some or all controls
Conduct internal inspections and external audits by authorities	
Implement a Combined Assurance Model and conduct risk-based audits	
Training on policies and procedures for all employees/visitors and contractors	
Implement a compliance programme (compliance and risk function with plans and audits)	

EXXARO STRATEGY

Throughout 2016, our aim was to provide sustainable returns to shareholders and the countries in which we operate by managing a world-class portfolio of assets, primarily in Africa, that are underpinned by growing global infrastructure and energy demand. This aspiration was guided by our strategic objectives detailed on page 20.

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

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

Our coal portfolio is the current core of our business. The coal strategy that was developed in 2016 has been executed effectively, supporting solid results for the review period. The strategy is driving our coal business to becoming a modernised, South Africa-based coal producer, providing the free cash flow that will fuel the business of tomorrow. The coal strategy is aligned to Exxaro's values and built on people and sustainability excellence. Our drive towards innovation and a digital future lies at the core of this strategy, and assists as an enabler in executing our portfolio, marketing and operational excellence initiatives.

Our operational excellence process has been embedded as part of our coal execution DNA, leading to a steady decrease in the cash unit cost across the coal business since its inception in 2014. Our drive for innovation and digitalisation is key to our strategic execution and will further fuel the efficacy of the operational excellence process.

Our strategic focus areas for 2016

Throughout 2016, our strategic objectives continued to guide our actions. An ongoing constrained environment called for further tough decisions and a firm commitment to continue our focus on business resilience: our ability to withstand the economic and commodity market downturn.

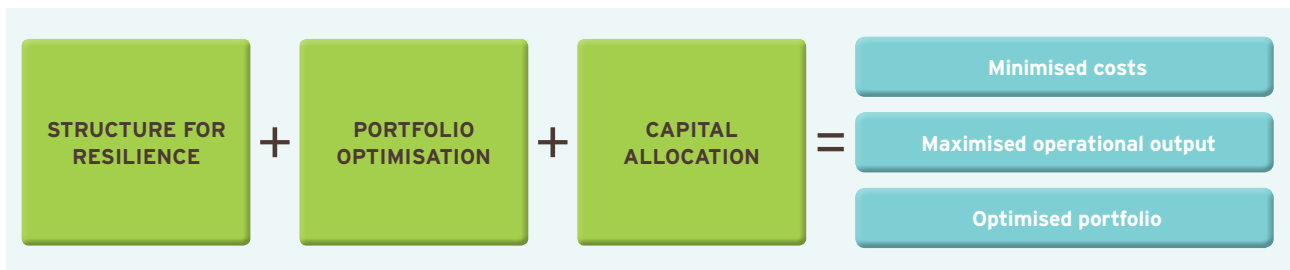
Our 2016 focus areas are the culmination of distilling multiple issues in our operating context with important implications for our business model to guide our strategic responses.

Focus areas for 2016

- › Structure for resilience
- › Portfolio improvement
- › Capital allocation.

At the beginning of 2016, the materiality of some issues increased in response to the worsening operating environment. While the executive review details our performance on material issues in 2016, in this section we discuss these and the strategy process from the perspective of board governance.

The figure summarises our strategic priorities and responses to ensure that we have a resilient business in which the costs are minimised, the operational output is maximised, and the portfolio is optimised.



Exxaro 2026 group strategy: powering better lives in Africa and beyond

Over the past year, we have been fundamentally reshaping our strategy to address the changing world in which we operate. While coal remains at the core of Exxaro for the immediate future, we are considering investment opportunities that will ensure Exxaro remains relevant in future.

Our executive committee went through a detailed process to identify the direction we want to grow into beyond coal. In 2017, we will continue to define and finalise this direction.

The 2026 Exxaro group strategy has analysed long-term global needs and drawn into the traditional mining strategy the nexus

of energy, water and food. The rationale behind our thinking included a range of global forecasts that demand in these areas would grow to outstrip supply.

Thus, in response to opportunities presented by the energy-water-food nexus, the 2026 strategy comprises two key business focus areas:

- › The traditional core competency of mining
- › A deepening role in new business opportunities in energy, water and the agricultural sector.

In 2017 we will develop the detail elements of our strategy and translate these into action items as part of our strategic dashboard going forward.



02

BOARD REVIEW

BOARD REVIEW

As the board, we are ultimately accountable for Exxaro's strategy. Based on our oversight of the business, we collectively report to our stakeholders. In this review, we discuss the material issues we dealt with in 2016 at board level, and how we are addressing these to reduce the risk to the business. The executive review deals more with performance over the period.



Dr D Konar
Independent non-
executive chairman

S Dakile-Hlongwane
Independent non-
executive

Dr CJ Fauconnier
Independent non-
executive

MW Hlahla
Non-executive

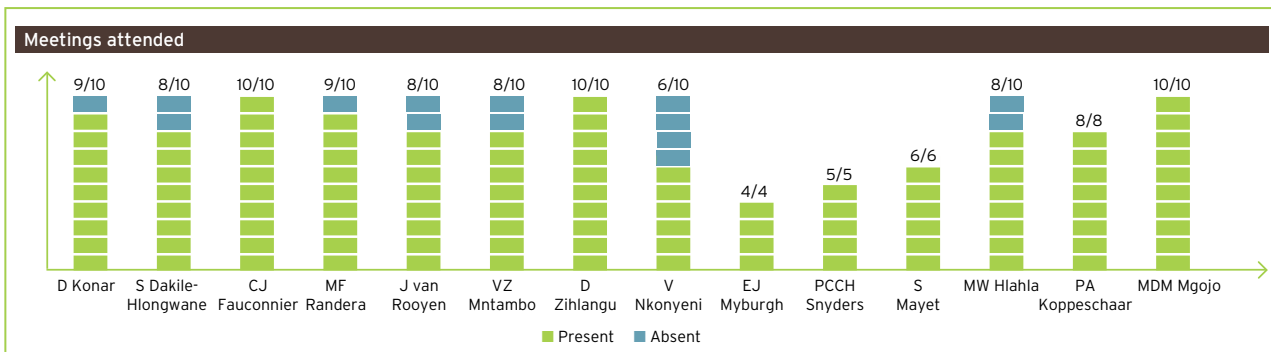


S Mayet
Independent non-
executive

VZ Mntambo
Non-executive

EJ Myburgh
Independent
non-executive

V Nkonyeni
Independent
non-executive



Attendance is based on quarterly meetings, two governance sessions, two strategy days and two special board meetings and calculated against the number of meetings the individual was required to attend. The attendance of Messrs WA de Klerk, RP Mohring and SA Nkosi is not shown.



Dr MF Randerer
Non-executive

PCCH Snyders
Independent non-executive

J van Rooyen
Independent non-executive

D Zihlangu
Non-executive

Executive



MDM Mgojo
Chief executive officer

PA Koppeschaar
Finance director

BOARD REVIEW (CONTINUED)

Non-executive

D Konar (63)

Independent non-executive chairman

Tenure: November 2006

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

Expertise: After completing his articles at Ernst & Young, Len began a 15-year career as an academic at the University of Durban-Westville. He then spent six years with the Independent Development Trust as head of investments and internal audit, prior to becoming a professional director of companies and consultant. He chairs Exxaro, Steinhoff International, Guardrisk Insurance, Old Mutual Investment Group, Outsourced Risk and Compliance and Barringtons Corporate Advisors. He is a director of Lonmin plc, Sappi, Credit Suisse Securities and Alexander Forbes. He is a past member of the ad hoc ethics panel of the United Nations, safeguards panel of the International Monetary Fund (IMF) in Washington, co-chairman of the risk implementation oversight panel of the World Bank, and past chairman and member of the external audit committee of the IMF.

Remuneration and nomination (chairs nomination matters)



S Dakile-Hlongwane (66)

Independent non-executive

Tenure: February 2012

BA (economics and statistics), MA (development economics)

Expertise: Salukazi is chairman of Nozala Investments, which she co-founded in 1996. Her career experience includes: five years as senior investment officer, Lesotho National Development Corporation; 12 years with African Development Bank (Abidjan/Côte d'Ivoire) as country programme officer and later principal corporation officer; senior manager, structured finance division of FirstCorp Merchant Bank and assistant general manager, BOE Specialised Finance. She is a non-executive director of Nozala's investee companies including Basadi Ba Kopane, Woodlands Dairy, Tsebo Holdings Group, PPC, Lanseria International Airport and Constantia Afripack. She is also a non-executive director of MultiChoice South Africa Holdings, and a trustee of Nozala Trust, Chancellor House Trust and the National Movement of Rural Women.

Social and ethics; sustainability, risk and compliance



CJ Fauconnier (69)

Independent non-executive

Tenure: November 2013

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

Expertise: Between 1969 and 1974, Con worked for mining companies in the Anglo American group. For the next two years, he was a student and research assistant at the College of Business Administration, University of Oregon. From 1976 to 1995 he held senior positions in Gencor and JCI. In 1995, he joined Iscor and later became managing director of Iscor Mining. In 2001, he was appointed CEO of Kumba Resources and, in 2006, CEO of Exxaro Resources. He was an executive council member of the Chamber of Mines of South Africa and president from 2003 to 2005. He is a fellow of the South African Institute of Mining & Metallurgy, Institute of Directors of Southern Africa and South African Academy of Engineering. He has been an honorary professor in the department of mining engineering at the University of Pretoria and a fellow at the Gordon Institute of Business Science (GIBS) since 2007. He was an independent mining industry and management consultant from 2007 to 2010, and an independent non-executive director at Xstrata plc from 2010 until 2013.

Remuneration and nomination (chair); social and ethics; sustainability, risk and compliance (chair); audit



MW Hlahla (53)

Non-executive

Tenure: June 2015

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

Expertise: Monhla spent the larger part of her career in the infrastructure sector, starting in 1994 at the Development Bank of Southern Africa, which later seconded her to the municipal infrastructure investment unit. She was then appointed as non-executive chair of Johannesburg Water utility and later as managing director of Airports Company South Africa. In 2012, Monhla was appointed chair of the Industrial Development Corporation and, later that year, as chair of Royal Bafokeng Holdings and non-executive director of Liberty Holdings. She founded RutaThari Group, which invests in smart and innovative skills development and training solutions across Africa.



Audit committee



Remuneration and nomination committee



Social and ethics committee



Sustainability, risk and compliance committee

S Mayet (60)

Independent non-executive

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

Expertise: Saleh is a financial professional with over 30 years' experience. After completing his articles in 1982, he joined the finance division of Anglo American South Africa (AASA), gaining experience in all aspects of financial reporting with ultimate responsibility for a number of listed and unlisted subsidiaries in that group. In 1993, he transferred to the international planning department which managed AASA's offshore structures. After Anglo American plc's London listing in 1999, he fulfilled various finance roles in Johannesburg and London and, in 2008, was promoted to his current position as head of finance for AASA. He has extensive experience on a wide range of corporate activities and currently serves on the boards of AASA and its strategic subsidiaries and trusts. He is also a member of senior management committees tasked with strategy, driving value initiatives and engaging with key stakeholders.

V Nkonyeni (47)

Independent non-executive

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

Expertise: Vuyisa has over 20 years' experience in investment banking and private equity. He completed his training as a chartered accountant with PricewaterhouseCoopers and then joined Deutsche Bank in 1997, where he gained experience in corporate and project finance advisory work over four years. He serves on the boards of Emira Property Fund and MMI Holdings Limited. He has served as financial director of Worldwide African Investment Holdings and director at Actis IIp in its black economic empowerment funding unit. He was appointed CEO of Kagiso Tiso Holdings in 2012.

Audit**VZ Mntambo (59)**

Non-executive

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

Expertise: Zwelibanzi is executive chairman of Xalam Performance. He was formerly a senior lecturer at the University of Natal; executive director of IMSSA; director-general of Gauteng Province and chairman of the Commission for Conciliation, Mediation and Arbitration. He is a director of SA Tourism, and trustee of the Paleo-Anthropological Scientific Trust.

Remuneration and nomination**EJ Myburgh (58)**

Independent non-executive

Tenure: September 2016**Election in 2017***BSc (elec) (Pretoria), BSc (hons) (energy studies) (Johannesburg), MBL (Stellenbosch), executive programme (Virginia)*

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

Remuneration and nomination; social and ethics

BOARD REVIEW (CONTINUED)

Non-executive

MF Randerer (68)

Non-executive

Tenure: June 2013

MRCS, LRCP, DRCOG

Expertise: Globally, Fazel has served as board and council member of the World Medical Association (1997 to 2000), and chaired the global initiative on HIV/Aids reporting (2004). In South Africa, he sat on the Truth and Reconciliation Commission (1995 to 1998), founded the Ethics Institute and served as chairman (1997 to 2000), and served on the Human Rights Commission (1997 to 1999). Working in hospitals and facilities in the UK and South Africa, he specialised in a range of medical disciplines, including occupational health and HIV/Aids. He chaired the Private Healthcare Forum (2004 to 2007) and was health adviser at the Chamber of Mines.

External directorships include chairman of Nehawu Investment Holdings and MediTech South Africa.

Social and ethics (chair)



J van Rooyen (67)

Independent non-executive

Tenure: August 2008

BCom, BCompt (hons), CA(SA)

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

Audit (chair); remuneration and nomination



PCGH Snyders (56)

Independent non-executive

Tenure: July 2016

BEng (mining), dip marketing management, MCom (bus management), mine manager's certificate of competence, registered with ECSA

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

Sustainability, risk and compliance



D Zihlangu (50)

Non-executive

Tenure: November 2006

BSc (eng)(mining) (Wits), MDP (SBL, Unisa), MBA (WBS, Wits)

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

Sustainability, risk and compliance



Audit committee



Remuneration and nomination committee



Social and ethics committee



Sustainability, risk and compliance committee

In line with our standard practice, the chairpersons of the board and committees were re-elected in 2017 based on an assessment of their performance and continued suitability.

Executive directors

MDM Mgojo (56)
Chief executive officer

Tenure: April 2016
BSc (hons) (energy studies), MBA, advanced management programme (Wharton)
Expertise: Previously at Eyesizwe Coal, Mxolisi was responsible for marketing and logistics. After Exxaro's formation, he managed the base metals and industrial minerals commodity business before being appointed to head our coal operations from 2008. He was appointed CEO from 1 April 2016.

Mxolisi is a director of a number of Exxaro subsidiaries, Tronox Limited, Main Street 333, Talent 10 Holdings and Dynamo Investment Holdings.

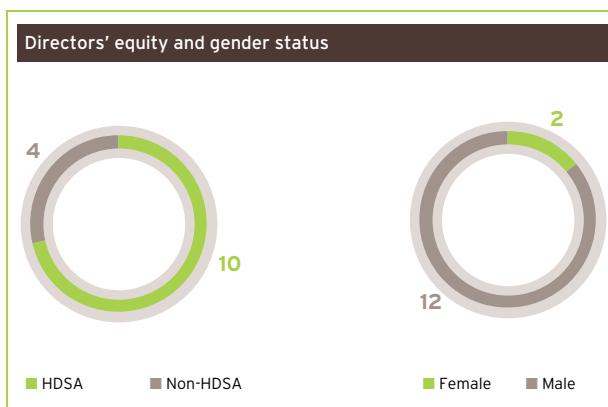
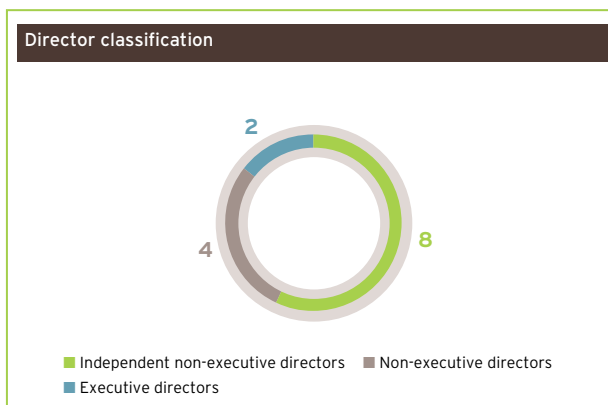
PA Koppeschaar (46)
Finance director

Tenure: July 2016
CA(SA), advanced and associate programmes in treasury management, advanced diploma in taxation, advanced management programme (Insead), certificate in theory of accounting. Member of the Association of Corporate Treasurers

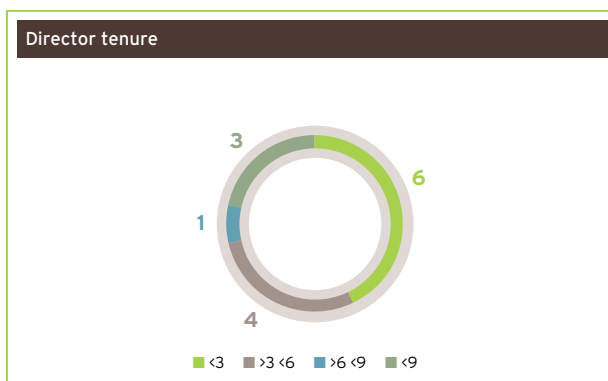
Expertise: Riaan started his career in 1993 at Coopers & Lybrand. After completing his articles, he branched into the fields of treasury, investment management and corporate finance. He has held senior managerial positions at Iscor, Kumba Resources and Exxaro Resources until his appointment as finance director of Exxaro Resources on 1 July 2016. He is a director of several Exxaro subsidiary companies, joint ventures and a trustee and investment committee member of the Exxaro Pension and Provident Funds.

As reported last year, Mr Sipho Nkosi (director since November 2006) retired as chief executive officer and a director of the company on 31 March 2016 and Mr Wim de Klerk (director since 1 March 2009) resigned as finance director with effect from 30 June 2016

Director classification is in line with a review conducted annually (against King III) initially through questionnaires completed by each individual, as well as independent factual confirmation and, lastly, discussion of results and confirmation of classification by Remco. Year-on-year changes confirm that this is not an automatic process, but a rigorous one that ensures accurate classification. As in 2016, a detailed review confirmed the continued independence of the chairman, who has served for over nine years. The other two directors with over nine years' tenure are not classified as independent.



As reported in 2016, the Board Charter and Remco terms of reference include the policy on gender diversity for nomination purposes: the company has not set specific targets. Improved gender diversity will receive focus when the board composition undergoes material changes in 2017.



As per standard process, directors appointed during the year completed a detailed induction process that included:

- › Overview of duties, role, governance, key policies, memorandum of incorporation (MoI), board operation, strategy and material issues by the group company secretary
- › Meeting with the chairman, key executives and visits to business units.

BOARD REVIEW (CONTINUED)

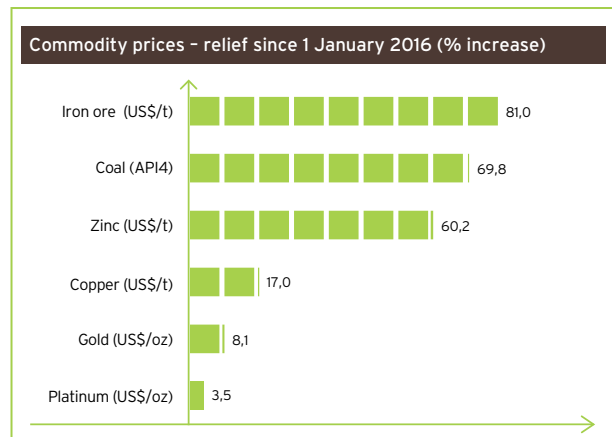
Macro-economic overview

Macro conditions again had an impact on corporate performance across the board. Subdued real global economic growth of 2,5% was recorded in 2016. New economic and political shocks, such as Brexit (or more formally the outcome of the UK's referendum on leaving the European Union), rebalancing China's slowing economy, commodity exporters adjusting to a protracted decline in trade, evolution of demographics and productivity growth as well as geopolitical and political uncertainty limited higher economic activity for the past year. Despite the levels of political and economic uncertainty, economic fundamentals point to a modest acceleration in world economic growth in 2017.

South Africa's economic growth outlook for 2017 remains subject to a number of headwinds - including the impact of dry weather conditions, policy uncertainty, the low-growth trajectory and falling business confidence levels. Key risks for 2017 remain the projected slow economic growth of around 1%, albeit edging up from 0,4% in 2016, weakening government finances and deteriorating domestic politics and policies perceived to harm confidence. The rand exchange rate remained volatile against major currencies throughout 2016, with 2017 expected to be no different.

Commodity review

The review period was characterised by the significant impact of SA government policy, or lack of clear policies, together with producer discipline, on commodity markets. Chinese government stimulus and strict implementation of supply reforms contributed to a more positive view from the dismal outlook for commodities prevailing in late 2015 and early 2016, especially coal.



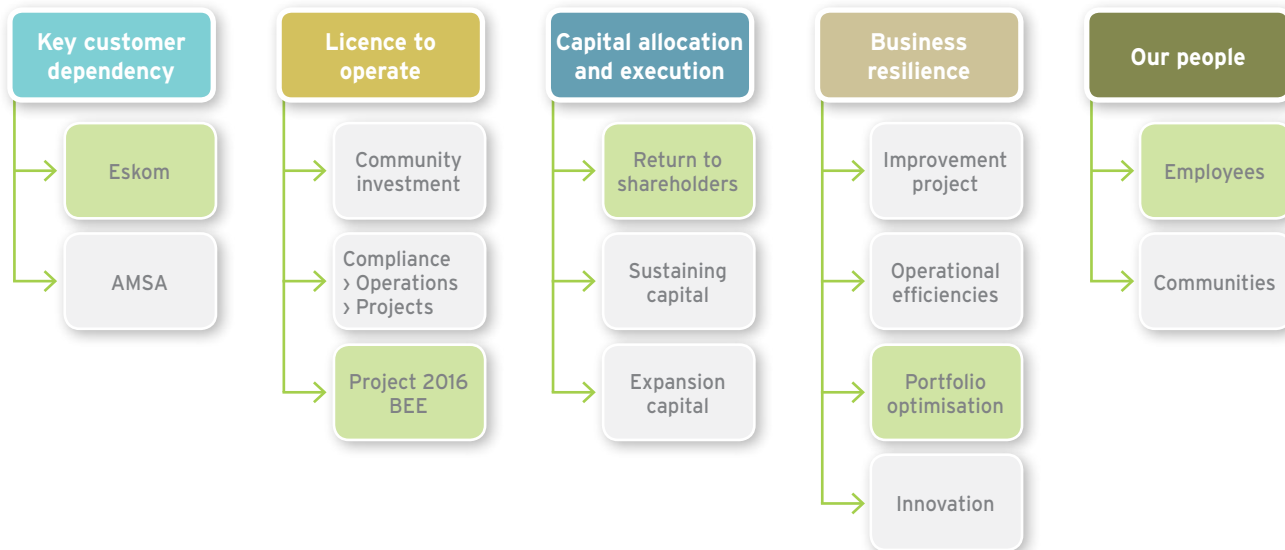
A summary of key economic, commodity price and JSE index changes since 1 January 2016 includes:

- › 11% appreciation in the ZAR per US\$ exchange rate
- › 0,3% real GDP growth rate in South Africa
- › 69,8% increase in coal API4 price, averaging US\$64/t, compared to US\$57/t in 2015
- › 81% increase in iron ore price, averaging US\$58/dmt, compared to US\$56/dmt in 2015
- › 60,2% increase in zinc price, averaging US\$2 108/t, compared to US\$1 932/t in 2015
- › Index percentage points performance since 1 January 2016 - JSE all share: -1%; JSE mining: 54% and JSE coal mining: 103%.



