

MATERIAL ISSUES



The full spectrum of Exxaro's material issues was identified and assessed through a robust enterprise risk management process, and prioritised by consulting with stakeholders using GRI guidelines. They are grouped and indexed according to Exxaro's strategic business risks where applicable, and cross-referenced to detailed explanations in this report as required.

THE CHALLENGE: INTEGRATING SUSTAINABILITY INTO CORPORATE DECISION-MAKING

	RISK	ISSUE	RESPONSE	PAGE
1	Maintain social licence to operate	Approval and implementation of local economic development projects and donations as per social and labour plans	Socio-economic funds to implement projects and donations totalled 1,4% of net profit after tax of managed operations in 2011. Total spending on socio-economic development projects, corporate commitment and donations was R42,3 million ✓ Exxaro allocated almost R13 million to small and micro enterprises and R14 million towards infrastructural development	28
		Material stewardship – green procurement Links to strategic sustainability – not managing the supply chain increases risk to health and safety of employees and could lead to severe damage to environment	Sustainable supply chain management introduced, reflecting close collaboration with suppliers. Mining charter targets exceeded – R4,9 billion of group procurement spend went to HDSA suppliers; 59% of the total discretionary procurement spend ✓	25
2	Compliance to environmental legislation Spanning licence to operate; duty to manage impacts responsibly; Exxaro's reputation at stake	Hazardous waste management Targets will be confirmed in 2012 after approval of policy document	Comprehensive programme spanning biodiversity, waste and air quality launched in 2011	26
		Air quality management Quantifying impact of emissions from operations; managing non-compliance and ensuring continuous improvement. Focus includes dust from mining activities and smelter emissions		
		Biodiversity management Conserving biodiversity-rich sections, eradicating and controlling alien invasive species		
		Closure and rehabilitation	Consider third-party applications for mines in closure	27
		Water management (see risk 5)	Continual review of rehabilitation assessments and implementation plans	
3	Regulatory approvals for projects	SHE (safety, health and environment) permits and authorisations	All mining rights applied for have been granted Environmental management plans in place for all Exxaro operations In 2011, five integrated water use licences were granted, with authorisation pending on eight applications (many Exxaro business units need more than one licence) ✓	27
4	Infrastructure access	Misalignment of rail and port capacity. Additional infrastructure investment required	Collaboration with industry peers and government on plans to improve and expand logistical infrastructure	2



PROGRESS

Significant strides in recent years towards mitigating these material issues include:

- Sale of Rosh Pinah and cessation of zinc production at Zincor (an intensive energy user)
- Power use down 14% from 2008
- Over R200 million invested in socio-economic development

MATERIAL ISSUES CONTINUED

	RISK	ISSUE	RESPONSE	PAGE
5	Climate change	Climate change and greenhouse gases Affects each operation differently depending on geographical location	Risks and related opportunities integrated into a climate change position statement and related response strategy elevated into Exxaro's business strategy Mitigation and adaptation strategies being examined in a pilot study at Grootegeluk. This will be rolled out to other sites in 2012 Sponsoring university chairs to conduct research on how best businesses can adapt	27 18
		Water security and risk of flooding Some Mpumalanga operations have too much water which, if not managed, would severely affect production. Conversely, Lephalale in Limpopo (Grootegeluk mine) has too little water	Exxaro's steady progress in addressing climate change recognised in its Carbon Disclosure Project (CDP) 2011 performance Studies are under way to mitigate the risk of excess water. Resources have been budgeted to develop viable plans to treat used water To mitigate risk of insufficient water, the Department of Water Affairs is building a pipeline from Mokolo Dam to Lephalale	46
6	Acid mine drainage	Fresh water contamination	Monitoring, recycling, re-use and water treatment through technological advancements	27
7	Cost and availability of electricity	Rising energy costs and efficiency Electricity costs have risen from R358 million in 2007 to R962 million in 2011	Exxaro committed to reducing electricity use by 10% and reducing emissions by 2012. We are on track to meet these targets	27
8	Critical skills attraction and retention	Initiatives to address literacy and numeracy, ensure continuous focus on training and developing artisans, skills and leadership development, and removing development barriers	<ul style="list-style-type: none"> • Trade tests • 111 adult basic education and training (ABET) learners in 2011 • 397 artisan learners at various stages of qualification 5,7% of total salaries and wages spent on human resources development. Our own technical training centres train artisans at a cost of R32 million per annum. Considerable investment in schools to ensure quality of learners	25
9	Geographical concentration of asset base	Risk mitigation required through diversified commodities and geographical footprint	Judicious pursuit of a diversified, yet complementary, set of commodities across the globe	16, 30
10	Resource nationalism	Any encumbrance in resources albeit through ownership constraints, taxation or other regulation	Influence decision-making through participation in recognised forums	18
11	Maintaining empowerment status	Mining charter target of at least 26% black ownership by 2014	Largest black-owned, managed and controlled company on the JSE with 52,66% black ownership. Aiming to improve level 5 for BBBEE status to level 3 by 2013	1
12	Currency and commodity price volatility	Exxaro is subject to the vagaries of currency and commodity price fluctuations	Continuous improvement and cost control to remain profitable despite macro-economic and price volatility	34
13	Cost competitiveness of Exxaro's commodities	Cost control is often the only manageable variable to protect margins		
14	Fraud and corruption – external	To reduce the impact of fraud on the group's resources and ensure measures are in place to serve as a deterrent to perpetrating fraud	Zero-tolerance approach to fraud. Effective anonymous reporting hot line in place for several years. Managed by an ethics committee with access to experienced forensic team	51
15	Fraud and corruption – internal		Zero-tolerance code of ethics with compliance monitored by ethics committee. Includes conflict-of-interest declarations and decisions	51