

United Nations Global Compact

Communication on Progress

Year: 2012

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 2012, 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 guidelines on multinational enterprises, international Labour organisation conventions 69 and 176, as well as UN declaration of human rights) in development 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 enterprise-wide risk management strategies based on the company's material issues and 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 and local communities near our operations
- 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 the business
- Demonstrating understanding of and implementing responses to the business case for sustainability.

In an extract from a message by the CEO in the 2012 integrated annual report, **Mr Sipho Nkosi** wrote:

"....When Exxaro was formed six years ago through the merger of Kumba Resources and Eyesizwe, we committed to creating a company that would make a sustainable difference to South Africa both

economically and socially. This was embodied in our vision: Through our innovation and growth, we will be a powerful source of endless possibilities. It was articulated in our belief that everything we do and deliver today will allow others to realise their vision tomorrow. It is evident in our practice of looking beyond our current commodities and operations to see the impact we have on people and the planet. It is embedded in a philosophy that enables our people to truly live by our values: empowered to grow and contribute, teamwork, committed to excellence and honest responsibility.

...we have developed an operating model that contributes to earnings, growth and sustainability.

We have made solid progress on most elements of our strategy, most notably:

- Ensuring Exxaro's sustainability: our approach is based on best practice in integrating the constituent elements and stakeholders that make up our group and operating our business in a way that serves the best interests of all — from total returns to shareholders to relocating protected baboon spiders and spearheading innovations that will change an industry..."*

The CEO of Exxaro expressed that sustainability is one of the five strategic focus areas of the company, and it is in fact the first focus area. The subscription to the United Nations Global Compact and its principles are explicitly mentioned in the 2012 annual integrated report which is available online at www.exxaro.com.

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.



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;	As a responsible corporate citizen, Exxaro complies with all labour legislation in South Africa and with International Labour Organisation guidelines. As a signatory to the UN Global Compact, Exxaro encourages freedom of association and collective bargaining.	Almost 75% of Exxaro employees are represented by affiliated trade unions, predominantly by the National Union of Mine Workers (NUM) at 59.5%; and Solidarity at 13.2%. Negotiations for improved wages and conditions for bargaining unit employees are conducted in various in-house forums and through the Chamber of Mines. Changes to conditions of employment for employees outside the bargaining unit will be consulted with employees with a view to reaching consensus. Adjustments to guaranteed remuneration for these employees are dealt with in accordance with their performance contracts. Solidarity is employed in the bargaining unit.
	4: the elimination of all forms of forced and compulsory labour;	An extract of the Exxaro Labour and Human Rights Policy states: "Subject to the provisions of the Constitution of the	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

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		<i>Republic of South Africa, the Company will not cause, demand or impose forced labour on any other person”</i>	<p>unions. These plans are updated and progress reported to the board of directors quarterly and to the government authorities annually.</p> <p>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.</p>																											
	5: the effective abolition of child labour;	<p>As a responsible corporate citizen, Exxaro complies with all labour legislation in South Africa and with International Labour Organisation guidelines which prohibits child labour.</p> <p>Exxaro ensures child labour is not tolerated.</p>	<p>No children are in the employ of Exxaro. Below is the breakdown of employees by age:</p> <table><tr><th>Ages (Years)</th><th>Management & Specialist</th><th>Non Management</th></tr><tr><td></td><td>2012</td><td>2012</td></tr><tr><td>< 18</td><td>0</td><td>0</td></tr><tr><td>18 - 25</td><td>77</td><td>459</td></tr><tr><td>26 - 35</td><td>491</td><td>1915</td></tr><tr><td>36 - 45</td><td>526</td><td>1515</td></tr><tr><td>46 – 55</td><td>408</td><td>1732</td></tr><tr><td>56-65</td><td>136</td><td>526</td></tr><tr><td>Total</td><td>1638</td><td>6147</td></tr></table>	Ages (Years)	Management & Specialist	Non Management		2012	2012	< 18	0	0	18 - 25	77	459	26 - 35	491	1915	36 - 45	526	1515	46 – 55	408	1732	56-65	136	526	Total	1638	6147
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	6: and the elimination of discrimination in respect of employment and occupation.	<p>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.</p>	<p>Exxaro already exceeds SA mining charter targets of 10% on Women in Mining. Attracting women to work in core business remains a strategic focus.</p>																											

