

# United Nations Global Compact

## Communication on Progress

### Year: 2011

#### STATEMENT

Exxaro Resources became a signatory of the United Nations Global Compact in 2007. This was a logical progression in our ongoing commitment to sustainability, given our shared goals and focus on universal values.

In preparing this report, we drew on our annual review for 2011, stakeholder feedback, a review of current standards and conventions (including Global Reporting Initiative (GRI), UN Global Compact principles, Organisation for Economic Co-operation and Development (OECD) guidelines on multinational enterprises, International Labour Organization (ILO) conventions 69 and 176, as well as UN declaration of human rights) in developing material themes that will guide this and future reports.

These themes include:

- Implementation and maintenance of ethical business practices and sound systems of corporate governance
- Integration of sustainable development considerations in corporate decision-making processes
- Implementation of risk management strategies based on credible data sets
- Adherence to fundamental human rights and respect of cultures, customs and values in dealings with stakeholders
- Contributing to the social, economic and institutional development of home societies
- Implementing effective, sustained and transparent engagement strategies with all stakeholders groups, as well as explicit responsiveness to stakeholder concerns
- Striving towards zero harm in all aspects of business
- Demonstrating understanding of and implementing responses to the business case for sustainability.

In an extract from a message by the CEO in the 2011 integrated annual report, **Mr Siphon Nkosi** wrote:

*“....In November 2011, Exxaro celebrated its fifth year, and we believe with just cause. In those first five years — and through tumultuous economic conditions — we made many things count. We prioritised diversity, collaboration, consistency and partnership. We pursued innovation with passion and integrity. We pledged responsibility, foresight and renewal. We placed the highest value on adapting our vision for the future and preserving our country’s heritage. But, above all, we have done it with people in mind: our people who enable us to conduct business; our customers who recognise the care we put into meeting their needs; our shareholders and our other stakeholders who back us with*

*their confidence. In the next five years, people will count even more and we look forward to the key role that all our stakeholders will play in the ongoing success of our company”.*

The group's progress in implementing Global Compact principles is summarised overleaf. This is an incremental process, with the ultimate aim of measurable annual progress in those principles where we are not already fully supportive.

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## **SUSTAINABILITY**

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Global Compact Principle		Summary of Actions taken and Impact Achieved	Measurement of results
Human Rights	1: Businesses should support and respect the protection of internationally proclaimed human rights;	Induction programmes to educate employees about their human rights are in place, as are policies on discrimination, harassment and racism. There are structures in place to protect employees' human rights in the workplace.	Induction programmes educate employees on human rights. Policies on discrimination, harassment and racism are in place, as are structures to protect employees' human rights in the workplace. All employees including security personnel are fully trained after appointment on Human rights aspects relevant to each operation. Refresher courses also cover human rights issues.
	2: and make sure that they are not complicit in human rights abuses.	Exxaro subscribes to the Bill of Rights enshrined in the South African Constitution which, among other things, prohibits human rights abuse. Exxaro has a disciplinary code, which is based on the principle of fairness as required by labour law should there be transgressions.	To date Exxaro has not been complicit in the violation of any human rights.
Labour	3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	<p>As a responsible corporate citizen, Exxaro complies with all labour legislation in South Africa and with International Labour Organisation guidelines.</p> <p>As a signatory to the UN Global Compact, Exxaro encourages freedom of association and collective bargaining.</p>	<p>Almost 75% of Exxaro employees are represented by affiliated trade unions, predominantly by the National Union of Mine Workers (NUM) at 57.2%; and Solidarity at 11.5%. Other recognised unions are Mineworkers Union of Namibia (MUN); National Union of Metalworkers in South Africa (NUMSA); and United Association of South Africa (UASA). Negotiations for improved wages and conditions for bargaining unit employees are conducted in various in-house forums and through the Chamber of Mines.</p> <p>Changes to conditions of employment for employees outside the bargaining unit will be consulted with employees with a view to reaching consensus.</p> <p>Adjustments to guaranteed remuneration for these employees are dealt with in accordance with their performance contracts. In July 2011, wage negotiations between the Chamber of Mines, NUM, Solidarity and UASA deadlocked after which members of the NUM and Solidarity employed in the bargaining unit employed at</p>

