

RISK AND COMPLIANCE MANAGEMENT TO ENSURE EXXARO'S SUSTAINABILITY

Exxaro understands that risk and compliance run across our five sustainability capitals and that this needs to be managed at a strategic, tactical and operational level, using a consistent standardised approach to ensure we achieve our strategic objectives.

Exxaro made great strides in 2013 to embed a risk culture, where everybody in the organisation understands that the risks in their environment need to be managed to ensure we remain proactive in everything we do, whether we are making an investment decision or working at the coal face. This ensures we are resilient and can face the unique challenges of

mining companies operating in an ever-changing economic and regulatory landscape.

At Exxaro we manage compliance risks as part of business risk. This ensures the same diligence is applied when designing controls and action plans to ensure we remain compliant. This also means compliance controls are monitored through our combined assurance activities.

This enterprise risk management (ERM) methodology is 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.

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

BOARD DISCLOSURE

Please refer to principle 2.7 in the King III compliance report on page 73, as well as chapter 4 in the detailed King III report on the web.



¹ Executive committee.

² Sustainability, risk and compliance.

2013 ACHIEVEMENTS

Reflecting on 2013	Achieved (yes/no)	Comment
Rolling out the technology enabler to all business units, regional offices, corporate office and service functions throughout the year	Yes	<ul style="list-style-type: none"> Awarded first prize by the Institute of Risk Management of Southern Africa for the best IT risk implementation in 2013 All users received customised face-to-face training at corporate office and their business units Reports submitted to executive committee and SRC directly from system to ensure transparency
Risk review sessions	Yes	<ul style="list-style-type: none"> Quarterly risk review sessions conducted at all business units and annual session conducted with executive committee
Establishing risk appetite levels per strategic objective for the company and obtaining board approval	Yes	<ul style="list-style-type: none"> Refer to page 33. Risk appetite framework to be approved in 2014
Risk aggregation and risk escalation policy established	Yes	<ul style="list-style-type: none"> Methodology established, but not documented
Updating ERM framework	Yes	<ul style="list-style-type: none"> Document reviewed and updated, risk terminology aligned to technology enabler terminology
Linking key performance indicators (KPIs*) and key risk indicators (KRIs**) to management performance contracts	In progress	<ul style="list-style-type: none"> Risk owners for all risks, augmented by KPIs at strategic level, identified. This will now be linked to individual performance contracts Risk appetite framework contains key risk indicators for every material performance area, articulated as risk thresholds
Conducting a risk maturity assessment	No	<ul style="list-style-type: none"> Risk maturity assessment is scheduled for June 2014
Conducting compliance reviews on all activities with an environmental impact	Yes	<ul style="list-style-type: none"> Environmental legal audit reports issued to business units and corrective actions under way
Compiling compliance risk management plans enabled by new risk management enabler	Yes	<ul style="list-style-type: none"> Compliance risk management plans compiled, and will now be rolled out through control self-assessment questionnaires

* Key performance indicator is the unit of measure to monitor both achievement of our strategic objectives and our material issues/risks, eg carbon footprint.

** Key risk indicator is the variance of the unit of measure to monitor the risk, eg target is to be carbon neutral and worst tolerable is 1% CO₂e reduction per annum.

LOOKING FORWARD 2014

The following activities are planned for 2014

- The board to review and approve detailed risk tolerance levels
- Upgrading our risk management enabler to the newest version
- Implementing the SHEC risk management enabler and rolling it out to the business units
- Conducting risk review sessions within the updated technology enabler
- Rolling out the risk appetite framework to business units
- Monitoring and reviewing risk thresholds to ensure operations function within the board-approved framework
- Reviewing and updating the ERM framework
- Linking key performance indicators (KPIs) and key risk indicators (KRIs) to management's performance contracts
- Conducting a risk maturity self-assessment
- Conducting mining right audits for all operations.

OUTCOME

The detailed table overleaf illustrates Exxaro's top strategic risks as considered by the board. We use a top-down and bottom-up risk review approach where business unit risks, external risks as well as local and global risk survey information become input for the strategic layer.