Key board issues in 2016

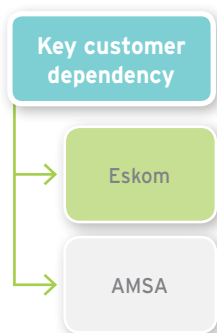
In addition to developing Exxaro's new strategy, the most material issues at board level in the review period were key customer dependency, our new black economic empowerment shareholding structure, ensuring sustainable returns to shareholders, portfolio optimisation and the safety of our employees.



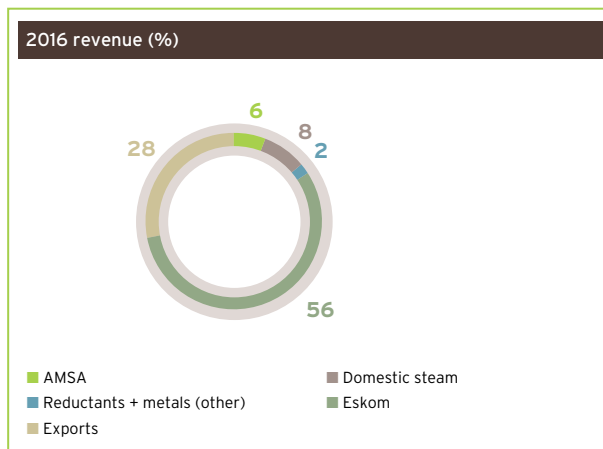
2016 material issues

Exxaro's material issues are summarised above, with those most pertinent at board level highlighted in green and discussed here, while the others are discussed in the executive review. A disciplined risk management process identifies associated risks within each material issue, cascading these up into a comprehensive view (Exxaro's strategic performance dashboard) that enables the board to assess the threat to the group, the required controls and actions to mitigate the risk, and the desired outcome.

Material issue: Key customer dependency



Exxaro relies on Eskom and AMSA for 56% and 6% of its revenue respectively (2015: 64% and 7%). In 2016, sales volumes to Eskom were 68% of the total, down from 77% in 2015.



The impact of our dependency on Eskom remained a key focus area in 2016. On the positive side, our coal business is considered defensive, given long-term offtake agreements with Eskom for over 68% of coal produced to literally power South Africa. On the negative side, Eskom is also our single largest customer, making this relationship vital to our long-term growth.

In 2015, we took a strategic decision on this dependency, balancing the desire to continue working with the utility to ensure electricity supply to the country while maximising export revenue to mitigate risk. Acquiring the extra export entitlement through ECC enabled us to access more offshore customers, supporting our risk-mitigation strategy. As a result, exports grew from 6,2Mt in 2015 to 7,9Mt in 2016 and we continue to focus on market and product diversification to actively reduce our dependency on Eskom and ensure the viability of our growth projects.

BOARD REVIEW (CONTINUED)

In the past two years, the relationship between Eskom and Exxaro has been tested, particularly in the tied segment (Matla and Arnot mines) and, unfortunately, arbitration is under way to resolve some issues. Key developments are summarised below:

- › In early 2016, we had to begin closure proceedings at Arnot after its coal-supply agreement with Eskom was terminated. Exxaro remains committed to any solution that will enable Arnot's sustainable continuation
- › Matla requires capital from Eskom for its capital projects. The mine continues to operate well under the circumstances and is engaging with Eskom at various levels to obtain the necessary capital to reduce operational and safety risks
- › At Grootegeluk, intense liaison is under way to manage the relationship during the Medupi ramp-up period and to act in good faith towards Eskom at all times.

An additional risk to the stability of this relationship is Exxaro's shareholding structure. The reduction in our BEE ownership from 50,19% to a proposed 30% has been negatively received by Eskom in terms of its procurement policy and targets, although our current contracts with the utility will not be affected by our decision to preserve and enhance black net asset value. As reinforced in numerous meetings with Eskom representatives, Exxaro is a South African company and we remain committed to meaningful transformation as opposed to meeting superficial equity targets.

Material issue: Licence to operate



When Exxaro was formed in November 2006, our empowerment shareholders were restricted from selling their shares to non-HDSAs for 10 years, commonly referred to as a lock-in period. This period expired in November 2016. As a strategic imperative and to ensure Exxaro's continued compliance with legislation and codes, we are implementing a replacement BEE shareholding structure. Given the number of board members

with vested interests as shareholders, as communicated previously, finalising a replacement structure is being carefully managed through an independent board subcommittee.

Exxaro supports transformation through economic empowerment ownership, among others, and strongly believes the proposed replacement BEE transaction (as announced on the Stock Exchange News Service, 22 November 2016) has a greater ability to create wealth through its reduced risk profile, which contributes to sustainable empowerment. The new proposed structure is less risky and more flexible - important in a cyclical industry. Exxaro learned valuable lessons from our previous empowerment transaction and aims to create sustainable value for our BEE shareholders. A sustainable ownership structure is in the best interest of BEE shareholders, minority shareholders, the company, employees and our communities.

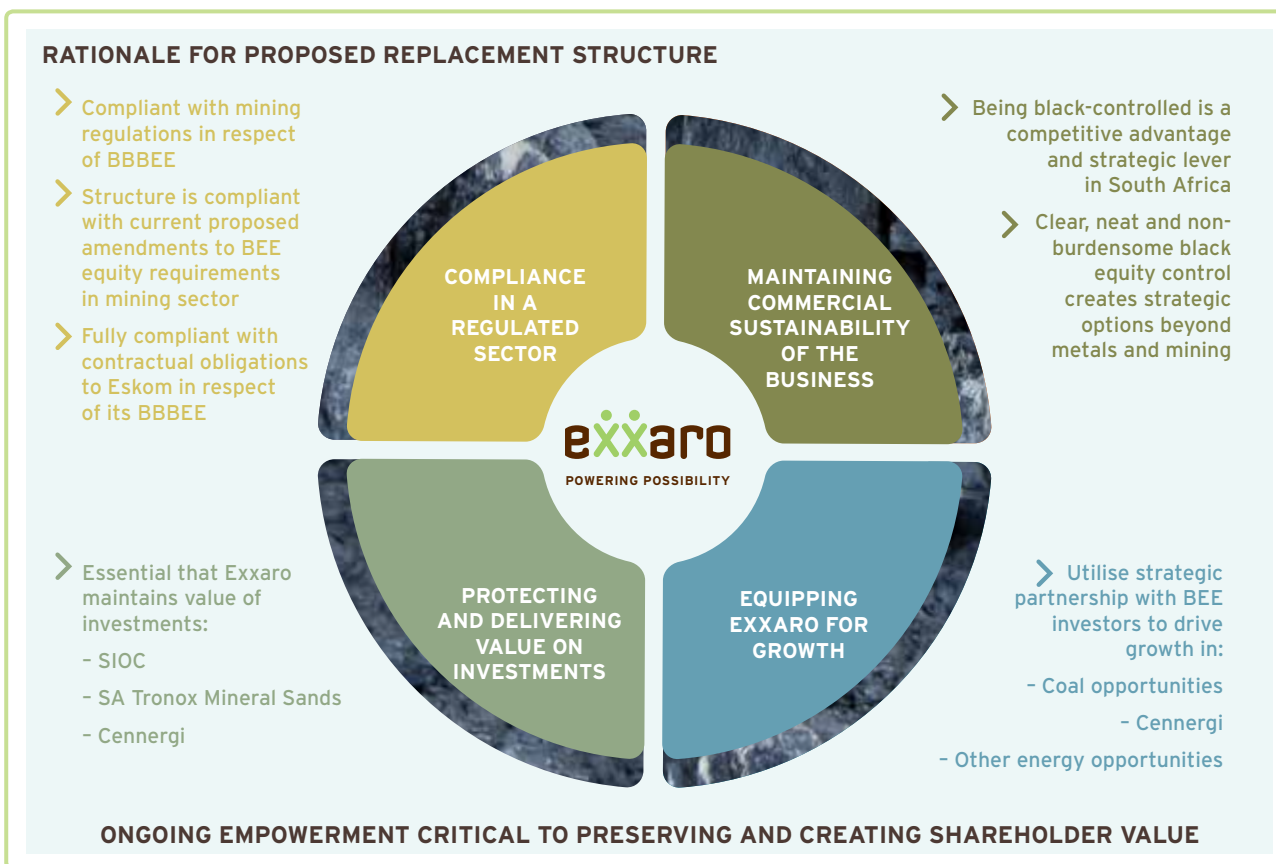
After thorough analysis, we believe a transaction at the listed level is appropriate to ensure flexibility, and a well-capitalised funding package for the new empowerment vehicle, while allowing our strategic BEE shareholders to meaningfully participate in Exxaro's value-creation strategies. Our benchmarking indicated the proposed cost of the replacement transaction is below market norms. We expect to seek shareholder approval in the second quarter of 2017 for the replacement BEE transaction.

Importantly, as noted, Exxaro's current contracts with Eskom are not affected by the decision to reduce our BEE shareholding.

One of the key considerations in opting for a 30% BEE replacement transaction rather than 50% is that a new BEE consortium would have had to raise R16,7 billion to fund a new 50% shareholding transaction. This is not possible in the current environment. On the regulatory side, there has also been no clarity on the 'once empowered, always empowered' principle. The industry awaits a High Court ruling on whether the ownership element of the mining charter should be a continuous compliance requirement for the duration of the mining right (as argued by the DMR), or a once-off requirement (as argued by the Chamber of Mines representing mining companies).

We believe these challenges highlight that it is time for government to adopt a different approach to BEE - one with a more flexible measure of assessing the value of transactions. Equally, we believe national policy must be enabling, rather than prescriptive, by acknowledging milestone achievements in transforming our economy and addressing remaining obstacles to further progress. The lessons of the past have shown that while we must remain ambitious in these transformation efforts, we must also be pragmatic and focus on achievable solutions.

Understanding that continued empowerment is critical in preserving and creating shareholder value, we have structured our replacement BEE ownership at 30%. Our rationale is summarised graphically below.



We believe the replacement BEE transaction presents a more attractive and affordable investment opportunity for potential shareholders although, as noted under the previous material issue, Eskom is not supportive of this reduction. We remind shareholders that while the finer details are being negotiated, Exxaro is trading under a cautionary. We hope to finalise and communicate full details soon.

Material issue: Capital allocation



In 2016, we focused on critically reviewing the overall capital profile and the need to postpone and reduce capital expenditure in response to market conditions. Our revised capital allocation profile reflects our short to medium-term strategic focus on coal as we consider options to diversify our mining operations as part of our business-of-tomorrow strategy. The executive review provides more operational detail on current and planned projects.

BOARD REVIEW (CONTINUED)

Material issue: Business resilience



Due to the cyclical nature of commodities, management continuously evaluates the portfolio of projects and capital allocation, ensuring a robust portfolio that can withstand changes in the global economy.

In evaluating our projects, we consider macro-economic fundamentals, long-term commodity outlooks, remaining life of each asset and the ability of each asset to deliver healthy returns under these changing conditions.

In 2016, we focused on further strengthening the coal portfolio by divesting from assets close to their end of life, such as Inyanda, while allowing for greenfield growth via Belfast and organic growth at long-term strategic assets. Optimising assets to be retained in our portfolio remains a primary focus and aimed at improving their cost-curve position.

Aligned with our longer-term strategy, we continually evaluate the role in our portfolio of reductants, iron ore (SIOC), zinc (Black Mountain and Chifeng), heavy minerals (Tronox) and energy (Cennergi).

Based on a careful strategic review, Exxaro has decided to begin monetising its Tronox shares (44% stake valued at US\$911 million on 7 March 2017). This will probably not happen until later in the year, with proceeds chiefly applied to fund capital commitments. We believe this is in the best interests of our shareholders and in line with our long-term strategic focus of creating value in our core operations.

Equally, we believe the timing could be opportune to begin disposing of our stakes in Black Mountain and Moranbah South.

Management will continue optimising the asset portfolio through a robust process, ensuring sustainability, growth and shareholder return.

Specific projects are detailed in the executive review on page 68.

Material issue: Our people



The board is delighted to note the significant improvement in Exxaro's safety performance, both in 2016 and across its first decade. Zero fatalities for a second year and a record low lost-time injury frequency rate reflect the unwavering focus and commitment of all our people.

There was also no labour unrest in the reporting period, with continued positive relations with organised labour.

Strategic performance dashboard

Over the past five years, we have refined the process of measuring our strategic progress in an integrated way by:

- › Implementing a combined risk management framework, that ensures everyone understands what is material to Exxaro and why
- › Establishing a sustainability framework
- › Identifying key performance indicators or KPIs aligned with material issues, risks and our sustainability framework, with the board setting a tolerance level or appetite for each metric
- › Linking the combined assurance plan with risks, material issues and KPIs.

The result is a strategic performance dashboard (explained on page 2) that gives the board and executive the most critical information required to measure and manage Exxaro's strategy and performance. It also provides a transparent and consolidated view to stakeholders on our drivers of value and sustainability.

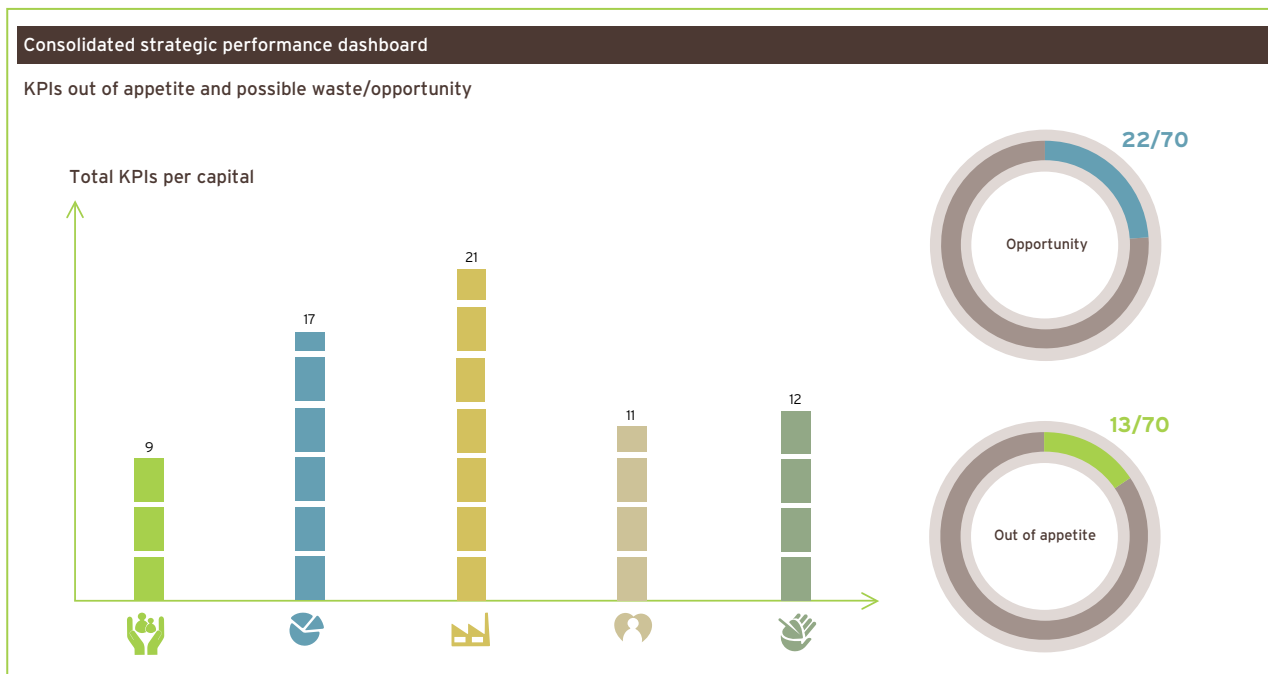
We believe this dashboard is one of the best industry examples of true integration between strategy, material issues, the six-capitals framework, risk and risk appetite, assurance and measurable performance metrics. Each board committee reviews those sections of the dashboard within its scope.

Performance on dashboard metrics is extensively discussed in the executive review and supplementary report, but we include a summary below.

Exxaro measured 70 KPIs in 2016, and 19% exceeded our risk threshold, requiring immediate action or improved controls (out of appetite):

- › **Financial capital:** The number of KPIs exceeding threshold increased, as we continued to weather the commodity down cycle
- › **Manufactured capital:** These KPIs performed well with 22% (2/11) classified as out of appetite. Exxaro's people productivity needs to improve, but the project execution KPIs reveal that Exxaro has a world-class project lifecycle planning process

- › **Natural capital:** 33% of the KPIs were out of appetite, mainly due to the higher number of stoppage directives received and the lower contribution to rehabilitation funds of Exxaro's Eskom mines
- › **Social capital:** We continued to perform very well against mining charter targets and several elements of the BEE codes, resulting in only 14% of KPIs being out of appetite
- › **Human capital:** Mixed performance - our safety record was exceptional, but internal talent management and skills retention metrics placed 23% of the KPIs in the out of appetite band. The talent and skills retention challenges will be addressed as the new governance and operating model is embedded. The focus will be on ensuring our talent risks and mitigating strategies are well monitored
- › **Intellectual capital** will be monitored from January 2017.



BOARD REVIEW (CONTINUED)

Governance

As a board, governance permeates all we do and underpins our decision-making process and oversight role. It is not an event, an initiative or policy, it is a culture that drives us as an ethical, values-based and proudly South African resources company. We are driven by the firm belief that our licence to operate and sustainability depend on Exxaro being a responsible and accountable corporate citizen.

Over recent years, we have explained our governance processes to stakeholders in detail. This information remains available in our supplementary report (refer application of King III on page 9).

We execute our oversight role through quarterly board and committee meetings, which are managed against detailed terms of reference and annual plans. In addition, we have two full-day governance sessions, and a detailed two-day strategic review each year.

As special projects or strategic issues require, additional meetings are held. Some require attendance by the entire board while, for others, special committees are constituted. As communicated previously, an independent board subcommittee was established to deal with the BEE unwind and replacement transaction; this committee held numerous meetings during the year to give sufficient attention to this critical strategic issue.

In our prior report, we noted that we would continue with economic, social and governance (ESG) roadshows. Given the need for a number of special engagements with shareholders on our proposed new BEE structure, we postponed ESG-specific roadshows to later in 2017 or early 2018. As detailed in the remuneration report, however, we have increased our focus on the importance of ESG measures by incorporating these into the vesting conditions of our long-term incentive plan.



King III and IV

We maintained our application of King III (see supplementary report on page 9). Considering the impact King IV will have on processes and policies, the board decided not to complete the standard annual review of its charter, committee terms of reference, annual plans and related policies (it merely confirmed the continued applicability of key policies, such as the division of responsibilities between the chairman and CEO).

In line with our integrated view of King IV, our plans for 2017 include:

- › A detailed gap analysis
- › Training for the board, executive management and key staff
- › Detailed planning to address identified gaps, which will include amending all board and relevant company documentation
- › Given the timelines of the activities above, determining when reporting against King IV will begin.

Key performance indicators

As explained in our prior report, the board and committees set annual key performance indicators (KPIs) to ensure that, in addition to general requirements placed on these bodies, their attention is directed to key activities that support and enable management in achieving the group strategy. We recognise that these KPIs are still more quantitative in nature, but we aim to mature them into more meaningful qualitative measures to give stakeholders an in-depth understanding of the performance of the board and its committees.

The board and committee evaluation for 2016 therefore only focused on whether these KPIs had been achieved.

2016 KPI	Evaluation score*
Improved use of the strategic dashboard to manage and monitor the strategy	3,7
Stakeholder engagement: bespoke session	3,5
Attendance of governance and strategic sessions: 100% attendance and active participation	3,8
Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company	3,6

* Scored out of 5. Scores above 3,5 rated as green, 3 to 3,5 as amber and below 3 as red.

Committee KPIs are discussed in each committee report.

The board set the following KPIs for 2017:

- › Shareholder approval for a sustainable and acceptable new BBBEE structure, implemented in 2017: independent board committee guidance and shareholder engagement
- › Active support of the company's innovation imperative and excellence-in-action process: attending and participating in bespoke sessions as required, strategic guidance and support
- › Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other boards with the board/company.

Group company secretary

The board is guided and supported by Mrs Carina Wessels, group company secretary and legal, and recognises her pivotal role in entrenching good corporate governance. All directors have access to her advice and services, as well as to independent professional advice at the group's cost through her office.

In line with the board's established annual evaluation to consider and satisfy itself of Carina's competence, qualifications and experience, we again completed a detailed and formal process that:

- › Evaluated her competence: score of 4,5 out of 5
- › Confirmed the suitability of her qualifications (page 56), supplemented in 2016 with an LLM in extractive industry law in Africa (cum laude). She again exceeded her continued professional development requirements
- › Confirmed her experience: over 15 years in the mining industry and 12 specifically in corporate secretariat positions.

Carina provides daily industry updates for directors as well as quarterly detailed governance and legislative updates. She also organised the two standard full-day governance sessions that form part of continued professional development for directors. In 2016, these dealt with:

- › Cyber security risks and global trends
- › Legal developments in environmental regulations for mining
- › Innovation in the mining industry
- › Risk management: appetite and tolerance levels, impact on strategic performance dashboard
- › Global mining industry research, trends and risks
- › Disruption and the general impact on business
- › Shareholder engagement: research, best practices and next steps
- › Global business risk reviews
- › Overview of key JSE Listings Requirements for new directors.

Board committees

There were no changes to the number of committees or their responsibilities during the year: all committees comprised a majority of independent non-executive directors.

Committees maintained their group focus, and no subsidiaries have their own board committees.

Committee reports follow, with the remuneration committee's report summarised here and detailed in our supplementary report on page 21. These reports include information to give stakeholders a better understanding of how committees have assisted the board in executing (without abdicating) its duties, powers and authorities.

AUDIT COMMITTEE REPORT



The audit committee is pleased to present its report for the financial year ended 31 December 2016

Purpose

Apart from the statutory duties of an audit committee as set out in the Companies Act, JSE Listings Requirements and King III, the ambit of this committee has been expanded to include financial risk management, financial compliance, combined assurance and aspects of integrated reporting. In terms of this mandate, its key objectives are to:

- › Examine and review the group and company annual financial statements, reports and results
- › Oversee the internal and external audit functions and their cooperation, and serve as a link between the board and these functions
- › Evaluate the qualification, appropriateness, eligibility and independence of the external auditor
- › Ensure effective internal financial controls are in place
- › Review the integrity of financial risk control systems and policies
- › Evaluate the competency of the finance director and finance function
- › Oversee the effectiveness of the combined assurance plan and outcome.

Effectiveness against 2016 KPIs and committee evaluation

2016 KPI	Evaluation score*
Greater oversight over IT governance and its maturity: <ul style="list-style-type: none"> › Higher level of understanding of the framework and debate/discussion of key issues › Increased time allocation to IT governance until an acceptable level of assurance is achieved 	3,7
Greater oversight over implementation of combined assurance model: one committee member attending combined assurance forum as observer on a rotational basis to further enhance understanding and enable better oversight	3,6
Improved use of strategic dashboard to manage and monitor strategy: debate/questions asked and remedial actions requested to address below-appetite performance on KPIs	4,1
Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company	3,6

* Scored out of 5. Scores above 3,5 rated as green, 3 to 3,5 as amber and below 3 as red.