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			Exxaro Coal Mpumalanga (Pty) Ltd went on strike. The strike was resolved after one week. Minimum losses were incurred. This case illustrates Exxaro’s commitment to freedom of association and the effective recognition of the right to collective bargaining.																											
	4: the elimination of all forms of forced and compulsory labour;	<b>An extract of the Exxaro Labour and Human Rights Policy states:</b> <i>”Subject to the provisions of the Constitution of the Republic of South Africa, the Company will not cause, demand or impose forced labour on any other person”</i>	At the heart of the group’s employment equity strategy there are detailed plans developed by each business operation in consultation with employees and trade unions. These plans are updated and progress reported to the board of directors quarterly and to the government authorities annually. By following these plans, each business operation ensures that all vacancies are advertised and that recruitment and skills development are conducted responsibly. No employee is forced to provide services against his/her will.																											
	5: the effective abolition of child labour;	As a responsible corporate citizen, Exxaro complies with all labour legislation in South Africa and with International Labour Organisation guidelines which prohibits child labour.  Exxaro ensures child labour is not tolerated.	No children are in the employ of Exxaro. Below is the breakdown of employees by age: <table><tr><th>Ages (Years)</th><th>Management &amp; Specialist</th><th>Non Management</th></tr><tr><td></td><td>2011</td><td>2011</td></tr><tr><td>&lt; 18</td><td>0</td><td>0</td></tr><tr><td>18 - 25</td><td>56</td><td>579</td></tr><tr><td>26 - 35</td><td>518</td><td>2617</td></tr><tr><td>36 - 45</td><td>655</td><td>2140</td></tr><tr><td>46 – 55</td><td>506</td><td>2231</td></tr><tr><td>56-65</td><td>155</td><td>627</td></tr><tr><td>Total</td><td>1890</td><td>8194</td></tr></table>	Ages (Years)	Management & Specialist	Non Management		2011	2011	< 18	0	0	18 - 25	56	579	26 - 35	518	2617	36 - 45	655	2140	46 – 55	506	2231	56-65	155	627	Total	1890	8194
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	<b>6:</b> and the elimination of discrimination in respect of employment and occupation.	Exxaro's employment policy is in line with the SA Constitution which specifically prohibits any form of discrimination, including gender, race and sexual orientation, amongst others. Attracting women to work in the group's core business of mining remains a focus area for Exxaro.	Exxaro already exceeds SA mining charter targets of 10% on Women in Mining. Attracting women to work in core business remains a strategic focus.  In 2011 the five women aiming to become miners successfully completed their training programme and were appointed as Miners within the Group.
Environment	<b>7:</b> Businesses should support a precautionary approach to environmental challenges;	<p>The Sustainability, Risk and Compliance (SRC) committee of the Board of Directors oversees the group-wide development of policies and guidelines for Health, Environmental and Safety management and Community (SHEC) as well as all the environmental material issues impacting the company.</p> <p>Sustainable development values are central to Exxaro's business, particularly in the use of natural resources like water, air, biodiversity and land. Ensuring the responsible use of all natural resources entails the following principles:</p> <ul style="list-style-type: none"> <li>• Ensuring all activities are properly authorised</li> <li>• Using energy and water as efficiently as possible</li> <li>• Ensuring activities are conducted responsibly, from the twin perspectives of compliance and natural resource use.</li> </ul> <p><b>An extract from the Revised Exxaro Safety, Health, Environment and Community and Development (SSD) Policy states:</b></p>	<p>All Exxaro operations have Environmental Management Plans (EMP) as required by legislation and are constantly being kept up to date. The group also has a record number of integrated water use licences (IWUL) which were approved by the relevant regulatory department in 2010. Both the EMPs and IWULs are key indicators in ensuring that Exxaro becomes, and remains a sustainable business.</p> <p>Exxaro amongst ranks among the top participants in the Carbon Disclosure Project (CDP) for its fully integrated climate change strategy driving significant maturity in climate change initiatives. Exxaro has now progressed to reporting on Scope 1, 2, and 3 level emissions and is receiving independent external assurance for the 2011 CDP report.</p> <p>In 2011 the JSE declared Exxaro one of the best performers in the Socially Responsible Investment Index (SRI). This is an honour awarded to only 22 of the listed companies in South Africa. The current JSE SRI assessment covered social, governance, climate change thresholds and the new environmental performance threshold. This recognition reflected a concerted effort from Exxaro management focused on integrating environmental imperatives into core business process. This is clearly captured in our green timeline since the inception of Exxaro in 2006. It is imperative that Exxaro</p>