RISK AND COMPLIANCE

SUMMARY OF TOP RISKS







Strategic focus area	Risk name	Potential impact	Critical controls
1 Portfolio and financial performance	Key dependency on customers	<ul style="list-style-type: none"> • Legal and compliance • Operations • Safety • Financial 	<ul style="list-style-type: none"> • Broadening local and international customer base • Establishment of rehabilitation trust fund • Regular liaison with Eskom • Renegotiation of Medupi coal-supply agreement
2 Portfolio and financial performance	Unable to meet production demands	<ul style="list-style-type: none"> • Operational • Financial • Stakeholder relations 	<ul style="list-style-type: none"> • Accelerate business improvement projects currently running • Conduct more accurate geological studies • Performance and consequence management • Maintain the stockpile threshold • Develop condition-based budget model feeding from life-of-mine plan • Improve maintenance and asset management • Ongoing capital infrastructure planning aligned to strategy
3 Developing leadership and people	Safety concerns	<ul style="list-style-type: none"> • Safety • Operations • Financial • Stakeholder relations 	<ul style="list-style-type: none"> • Analyse historical incident data to identify trends to get to root causes • Continuously report incidents • Continuously review industry benchmark on safety • Implement robust preventive maintenance processes and systems • Invest in education, training, communication and behaviour-based safety programmes • Use predictive modelling techniques to develop prevention strategies
4 Responsibility and accountability	Government bureaucracy	<ul style="list-style-type: none"> • Strategic • Financial • Project delays • Stakeholder relations • Legal and compliance • Human resources 	<ul style="list-style-type: none"> • Active and constant interaction with government to speed up approvals • Build strong relationships with government • Close communication with communities and other affected parties
5 Portfolio and financial performance	Commodity price volatility	<ul style="list-style-type: none"> • Financial • Stakeholder relations 	<ul style="list-style-type: none"> • Develop communication plan that quickly disseminates changes to operations • Improve speed of mine planning to match price volatility • Match commodity prices to customer base • Negotiate long-term, fixed-price contracts
6 Responsibility and accountability	Unavailability of water	<ul style="list-style-type: none"> • Strategic • Financial • Project delays • Stakeholder relations • Legal and compliance 	<ul style="list-style-type: none"> • Establish public-private partnerships • Liaise through Chamber of Mines with government • Link water-intensity targets to performance targets

Key Description

⬆️ Current residual risk rating increased.

⬆️ Current residual risk rating decreased.

★ A new top 15 risk was identified.






Residual risk trend	Sustainability capital	Key performance indicators (KPIs)*	Combined assurance (line*)
	Financial	<ul style="list-style-type: none"> • Core operating margin (%) • Compound annual growth rate, based on core HEPS • Number of fatalities • Lost-time injury frequency rate (months without a fatality) 	Line 3
	Financial	<ul style="list-style-type: none"> • People productivity of current assets (production tonnes/full-time employee) • People productivity of current assets (total tonnes handled/full-time employee) • Annualised return on capital employed (ROCE) (%) • Core operating margin (%) • Compound annual growth rate, based on core HEPS 	Line 3
	Human	<ul style="list-style-type: none"> • Number of fatalities • Lost-time injury frequency rate (months without a fatality) • Stoppage directives (including MHSA, MPRDA, NWA and NEMA) 	Line 3
	Social	<ul style="list-style-type: none"> • Number of authorisations outstanding 	Line 1
	Financial	<ul style="list-style-type: none"> • Core HEPS (cps) – short-term target • Annualised ROCE (%) • Core operating margin (%) • Compound annual growth rate, based on core HEPS 	N/A
	Natural	<ul style="list-style-type: none"> • Water intensity (% improvement) 	