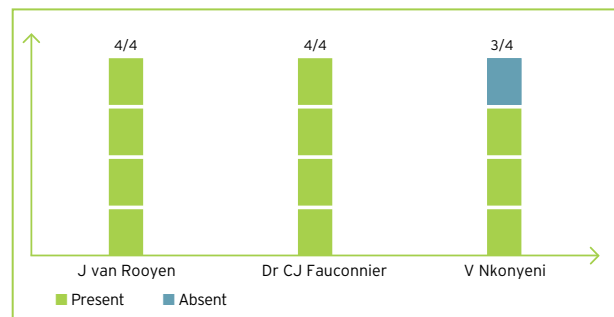
In addition to these specific KPIs, the committee carried out the duties and responsibilities stipulated in its terms of reference and detailed annual plan.

The committee set the following KPIs for 2017:

- › Support to new finance director: active support and guidance to ensure optimal functioning. Ensuring sustained depth and capacity in finance function post-Exxaro improvement project
- › Greater oversight on implementing combined assurance model: one committee member attending combined assurance forum as observer rotationally to further enhance understanding and enable better oversight
- › Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company.

Composition

The committee consisted of three independent non-executive directors for the review period:



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

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

External auditors

The group's independent external auditors are PwC. Fees paid to the auditors are disclosed in note 7.1.3 and 7.1.4 to the annual financial statements for the year ended 31 December 2016. Exxaro has an approved policy to regulate the use of non-audit services by the independent external auditors. This differentiates between permitted and prohibited non-audit services and specifies a monetary threshold against which approvals are considered. In the review period, PwC was paid R33 million (2015: R32 million), which included R25 million (2015: R23 million) for statutory audit and related activities as well as R8 million (2015: R9 million) for non-audit services, mainly for additional tax advisory and compliance services. The committee is satisfied with the level and extent of non-audit services rendered during the year by PwC and that these did not affect its independence.

The audit committee annually assesses the independence of PwC and again completed this assessment at its meeting on 6 March 2017. PwC was required to confirm that:

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

Based on this assessment, the committee again nominated PwC as independent external auditors for 2017. Shareholders will therefore be requested to re-elect PwC in this capacity for the 2017 financial year at the AGM on 25 May 2017.

Internal auditors

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

Annual financial statements

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

Statement on effectiveness of internal financial controls

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

Key issues that received attention in 2016

- › The committee was naturally closely involved in selecting the new finance director, given the importance of ensuring the chosen incumbent was able to generally support the chief executive officer and deliver on key strategic projects. As part of this process and in terms of the JSE Listings Requirements 3.84(h), the committee satisfied itself of the finance function's resources, experience and expertise as well as the appropriateness of the expertise and experience of the finance director
- › The committee dealt with a number of tax-related matters during the year and, as in 2015, impairment testing was critical while economic conditions initially remained depressed
- › The committee noted the discourse on mandatory audit firm rotation and will continue to monitor developments to align with any new requirements.



REMUNERATION AND NOMINATION COMMITTEE REPORT



The supplementary information contains our detailed remuneration policy and implementation thereof during the period, whilst the detailed directors and prescribed officers remuneration tables are contained in the audited group and company annual financial statements 2016.

Purpose

The committee is a combined committee overseeing remuneration matters for all controlled subsidiaries and nomination matters for Exxaro Resources Limited only. Its key objectives are to:

- Make recommendations on remuneration policies and practices, including Exxaro's employee share schemes, for all controlled companies
- Ensure effective executive and board succession planning
- Review medical aid and retirement fund contributions and performance
- Review compliance with all statutory and best practice requirements on labour and industrial relations management in collaboration with the SRC committee.

Effectiveness against 2016 KPIs and committee evaluation

2016 KPI	Evaluation score*
Enhanced board succession planning: detailed board succession plan for next four years	3,00
Support to new executive head of human resources: active support and guidance to ensure optimal functioning	3,38
Improved use of strategic performance dashboard to manage and monitor strategy execution	3,88
Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,25

*Scored out of five. Scores above 3,5 rated as green, 3 to 3,5 as amber and below 3 as red.

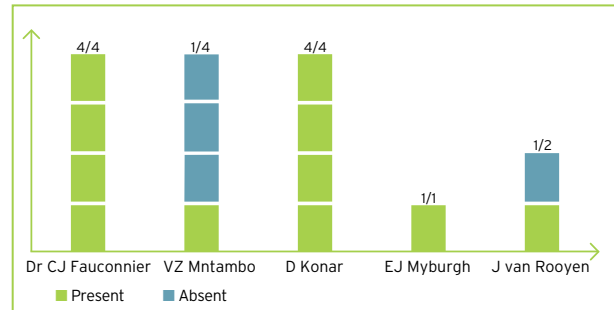
In addition to the specific KPIs, the committee carried out its duties and responsibilities as stipulated in the terms of reference and detailed annual plan.

The committee set the following KPIs for 2017

- **Enhanced board succession planning:** detailed plan for next four years, especially to ensure new skills and experience required to achieve a revised Exxaro strategy are incorporated
- **Support to new executive head of HR:** active support and guidance to ensure optimal functioning
- **Oversight of strategic resourcing:** commission a detailed skills audit of areas impacted by the Exxaro improvement project and consider the need to address and rectify any potential identified areas of concern
- **Compliance oversight:** detailed consideration of the adequacy of plans to address deficiencies in compliance with the requirements of employing people with disabilities in accordance with the new mining charter
- **Sharing best practice:** individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company.

Composition

The committee consisted of four independent non-executive directors for the review period:



Attendees include the CEO, FD, executive head: HR and other individuals with specific skills and expertise to assist members in their deliberations.

Key issues that received attention in 2016

- As communicated in the prior report, board succession required material focus in 2016. We made progress, appointing Messrs Snyders and Myburgh to specifically address identified deficiencies (detailed in our prior report) in technical skills and experience in mining engineering. However, as reflected in the KPI scoring, the committee has not yet achieved the desired state for board succession planning. We are, however, confident that we have effectively addressed immediate needs. The changes in our BEE structure will also affect the board composition in 2017. Considering these changes, coupled with the different skill sets we might need to meet our new strategic aspirations, will necessitate significant focus on board succession in 2017
- The committee continued to support the new chief executive officer and assisted the audit committee in the process of replacing the finance director
- The committee gave attention to concepts such as:
 - Wage gap trends in both the local and global context, and will continue to monitor this over the next few years
 - Minimum wage - impact on the business
 - Impact of labour legislation (labour-broker employees/ fixed-term employees) on the business
- Considered the impact of the Exxaro improvement project and associated voluntary severance packages and retrenchments (discussed in detail elsewhere).

Dr CJ Fauconnier

Chairman of the remuneration and nomination committee
Pretoria
12 April 2017

As per our prior report, detailed disclosure of the CEO and FD performance scorecards follow.

**Chief executive officer (CEO): performance scorecard guaranteed pay
(MDM Mgojo) 1 April to 31 December 2016**

Key performance areas	Weight	Performance		Performance rating
		Target	Actual	
Operational excellence	25			
Target setting	5	Annual top-down and bottom-up target-setting process	Demonstrated stretching on controllable business drivers	Above full performance
R/tonne	15	Rand per tonne budgeted	6% improvement	Full performance
Cash flow	5	Budgeted cash flow	Major improvement against budget	Above full performance
Sustainability	10			
Safety	5	LTIFR 0,15	0,09	Above full performance
Socially Responsible Investment index and risk management	5	Exxaro between median and upper quartile (70%) of mining sector of global standard environmental, safety and governance rating	71%	Above full performance
Portfolio improvement	10			
HEPS improvement against peers	6	Over 3 years 2014 – 2016	Delta HEPS 4% better than peers for comparative period	Full performance
Alignment with strategy	4	Manage portfolio in line with strategy	Aligned	Above full performance
Corporate governance	10	Comply with all regulations, King III, JSE and Companies Act, etc	Complied as per strategic dashboard	Full performance
Exxaro brand and reputation	5	3 performance (Exxaro brand remains well regarded among various stakeholders)	4 performance (Interaction with stakeholders in this period was factual, on time and addressed their concerns)	Above full performance
Strategy development and implementation	15	Strategy development, execution, alignment as approved by board	Complied as well as developed and introduced future-world themes and perspective	Above full performance
Group services add value	5	Solution enablement for staffing, facilities, enabling technology, change management	All functional services achieved >3 ratings on service delivery targets	Full performance
Leadership and people	20			
Employment equity and procurement	5	Comply with all targets in mining charter and employment equity plans	Improvement on all targets, except disability	Full performance
Culture and leadership	15	People strategy developed and targets set for implementation	Strategy signed off for implementation 1 January 2017	Full performance
Overall performance	100			Full performance

REMUNERATION AND NOMINATION COMMITTEE REPORT (CONTINUED)



Financial director (FD): performance scorecard guaranteed pay (PA Koppeschaar) 1 July to 31 December 2016

Key performance areas	Weight	Performance		Performance rating
		Target	Actual	
Vision and strategy	35			
Develop, communicate and execute a compelling Exxaro vision and long-term strategy	20	Actively lead and outperform peers (mining industry) on the formulation, implementation and execution of strategy	Vision and strategy formulated and communicated	Full performer
Ensure a funding strategy is implemented that is in line with Exxaro strategy, while always ensuring robust balance sheet structure	15	Net debt covered 120% by term loans, EBITDA interest cover >4 times	EBITDA interest cover >4 times	Above full performance
Capital process management				
Capital process roll out in Exxaro	15	Independent technical, financial and legal review of projects	Assessment by CEO	Full performance
Sustainability				
Adequate risk management controls and procedures	10	Accurate setting out and reporting of risks and returns	Methodology established, communicated; compliance and risk managed, strategic dashboard rolled out	Above full performance
Reputation				
Positive contribution to image of company at investor conferences, with investor community and banks	10	Rating using perception survey	3 rating	Full performance
Leadership and people				
Talent management, fast-tracking and performance management of own staff	5	Succession planning in place and executed with results	1 x 3B rated candidate in place for all GM and general management positions	Developing and in progress
Operational excellence				
Effective financial management budgeting and reporting process in place	10	Timely, accurate and relevant reporting in place	On time, despite uncontrollable events and improved disclosure to investors	Above full performance
Value release	15			
Savings from strategic sourcing, business unit initiatives and capital buying	5	Achieve R210 million savings by using commodity and business unit teams and R110 million on capital projects	Achieved 100% of target	Full performance
Supply chain management sustainability	10	Achieve mining charter targets and Exxaro preferential procurement targets	Achieved 110% of targets	Above full performance
Overall performance	100			Full performance

SOCIAL AND ETHICS COMMITTEE REPORT



Purpose

To monitor the group's activities, considering relevant legislation, other legal requirements or prevailing codes of best practice on:

- › Social and economic development
- › Good corporate citizenship
- › The environment, health and public safety, including the impact of our activities, products or services
- › Consumer relationships, including our advertising, public relations and compliance with consumer protection laws
- › Labour and employment
- › Anti-bribery and corruption.

The committee scrutinises and provides independent oversight over the remuneration and SRC committees' ambit, for example by discussing the associated moral imperative of operational issues dealt with by these committees.

Effectiveness against 2016 KPIs and committee evaluation

2016 KPI	Evaluation score*
Evaluating the impact of Exxaro's activities specifically on public safety, in addition to the standard mine health and safety discussions at the SRC committee	3,4
Evaluating the impact of Exxaro's activities on contractors, treatment of contractors and the contractor philosophy	3,2
Increased understanding of the impact of the company's social and labour plans and projects, specifically by visiting projects	3,6
Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company	3,4
Evaluate and approve 2016 and medium-term anti-bribery and fraud risk maturity initiatives	3,6

* Scored out of five. Scores above 3,5 rated as green, 3 to 3,5 as amber and below 3 as red.

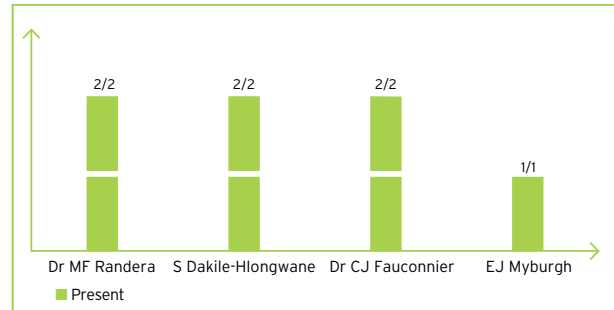
In addition to specific KPIs, the committee carried out the duties and responsibilities in its terms of reference and detailed annual plan.

The following were retained for 2017 and no new KPIs added:

- › Evaluating the impact of Exxaro's activities specifically on public safety, in addition to the standard mine health and safety discussions at the SRC committee
- › Evaluating the impact of Exxaro's activities on contractors, treatment of contractors and the contractor philosophy
- › Sharing best practice: individual directors actively sharing deemed appropriate and applicable best practice from other committees with the committee/company.

Composition

The committee consisted of a majority of independent directors throughout the period.



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

Key issues receiving attention in 2016

- › As in prior years, the efficacy of proactive processes and systems to safeguard employees and their health and safety received significant focus. As discussions have not yet focused sufficiently on the impact of activities on public health, we are retaining this KPI for 2017
- › Similarly, progress with anti-theft, bribery and corruption (ABC) risk management initiatives received regular attention: significant progress has been made since the programme's inception three years ago. Future initiatives include entrenching the ABC e-learning programme as part of employee induction, as well as refresher training to all employees and rolling out bargaining-unit training, which was postponed in 2016
- › Risks relating to inappropriate sexual conduct underground, as noted in our last report, continued to receive attention. We were encouraged by increased reporting of sexual harassment incidents: although the aim is to reduce the rate of incidents, we believe increased reporting indicates greater trust in and protection awarded through the process. We will continue to focus on this issue in 2017
- › In the context of social giving and donations, we debated at length the importance of support to initiatives and groupings in the South African political landscape, while ensuring that any support cannot be negatively perceived as a desire to unduly influence: discussions on this sensitive topic will continue in 2017. The success of social and labour plan projects in enabling true economic transformation was again debated and we agreed that a complete revision of the company's philosophy and strategy on social investment would occur in 2017
- › Lengthy discussions also focused on Exxaro's stakeholder initiatives, especially interaction with government and the format of such engagements to foster mutual trust and effect meaningful change in South Africa. The company remains committed to supporting and contributing to initiatives that enable a sustainable and prosperous South Africa.

SOCIAL AND ETHICS COMMITTEE REPORT (CONTINUED)



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

Statistics: forensic investigations

		2012	2013	2014	2015	2016	Total
Total investigations	Number	272	400	448	457	623	2 200
Disciplinary inquiries	Number	759	393	156	201	204	1 713
Arrests	Number	81	132	164	175	73	625
Copper thefts*	Number	64	68	61	72	62	327
Value of copper theft	R	2 047 822	2 433 516	3 211 738	9 171 997	6 840 272	23 705 345
Copper recovered	R	1 022 091	1 930 997	1 166 779	2 721 239	1 471 948	8 313 054
Value of investigations	R	8 632 206	11 497 926	16 619 805	18 479 396	30 575 455	85 804 788
Value recovered	R	4 151 626	8 861 563	10 491 166	11 044 407	3 666 214	38 214 976

* In addition to numbers above.

The sharp increase in 2016 investigations mirrors the greater number of reports received which, in turn, reflects confidence in the anonymity of the hotline, despite many cases proving unfounded. Lower values recovered are due to a sizeable single case of collusion: while we obtained judgment against the perpetrators, we were unable to recover our losses.

Dr MF Randera
Social and ethics committee chairman

Pretoria
12 April 2017



SUSTAINABILITY, RISK AND COMPLIANCE COMMITTEE REPORT



Purpose

- › To provide oversight on all material non-financial issues influencing strategy and the long-term viability of the company, namely sustainability (including safety, health and environmental matters) as well as risk management and compliance methodologies, processes and performance. The audit committee remains accountable for financial risk and compliance
- › Provide oversight over the process, ensuring Exxaro reports annually through an integrated report, although final approval of the report is done by the board as a whole.

Effectiveness against 2016 KPIs and committee evaluation

2016 KPI	Evaluation score*
Entrenching oversight of risk governance: comprehensive risk management assessment in 2016 to refresh process, principles and for board to review risk tolerances and key actions	3,7
Improved use of strategic dashboard to manage and monitor the strategy: debate/questions asked and remedial actions requested to address below-appetite performance on KPIs	3,9
Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company.	3,4

*Scored out of five. Scores above 3,5 rated as green, 3 to 3,5 as amber and below 3 as red.

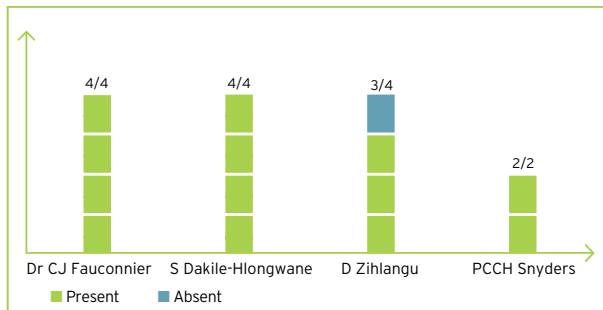
In addition to specific KPIs, the committee carried out the duties and responsibilities in its terms of reference and detailed annual plan.

The committee set the following KPIs for 2017:

- › Improved use of strategic dashboard to manage and monitor strategy: debate/questions asked and remedial actions requested to address below-appetite performance on KPIs (although this was rated as green in 2016, the executive committee believed there were still opportunities)
- › Committee visible felt leadership initiatives: formal and informal visits to business units
- › Oversight of safety culture: commission detailed audit on hazard identification and risk assessments (HIRAs) throughout the group and consider adequacy of remedial plans to address identified areas for improvement to enhance the efficacy of HIRAs at all business units
- › Greater oversight on implementing combined assurance model (especially risk and compliance): one committee member attending combined assurance forum as observer rotationally to further enhance understanding and enable better oversight
- › Sharing best practice: individual directors actively sharing appropriate and applicable best practice from other committees with the committee/company.

Composition

The committee consisted of a majority of independent directors throughout the period.



The chairman of the board is invited to attend committee meetings. Other attendees include the CEO and FD, as well as individuals with the necessary technical experience to assist members in technical deliberations are invited as required.

Key issues receiving attention in 2016

- › On 31 December 2016, Exxaro marked an unprecedented milestone: two consecutive calendar years without a fatality. The board thanks management and all employees who made this possible and we look forward to maintaining our aspiration of zero harm
- › A second unprecedented milestone: achieving a lost-time injury frequency rate (LTIFR) for the group of 0,09 against the target of 0,15 (a 47% improvement) - the lowest in Exxaro's history. We have therefore reduced the 2017 target to 0,11
- › Sustainability, risk and compliance or SRC KPIs continue to be discussed at every meeting: these KPIs deal with material items extracted from the strategic performance dashboard applicable to the committee's oversight role (refer earlier detailed discussion of the dashboard)
- › As in prior years, specialist and business unit reports were presented to the committee by rotation. In 2016, the most material discussions included:
 - Regular updates on the Arnot mine closure and related activities, although this was also extensively discussed by the board due to its material impact on employees (refer page 21, supplementary report).
 - Exxaro Coal Central presented its SRC status and compliance to the committee for the first time in early 2016. Although some performance aspects were affected by the lack of capital expended by the previous owner over time, this received operational focus throughout 2016 and contributed to ECC's stellar performance
 - Despite not being a wholly owned subsidiary, for the first time the committee received a Mafube presentation on its SRC status and compliance. Although Mafube is influenced by Anglo American's philosophies and policies, the committee was able to express comfort over the SRC performance of this joint venture

SUSTAINABILITY, RISK AND COMPLIANCE COMMITTEE REPORT (CONTINUED)



- Detailed feedback from COP-21 and related investor sentiments, which fed into further discussions on the company's coal strategy and future direction during the board strategy session in June 2016
 - Resulting from the unfortunate 2015 Bento Rodrigues dam disaster in Brazil, the committee discussed in detail the status of Exxaro's tailings and dam facilities where maintenance actions are ongoing, with no material high risks
- › The committee continues to visit business units for first-hand reviews of SRC practices and policies and, in 2016, visited Grootegeluk.

The committee embraces its role to guide the company on SRC issues and to ensure Exxaro remains a responsible corporate citizen. Equally, the committee views its role as an imperative delegated by the board, and an opportunity to make a meaningful contribution to South Africa by helping to secure the sustainability of our business for each of our stakeholders.

Dr CJ Fauconnier
Chairman of the SRC committee

Pretoria
12 April 2017





03

EXECUTIVE REVIEW

EXECUTIVE REVIEW

We have been entrusted and mandated by the board to execute Exxaro's approved strategy. To elaborate on how we achieved this in 2016, we have structured this discussion around our material issues and the indicators used to track our performance.

Executive committee



Mxolisi Mgojo
Chief executive officer

Riaan Koppeschaar
Finance director



Vanisha Balgobind
Executive head:
human resources

Wim Diedericks
Executive head: business
development

Johan Meyer
Executive head:
projects and technology

We include the relevant board-approved risks to describe how we have responded to threats and opportunities that may affect the performance of our business in creating (or destroying) stakeholder value.



Mzila Mthenjane
Executive head: stakeholder affairs

Dr Nombasa Tsengwa
Executive head: coal



Mongezi Vetu
Executive head: sustainability

Carina Wessels
Group company secretary and legal

EXECUTIVE REVIEW (CONTINUED)

Executive

Mxolisi Mgojo (56)

Chief executive officer from 1 April 2016

Refer board review on page 35

Riaan Koppeschaar (46)

Finance director from 1 July 2016

Refer board review on page 35

Wim Diedericks (49)

Executive head: business development

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

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

Vanisha Balgobind (44)

Executive head: human resources

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

Experience: Vanisha is a registered industrial psychologist with 18 years' experience in the mining industry. She was appointed as an HR assistant at Mondi Kraft in Richards Bay in 1996 and joined Iscor Mining in 1997 as an HR trainee. She served at Kumba Resources as an HR consultant and talent management consultant between 2001 and 2006. At Exxaro, she headed talent management and staffing for five years, was manager for corporate projects and HR optimisation for two years, and then group manager for talent and learning before assuming her current position.

Johan Meyer (48)

Executive head: projects and technology

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

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

Mzila Mthenjane (47)

Executive head: stakeholder affairs

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

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

Dr Nombasa Tsengwa (52)

Executive head: coal operations

PhD (agronomy) (Maryland, US), executive development programme (Insead)

Experience: Nombasa has over 15 years of executive management and board experience in the public and private sector. In 2003 she joined Kumba Resources as general manager: safety, health, and environment. In 2007 she was appointed executive general manager: safety and sustainable development. In 2010, she became directly involved in the coal operations, as general manager of tied mines, and general manager of Mpumalanga operations. After acting in her current role for one year, she was appointed in a permanent capacity from May 2016.

Mongezi Vetu (53)

Executive head: sustainability

National higher diplomas in metalliferous mining and coal mining (Technikon Witwatersrand), MBL (Unisa), advanced management programme (Wharton), mine overseer's certificate and mine manager's certificate of competency for fiery mines

Experience: In the early 1980s, Mongezi worked for AngloGold at Western Deep Levels and joined Sasol Mining in 1994. In 2002, he became mine manager at Arnot, and was appointed an area general manager in Exxaro soon after the merger, before assuming his current role in 2015.