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		<i>"Exxaro commits to complying with all applicable SHE legislation and international obligations as a minimum requirement and implementing effective company standards, programmes and processes to manage risks;"</i>	<p>maintains and improves on this JSE SRI rating by continuously implementing innovating environmental solutions.</p> <p>All Exxaro business units have ISO 14001 accreditation, reflecting the global industry standards in place.</p>
	<b>8:</b> undertake initiatives to promote greater environmental responsibility;	<p>Exxaro's core focus is on conserving natural resources and reducing the burden of pollutants on the environment by:</p> <ul style="list-style-type: none"> <li>• Complying with all applicable environmental legislation – as a starting point. The aim is to exceed compliance.</li> <li>• And developing innovative policies and programmes for addressing environmental impacts.</li> <li>• Exxaro has been actively participating in CDP since 2006</li> </ul>	<p>In 2011, Exxaro embarked on a number of initiatives:</p> <ul style="list-style-type: none"> <li>• Participated in the inaugural CDP water project;</li> <li>• A major water management programme aimed at setting clean water utilisation and efficiency targets throughout the group has been introduced;</li> <li>• Conducting annual safety, health and environment audits at all business operations to ensure compliance with legislation as well as with international protocols</li> </ul>
	<b>9:</b> and encourage the development and diffusion of environmentally friendly technologies.	<p>Exxaro encourages innovative technologies to reduce environmental impacts, reuse and recycling of waste.</p> <p>Exxaro has recently constructed 800 eco-friendly homes in the northern region of South Africa that have, amongst others, the following features:</p> <ul style="list-style-type: none"> <li>• Grey-water recycling – recycled water used for toilets, garden and washing cars, etc;</li> <li>• Overhanging roofs to capture rainwater that can be used for cooking, washing and gardening; and</li> </ul>	<p>Exxaro has made progress with the implementation of a number of green projects:</p> <ul style="list-style-type: none"> <li>• Sophisticated fume-extraction system installed at Namakwa Sands, with noticeable reduction of visible fumes;</li> <li>• Development of renewable energy projects, namely wind farm projects in Tsitsikamma in the Eastern Cape and Brand-se-Baai in the Western Cape, and solar and gas projects in the Limpopo province; and</li> <li>• Feasibility studies on using furnace off gas to co-generate electricity are in the final stages.</li> <li>• This is considerably more energy efficient requires no water and involves less capital costs</li> </ul>

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		<ul style="list-style-type: none"> <li>• Solar systems to heat water; save electricity and reduce greenhouse emissions.</li> </ul> <p>Secondly Exxaro continually utilises new technologies, for example:</p> <ul style="list-style-type: none"> <li>• At the Grootegeluk Medupi expansion project, we have introduced dry screening of coal products</li> <li>• Exxaro has developed sanitation dams at the Grootegeluk mine;</li> </ul> <p>Furthermore Exxaro strives towards cleaner production and has several research projects underway to reduce the environmental footprint from waste production to water use. These include;</p> <ul style="list-style-type: none"> <li>• Characterising and assessing coal discards for electricity generation;</li> <li>• Investigating further implementation of dry processing technologies as well as water treatment technologies</li> </ul>	<ul style="list-style-type: none"> <li>• These dams rely on an evaporation process and the water is not re-used. The new bacterial cleaning process allows waste water to be re-used in the production process</li> <li>• The cleaner production investment is linked to Exxaro's goal of becoming a leading clean energy independent power producer. These projects are still in research stage.</li> </ul>

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Anti Corruption	<b>10:</b> Businesses should work against all forms of corruption, including extortion and bribery.	<p>Exxaro remains committed to the highest standards of honesty, integrity and fairness. To support its zero-tolerance approach, a fraud-prevention policy articulates group standards and consequences for committing or concealing fraudulent acts by employees, contractors or suppliers.</p> <p>The group's ethics committee comprises of executives and representatives of internal audit and the chief audit executive. This committee's terms of reference were reviewed and updated during the year, and its processes entrenched.</p>	<p>The Exxaro ethics committee is chaired by the chief audit executive, and it meets monthly to consider issues of non-compliance to the group code of ethics or conflict of interest policy, as well as matters reported on the ethics line or to management. All required investigations are conducted by a dedicated forensics team. This approach is reinforced by articles highlighting the importance of ethical behaviour in the quarterly internal newsletter.</p> <p>A dedicated 24-hour ethics hot-line is available to report all related matters including possible fraud and corruption.</p> <p>This is independently operated by Tip-Offs at a cost of R48,000 (± U\$6,000) per annum.</p> <p>During the year, Exxaro assessed its anti-fraud and corruption processes. This was designed to help evaluate the maturity of the control systems for fraud, corruption and bribery risks, and how effectively the relationship between these risks, controls and performance is managed in relation to industry peers. The review included assessing current policies and practices, and surveys in which 1 320 employees participated. Overall scores indicate that although required activities are established, these need to be enhanced to be more efficient and effective. This will receive attention in 2012 and beyond.</p> <p>The ethics committee formally reports to the new social and ethics committee of the board.</p> <p>In 2011, 240 cases of alleged fraud were reported for forensic investigation, 37 of these via the ethics line. Six of these led to disciplinary action and the dismissal of employees concerned. Two cases were also reported to</p>

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			<p>the South African Police Services (SAPS) for criminal prosecution. The estimated impact or saving to the group of prompt action against suspected fraud was R5,7 million (± U\$700,000). At business unit level, 203 cases of alleged fraud were reported, resulting in disciplinary hearings in 102 cases and 32 cases reported to SAPS.</p> <p>The types of fraud investigated included:</p> <ul style="list-style-type: none"> <li>• Fraudulently changing bank accounts</li> <li>• Credit card fraud</li> <li>• Submitting false qualifications</li> <li>• Tender fraud</li> </ul> <p>Employees and all stakeholders can report suspected incidents of fraud or corruption to Tip-offs Anonymous via a toll-free hotline or an email address. This is an independent service designed to help people report incidents while remaining anonymous for their protection.</p>