RISK AND COMPLIANCE

continued

Strategic focus area	Risk name	Potential impact	Critical controls
7 Operational excellence	Infrastructure capacity, access, development and funding	<ul style="list-style-type: none"> Financial Stakeholder relations Human resources 	<ul style="list-style-type: none"> Collaborate with government stakeholders to improve and initiate new infrastructure Identify other stakeholders to co-develop a solution and extend infrastructure Regular liaison with Transnet Freight Rail, Richards Bay Coal Terminal and other stakeholders Understand return on infrastructure and consider appropriate funding
8 Portfolio and financial performance	Competitiveness of assets (cost/tonne)	<ul style="list-style-type: none"> Financial Stakeholder relations Operations 	<ul style="list-style-type: none"> Assign management accountants as business partners in relevant areas Create strategic joint ventures to optimise economies of scale Focus on sustainable cost-reduction programmes/business improvement initiatives Focus on business unit's controllable efficiencies Increased awareness of cost management Investigate and divest non-core assets Rebalance product chains to better use infrastructure (integrated logistics)
9 Responsibility and accountability	State intervention in mining sector	<ul style="list-style-type: none"> Strategic Financial Human resources Legal and compliance 	<ul style="list-style-type: none"> Be prepared to diversify (commodity mix and geographical areas) Ensure effective stakeholder relations Increase transparency of payments to governments Participate in Chamber of Mines discussions and give inputs Partner with state-owned enterprises Work with multilateral agencies and other stakeholders (illustrate nationalism negatives)
10 Operational excellence	Capital project execution	<ul style="list-style-type: none"> Financial Stakeholder relations Project delays 	<ul style="list-style-type: none"> Disciplined execution of value engineering study review Asset portfolio review and management Encourage a culture to report both successes and failures (lessons learnt) Establish contingency plan (plan B) Implement advanced assurance frameworks (independent review and oversight) Monitor and track progress of capital projects Ensure project and supply chain performance is monitored and managed Establish a robust governance structure Improve capex forecast accuracy
11 Responsibility and accountability	Compliance to environmental legislation	<ul style="list-style-type: none"> Financial Environmental Reputational Operations Legal and compliance 	<ul style="list-style-type: none"> Compulsory inductions to all personnel and visitors Conduct environmental management programme (EMPr) assessments Ensure internal incident reporting Liaise with authorities regularly Perform environmental legal audits regularly (self-assessments) Communicate updates on legal changes Provide regular compliance awareness training

Key	Description
⬇️	Current residual risk rating increased.
⬆️	Current residual risk rating decreased.
★	A new top 15 risk was identified.

Residual risk trend	Sustainability capital	Key performance indicators (KPIs)*	Combined assurance (line*)
	Manufactured	<ul style="list-style-type: none"> • Growth from coal commodities (Mt) • Project delivery measure (time and cost variance from plan) • Country risk as per assessment criteria (key drivers physical security and security of tenure) • Growth from coal commodities (Mt) • Annualised ROCE (%) 	
	Financial	<ul style="list-style-type: none"> • Core operating margin (%) • Services cost as % of total operating cost • Annualised ROCE (%) 	
	Social	<ul style="list-style-type: none"> • Annualised return on equity based on core headline earnings (%) • Core operating margin • Financial impact modelling of regulatory changes • Mining charter per site • BBBEE level 	
	Manufactured	<ul style="list-style-type: none"> • Project delivery measure (time and cost variance from plan) • Individual projects' return on investment (ROI), measured by risk-adjusted weighted average cost of capital (WACC) • Country risk assessment 	Line 3
	Natural	<ul style="list-style-type: none"> • Reportable cases of environmental incidents • Stoppage directives (including MHSA, MPRDA, NWA and NEMA) • Environmental authorisations • Environmental liability provisions (in place and adequate) • Environmental authorisations' compliance to conditions • Carbon footprint 	Line 3

RISK AND COMPLIANCE

continued





Strategic focus area	Risk name	Potential impact	Critical controls
12 Responsibility and accountability	Maintain social licence to operate	<ul style="list-style-type: none"> Financial Reputational Stakeholder relations Legal and compliance Operations 	<ul style="list-style-type: none"> Conduct SLP audits Proactive involvement in sustainable socio-economic development initiatives Adhere as a minimum to commitments in SLPs Pursue identified initiatives to progressively improve Exxaro's BBBEE rating Report on mining charter requirements (external and internal) Report on SLP requirements (external and internal)
13 Developing leadership and people	Mine rehabilitation	<ul style="list-style-type: none"> Financial Environmental Stakeholder relations Legal and compliance Operations 	<ul style="list-style-type: none"> Complete legacy projects Conduct awareness and training Manage rehabilitation trust jointly with Eskom Undertake rehabilitation calculations and create accounting provision Ensure insurance covers are in place Establish rehabilitation programmes Issue appropriate guarantees to DMR Update EMPr to align with activities on the mine
14 Responsibility and accountability	Inability to accurately determine financial closure obligations (cost of closure)	<ul style="list-style-type: none"> Financial Environmental Stakeholder relations Legal and compliance 	<ul style="list-style-type: none"> EMPr extension for mining footprint Independent consultants to conduct annual closure cost assessments Ongoing consultation with authorities
15 Responsibility and accountability	Labour unrest	<ul style="list-style-type: none"> Safety Operations Financial Stakeholder relations 	<ul style="list-style-type: none"> Ensure proper leadership and high-performance culture Ensure emergency stockpile is maintained (business continuity management plan) Establish strike emergency response plan and team Monitor execution of SLPs Participate in Chamber of Mines forum Regular communication to employees and communities Regular labour and union liaison