Carina Wessels (39)

Group company secretary and legal

LLB advanced labour law (cum laude) (Pretoria), LLM (labour law) (Unisa), management development programme (cum laude) (GIBS), FCIS (CSSA), LLM (extractive industry law in Africa) (cum laude) (Pretoria)

Experience: Carina is an admitted advocate of the High Court of South Africa and a fellow and past president of Chartered Secretaries Southern Africa. She is also a past president of the Corporate Secretaries International Association and remains on that executive committee. She spent nine years with De Beers in various operational and head office positions, including human resources, business improvement and corporate secretariat, as well as a period with Investec as corporate secretariat legal adviser. She assumed her current role in 2011, with executive accountability for legal from January 2017.

Snapshot of 2016 - market recovery but uncertainty remains

Macro environment

- › Recovery in seaborne coal and iron ore price supporting restructuring initiatives
- › Share price recovered to a high of R89,50 at year end from a low of R44,04 in December 2015
- › Significant changes in global political and economic landscape - Brexit referendum, US interest rates and European elections
- › RSA real GDP growth for 2016 at 0,4% from 1,26% in 2015
- › Ongoing policy uncertainty on black economic empowerment in the domestic mining sector

Highlights

	2016	2015	% change
Second year of zero fatalities	<ul style="list-style-type: none"> › Fatalities = zero › LTIFR = 0,09 	<ul style="list-style-type: none"> › Fatalities = zero › LTIFR = 0,17 	47%
Strategy delivering improved operational performance – production and cost	<ul style="list-style-type: none"> › Export volumes at 7,9Mt › Core NOP at R4,9 billion 	<ul style="list-style-type: none"> › Export volumes at 6,2Mt › Core NOP at R3,4 billion 	27% 46%
Improved market conditions evidenced in equity portfolio	› Income contribution from equity-accounted investments of R2,4 billion	› Loss from equity-accounted investments of R1,1 billion	>100%
Returning cash to shareholders	<ul style="list-style-type: none"> › HEPS of 1 302 cents per share › Final dividend of 410 cents per share 	<ul style="list-style-type: none"> › HEPS of 456 cents per share › Final dividend of 85 cents per share 	185% 382%

Lowlights

- › Losing people through voluntary separation and other termination initiatives in 2015 and 2016, after closing Tshikondeni, Inyanda, AlloyStream, Arnot, Exxaro improvement project and our remaining offshore offices

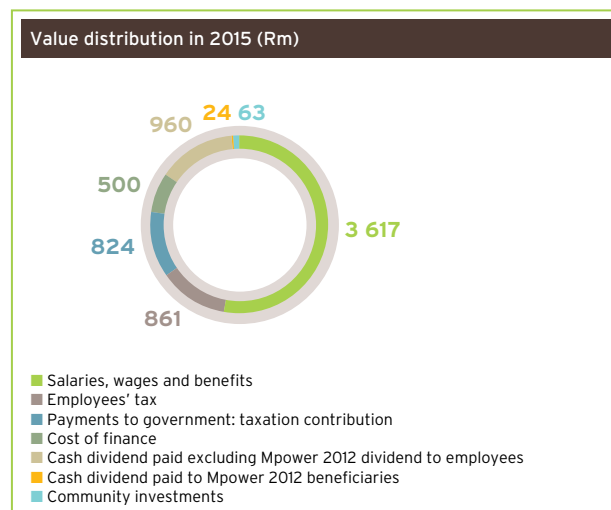
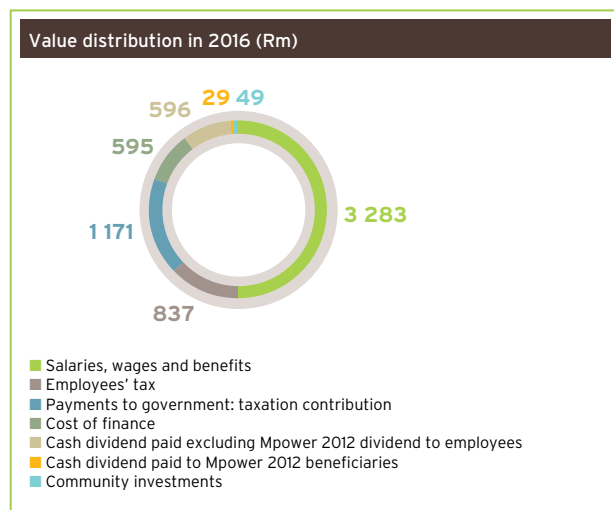
Broad-based value created for stakeholders

The cash value-added statement shows the wealth the group has created through mining operations and investing activities:

- › Employees receive salaries/wages, share-based payments and bonuses (where certain performance conditions are met) and distributions from Mpower 2012
- › Governments of countries where Exxaro has operations and investments receive various taxes and royalty payments
- › Suppliers and contractors are supported through the procurement of consumables, services and capital goods
- › Shareholders receive a return on their investment through dividends and capital growth in the share price

- › Providers of finance receive a return through interest and other loan costs paid
- › Exxaro's corporate social investments and development collaboration with government benefit communities surrounding our operations
- › Continuous reinvestment into the group to ensure sustainability and expansion.

Despite another challenging environment in 2016, we were still able to create significant value for our stakeholders and contribute meaningfully to the South African economy.



EXECUTIVE REVIEW (CONTINUED)

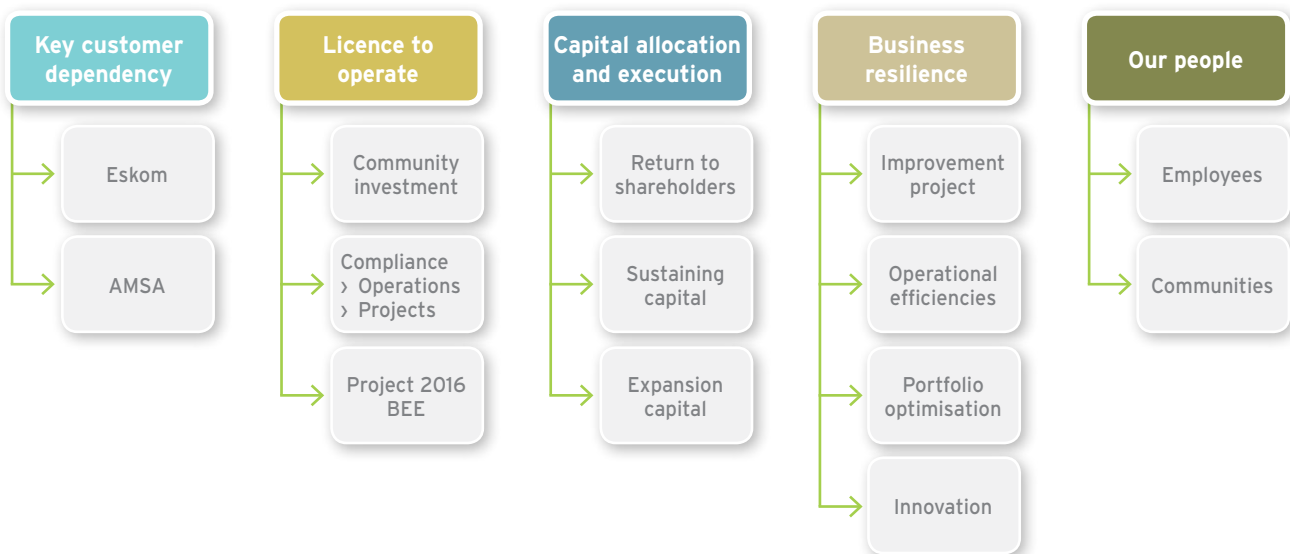
Executing our strategy

As an executive committee, our mandate to execute Exxaro's strategy is guided by priority areas that have been in place for the past four years.



Material issues

Material issues in this financial year (from an executive management perspective) are summarised below. Our strategic performance dashboard is explained on page 2. Detailed commentary on our progress against KPIs for each material issue begins on page 59.



Performance against material issues

Understanding the discussion

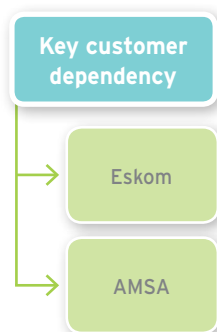
For each material issue, we include:

- › A consolidated table summarising performance
- › Performance and our response during the year

The board introduced our material issues in its review, while we detail our performance against significant KPIs for each material issue. We also expand on our stakeholder engagement during the year per issue as well as the main risks we encountered with associated controls in responding to these issues.

Although the discussion of each material issue refers to performance against KPIs, it is broader than that. Equally, drawing a direct correlation between a material issue and KPI may not be possible in all cases and some KPIs also refer to more than one material issue. The associated KPIs do, however, give our stakeholders a holistic view of the metrics that inform strategic performance management in each area.

Material issue: Key customer dependency



Key performance indicators

KPI (as disclosed in dashboard)	Capital	2016		2015		Trend
		Actual	Indicator	Actual	Indicator	
Core operating margin (%)	Financial	24%		18%		↑
BBBEE level (against BEE Act 53 of 2003)	Social	Level 4		Level 2		→
% environmental liability provisions in place (<i>issue: Eskom contribution to rehabilitation fund</i>)	Natural	23%		67%		↓
Commodity diversification	Manufactured	Coal, ferrous, mineral sands, energy		Coal, ferrous, mineral sands		→

Legend

- Out of appetite
- Worst tolerable
- Best realistic
- Target
- Possible waste/opportunity (exceeding target)

To mitigate our dependency on Eskom, we are focused on enabling our operations to deliver coal cost-effectively to customers, while maximising export revenue.

As part of our continued engagement with Eskom on later dates to commission Medupi power station's next five units, we had initial discussions on a possible addendum 10 to the Medupi CSA, to review options available to both parties to reduce future take-or-pay obligations. Deliveries to Eskom were, however, in line with addendum 9.

The continued shortfall in funding to the Matla and Arnot rehabilitation trust funds for ultimate closure costs remains a concern.

AMSA buys the bulk of Exxaro's metallurgical coal. Outside of AMSA, the domestic market for metallurgical coal is relatively small, meaning diversification options are limited. As Exxaro expands its ability to export, creating alternative international markets will become a reality.

EXECUTIVE REVIEW (CONTINUED)

Controlling the risk

Despite fragile economic activity in the first half of 2016 and high levels of political and economic uncertainty, global economic fundamentals in the second half remained positive. Rising commodity prices helped commodity-producing economies such as Brazil, Russia and South Africa to return to positive gross domestic product (GDP) growth territory.

Following years of weakness, coal markets improved somewhat in the second half of the review period. Globally, weather disruptions, production cuts, above average seasonal demand and supply reforms (most notably the 276 operating days/annum policy implemented by the Chinese government) caused thermal and hard coking coal prices to surge significantly. The API4 coal export index price averaged US\$75 per tonne for 2H16 (1H16: US\$53).

Customer relationships in the export market

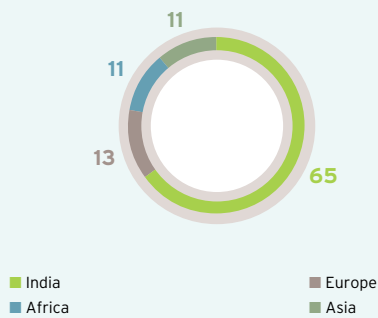
Three events have drastically changed Exxaro's export product mix from that of previous years:

- › Acquiring the assets of Total Coal South Africa (now Exxaro Coal Central or ECC) in 2015 has nearly doubled Exxaro's export volumes and most of the additional tonnages were of RB3 quality or lower
- › Our decision to stop supply of power station coal from Leeuwan to Majuba power station has added a material volume of Eskom-type coal to exports
- › Finally, more power station coal was added to the portfolio by Eskom's decision to terminate the Mafube supply agreement at the end of 2015.

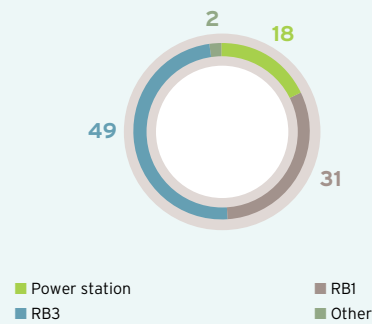
The new product portfolio has required Exxaro to develop the Indian market aggressively and we are currently selling over 60% of our export product in this market.

We are trying to balance the strategic objective of being as close as possible to the end consumer with the various performance and credit risk profiles of our new markets and customers. As such, our choice of strategic partners in different sales channels is proving very important. Exxaro is therefore maintaining very healthy relationships with both end consumers and trading companies to ensure effective channels to market.

2016 export sales destinations (%)



2016 export product mix (%)



Controlling the risk (continued)

Customer relationships in the domestic market

- › The Exxaro/AMSA relationship has weathered many challenges over the years, making both parties fundamentally aware of each other’s business drivers. In addition, a negative event for either party has far-reaching consequences for the other as AMSA consumes around 1,2Mtpa of semi-soft coking coal to produce metallurgical and market coke
- › While relationships in the cement industry are valuable, these will be tested in coming months given the oversupply of cement domestically that results in fierce competition among cement producers. The boiler subsegment is a more opportunistic market, requiring much more interaction and maintenance in terms of customer relationship management. Exxaro has done considerable market development work in the Western Cape in 2016 to position it proactively in the market for future production from the expanded Grootegeluk (GG10) plant.

2016 volumes (%)



2016 updates

- › Exxaro continues to operate Matla, while engaging with Eskom operationally and through mediation to obtain the funds that the mine needs for its capital projects
- › Closure activities for Arnot mine continue. Exxaro has also engaged Eskom in arbitration to ensure the utility meets its closure obligations

- › Medupi - ongoing offtake according to addendum 9
- › Leeuwpan - Eskom’s inability to decide on coal supply forced Exxaro to cancel the Majuba coal-supply agreement and find alternative markets for this coal
- › Completion of ECC transaction - to optimise ECC, we have implemented our operating philosophy and the Exxaro operational excellence methodology by:
 - Adding a fifth 4-seam section at Forzando South which contributed 200kt to 2016 production
 - Optimising the resource-to-market value chain through plant and product-mix adjustments, taking the acquired export entitlement into account
 - Rolling out cost-saving initiatives across all operations
 - Exploring available adjacent reserves to extend the current life of mine
 - Exploring the Eskom market as a potential customer
 - Continually reviewing the capital expenditure plan and only approving critical capital expenditure until the actions above have been finalised.

As part of the DMR’s conditions for approving the transfer of ECC mineral rights to Exxaro, we are required to include additional BEE participation in the shareholding of ECC assets. This has been combined with the broader empowerment ownership project currently under way at group level.

We remain confident about the long-term strategic value of acquiring the ECC assets, especially the export entitlement.

Material issue: Licence to operate



EXECUTIVE REVIEW (CONTINUED)

Key performance indicators

KPI (as disclosed in dashboard)	Capital	2016		2015		Trend
		Actual	Indicator	Actual	Indicator	
Ownership at group level - mining charter	Social	52% 45,2%#		52%		→
Project delivery measure for local economic development projects per social and labour plan (cost variance from plan) - mining charter	Social	(17%) (above budget)		not reported to board		↑
Reportable cases of environmental incidents	Natural	5 x level 2 0 x level 3		18 x level 2 0 x level 3		↑
Valid mining rights - in place - mine works plan (MWP), environmental management plan (EMP) and SLP	Natural	98%		97%		↑
Enforceable mining rights - based on conditions (in place)	Natural	75%		98%		↓
Environmental authorisations in place (validity) (integrated water use licence (IWUL), environmental impact assessment (EIA) and waste)	Natural	95%		>90%		↑
Environmental authorisations (compliance to conditions)	Natural	90%		<90%		↑
Carbon footprint (scope 1 and 2) (reduction per annum)	Natural	4,2%		4,3%		→
Water intensity (improvement from target)	Natural	13%		not reported to board		↑
Water intensity (kℓ/TTM)	Natural	0,2		0,33		↑

Legend



Out of appetite



Worst tolerable



Best realistic



Target



Possible waste/opportunity (exceeding target)

As at 31 December 2016.

The regulatory universe for mining is extremely stringent and spans the environmental, social and governance domains. For Exxaro, our licence to operate is vital for a sustainable business - without the required licences, permits or authorisations in the social and environmental domains, we are not able to operate at all. These domains are governed by the mining regulator - the Department of Mineral Resources as well as the Department of Environmental Affairs and thirdly, the Department of Water and Sanitation. In addition, the amended BEE codes introduce another layer of compliance from a second regulator - the Department of Trade and Industry. At the same time, as a black-owned entity, Exxaro strives to remain a flagship BEE company in South Africa and we are actively involved in the Chamber of Mines, where we contribute to shaping the regulatory universe in which mining operates.

An important component of our sustainability as a company is our ability to comply with every stipulation, provision or directive in our various environmental licences. As an industry, mining has a negative impact on the environment, and is regulated by strict rehabilitation and closure laws. We follow

a principle of zero harm and continually seek ways to minimise our impact on the environment. For example, we relocated the Belfast beneficiation plant from its optimal site to minimise any impact on a sensitive wetland area. We also focus more on continuous rehabilitation so that the environment can be restored as soon as possible after mining has been completed in a specific area.

Operational compliance

Exxaro's current active operations have all the authorisations required to operate under a valid mining right. All mining rights in turn need a valid and approved MWP and approved SLP. Under the new National Environmental Management Act (NEMA), environmental authorisations are also required for a valid mining right. The only exceptions are:

- ▶ Tshikondeni - no longer operational, but has an old-order mining right that has been converted and granted, but not executed
- ▶ Strathrae - no longer operational; also has an old-order mining right that has been converted and granted, but not executed.

All documentation and requests for execution for Strathrae and Tshikondeni were timeously submitted, but a decision taken not to execute as these mines are in closure. There is ongoing engagement with the DMR on the status of these rights.

Compliance and licensing for projects

As part of the project lifecycle planning process, Exxaro continually ensures that all requisite rights, licences and authorisations are in place prior to construction and commissioning.

The only exceptions occur when a stakeholder appeals a specific right, licence or authorisation granted by the regulatory authorities to Exxaro. The Belfast project has been subject to numerous appeals by external stakeholders on awarding the integrated water use licence (IWUL) and rezoning of the mining area (from farming use) by local authorities. Exxaro has had to seek legal judgments in responding to these appeals so that our projects can continue as legitimate operations that comply with all statutory requirements and obligations.

Mineral tenure compliance

Exxaro aims to have every mining right valid and to comply with all conditions for each licence and right granted. We define the validity of a mining right by having its three pillars in place: the MWP, environmental management programme (EMP), and SLPs.

Our analysis shows our mining rights are 98% valid, with the variance largely due to the rights of Strathrae and Tshikondeni not being executed. As such, they do not have valid MWPs and SLPs in place.

Every right, licence and permit granted has detailed compliance stipulations and we are focused on improving our compliance to all stipulations.

We define the enforceability of our mining rights by section 93 and 47 directives issued, as well as any section 102 to amend a MWP, environment authorisation or SLP. In addition, compliance includes submitting reports to the DMR describing future mining activities.

We gave ourselves a conservative enforceability score of 75%, as we are currently integrating ECC's monitoring and compliance systems with Exxaro's compliance matrix. Given our conservative approach, we expect the enforceability score to improve to above 95%.

Environmental compliance

Exxaro complies fully with all authorisations and licensing requirements for its current operations. These authorisations typically include:

- › IWUL
- › Waste management licences
- › Air emission limits
- › Environmental impact assessments
- › Records of decisions
- › Environmental authorisations (EAs).

Each of these has specific conditions to which mining operations have to adhere at all times.

We measure environmental authorisations on two levels: IWULs granted, and environmental impact assessments approved. Our analysis shows that our environmental authorisations are within tolerable levels (95%), with the 5% shortfall being due to delays in finalising appeals lodged against the Thabametsi and Belfast projects.

A compliance score of 90% to environmental authorisation conditions was provided by an internal audit. The implementation of a new integrated monitoring and compliance system will help us improve the score in 2017. As part of this process, detailed checklists per site are being drafted to drive improved compliance to conditions.

Environmental issues

Delays and appeals against IWULs granted by the Department of Water and Sanitation have become a risk for new projects and part of their critical paths. To mitigate these long lead times in securing the necessary permits and licences, we are engaging early with the respective regulators, and proactively with every interested and affected stakeholder group.

Our greenhouse gas (GHG) emissions are currently not an immediate risk to our licence to operate. However, related legislative developments such as GHG reporting regulations, carbon tax, carbon budgets and carbon offset systems will introduce additional compliance requirements.

Given our participation in the global benchmark CDP since 2009, Exxaro's carbon-emission reporting systems are mature. We are now focused on developing mitigation and adaptation plans for all operations.

Exxaro has not met its internal carbon reduction target for 2016. Based on the prior year's use, the target is a 5% reduction from those emissions. This target will be reviewed in 2017. The table and graph that follow compare greenhouse gas emissions since 2013.

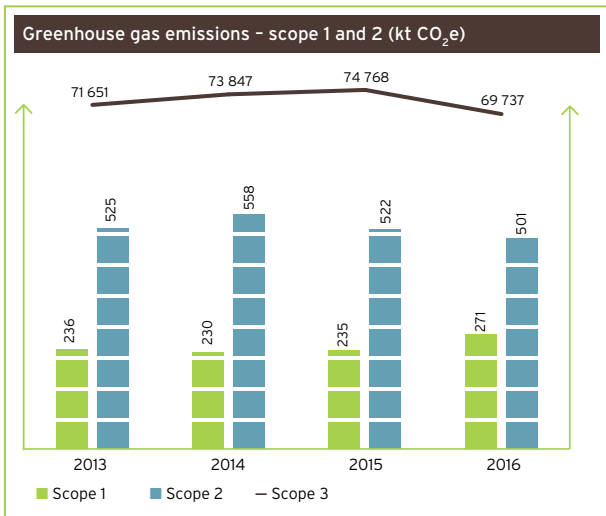
Greenhouse gas emissions

(kt CO ₂ e)	2016	2015	2014	2013
Scope 1	271,7	235,2	229,8	236,0
Scope 2*	500,9	521,9	557,6	525,0
Total scope 1 and 2	772,6	757,1	787,4	761,0
Year-on-year change (%)	2,04	(3,8)	3,5	(48,0)
Scope 3**	71 651	73 847	74 768	69 737
Year-on-year change (%)	(2,17)	(1,2)	7,2	(1,3)

* Scope 2: Electricity-based emissions are derived from the grid emission factor for South Africa (0,94t CO₂e/MWh).

** Scope 3: Reported emissions are based on emissions from the use of product sold by Exxaro plus transmission and distribution losses from the South African grid derived from Eskom's emissions factor for electricity sold (1,03t CO₂e/MWh) and the grid emission factor for South Africa (0,94t CO₂e/MWh). Reported emissions represent over 96% of Exxaro's scope 3 emissions.

EXECUTIVE REVIEW (CONTINUED)



We base our accounting and reporting for GHG emissions on the Greenhouse Gas Protocol and have elected to use the operating control accounting approach for emissions.

Given rising stakeholder activism against coal as a source of energy, Exxaro has responded to shareholder enquiries on our strategy to reduce emissions, transition to renewable energy and adapt to the so-called 2°C climate environment (limiting the increase in global temperature to below pre-industrial levels).