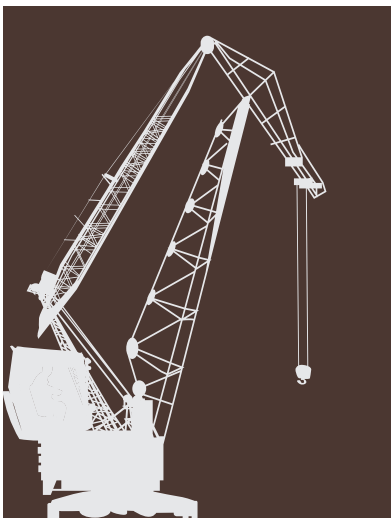
Key

MHSA = Mine Health and Safety Act No 29 of 1986.
 MPRDA = Minerals and Petroleum Resources Development Act No 28 of 2002.
 NWA = National Water Act No 36 of 1998.
 NEMA = National Environmental Management Act No 107 of 1998.

Key	Description
⬆️	Current residual risk rating increased.
⬆️	Current residual risk rating decreased.
★	A new top 15 risk was identified.

* Line 1 – Management review.
 Line 2 – Internal assurance such as review by corporate service department as subject matter expert over a risk at a business unit.
 Line 3 – Independent assurance.

Residual risk trend	Sustainability capital	Key performance indicators (KPIs)*	Combined assurance (line*)
	Social	<ul style="list-style-type: none"> • Mining charter, per site • BBBEE level 	Line 3
	Natural	<ul style="list-style-type: none"> • Compliance to conditions of environmental authorisations • Environmental liability provisions (in place and adequate) 	Line 3
	Natural	<ul style="list-style-type: none"> • Environmental liability provision 	
	Social	<ul style="list-style-type: none"> • Mining charter, per site • BBBEE level • Organisational culture assessment 	Line 3



RISKS

80%
have external root causes

60%
have people as root cause

27%
are compliance-related risks

BREAKDOWN PER STRATEGIC THEME

- Responsibility and accountability – 54%
- Developing leadership and people – 13%
- Operational and financial excellence – 13%
- Commodity portfolio – 20%.

SUSTAINABILITY CAPITALS: SPREAD OF RISKS

- Natural capital – 27%
- Human capital – 13%
- Social capital – 27%
- Manufactured capital – 13%
- Financial capital – 20%.

RISK AND COMPLIANCE

continued

Heat map

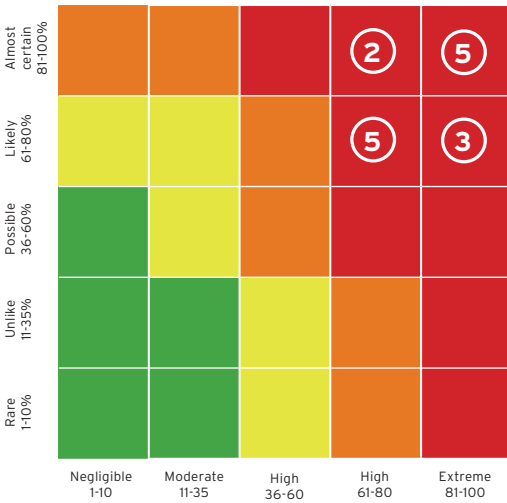
The Exxaro heat map is designed to indicate high-impact/low-probability risks as red to emphasise that, should any of these risks materialise, it would have an extreme impact on the organisation and need to be monitored and reviewed

constantly. The same applies to high-probability/low-impact risks which are indicated in yellow as they occur frequently and need to be managed. The controls related to these risks are considered critical and need to be monitored and reviewed constantly in line with the combined assurance approach.