With the current and expected outlook for South Africa's electricity requirements, we believe coal remains a relevant source of affordable electricity generation for the economy and Exxaro is well positioned to supply this energy source to Eskom. We do, however, regard this as a medium to longer-term risk and it is part of our diversification imperative.

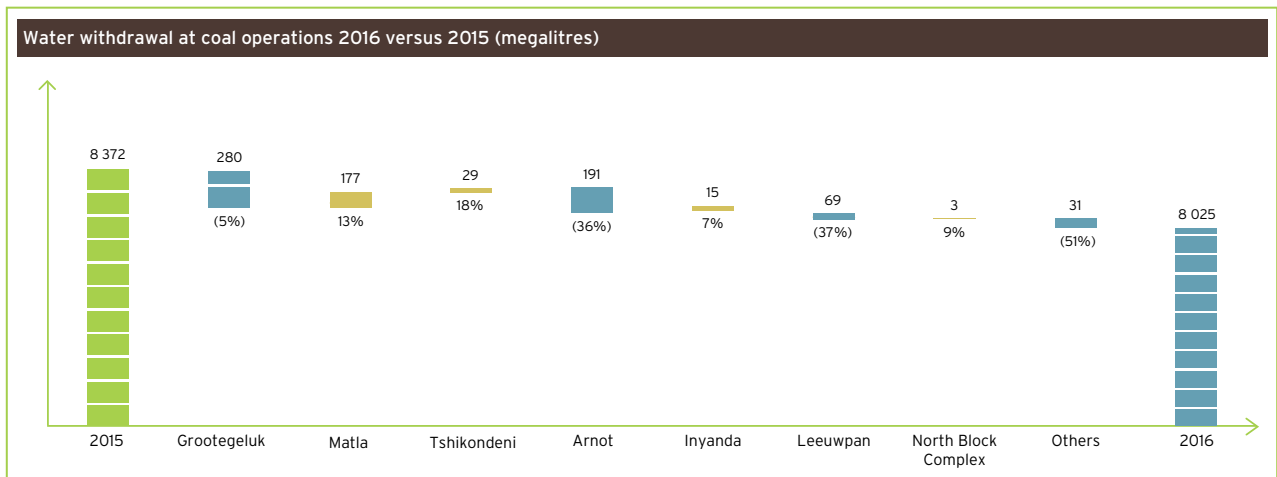
South Africa is a water-scarce country and Exxaro recognises that water-reduction initiatives are crucial to sustainable operations, particularly under prevailing drought conditions. Our prime focus is optimising the use of recycled water and

developing innovative passive water-treatment systems for operations. We are updating our water strategy to align more closely with our sustainability strategy, the country's water situation and our growth strategy. Approval of the updated group water strategy by the executive team is expected in the second quarter of 2017.

In terms of water performance for the group, water withdrawals decreased slightly (4%) in 2016.

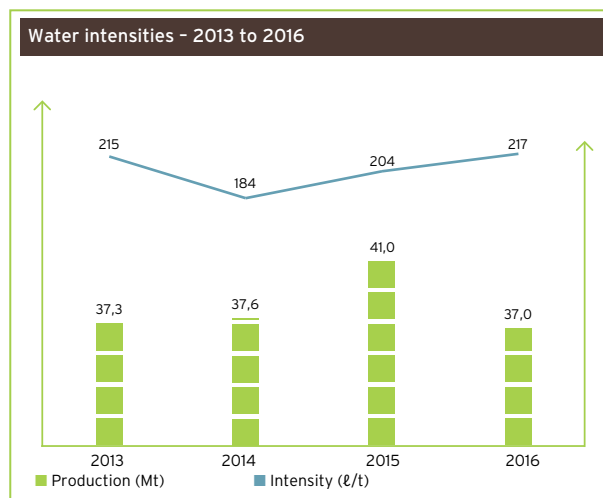


The reduction in water withdrawals primarily reflects halted operations at some mines, particularly Arnot (shown below). Although Tshikondeni and Inyanda are also closed mines, the slight increase in water withdrawals reflects rehabilitation activities at those operations. Grootegeluk has been implementing measures to optimise water reuse and recycling in its operations. A pit-water management study was undertaken last year and a strategy developed for maximising recycled water and reducing water intake from Mokolo Dam. Although Grootegeluk is still implementing its strategy, a 5% reduction in water withdrawals was realised in the reporting period.



In addition, Grootegeluk has been at the forefront of using advanced technology in mining aimed at recovering water from slimes dams while putting safety first (see case study below).

Group water intensity has, however, increased slightly in 2016 from 2015 (see graph). Although improvements are evident in many operations, further efficiency improvements are still possible. For example, water use in our beneficiation plants has been high for the past two years. Through our internal water efficiency audits, several issues have been highlighted that need to be addressed and these will be included in our business unit water and infrastructure management strategies in 2017. These inefficiencies resulted in our water-intensity reduction targets for 2016 not being met. The current target is based on prior-year use and industry benchmarks and aims for a 5% reduction in water intensity from the previous year.



Case study: Grootegeluk cyclic operated coal slurry pond facility

Given the end of life for existing slurry deposition dams, Grootegeluk commissioned a R385 million cyclic operated coal slimes ponds facility.

This is an innovative solution and the first of its kind globally. It comprises four ponds, each with a capacity of 365 000m³ (total 1 460 000m³), two return water dams of 68 000m³ each, a pump station, substation and slurry-delivery line. The biggest differentiator is the large-scale installation of a sophisticated barrier and drainage system, along with the reclamation of coal fines as a continuous operation (ongoing), making this an industry first.

The cyclic operated manner of the ponds ensures that sufficient deposition space is always available. The operational cycle starts with filling, then drying the product, and finally product recovery. This cycle allows a balance between filling time, total drying and product recovery time for continuous operation of the facility, thus providing unlimited capacity.

The design of the evaporative drying of coal fines is based on modern and ongoing research on the subject and science of evaporative drying, driven by stringent compliance standards imposed by the authorities. These ponds are also energy-efficient, reducing our carbon footprint in line with the group's commitment.

To minimise environmental impacts, the cyclic ponds have drainage below the liner, to relieve pressure and act as a leakage detection layer, and on top of the liner to assist with drainage.

Since the facility became operational, it has allowed water recovery of about 100 000m³ per month, reducing withdrawal from water resources. This frees up much-needed water in the catchment, particularly under current country-wide drought conditions.



EXECUTIVE REVIEW (CONTINUED)

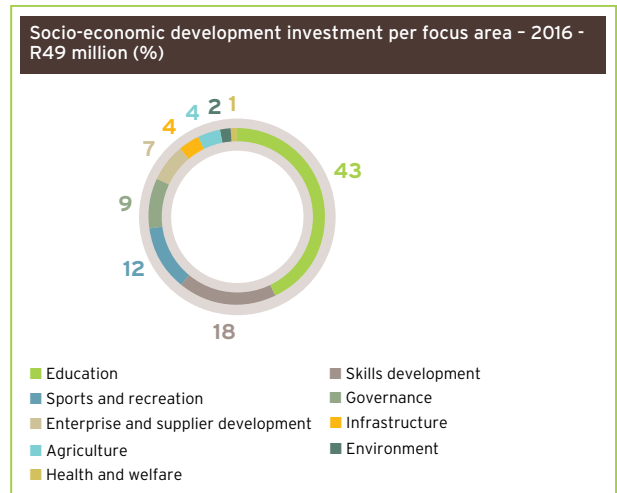
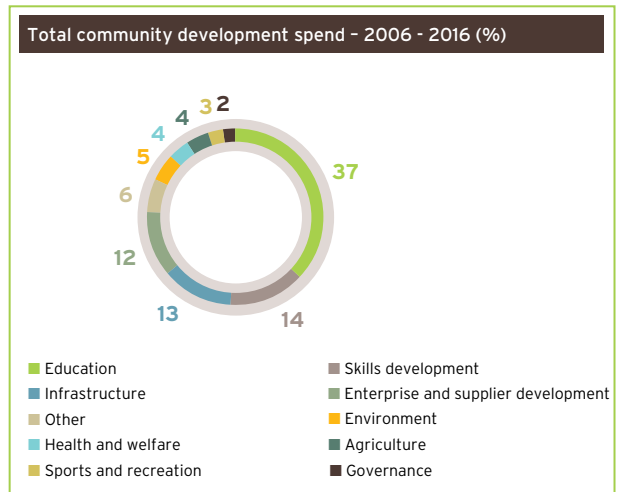
Investing in communities

Exxaro sees itself as the tenant of its host communities, not the landlord, and a successful relationship with communities is therefore key to our business success and growth. We go beyond compliance and invest in areas such as environmental conservation and health and welfare through our corporate social investment (CSI) programmes.

Our aim is to create economic diversification to limit dependency on the mine while building resilient and self-sufficient communities in the long term by implementing local development initiatives to improve social infrastructure and education as well as promoting employment and local procurement.



Between 2006 and 2016, our focus on education and skills development accounted for 51% of our socio-economic expenditure.



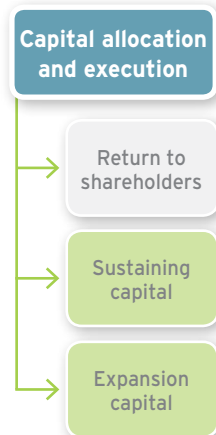
BEE amended codes of good practice

The amended codes of good practice with more stringent targets have been promulgated. Exxaro has analysed its anticipated performance against the new codes and is putting measures in place to improve on elements where we are not performing well at present. Under current economic conditions, we expect that the target of the ownership element under net value will not be met. We are also focused on meeting new compliance requirements for enterprise and supplier development.

We missed the skills development target as the amended codes have removed all mandatory skills training. We will work towards reaching the targets as soon as possible.

A challenge in the amended codes is the target set for people with disabilities at 2% of the workforce. We are currently 40% below this target and actively driving disability awareness campaigns to identify employees with verifiable disabilities who have not declared these. In advertising careers, we emphasise the fact that a disability is not a barrier (limited to no external recruitment, in response to the business resilience material issue, has affected our progress against this target).

Material issue: Capital projects



Key performance indicators

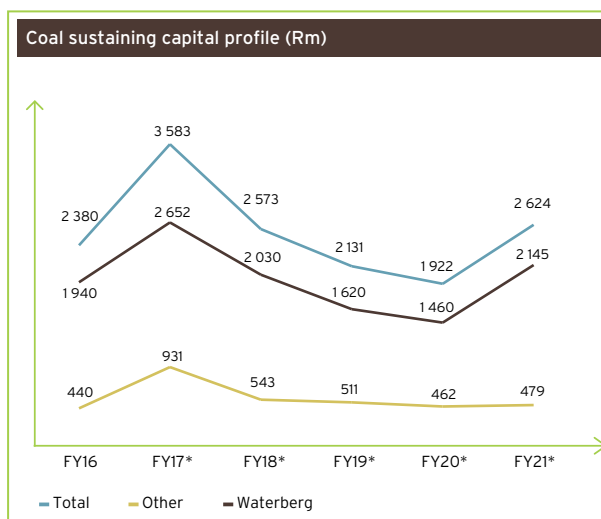
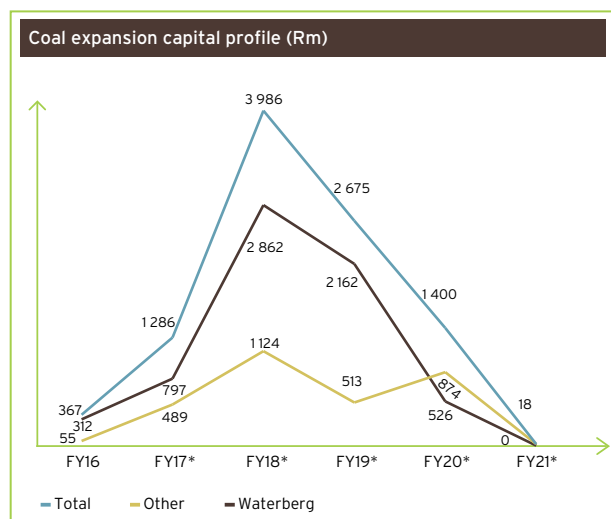
KPI (as disclosed in dashboard)	Capital	2016		2015		Trend
		Actual	Indicator	Actual	Indicator	
Capital project delivery measure (time variance)	Manufactured	1,2%	💡	Achieved	💡	↓
Capital project delivery measure (cost variance)	Manufactured	(0,3%) (below budget)	💡	Achieved	💡	↑
Annual core HEPS (short-term target)	Financial	1 457c	💡	425c	💡	↑
Growth from coal commodities (deviation from budget)	Manufactured	(12%)	💡	(4%)	💡	↓

Legend 💡 Out of appetite 💡 Worst tolerable 💡 Best realistic 💡 Target 💡 Possible waste/opportunity (exceeding target)

In terms of capital management, we remained prudent by striking a balance between returning cash to shareholders, managing debt, and selectively reinvesting in Exxaro for growth. Through cutbacks and deferrals, we have reduced our expansion capital expenditure (capex) by 15% over the next five years while critically evaluating sustaining capex to preserve cash flow in this period.

Salient features of our capex in 2016 include:

- ▶ At R2 780 million, capital expenditure increased by 16% from 2015
- ▶ R2 413 million (2015: R1 663 million) was applied to sustaining and environmental capital (stay-in-business capital)
- ▶ R367 million (2015: R727 million) was invested in new capacity (expansion capital).



* Capital budgeted in Rm per financial year.

EXECUTIVE REVIEW (CONTINUED)

Capital allocation

Expansion capital

In 2016, we applied a rigorous optimisation process to reduce capital expenditure on certain large projects in their final study phases:

- › Thabametsi phase 1
- › Belfast
- › Leeuwan life extension project.

We realised a start-up capital saving of R1,4 billion (11%) from a combined base estimate of R13 billion, with further potential savings of 15% still under investigation for possible inclusion.

Sustaining capital

By prudently allocating sustaining capital, we ensure the future profitability of our assets. At the same time, we understand the importance of allocating sufficient capital now to ensure business as usual. We have therefore concentrated on optimising our sustaining capital spend.

In 2016, we reviewed and reduced start-up capital for the Grootegeluk multi-product rail load-out station in line with our strategy of optimising large projects in their final study phases. The optimisation process on sustaining capital will continue in 2017.

Executing capital projects

As part of the Exxaro improvement project, we revised our operating model for developing and implementing capital projects. We adopted a hybrid model with internal teams and external resources for project management functions to improve the efficiency of execution.

Capital projects follow due governance as per Exxaro's delegation of authority on capital expenditure. Project steering committees monitor delivery against time, budget and desired performance parameters. Projects undergo a rigorous assurance process, including technical and financial reviews, as well as external audits to ensure governance standards are met.

Project summary

	Project and life-of-mine (LOM)	Product	Capex	Status: 31 December 2016 Outlook: 2017 to 2021
Mpumalanga	Belfast LOM: 16 years	2,7Mtpa of thermal coal	R3,2 billion	<ul style="list-style-type: none"> › Rezoning appeal delaying construction › Construction expected to start 3Q 2017 › First production expected 4Q 2019
	Mafube Nooitgedacht (JV with Anglo American) LOM: 12 years	3,1Mtpa of thermal coal	R1,9 billion	<ul style="list-style-type: none"> › Implementation phase › Investment decision approved 4Q 2016 › Construction under way with expected completion 2Q 2018
	Leeuwan life extension LOM: 7 years	2,7Mtpa of thermal coal	R0,5 billion	<ul style="list-style-type: none"> › Implementation phase – construction expected to start 3Q 2017 › Completion and handover expected 2Q 2018
	Matla expansion LOM: 26 years*	Infrastructure to support LOM production	R3,4 billion	<ul style="list-style-type: none"> › Matla mine 1 relocation – implementation subject to Eskom notice to proceed, completion expected 4Q 2019 › Matla shortwall replacement – bankable feasibility study under way, completion expected 1Q 2020 › Matla interseam – bankable feasibility study phase with completion expected 1Q 2019 › Matla ventilation shaft – prefeasibility study under way, completion expected 1Q 2020 <p>All projects await Eskom funding approval</p>
Limpopo	Grootegeluk 6 phase 2 LOM: 30 years*	2,7Mtpa semi-soft coking coal	R4,8 billion	<ul style="list-style-type: none"> › Investment decision 1Q 2017 › Construction expected to start 3Q 2017, first production 4Q FY20
	Grootegeluk discard in-pit backfill phase 2 LOM: 30 years*	Infrastructure to support upper discard handling system	R0,6 billion	<ul style="list-style-type: none"> › Construction under way, with project completion and handover expected 4Q 2017
	Grootegeluk rapid load-out station LOM: 30 years*	Infrastructure to replace old D8 load-out station and enable GG10/GG6 phase 2 product to be railed	R1,3 billion	<ul style="list-style-type: none"> › Construction under way › First production 1Q 2019
	Thabametsi independent power producer (IPP) phase 1 LOM: 30 years*	3,9Mtpa thermal coal ramping up to supply 600MW Thabametsi IPP power station (notice to proceed granted)	R2,8 billion	<ul style="list-style-type: none"> › Implementation of phase 1 (selected as preferred bidder 4Q 2016) › Construction expected to start 2Q 2017 with first production FY20 › Notice to proceed for full construction expected 4Q 2017 from Department of Energy

* Life-of-mine exceeds expiry of mining right.

Growth projects

Leeuwpan life-of-mine optimisation project

With implementation approved in September 2016, detail design is being reviewed and finalised. Construction will begin once the environmental management plan report and required approvals for the R50 road relocation have been obtained. These approvals are expected in the first quarter of 2017.

Belfast project

The project's rezoning application was approved in July 2016, but appealed in August 2016. The High Court has ruled that the district municipality has jurisdiction to decide on rezoning. The target date for all licences to be authorised remains June 2017, after which construction activities are scheduled to start.

Mafube life extension project

The shareholders' investment decision to implement this R1,9bn project was made, with final approval given by Exxaro in November 2016. The project has all the required licences and procurement agreements on surface rights for the 17 Nootgedacht farms have been finalised. Construction has started, with completion expected in mid-2018.

Thabametsi mine

In October 2016, the project received preferred-bidder status and the team working towards financial closure. The financial close on the related Thabametsi IPP power station is expected in the second half of 2017. The environmental authorisation for this power station has been appealed, and Exxaro is monitoring the progress of this legal procedure.

Grootegeluk phase 2

Detail design is progressing on schedule and should be complete by end-March 2017. An updated bankable feasibility study was presented to the Exxaro investment review committee and the board in 2017, along with updated information on Transnet Freight Rail negotiations. This was approved.

Sustaining projects

Grootegeluk discard in-pit project

The upper-system backfill phase 2 is proceeding against plan and on budget. All construction will be completed in 2017, after which commissioning will begin.

Grootegeluk new rail load-out station

Detail design for the rail siding (rail loop area) is complete. After the early-works construction contract was awarded in November 2016, site clearance has started.

Eskom-funded Matla life-of-mine projects

Four interrelated projects are in different study phases:

- Mine 1 relocation awaits final Eskom funding approval and government approval, which are expected in the second quarter of 2017
- Bankable feasibility study for the shortwall replacement project will be presented to Eskom in March 2017
- The north-west access project is under review at Eskom's request and will be re-presented to the utility in June 2017
- The ventilation shaft project is in concept level and will be presented to Eskom in March 2017.

Material issue: Business resilience



The primary KPIs for business resilience relate to financial capital, although our responses also impacted operational efficiencies and employees and therefore broader capitals, as discussed later.

Key performance indicators

KPI (as disclosed in dashboard)	Capital	2016		2015		Trend
		Actual	Indicator	Actual	Indicator	
Core operating margin	Financial	24%		18%		↑
Annualised return on capital employed (ROCE)	Financial	23%		6%		↑
Annualised return on equity based on core headline earnings (HEPS)	Financial	15%		4%		↑
Annual core HEPS (short-term target)	Financial	1 457c		425c		↑
People productivity (total tonnages handled/full-time employee (FTE) average) (improvement from base)	Manufactured	(10%)		18%		↓
People productivity (production tonnes/FTE) (improvement from base)	Manufactured	(12%)		16%		↓
Commodity diversification	Manufactured	Coal, ferrous, mineral sands, energy		Coal, ferrous, mineral sands		→

Legend

- Out of appetite
- Worst tolerable
- Best realistic
- Target
- Possible waste/opportunity (exceeding target)

EXECUTIVE REVIEW (CONTINUED)

Operating performance

Exxaro reached an unprecedented milestone on 31 December 2016 after two consecutive calendar years without a fatality. By 31 December 2016, we had operated for a record 30 consecutive months without a fatality, and improved our LTIFR by 47% to 0,09 (2015: 0,17).

The group delivered a very strong performance for 2016. Consolidated group revenue increased by 14% to R20 897 million, while group net operating profit rose 64% to R5 200 million (2015: R3 173 million) mainly due to higher coal sales prices and the 15% depreciation of the rand against the US dollar. Other factors contributing to increased net operating profit included:

- › Higher contributions from our coal operations (page 10)
- › Non-recurring 2015 impairments of R1 749 million for goodwill and property, plant and equipment
- › R670 million gain on disposal of the Mayoko iron ore project and related subsidiaries, with subsequent cost savings in our ferrous segment.

	Revenue		Net operating profit/(loss)	
	2016	2015	2016	2015
Coal	20 673	18 093	5 166	2 574
– Tied ¹	3 483	3 835	226	195
– Commercial ²	17 190	14 258	4 940	2 379
Ferrous	170	173	566	(306)
– Iron ore ³			613	(292)
– Alloys ⁴	170	173	(75)	10
– Other			28	(24)
Other⁵	54	64	(532)	905
Total	20 897	18 330	5 200	3 173

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

² Net operating profit for 2015 includes pre-tax impairment of the goodwill recognised on the acquisition of ECC of R1 524 million and the reductants operation property, plant and equipment of R225 million.

³ Net operating profit for 2016 includes R670 million pre-tax gain on the disposal of the Mayoko iron ore project and related subsidiaries.

⁴ Net operating loss for 2016 include the FerroAlloys property, plant and equipment pre-tax impairment of R100 million.

⁵ Net operating loss for 2016 includes R445 million fair value adjustment of contingent consideration which relates to the ECC acquisition.

Following the Exxaro improvement project, we achieved sustainable cost savings of R235 million in the review period.

Earnings, including our equity-accounted investments in associates and joint ventures, totalled R5 679 million (2015: R296 million) or 1 600 cents per share (2015: 83 cents per share).

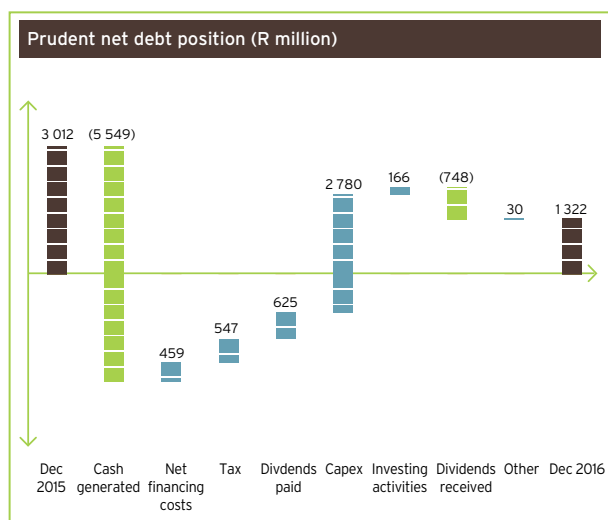
	Equity-accounted income/(loss)		Dividends received	
	2016	2015	2016	2015
SIOC ¹	2 416	104		673
Tronox	(384)	(1 503)	298	668
Mafube	238	253	450	
Black Mountain	100	64		
Cennergi	3	(53)		
RBCT ²		(4)		
SDCT		2		
Total	2 373	(1 137)	748	1 341

Income from equity-accounted investments increased substantially to end 2016 at R2 373 million (2015: loss of R1 137 million). This was mainly due to an improved performance from SIOC (up R2 312 million) on a recovery in iron ore export selling prices, and lower losses from our investment in Tronox (decrease in losses of R1 119 million). Our energy joint venture, Cennergi, recorded equity-accounted income of R3 million for 2016 (2015: loss of R53 million) after its two wind-farm projects, Amakhala Emoyeni and Tsitsikamma Community wind farm, were brought into commercial operation in the third quarter and started earning revenue from electricity supplied to the national grid.

- › Cash flow from operations rose to R5 549 million (2015: R4 526 million), sufficient to cover capital expenditure of R2 780 million (page 10), dividends of R625 million, net financing charges of R459 million and tax of R547 million.

Summarised group statement of cash flows (Rm)

	2016 Rm	2015 Rm
Cash flows from operating activities	3 918	3 011
Cash generated by operations	5 549	4 526
Interest paid	(595)	(500)
Interest received	136	54
Tax paid	(547)	(85)
Dividends paid	(625)	(984)
Cash flows from investing activities	(2 198)	(5 130)
Property, plant and equipment to maintain operations	(2 413)	(1 663)
Property, plant and equipment to expand operations	(367)	(727)
Increase in investment in intangible assets		(34)
Proceeds from disposal of property, plant and equipment	35	198
Increase in investments in other non-current assets	(160)	(106)
Increase in loans to related parties		(400)
Proceeds from disposal of operation	47	70
Proceeds from disposal of joint venture	200	
Increase in investment in associate	(233)	
Increase in investment in joint venture	(55)	(374)
Income from investments in associates and joint ventures	748	1 341
Acquisition of subsidiaries		(3 436)
Dividend income from financial assets		1
Cash flows from financing activities	1 483	2 000
Interest-bearing borrowings raised	7 565	4 320
Interest-bearing borrowings repaid	(6 066)	(2 320)
Shares acquired in market to settle share-based payments	(16)	
Net increase/(decrease) in cash and cash equivalents	3 203	(119)



Net debt at 31 December 2016 was R1 322 million, compared to R3 012 million at 31 December 2015. This equates to a net debt:equity ratio of 3,8% (2015: 8,8%). Our capital structure remains robust and we successfully refinanced our R8 billion term loan facility at attractive terms, despite Standard & Poor's downgrading our domestic credit rating to zaBB+/zaB.

Headline earnings were 185% higher at R4 621 million (2015: R1 623 million) or 1 302 cents per share (2015: 457 cents per share).

Exxaro improvement project

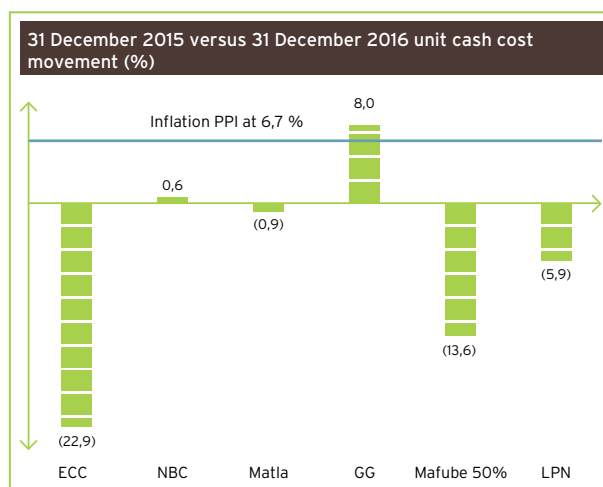
The 2016 improvement project focused on optimising support services across the business and reviewing our business model. From initial estimates of almost 600 retrenchments, we were able to contain that to under 100 and maintain relationships with affected and relevant stakeholders.

Operational efficiencies

In 2016, we continued our drive for operational excellence throughout the coal business. This process is focused on continually improving the business in a structured programme that focuses on:

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

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



*The Grootegeluk increase for 2016 reflects the focus on in-pit coal liberation to facilitate the ramp-up of the business unit for 2017.

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

Portfolio optimisation

In 2016, our portfolio optimisation philosophy considered long-term commodity forecasts, as well as strategic and financial rationales and mega trends that affect the current portfolio. To achieve our objectives:

- › We divested from the Inyanda coal mine
- › In focusing more attention on our planned mega projects, we divested from the Kranspan, Vaalbult and Arnot South prospecting rights
- › We closed the AlloyStream technology project
- › We sold the Mayoko iron ore project in the Republic of Congo.

We made further progress in our portfolio optimisation by:

- › Advancing the feasibility studies of our Belfast project
- › The Thabametsi phase I project was approved for implementation after we negotiated offtake agreements, as well as the successful bid by the Thabametsi IPP (independent power producer)
- › We have optimised Leeuwanpan through a life-of-mine extension project which is now being implemented
- › In our energy portfolio, Cennergi has begun commercial operations for its two wind projects which are now supplying to the national grid
- › Aligning our mine plans to maintain a healthy balance between the export product market and local supply to mitigate against commodity cycles and dependency on the power station coal market.

In our pursuit of creating more value and product diversification, we have considered downstream processing on reductants and market coke products. With feasibility studies on our market coke project completed, implementation depends on changes in current market conditions. Looking forward, we will continue to evaluate and optimise our current portfolio, while focusing on robust new opportunities within our approved commodity strategy.

EXECUTIVE REVIEW (CONTINUED)

SIOC shareholding: We will keep monitoring the global outlook, particularly iron ore commodity prices, and will be considering the future of this investment in the context of Anglo American plc's intention to dispose of its controlling interest in KIO.

Tronox continued its dividend declaration in 2016, but at a rate of US\$0,25 per share for the first quarter, and US\$0,045 per share for the rest of the year. Exxaro's board has determined that it will explore available alternatives to sell its Tronox shares in a thoughtful, efficient and staged process to focus on its core activities.

Innovation

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

As part of our drive for innovation and renewal, in 2016, we began a process to assist the organisation to review and possibly change the way it sees the future. Through an intensive process of understanding how fast and in which direction the world is changing, it became apparent that the future could lead to Exxaro creating fundamentally new businesses, beyond the space of mining.

In this context, the fields of energy, agriculture and water were identified as new areas for Exxaro to investigate and potentially monetise opportunities by creating new initiatives and businesses. The company is also exploring opportunities that support rapid growth in this future world, specifically business mechanisms aligned to exponential and innovative business models in the three broad potential sector themes.

The objective of the business-of-tomorrow programme in Exxaro is twofold: meet growth targets, and make a meaningful impact on both South African and African societies and economies. At a global level, the recurring nexus of energy-agriculture-water is continuously recognised as a key global societal, economic and environmental challenge of the future that needs to be urgently addressed.

All three sectors and their nexus support Exxaro's commercial and social impact objectives. All have an affinity to our current business and capabilities, particularly energy and water which are both key components of mining operations:

- › The energy and mining sectors are interdependent - the mining sector supplies coal, oil, uranium and biomass to power producers for electricity generation; and the mining sector requires energy to operate mines
- › Water is a challenge for mining operations and after mine life; particularly acid mine drainage which contaminates soil and water supplies. The flow of acid mine drainage into South Africa's surface and groundwater systems is degrading the quality of these systems, poisoning crops, endangering human health, and damaging wildlife, eco-systems and infrastructure
- › Mining and agriculture can overlap in several ways, including the use of mining land for agricultural purposes, mining communities' involvement in agricultural activities and using mining output in agricultural products such as fertiliser.

Existing Exxaro capabilities, assets and business needs can be leveraged as starting points. By entering into opportunities in the energy, water and agricultural sectors, Exxaro will not only address core business challenges and optimise the use of its existing assets, it will also provide an opportunity for the group to fulfil certain elements of its social mandate and provide sustainable development for communities in which it operates.

Controlling the risks

To ensure we remain resilient for the foreseeable future, we need to address the cost competitiveness of our products and consider how best (for aspects we control) to respond to commodity price volatility.

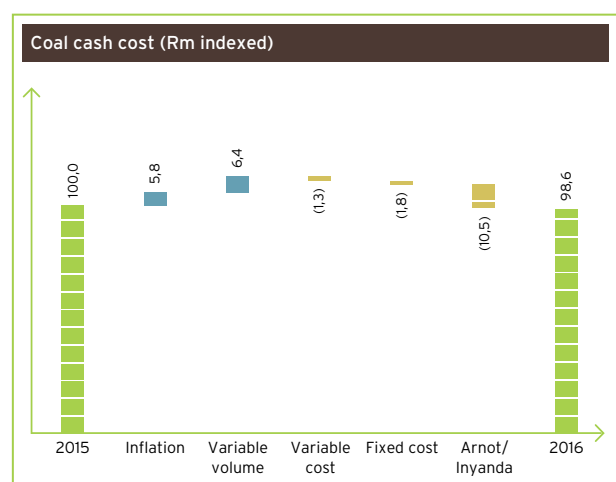
Coal (also refer dependency on Eskom page 59)

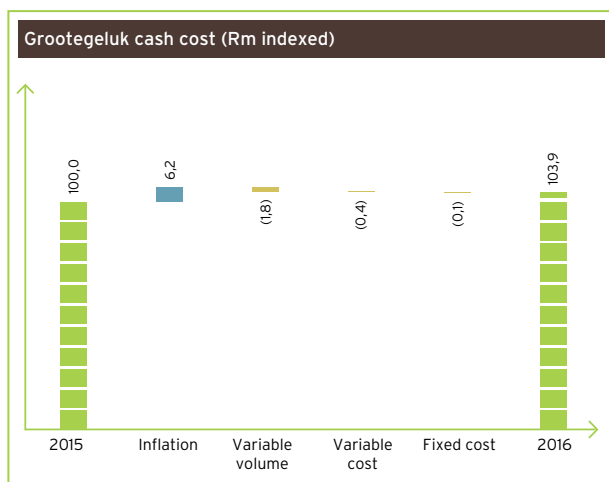
In the fourth quarter of 2016, the international coal price surged as China reduced production after the 276-day cap on production, with prices more than doubling from January 2016 index levels. We also recorded good international demand. Export volumes rose from 6,18Mt to 7,86Mt, mainly due to additional volumes from ECC but offset by the sale of Inyanda. Exxaro realised an average export price of US\$50 per tonne in both 2016 and 2015.

Trading conditions in the domestic market improved in the second half as some producers found the export market more attractive given strong international thermal coal prices towards year-end. We recorded strong demand for our products in the domestic power-generation, steam coal, metals and reductants segments.

Total coal production (excluding buy-ins) was 160kt lower than 2015, mainly due to the sale of Inyanda and closure of Arnot. This was offset by 12 months of ECC production compared to four months in 2015. Sales increased by 300kt (1%).

All coal business units (except Grootegeeluk) achieved significant cost savings, below inflation year on year. Higher costs at Grootegeeluk reflect lower offtake from Eskom and lower addendum 9 tonnages.





Metallurgical coal

Grootegeluk production rose 129kt (7%) but off a lower base as semi-soft coking coal production was cut back in 2015 to produce power station coal, given low stocks in the second half of that year. Sales decreased by 43kt (3%) on lower offtake from local customers.

Thermal coal

Power station coal production from our tied mines was 1 360kt (15%) lower than 2015, after Eskom terminated the contract with Arnot at the end of 2015.

Power station coal production from our commercial mines was down 396kt (2%). Volumes from Grootegeluk declined 894kt (4%) on production cut-backs due to Eskom's full stockpiles in the first half and lower offtake from the utility. North Block Complex production was down 186kt (7%) due to industrial action and relocation of a plant for safety reasons. This was offset by higher production at Mafube of 625kt (100%).

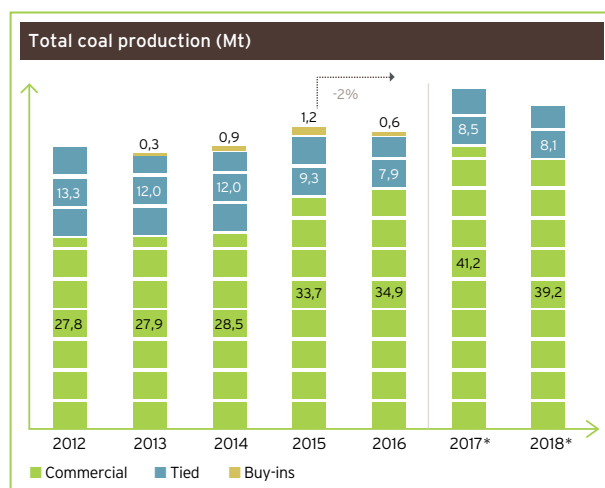
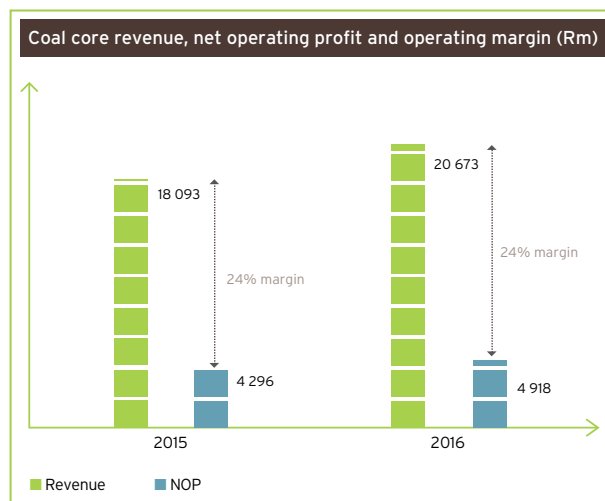
Domestic power station coal sales from our commercial mines was 2 078kt (9%) lower as Leeuwpan's coal is no longer being delivered to Eskom and lower demand under addendum 9 to the Medupi coal-supply agreement.

Export power station coal sales rose 1 034kt (142%) after Eskom contracts ceased at Leeuwpan and Mafube, and coal was redirected to the export market.

Steam coal production was 1 467kt (23%) higher after including ECC (2 539kt) for the full year and higher production at North Block Complex of 173kt (100%) as the Eerstelingsfontein reserve was mined for the full year. This was partly offset by no production at Inyanda (2015: 1 035kt). Grootegeluk production was down 127kt (8%), mainly due to full stockpiles.

Domestic steam sales increased by 2 122kt (82%) mainly from Leeuwpan after the Eskom agreement ceased and product was redirected to the domestic market (1 335kt). Higher sales also

reflect the inclusion of ECC sales of 402kt for the full year and increased demand at North Block Complex and Grootegeluk, partly offset by lower Inyanda sales of 111kt. Steam coal export sales were 642kt (12%) higher, mainly from ECC and offset by the Inyanda closure.



* Based on latest internal forecast.

Ferrous

Net operating profit swung to R566 million in 2016 from a R306 million loss in 2015. This mainly reflects a R670 million gain on disposing of the Mayoko iron ore project and related subsidiaries, offset by a R100 million pre-tax impairment of the ferrosilicon plant at FerroAlloys. The decision to impair the ferrosilicon plant was based on lower demand from major customers as well as our current view on securing new contracts in future.

The increase in equity-accounted income from SIOC reflects the increase in export iron ore prices in 2016. No dividends were received from SIOC in 2016 (2015: R673 million).

EXECUTIVE REVIEW (CONTINUED)

Titanium dioxide (TiO₂) and alkali chemicals

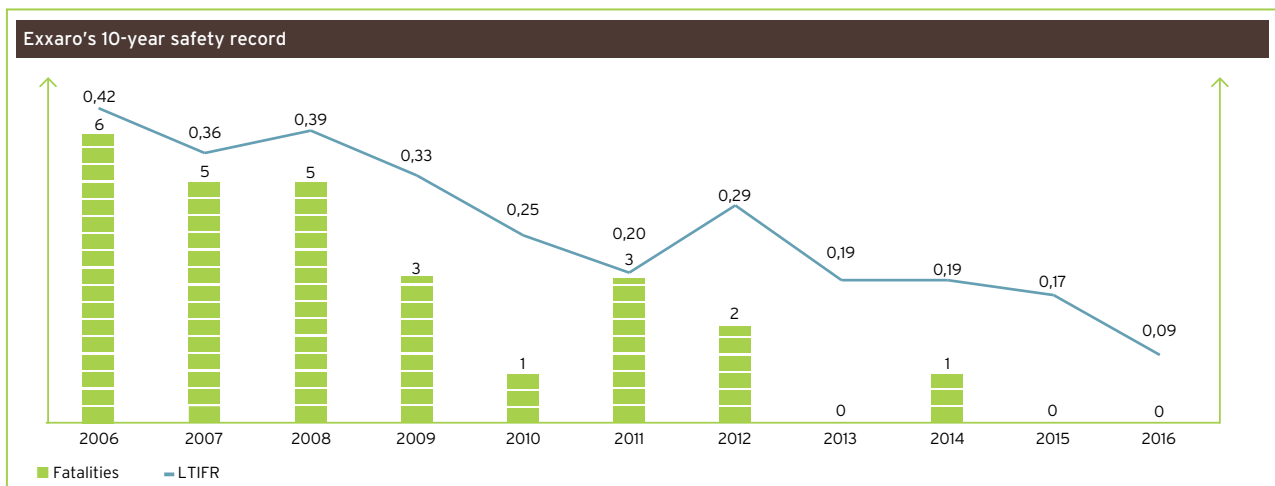
Equity-accounted losses from the Tronox investment decreased from R1 503 million in 2015 to R384 million for 2016.

This was mainly due to the tax benefits of organisational restructuring in the latter part of the year, lower restructuring costs as well as net realisable value adjustments on inventory which were released through profit or loss. Exxaro received total dividends of R298 million from Tronox in 2016 (2015: R668 million).

In February 2017, Tronox entered into a definitive agreement to acquire the TiO₂ business of Cristal (also known as The National Titanium Dioxide Company Limited) for US\$1 673 million cash and shares, representing a 24% shareholding in the enlarged company. As Tronox's largest shareholder, Exxaro intends to vote its shares in favour of the proposed transaction.

Our board has determined that it will explore available alternatives to sell Tronox shares in a thoughtful, efficient and staged process over time to focus on Exxaro's core activities.

Material issue: Our people



Employees

Key performance indicators

KPI (as disclosed in dashboard)	Capital	2016		2015		Trend
		Actual	Indicator	Actual	Indicator	
Number of fatalities	Human	0		0		→
Lost-time injury frequency rate (LTIFR) per 200 000 hours	Human	0,09		0,17		↑
Occupational health incident frequency rate (OHIFR)	Human	0,35		0,36		↑
Project delivery measure for LED projects per SLP (time variance from plan) - mining charter	Social	(13%)		not reported to the board		↑
Employment equity (%) in top, senior and middle management at every business unit - mining charter	Social	58%		60%		→
Human resources development (% payroll excl levies, incl internal and external training) - mining charter	Social	4,5%		6,8%		↓
Skills provision (% of internal appointment of critical skills)	Human	65%		82%		↓
Skills retention (% turnover)	Human	5%		5%		→

Legend



Out of appetite



Worst tolerable



Best realistic



Target



Possible waste/opportunity (exceeding target)

Safety

The safety of our people is fundamental to our business, and we will not rest until we consistently achieve our safety goals through collective responsibility, commitment and ongoing focus. As part of this focus, all operational business units have international health and safety accreditation (OHSAS 18001).

We have made steady progress over the past 10 years (see graph on page 74), proving that our target of zero harm is attainable.

By December 2016, Exxaro had recorded another outstanding performance by operating for over 30 months without a mining-related fatality. This is proof that our target of zero fatalities is attainable and no death is acceptable.

As noted by the SRC committee, a material achievement in 2016 was our lowest LTIFR of 0,09. This is a 47% improvement on the LTIFR reported for 2015 and significantly below the peak of 0,42 in 2006 (79% improvement). In the same 10-year period, fatalities have decreased from six in 2006 to zero in 2015 and 2016.

We recorded 16 LTIs against an aspiration of zero harm. The most common incidents were leg and ankle injuries followed by hand injuries. The highest number of LTIs were recorded at Matla, Grootegeluk and Arnot.

We have focused programmes to empower safety, health and environmental representatives with the knowledge to identify risks better and contribute more effectively to reducing safety risks in the workplace.

In 2016, five section 54 directives were issued by the DMR at Arnot, Grootegeluk and Matla for identified non-compliance. One section 54 directive was issued by the DMR for Grootegeluk. We have maintained a positive trend since 2010 in reducing directives, reflecting the benefit of an internal section 55 inspectorate programme at all business units, authorising appointed employees to stop unsafe activities and, in time, prevent accidents.

In engaging with employees on safety, we focused on visible leadership (VFL), hazard identification, and response training and leadership empowerment in the workplace. The early benefits of more stringent safety practices are evident in fewer section 54 directives (safety stoppages) issued by the DMR.

Health

Fourteen occupational diseases cases were accepted and 52 cases reported in 2016 (excluding ECC), bringing occupational health incident frequency rate (OHIFR) to 0,35 against target of 0,34.

Given the importance of the health and wellness of our employees and contractors, we introduced the occupational health incident frequency rate (OHIFR) two years ago and we are driving awareness to improve the health of all our people.

A key focus in future will be lifestyle diseases, which are proving a significant health risk for Exxaro.

Labour stability

Labour stability is one of the mining industry's key challenges. Despite the often-volatile nature of our industry, we are maintaining a stable labour climate across Exxaro, always aiming for crucial interactions with organised labour that are constructive and indicative of improving relationships. These positive union relationships are sustained through functioning engagement structures and constructive processes to resolve issues. Apart from engaging with our labour stakeholders, we also continuously engage with our entire workforce.

Key indicators for labour stability reflect that we were not exposed to any unprotected work stoppages in 2016 and our external dispute-resolution referral rate improved by 33%.

The advent of multiple unions as opposed to traditional mining unions has changed the collective-bargaining environment significantly over recent years. Managing inter-union rivalry within these forums is a key success factor in maintaining labour stability. As a company, we have successfully adopted a pluralist approach to union recognition, and through appropriate governance, we have enjoyed labour stability.

Employment equity

Our efforts to transform our organisation remain vigorous. Since Exxaro's inception 10 years ago, developing skills levels across the business has been the cornerstone of successfully implementing our employment equity plans.



EXECUTIVE REVIEW (CONTINUED)

We submitted our statutory annual reports for the last reporting cycle. Although we have achieved our targets at the senior and middle management levels, our challenge remains with junior management and people with disabilities.

Exxaro's women-in-mining focus is a key enabler for women to enter careers in our industry. Women currently comprise 20% of the workforce, and we focus on attracting women through our talent pipelines. While this is a challenge, women now constitute 28% of young professionals-in-training, 34% of our full-time bursars in engineering and mining at universities, as well as 27% in learnership programmes across the group.