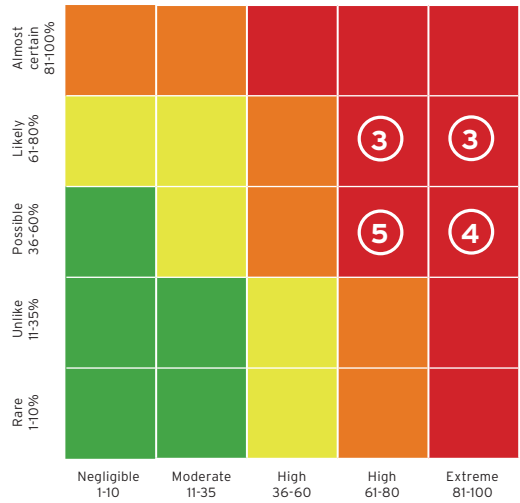
The heat map below illustrates Exxaro's top strategic risks as shown on page 26 inherently (before any controls) as well as residually (after controls) identified through our ERM process as approved by the board.

Figures in each heat map reflect the number of risks in that quadrant.

Inherent risk rating



Residual risk rating



Impact

Probability legend*	
Factor	Description
> 80-100	Almost certain
> 61-80	Likely
> 36-60	Possible
> 10-35	Unlikely
< and = 10	Rare

Impact

Impact legend*	
Factor	Description
> 80-100	Extreme
> 61-80	Major
> 36-60	High
> 10-35	Moderate
< and = 10	Negligible

* Colours will not correlate with the heat map, as the heat map assists in prioritisation of risks.

Risk appetite

Risk appetite answers the question "how much risk do we take as a group?" This will ensure decisions are made after considering quantifiable, impartial measures in pursuit of strategic objectives, and that we take calculated risk in making decisions.

Exxaro's philosophy on risk management has always been not to entrench a compliance-driven approach but to view risk management as a strategic enabler to ensure that we think and act proactively at every layer in pursuit of our objectives.

In selecting the appropriate methodology to determine our approach in developing the risk appetite framework, this was taken into account. The purpose of the methodology is to ensure that risk appetite has an external proxy, one that is objective – something that can be seen and measured impartially. This is more commonly known as risk thresholds – external expressions of our risk appetite.

Risk thresholds were set in 2013 for every strategic objective and, in aggregate, they reflect the risk appetite of Exxaro. The following process was used:

- Interviews with the executive committee and key information owners in senior management, based on strategic objectives categorised according to our five capitals
- The outcome was a set of themes relating to Exxaro's biggest inherent risk exposures which were linked to a specific sustainability capital. These themes were coupled with a set of performance measures indicating a target (the measure that will lead us to achieving our strategic objectives) with a best-realistic (where are we now) and worst-tolerable variance.

Extract of the risk appetite framework

Strategic theme	Sustainable capital	Measure	Worst tolerable*	Best realistic*	Target*
Responsibility and accountability	Natural	Reportable cases of environmental incidents	Any reportable incident >R500 000	No significant reportable incident (>R500 000 cost)	No reportable incident (R10 000-500 000)
Responsibility and accountability	Natural	Carbon footprint	1% CO ₂ e reduction per annum	5% CO ₂ e reduction per annum	Carbon neutral by 2030
Responsibility and accountability	Human	Fatalities (months without a fatality)	<12	>24	Indefinite
Responsibility and accountability	Social	Ownership – group	26%	52%	26%
Responsibility and accountability	Social	Mining charter, per site and element indicating compliance (%)	100%	100%	100%
Operational excellence	Manufactured	Country risk as per assessment criteria (key drivers are physical security and security of tenure)	Go-countries	Go-countries	Go-countries

* Target (the measure that will lead us to achieving our strategic objectives), best-realistic (where we aim to be) and a worst-tolerable variance (the worst we are prepared to accept).

Materialised risks

Only one strategic risk materialised in 2013 with a concomitant impact on Exxaro:

Risk materialised	Financial impact from damages	Financial impact due to additional services rendered	Financial impact from tonnes lost	Comments
Labour unrest	R384 703	R2 469 100	2 167kt	Strategies were implemented to recover lost tonnes. Responses to mitigate and reduce the impact of this risk occurring in future are in place (refer to risk 15: labour unrest)