Communities

We have seen a growing trend of community-based protests affecting our employees directly through a physical inability to get to work but also often manifesting through interactions with labour as an expectation that mining companies must fill the void caused by a lack of service delivery. As a mining company, balancing the strategic imperative for higher employee productivity with increasing demands from unions and communities for fair wages and benefits can place strain on labour stability.

We began implementing a revised approach to enterprise and supplier development in 2016, focused on establishing entrepreneurs who will be able to create employment and opportunities for themselves and their wider network in the communities.

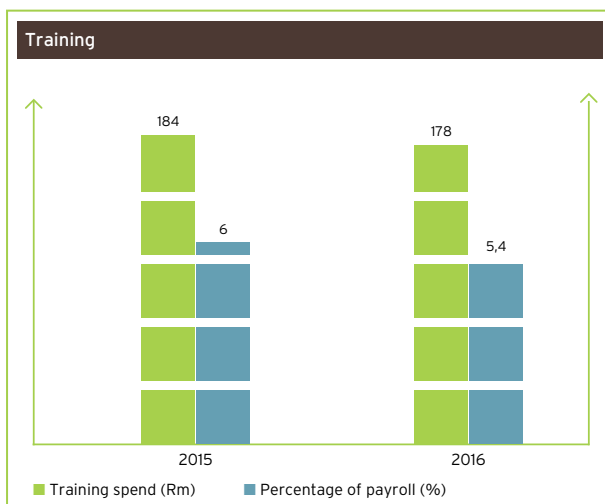
Organisational restructuring

In consultation with our labour stakeholders, we concluded a number of section 189 closure processes (retrenchments) across the group in 2016, including Exxaro Coal Central, Arnot and, more recently, the Exxaro improvement project (EIP) that focused on support services across the business.

Although these processes are challenging, our relationships with all stakeholders was a key factor in their successful outcome. Understanding the emotional impact of organisational restructuring, we provided dedicated employee assistance services throughout all section 189 processes. We have in all instances redeployed as many affected employees as possible.

Skills development

Given the importance of skills in our industry, we endeavour to invest an appropriate amount of total salaries and wages each year in developing our people.



In 2016, we spent R178 million on training, or 5,4% of payroll (2015: R184 million or 6,0%):

- › R90 million was for job-related operational and technical training at business units, including operator training and mobile equipment licences. This amounts to 148 500 training sessions using our e-learning platform, classroom and practical on-the-job training to satisfy mainly core training needs directly linked to operations, as well as the requirements of the Mine Health and Safety Act (MHSA). This includes training contractors as required by the MHSA, as well as section 101 of the Mineral and Petroleum Resources Development Act (MPRDA)
- › R84 million was spent on talent pipelines comprising bursaries, internships, learnerships and skills programmes based on our need for core and key skills. Viewed from the perspective of outcomes, we look at key areas across the skills value chain to determine which actions will ensure the right skills are available at the right time. R46 million of this amount is spent on artisans/miners per year
- › R3,7 million was on developing targeted employees in management development programmes, leadership development, postgraduate studies and support-function development.

Talent management

To meet our current and future skills requirements, we invest in our existing employees, future employees, and in the communities that provide our labour. At present, 99% of Exxaro's labour is sourced in South Africa and, at any operation, over 70% is sourced from host communities. Our education, bursar and skills development initiatives are geared to empower local communities to compete for positions in the company.

Graduate programme

Our three-year professionals-in-training programme blends academic theory with the work environment. Each graduate has a mentor who supervises exposure to various operational, leadership and management training on the job. Mentors also assist with fulfilling registration requirements for relevant governing bodies and professional associations. In 2016, there were 51 professionals-in-training (2015: 64) throughout Exxaro in a R18,3 million programme. Of these interns, 40% are women and 64% are black, and over 90% were placed throughout the group.

Bursary programme

There are currently 61 bursars studying at South African institutions at a cost of R6,6 million per annum. Over two-thirds are black South Africans and 36% are women.

As part of the Exxaro people development initiative, we granted eight bursaries in 2016 to school leavers interested in technical disciplines such as engineering (metallurgical, chemical, mechanical, electrical, industrial, mining or civil), mine surveying and geology. Candidates must be grade 12 students from Exxaro communities who want to study for a technical degree or diploma.

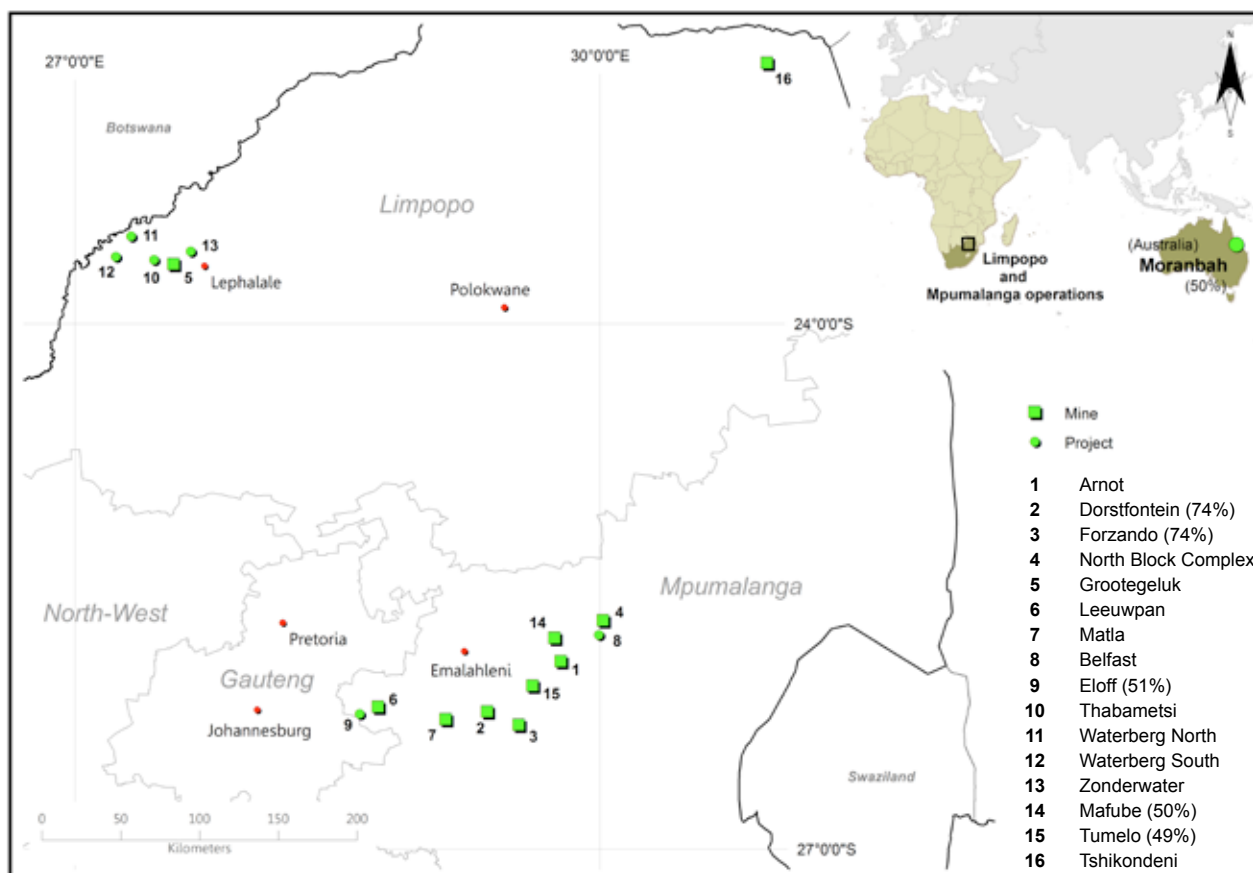


04

MINERAL RESOURCES AND RESERVES STATEMENT

MINERAL RESOURCES AND RESERVES STATEMENT

Exxaro's coal resources and reserves



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

The reported mineral resources and reserves information presented here is a summarised introduction of governance, assurance and methodologies applied as well as an overview of significant mineral tenure items for the reporting period. This summary is supported by the Consolidated Mineral Resource and Reserve (CMRR) report on our website. The content of the CMRR report is compiled from detailed independent reports received from appointed competent persons at the various operations and projects and available on request from the group company secretary. In addition, each operation or project maintains an individual competent person's report that encapsulates the systematic and detailed estimation process conducted by or supervised by that person. These reports are aligned with the checklist and guideline of the reporting and assessment criteria table of the SAMREC Code and are scrutinised and updated when required. Competent persons have sufficient relevant experience and consented to the inclusion of the information in the form and context in which it appears in the CMRR report, which also includes their particulars.

The CMRR report is aligned with JSE Listings Requirements (section 12) and provides comprehensive information on reporting governance, competence, tenure, risk, assurance, auxiliary descriptions of applicable properties and the mineral resources and ore reserves estimates underpinning Exxaro's current operations and growth projects.

The mineral resources and ore reserves are summarised in the CMRR report. Mineral resources and ore reserves are reported as those remaining on 31 December 2016 and compared with the corresponding estimates as reported on 31 December 2015. Significant changes in resource or reserve figures are explained.

Mineral resources are reported including resources that have been converted to ore reserves and at a 100% Exxaro ownership, irrespective of the individual operation or project's attributable shareholding. An exception is our reporting for Gamsberg and Black Mountain, as figures from Vedanta Resources plc represent resources excluding those mineral resources converted to reserves. The reported estimates are not an inventory of all mineral occurrences identified, but a reasonable estimate of those, which under assumed and justifiable technical, environmental, legal and economic conditions, may be economically extractable at present (ore reserves) and eventually in future (mineral resources).

Mineral resources and ore reserves were estimated on an operational or project basis and in accordance with the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code - 2007 edition; July 2009 amended version) for African properties, except for Vedanta's property, and the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC Code - 2012) for Australian and Vedanta properties. For coal resources and reserves under Exxaro Resources' management control, estimation is in line with the South African National Standard: South African guide to the systematic evaluation of coal resources and coal reserves (SANS 10320:2004).

Exxaro reports mineral estimates that are directly under its management control and includes estimates for entities in which we hold a 25% interest or more. Supplementary descriptions are provided for projects and operations directly under Exxaro's management control. For projects and operations included in the Exxaro mineral resource and ore reserve statement but in which Exxaro does not have management control, the reader is referred to that company's website for supplemental information as outlined in the CMRR report.

The annual estimation and reporting process is managed through the Exxaro geosciences policy and associated mineral resource and reserve reporting procedure. The documents dictate technical requirements for estimation and reporting, and include guidelines on methodologies, templates and assurance. Both the policy and procedures are aligned with the guidelines of the SAMREC Code and, for South African coal reporting, SANS 10320:2004. The processes and calculations associated with the estimation process have been audited by internal competent persons and are audited by external consultants when deemed essential. For mines or projects in which Exxaro does not hold the controlling interest, figures have been compiled by competent persons from the applicable companies and have not been audited by Exxaro.

Resource estimations are based on the latest available geological models, which incorporate all new validated geological information and, if applicable, revised seam, resource definitions and resource classifications. The geological models are compiled as a rule between May and September of the reporting year to align with the subsequent reserve estimation process. For the Exxaro operations and projects, Exxaro uses a systematic review process that measures the level of maturity of the exploration work done, the extent of the geological potential, the mineability, security of tenure and associated geological risks/opportunities to establish an eventual extraction outline (EEO). The outline reflects the boundary within which occurrences are considered to have reasonable and realistic prospects for eventual economic extraction (RRPEEE). Exxaro continuously examines various aspects of the mineral resource estimation process; in 2016, we have conferred specifically on concepts put forward by the SAMREC (2016) and SANS (2015) rewrites and will apply these concepts in the 2017 estimation period and end-2017 mineral resource reporting.

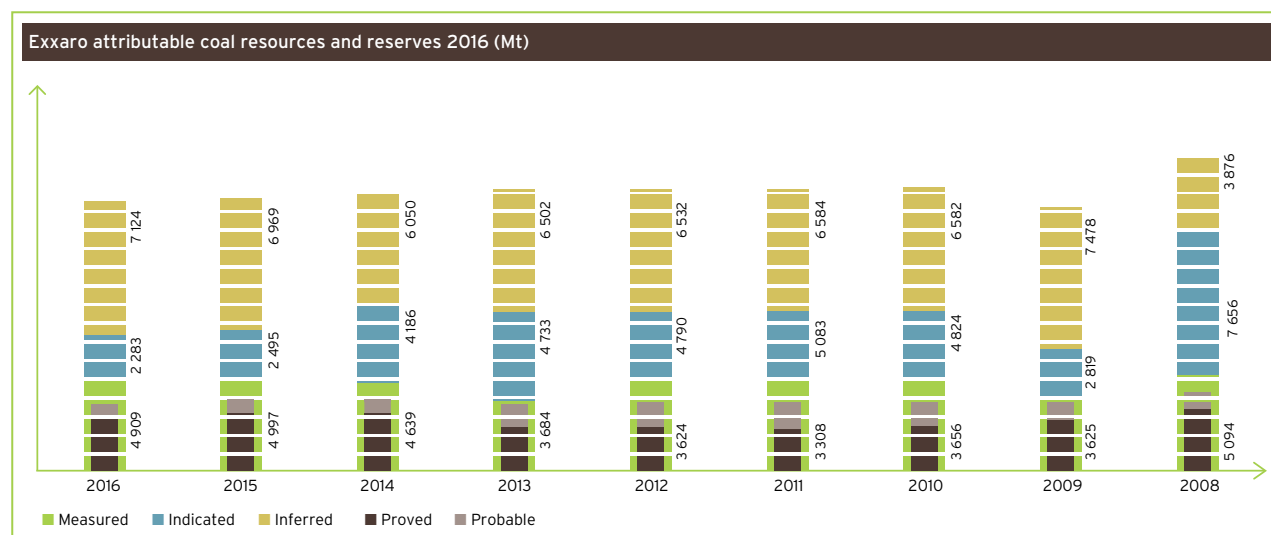
The location, quantity, quality and continuity of grade/quality and geology within the EEO are known to varying degrees of confidence and continuously tested through exploration activities such as geophysical surveys, drilling and bulk sampling. Mineral resources are classified into inferred, indicated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

Ore reserves have the same meaning as mineral reserves, as defined in the applicable reporting codes. Ore reserves are estimated using relevant modifying factors at the time of reporting (mining, metallurgical, economic, marketing, legal environmental, social and regulatory requirements). Modifying factors are reviewed before and after reserve estimation by the persons responsible for ensuring all factors are timeously and appropriately considered. Signed-off reserve fact packs that record losses, recoveries/yields, cost, commodity prices, exchange rates and other required factors applied are documented in each life of mine and independent competent person's reports. Reported ore reserves are derived from indicated and measured mineral resources only, ie those modified or converted into proved or probable ore reserves, that is run-of-mine, which in turn have been scheduled for processing. Changes in the market, increased awareness of protecting the natural environment and changing legislation requirements demand a change in the utilisation strategy and execution of mining operations. Exxaro continuously assesses the various life-of-mine strategic plans to consider the best way of addressing these challenges.

Mineral resources and ore reserves quoted fall within existing Exxaro mine or prospecting rights. Rights are of sufficient duration (or convey a legal right to convert or renew for sufficient duration) to enable all reserves to be mined in accordance with current production schedules. The only exceptions are the Grooteeluk (executed March 2011 for 30 years), Matla (executed March 2015 for 10 years) and Forzando (executed June 2013 for 16 years) operations where adequate ore reserves exist for life-of-mines extending well beyond the period for which they were granted.

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

The Exxaro total attributable coal resource has slightly decreased (~2,8%) mainly as a result of mining depletion and updating geological models with new information. Changes in total resources and movements in individual categories are more prominent at operations than projects, reflecting the current Exxaro strategy to focus primarily on optimising core operations. A significant amount of brownfields exploration has been conducted over recent years. Exploration drilling focused on the medium term, targeting areas of current or emerging geological complexity (eg Matla and Grooteeluk coal mines) but also long term to extend our life-of-mine plans (eg Dorstfontein, Forzando and Matla).



MINERAL RESOURCES AND RESERVES STATEMENT (CONTINUED)

The Waterberg is regarded as the future of South African coal mining. Exxaro holds significant coal resources in the Waterberg, primarily within the Grootegeluk mine and a number of nearby prospecting rights. Grootegeluk secures thermal coal reserves to Eskom's Matimba and newly commissioned Medupi power stations, and produces semi-soft coking and metallurgical coal through eight beneficiation plants. The Grootegeluk complex is continuously evolving, illustrated by commissioning an in-pit mobile crusher system, ramp-up of the GG7 and GG8 beneficiation plants and commissioning a first-of-its-kind cyclic-operated coal slimes ponds facility.

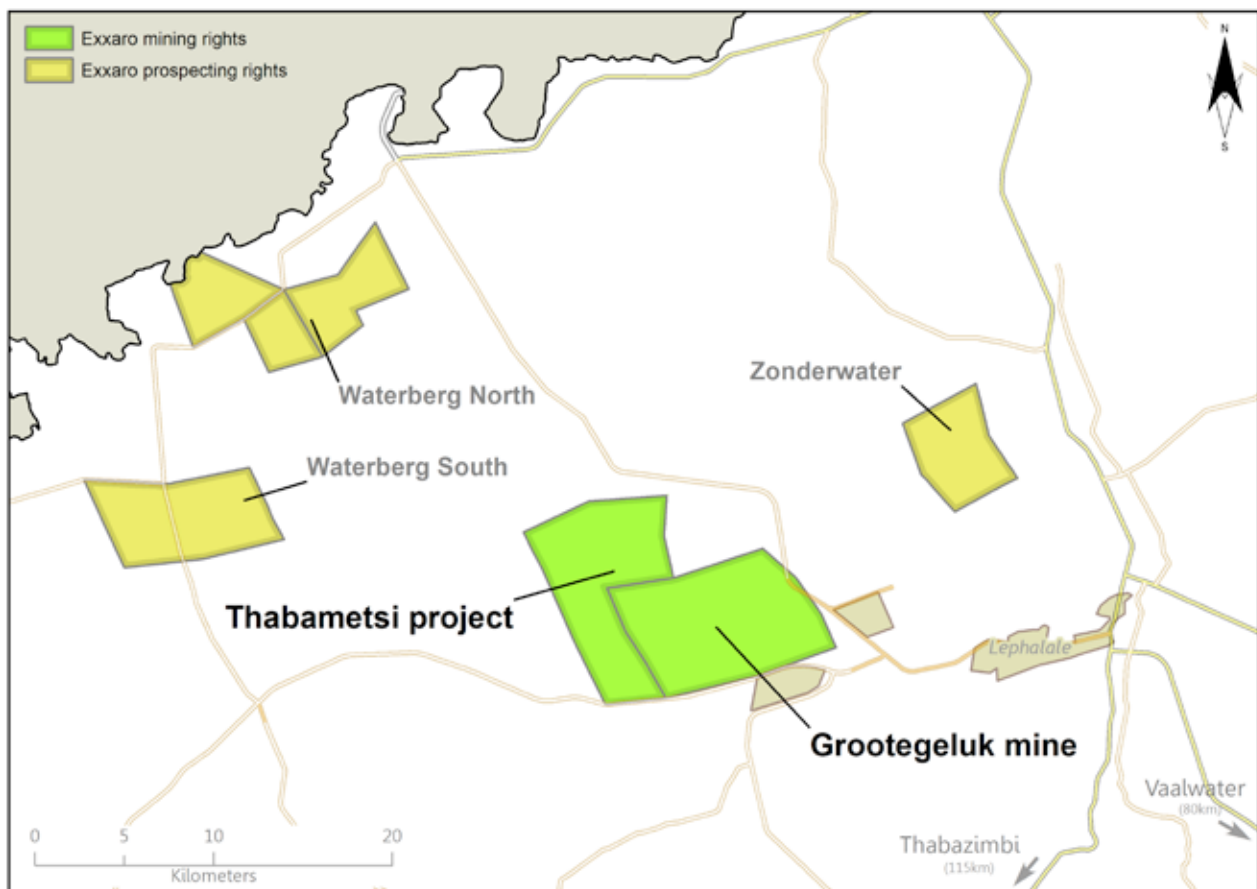
The Grootegeluk geological model was updated in the reporting year with a significant amount of new information. The development of this large open-pit operation poses a number of challenges, including an increase in total sulphur content, thinning of the upper benches used to produce semi-soft coking coal as well as the increase in the magnitude of fault displacement. In response to these challenges, we created a short-term grade-control model, and introduced a close-spaced infill drilling programme and new geometallurgy simulation approach. The Grootegeluk life of mine is currently under review and a number of projects to enhance existing performance are at an advanced stage, notably the construction of the GG6 expansion beneficiation plant (upgrading the GG2 plant). The expansion will add a second stage of beneficiation to the

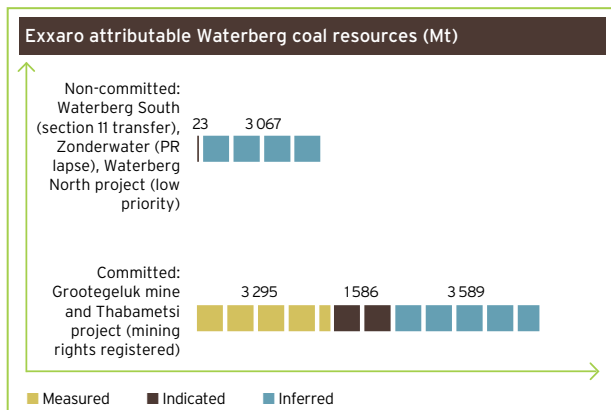
existing GG2 plant and upgrade the two tip-bins to a higher capacity. The project aims to triple the capacity of the current GG6 plant, producing a high-ash semi-soft coking coal suitable for the export market and as power station coal.

Four projects are located near Grootegeluk mine. The Thabametsi project, to the west of Grootegeluk, was granted a new mining right in July 2016. The project will supply coal to the Thabametsi power plant that was selected as a successful bidder under the Department of Energy's coal baseload IPP procurement programme. The first phase of development is an open-pit operation that would use coal from the Volksrust formation, and provide power station coal (~3Mt per year) to the adjacent Thabametsi power plant. This project signifies an exciting new phase for Exxaro in the Waterberg.

The Zonderwater underground coal gasification project has been suspended after a due-diligence study. A subsequent review of current potential for conventional underground coal mining proved unsatisfactory and Exxaro will therefore relinquish the prospecting right when it lapses in early 2017. The approval of a section 11 (ministerial consent) for the Waterberg South project is pending and there is a reasonable expectation that application will be granted in 2017, transferring ownership to a new owner.

Exxaro mining and prospecting rights in the Waterberg





A number of Exxaro-owned open-pit and underground operations and projects are in Mpumalanga. The Matla operation is a tied coal supplier to Eskom and North Block Complex (NBC) produces power station coal for Eskom but also serves the export market and a number of local consumers with a range of coal products. Arnot, an Eskom tied mine, is in closure after termination of the coal-supply agreement with Eskom.

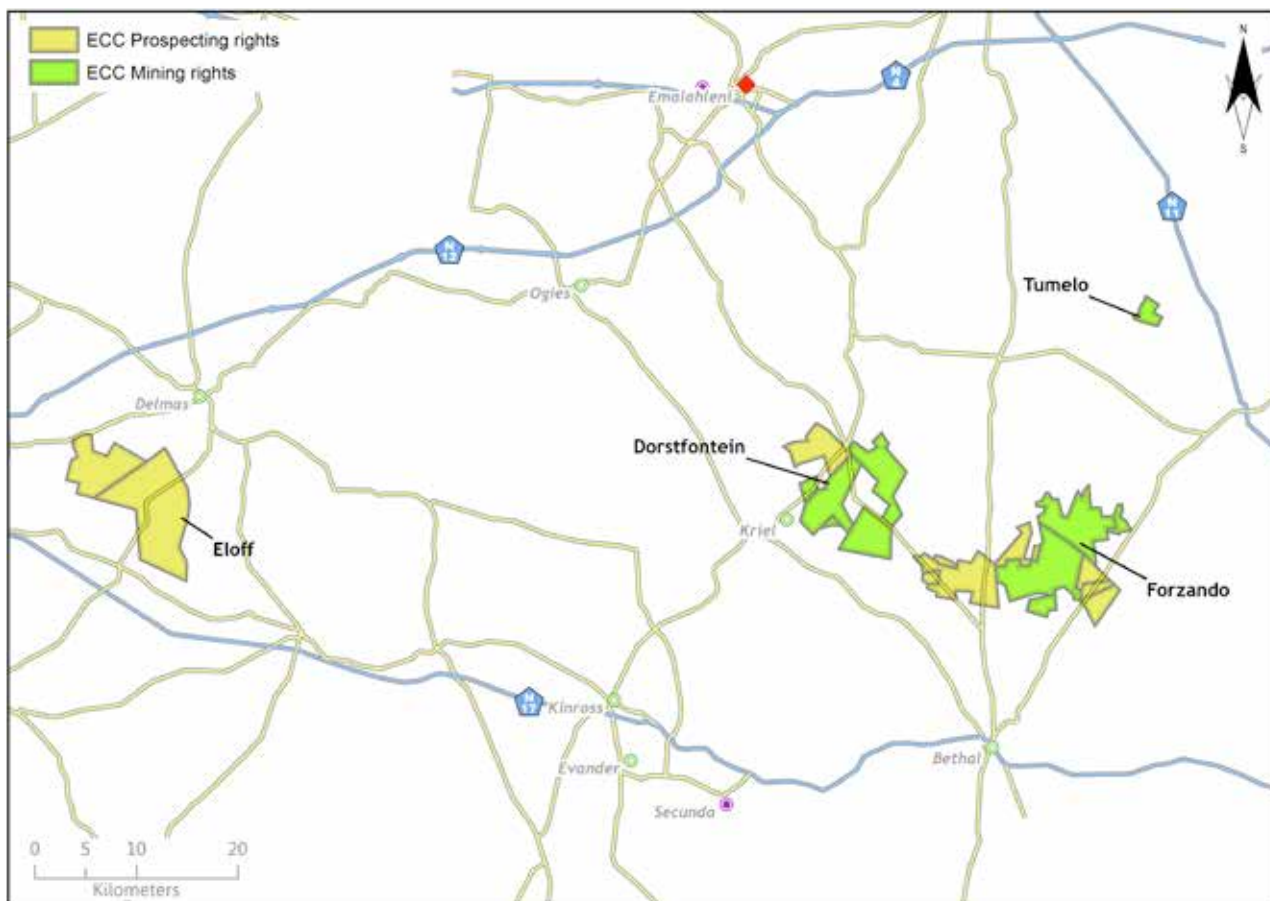
The valued outcomes of an extensive revision of Matla mine in the reporting year position the operation ideally to overcome operational challenges should the necessary capital be timeously approved. Mine 1, one of three Matla shafts, was stopped in 2015 due to pillar instability but the potential impact

was mitigated by moving mining sections and increasing production. A significant amount of new drilling information, update of the geological model and revision of the life-of-mine plan (LOMP) established a solid platform for future operational expansion and excellence. Two feasibility studies were concluded to enhance future reserves (seams 2 and 4) by establishing an incline and decline above and below current workings and introducing additional continuous mining (CM) sections for when the shortwall ground is depleted. Both projects form part of the LOMP and are awaiting final capital approval by Eskom.

At Leeuwan mine, the OI feasibility study was concluded and approved by Exxaro management. The OI reserve contributes to around 50% of the operation's ore reserves and is a material part of its LOMP. The two mining rights of Leeuwan mine are both executed and the approval of a ministerial consent (section 102) submitted to amalgamate the two rights is pending.

North Block Complex (NBC) includes the mining areas of Glisa (converted mining right), Strathrae (converted mining right) and Eerstelingsfontein, an executed new mining right. Environmental approvals for Eerstelingsfontein have been granted and approval for renewal of the mining right, timeously submitted in March 2013, is pending. In addition, the renewal for a prospecting right and application for a new mining right for the Glisa South project area, adjacent to Glisa mine, were submitted in November 2013. An appeal, currently being addressed through the regional mining development and environment committee, is in progress.

Locality map for ECC mining and prospecting rights



MINERAL RESOURCES AND RESERVES STATEMENT (CONTINUED)

Exxaro holds a 74% interest in a number of mining rights under Exxaro Coal Central (ECC) for the operations of Forzando (FZO) and Dorstfontein (DCM) and adjacent prospecting rights, as well as a 49% interest in the mining right of Tumelo (see map on page 81). A full review of the Dorstfontein and Forzando operations has been concluded. The market strategy and LoMP were meticulously revised, extending life of mine at Dorstfontein from five to 15 years and at Forzando from five to 20 years. Focused exploration drilling supported the advancement of the Dorstfontein East open-pit (pit 1, extension) and underground (pit 3) reserve areas as well as life-of-mine development of the underground Dorstfontein West and Forzando operations. A number of exploration projects are located next to the Dorstfontein and Forzando operations. The strategy to conclude investigations of these assets and move them into the operational arena is progressing well. This is illustrated by the approval of a section 102 application incorporating the Forzando West prospecting right into the Forzando South mining right and a pending section 102 application to include the Rietkuil Vhakoni resources into the Dorstfontein East mining right.

ECC also holds a 49% interest in the prospecting right of Schurvekop (1063PR), adjacent to the Forzando operation, of which Mmakau Coal Mining is the majority owner. A mining right was submitted by Mmakau Coal in the third quarter of the reporting year. The legislative process following the mining right submission is on schedule.

ECC holds a 51% interest in the Eloff prospecting right, near the town of Delmas and close to Exxaro's Leeuwpans operation. A mining right application, compiled in the reporting year, will be submitted in the first quarter of 2017, underlining the growth potential of the larger ECC complex.

The Moranbah South project area in Australia includes two mineral development licences (MDLs 277 and 377) and two exploration permits for coal (EPCs 548 and 602). The current terms of both mineral development licences will expire in 2018; MDL277 on 31 July 2018 and MDL377 on 30 September 2018. The current term of EPC548 expires on 22 February 2017 (renewal application lodged 11 November 2016). The current term of EPC602 expires on 31 December 2018. Exxaro has a reasonable expectation that approval of the renewal of EPC548 will not be withheld. Exploration activities comply with all licence requirements.

The disinvestment from the Mayoko iron ore project and Inyanda coal mine were concluded in the reporting year and are therefore excluded from 2016 reporting.

The objective to manage and optimise Exxaro's core mineral assets and review mineral asset projects was strongly pursued in the reporting year and will continue in the coming year. The approach will be to enhance understanding of the mineral resources through the innovative integration and interpretation

of available information and tracking value creation. The primary objective will be to support Exxaro's quest to continuously improve on safe working conditions and to maintain and enhance the mineral resources needed to sustain its competitiveness.

The person at Exxaro designated to take corporate responsibility for mineral resources, Henk Lingenfelder, the undersigned, has reviewed and endorsed the reported estimates. Mr Lingenfelder is a member of the Geological Society of South Africa and registered (400038/11) with the South African Council for Natural Scientific Professions. He has a BSc (hons) in geology and 21 years of experience as an exploration and mining geologist in coal, iron ore and industrial minerals, of which six are specific to coal and iron ore estimation.



JH Lingenfelder
BSc geology (hons)
Pr Sci Nat (400038/11)
Group manager geoscience

Roger Dyason Road
Pretoria West
0183

The person at Exxaro designated to take corporate responsibility for ore reserves, Chris Ballot, the undersigned, has reviewed and endorsed the reported estimates. Mr Ballot is a mining engineer registered (20060040) with the Engineering Council of South Africa. He has 20 years of experience as a mining engineer in iron ore, mineral sands and coal in various technical and management roles.



CC Ballot
BEng mining ECSA 20060040
Group manager mining

Roger Dyason Road
Pretoria West
0183



05

OUTLOOK

OUTLOOK

The five-year downturn in coal markets (since 2011) has been challenging, but not without benefits. It has forced companies to make do with less, to drive costs down while improving productivity and efficiencies.

This has been a painful process at times, particularly when it affected our people, but Exxaro is now better positioned to capitalise on opportunities in our core sector and related fields. Importantly, the lessons learned in our pursuit of operational excellence are now being applied to organisational excellence - creating a resilient company able to turn 21st century challenges into new economies through innovation to create a better life for all stakeholders.

We expect more supportive conditions in 2017 for most of our chosen coal market segments, domestically and internationally. We are confident that the strength of our diversified product portfolio will create new opportunities in this environment. Equally, we expect improved operational results from our coal business in the year ahead, based on:

- › Stable trading conditions in domestic markets
- › Higher international coal prices compared to 2016
- › Our operational excellence process delivering further results
- › Technology and innovation improvements.

Exxaro has a long-standing relationship with Eskom and we continue to work on strengthening this, importantly by honouring our supply and quality commitments in contracts that extend 30 to 40 years into the future. For those of our mines where production is tied to Eskom supply, ensuring the necessary capital expenditure has been approved by Eskom and the regulatory approval process is under way. We appreciate the utility's desire to accelerate transformation in the sector and will continue to engage with its representatives. From a business

perspective, we are making good progress in balancing our exposure to Eskom, with most of our projects geared to export markets.

We are realising incremental benefits from another long-standing relationship with a state-owned entity. Exxaro and Transnet Freight Rail are making significant progress in unlocking the Waterberg - with our partnership translating into projects on coal supply and rail capacity deployment.

In the energy field, we have made solid progress in our renewable energy joint venture with Tata. Cennergi now has two operating wind farms feeding into the national grid while benefiting community stakeholders. We have also partnered with other leaders in the field of energy efficiency to run pilot projects at our operations, focused on developing new energy solutions.

At present, we expect the performance of our investment portfolio (SIOC and Tronox) to be supported by a favourable commodity price outlook for 2017.

At all times in the current market, we are concentrating on managing those elements within our control to ensure our group is more immune to factors outside our control. Chief among these is currency volatility. The rand exchange rate against the US dollar is expected to remain volatile for most of 2017 due to the combination of significant event risks and volatility in the US dollar.

Overall, we are more optimistic about the outlook for our group over the short, medium and longer term than in recent years. We have proven our resilience over a challenging period and look forward to capitalising on the opportunities ahead.





06

ANNEXURES

PWC ASSURANCE REPORT

Independent Assurance Report to the Directors of Exxaro Resources Limited

We have been engaged by the directors of Exxaro Resources Limited ("Exxaro" or the "Company") to perform an assurance engagement in respect of Selected Sustainability Information reported in Exxaro's Integrated Report for the year ended 31 December 2016 (the "Report"). This report is produced in accordance with the terms of our contract with the Company dated 3 November 2016.

Independence, Quality Control and Expertise

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

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

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

Scope and Subject Matter

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

Reasonable assurance

The following information in the Report (page 88) was selected for an expression of reasonable assurance:

- a) Fatality Frequency Rate (FFR) - Employees and Contractors
- b) Lost Time Injury Frequency Rate (LTIFR) - Employees and Contractors
- c) Total electricity efficiency (MWh/production tonnes)
- d) Indirect CO₂ emissions from electricity (scope 2) - CO₂ tonnes

Limited assurance

The following information in the Report (page 88) was selected for an expression of limited assurance:

- a) Occupational Health Incident Frequency Rate (OHIFR) - Employees and Contractors
- b) Direct CO₂ emissions from own operations (scope 1) - CO₂ tonnes
- c) Other indirect emissions (scope 3) - CO₂ tonnes
- d) Number of Level 2 and 3 Environmental Incidents

We refer to this information as the Selected Sustainability Information.

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

Respective responsibilities of the Directors and PricewaterhouseCoopers Inc.

The directors are responsible for the selection, preparation and presentation of the Selected Sustainability Information in accordance with the criteria set out on page 90 of the Report, referred to as the "Reporting Criteria". The directors are also responsible for designing, implementing and maintaining internal controls as the directors determine is necessary to enable the preparation of the Selected Sustainability Information that is free from material misstatements, whether due to fraud or error.

Our responsibility is to form an independent conclusion, based on our reasonable assurance procedures, on whether the Selected Sustainability Information for reasonable assurance has been prepared, in all material respects, in accordance with the Reporting Criteria.

We further have a responsibility to form an independent conclusion, based on our limited assurance procedures, on whether anything has come to our attention to indicate that the Selected Sustainability Information for limited assurance has not been prepared, in all material respects, in accordance with the Reporting Criteria.

This report, including the conclusions, has been prepared solely for the directors of the Company as a body, to assist the directors in reporting on the Company's sustainable development performance and activities. We permit the disclosure of this report within the Report for the year ended 31 December 2016, to enable the directors to demonstrate they have discharged their governance responsibilities by commissioning an independent assurance report in connection with the Report. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the directors as a body and the Company for our work or this report save where terms are expressly agreed and with our prior consent in writing.

Assurance work performed

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

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

Our work consisted of:

- › reviewing processes that Exxaro have in place for determining the Selected Sustainability Information included in the Report;
- › obtaining an understanding of the systems used to generate, aggregate and report the Selected Sustainability Information;
- › conducting interviews with management at the sampled operations and at head office;
- › applying the assurance criteria in evaluating the data generation and reporting processes;
- › performing control walkthroughs;
- › testing the accuracy of data reported on a sample basis for limited and reasonable assurance;
- › reviewing the consolidation of the data at head office to obtain an understanding of the consistency of the reporting processes compared with prior years and to obtain explanations for deviations in performance trends; and
- › reviewing the consistency between the Selected Sustainability Information and related statements in Exxaro's Report.

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

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

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

Inherent limitations

Non-financial performance information is subject to more inherent limitations than financial information, given the characteristics of the subject matter and the methods used for determining, calculating, sampling and estimating such information. The absence of a significant body of established practice on which to draw allows for the selection of different but acceptable measurement techniques which can result in materially different measurements and can impact

comparability. Qualitative interpretations of relevance, materiality and the accuracy of data are subject to individual assumptions and judgements. The precision of different measurement techniques may also vary. Furthermore, the nature and methods used to determine such information, as well as the measurement criteria and the precision thereof, may change over time. It is important to read the Report in the context of the Reporting Criteria.

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

Conclusions

Reasonable assurance

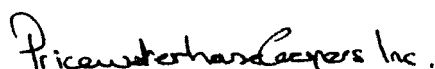
Based on the results of our reasonable assurance procedures, in our opinion, the Selected Sustainability Information for the year ended 31 December 2016, has been prepared, in all material respects, in accordance with the Reporting Criteria.

Limited assurance

Based on the results of our limited assurance procedures nothing has come to our attention that causes us to believe that the Selected Sustainability Information for the year ended 31 December 2016, has not been prepared, in all material respects, in accordance with the Reporting Criteria.

Other Matters

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



PricewaterhouseCoopers Inc.

Director: Jayne Mammatt

Registered Auditor

2 Eglin Road
7 April 2017

INDICATORS ASSURED

Key performance indicator	Level of assurance	2013	2014	2015	2016
Fatalities	Reasonable	0	1	#	#
Fatality frequency rate (FFR) – employees and contractors	Reasonable			0	0
Lost-time injuries (LTIs) – employees and contractors	Reasonable	41	36	#	#
Lost-time injury frequency rate (LTIFR) – employees and contractors	Reasonable	0,19	0,19	0,17	0,09
Occupational health incident frequency rate (OHIFR) – Reported cases – employees and contractors	Limited			0,36	0,35 [†] 0,42 [†]
Total people participating in HIV/Aids voluntary counselling and testing (VCT)	Limited	5 853	1 642	#	#
Number of reported (and accepted) cases of pneumoconiosis	Limited	Reported = 37 Accepted = 3	Reported = 12 Accepted = 2	#	#
Number of reported (and accepted) cases of occupational tuberculosis	Limited	Reported = 40 Accepted = 9	Reported = 20 Accepted = 5	#	#
Number of reported (and accepted) cases of noise-induced hearing loss	Limited	Reported = 8 0	Reported = 16 Accepted = 2	#	#
Total diesel used (GJ)	Reasonable	2 128 665	2 103 148	#	#
Total electricity used (GJ)	Reasonable	2 011 719	2 135 581	#	#
Electricity efficiency (kWh/production tonnes)	Reasonable	4,4	4,2	3,72	12,86
Direct CO ₂ emissions from own operations (scope 1)	Limited	235 506	229 762	235 179	271 657
Indirect CO ₂ emissions from electricity (scope 2)	Reasonable	525 282	557 624	521 905	500 990
Other indirect emissions (scope 3)	Limited	69 736 911	74 768 143	73 846 816	71 651 102
Total year-on-year change in emissions:					
Scope 1	Limited		26 597	#	#
Scope 2			(3,40%)		
Number of level 2 and 3 environmental incidents	Limited	Level 2 = 7 Level 3 = 0	Level 2 = 3 Level 3 = 0	Level 2 = 18 Level 3 = 0	Level 2 = 5 Level 3 = 0
Procurement from BEE entities (R value and % of total procurement)	Reasonable			#	#
› Capital		1 937 107 893 49%	1 545 247 148 57%		#
› Services		2 620 387 614 58%	2 641 029 589 71%		#
› Consumable goods		2 654 651 605 62%	3 091 454 498 75%		#
Employment equity	Reasonable			#	#
› Top management		60%	67%		#
› Senior management		53%	42%		#
› Middle management		55%	57%		#
› Junior management		65%	73%		#
› Core and critical skills			98%		#
Total potable water (municipal and Eskom) and metered potable water (Grootegeluk only) (m ³)	Limited	2 504 390	2 304 686	2 194 398	#
Hazardous waste to landfill (tonnes)	Limited	1 349	1 542	1 814	#
Number of bursars	Limited	#	88	#	#
Number of professionals-in-training	Limited	#	86	#	#

[#] These indicators have not been assured by PwC for the respective years. For 2016, this reflected the shift in material issues, required cost savings, and indicators required by GRI G4.

[†] Includes ECC at 0,42 and excludes ECC at 0,35.

These indicators have been prepared in line with Exxaro's internally defined criteria. Refer to the glossary on page 90 for criteria.

MINING CHARTER PERFORMANCE

Element	Metric	Actual 2012	Actual 2013	Actual 2014*	Actual 2015**	Actual 2016#
Ownership	Black ownership	● 52,14%	● 52,09%	● 52,09%	● 52,09%	● 45,3%##
Beneficiation	Domestic use	● Yes	● Yes	● Yes	● Yes	● Yes
Procurement and enterprise development	Capital goods	● 59%	● 49%	● 34%	● 53%	● 70,5%
	Services	● 37%	● 58%	● 69%	● 82%	● 48,2%
	Consumables	● 47%	● 62%	● 71%	● 79%	● 62,6%
Employment equity	Top management	● None	● 60%	● 67%	● 79%	● 71,4%
	Senior management	● 44%	● 53%	● 42%	● 34%	● 51,6%
	Middle management	● 54%	● 55%	● 57%	● 56%	● 40,3%
	Junior management	● 69%	● 65%	● 73%	● 75%	● 80,9%
	Core and critical skills	● 98%	● 96%	● 98%	● 96%	● 78,4%
Human resources development	Percentage of payroll (excl levies)	● 6,6%	● 5,3%	● 6,8%	● 5,0%	● 6,1%
Community development	Percentage of net profit after tax or LED project completion	● 4,7%	● 0,9%	● 1,8%	● 62%	● 80%
Housing and living	Hostel conversion Occupancy rate Home ownership	● No employees sharing rooms	● Number of people sharing – 0	● 100%	● 100%	● 100%
Sustainable development	Environment	Rehabilitation and closure plans drafted for all mines	● Implementation of approved EMPs	● 91%	● 93%	Not reported
	Health and safety	MOSH leading practices and MHSC research findings investigated and implemented	Leadership strategies (programmes implemented)	● 98%	● 90%	● 80,7%
	Research and development	100%	100%	100%	100%	Not reported
Reporting	Annual reporting to DMR	● Yes	● Yes	● Yes	● Yes	● Yes

● Missed target

● Missed target by <5%

● Met/exceeded target

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

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

The 2016 scorecard includes ECC.

As at 31 December 2016.

GLOSSARY

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

	Indicator	Definition
Environment	Total diesel used (GJ)	Direct energy consumption by diesel used
	Total electricity used (GJ)	Direct energy consumption by electricity used
	Total electricity (MWh/ production tonnages)	Total electricity used, measured in megawatt-hours (MWh), divided by production measured in kilo tonnes
	Direct CO ₂ emissions from own operations (scope 1)	Total scope 1 emissions include total litres of diesel oil used for primary production activities, fugitive emissions from mining activities and limestone emissions created through mining activities converted to tonnes CO ₂ e
	Indirect CO ₂ emissions from electricity (scope 2)	Total electricity purchased converted to tonnes CO ₂ e Electricity-based emissions are derived from the grid emissions factor for South Africa (0,94t CO ₂ e/MWh)
	Other indirect emissions (scope 3)	Total scope 3 emissions from use of sold products and upstream transportation and distribution
	Number of integrated water use licence (IWUL) applications approved	An approved IWUL is a licence signed by the Department of Water and Sanitation director-general acting under authority delegated by the minister. An approved/signed licence authorises water uses applied for under section 21 of the National Water Act, 1998
	Number of integrated water use licences (IWUL) pending	An integrated water use licence application lodged with the Department of Water and Sanitation for processing and awaiting decision by the department
	Number of level 2 and 3 environmental incidents	<ul style="list-style-type: none"> › Level 2 - reportable environmental incidents with reversible on-site and immediate surrounding impacts, will involve over 48hrs clean-up activities and a negative impact on shareholder value of R50 000 to R500 000 worth of damage has definitely occurred › Level 3 - reportable environmental incidents with irreversible on-site, immediate and remote areas impacts, will involve long-term clean-up activities and a negative impact on shareholder value of >R500 001 worth of damage has definitely occurred
	Total potable water use	Total invoiced potable water (municipal and Eskom) and metered potable water (Grootegeluk only) (m ³)
	Hazardous waste to landfill	Hazardous waste disposed of to legal landfill during the reporting period
Mining charter	Procurement spend from BEE entities (R value per capital goods, consumables and services)	The support of BEE (black economic empowerment) suppliers in line with the Exxaro preferential procurement policy and mining charter requirements for the review period
	Employment equity	Demographic breakdown of workforce as per mining charter requirements for the review period
Training	Number of bursaries awarded	Total number of bursaries awarded in the reporting period. A student who receives a bursary that covers university fees and expenses from Exxaro (bursar). This student is offered work experience in university holidays (working bursar) and, on the successful completion of a degree, is offered employment from Exxaro
	Number of professionals in training	Total number of professionals in training (PIT) in the reporting period. A PIT is an employee holding a three-year contract to gain practical experience on the mines

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ISIN code: ZAE000084992

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