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Environment	<p>7: Businesses should support a precautionary approach to environmental challenges;</p>	<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"> • Ensuring all activities are properly authorised • Using energy and water as efficiently as possible • Ensuring activities are conducted responsibly, from the twin perspectives of compliance and natural resource use. <p>An extract from the Revised Exxaro Safety, Health, Environment and Community and Development (SSD) Policy states: <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>	<p>All Exxaro's South African operations have environmental management programmes (EMPs) as required under the Mineral and Petroleum Resources Development Act (MPRDA) and the Environmental Impact Assessment (EIA) required by the National Environmental Management Act (NEMA). All EMPs and EIAs are key indicators in ensuring Exxaro remains a sustainable business. Eleven (11) Amendments were made to the current EMPs during 2012.</p> <p>Exxaro also adopts the precautionary principle entrenched in NEMA in evaluating the environmental impacts of business opportunities. All South African operations have submitted applications for integrated water use licences, with 21 of 24 granted to date.</p> <p>All Exxaro business units have ISO 14001 accreditation, reflecting the global industry standards in place.</p>

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<p>8: undertake initiatives to promote greater environmental responsibility;</p>	<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"> • Complying with all applicable environmental legislation – as a starting point. The aim is to exceed compliance. • And developing innovative policies and programmes for addressing environmental impacts. <p>Exxaro believes conservation is becoming increasingly important, given the enormous value of biodiversity and tourism to the South African economy. Accordingly, we intend to be a mining company that leads by example in protecting, enhancing and conserving the country's biodiversity and demonstrating that mining activities can co-exist with world-class biodiversity conservation initiatives. That way, we ensure the right of future generations to a healthy, complete and rich environment.</p> <p>Various conservation measures are being implemented that underscore Exxaro's commitment to entrench duty-of-care principles.</p>	<p>A wetland strategy project was initiated in 2012 to assist operations to address the challenges of mining in ecologically sensitive environments.</p> <p>The wetland inventory and wetlands maps will be used to consider biodiversity sensitive areas as part of business and mine-planning decisions. A wetland policy and management standard has been drafted and will go through the process of approval and implementation in 2013.</p> <p>Exxaro addresses the challenges of dust-generating activities (blasting, drilling, crushing and screening, vehicle entrainment, materials handling and wind erosion of exposed operational areas) through daily environmental management measures. These include applying dust-suppressant agents on haul roads, applying water to secondary unpaved operational roads, vegetating topsoil stockpiles and overburden material. All mining operations monitor daily dust fallout rates and results are assessed against South African national standards (SANS 1929:2005: Limits for common pollutants).</p> <p>Exxaro is addressing three energy and climate change imperatives simultaneously:</p> <ul style="list-style-type: none"> • energy security • economic productivity • environmental impact. <p>To remain competitive and sustainable, we are dealing with potential energy shortages, rising costs of energy, climate change and related environmental concerns as imperatives in our long-term business strategy, using a dual approach:</p> <ul style="list-style-type: none"> • An energy and carbon management programme is addressing mitigation and

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		Exxaro has been actively participating in CDP since 2006	<p>adaptation issues</p> <ul style="list-style-type: none"> We are evaluating and developing a growth pipeline of environmentally friendly energy projects <p>These programmes are linked by our drive to become carbon neutral and the need to thrive in a low-carbon economy.</p> <p>Exxaro is focused on reducing its carbon footprint and, in 2010, committed to an absolute emissions reduction of 10% by 31 December 2012. By the end of the review period, we had achieved this target. In 2013, we have implemented a new target, premised on improving overall energy efficiency across the group, which is expected to yield further emissions reductions of around 5% by the end of 2013. Scope 3 emissions are reported for the first time in the current financial year.</p> <p>In 2012, scope 1 and scope 2 emissions reduced by 21,9% and 40,0% respectively and by 36,6% combined. Exxaro's scope 3 sale of product CO₂e emissions for the year (70 538kt) were in line with 2011's reported emissions of 70 576kt CO₂e.</p> <p>By local and international definitions, South Africa is a water-stressed region. In 2012 Exxaro began monitoring and reporting according to JSE SRI reporting categories, which are aligned to the definitions and environmental categories from the GRI's mining and metals sector guidelines. The accuracy of water measurement, monitoring and reporting has improved dramatically from 2011 to 2012; however Exxaro has only included water abstraction volumetric data in this report, with the exception of rainfall, abstraction from the sea and</p>

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			<p>dewatering data. Consolidated dewatering volumetric data in some business units is still not at the required accuracy level to be included in the limited assurance in the 2012 integrated annual report.</p> <p>Exxaro is developing a rainwater catchment measurement methodology and, since the second half of 2012, we have been replacing stolen and faulty water meters with analogue and telemetric metering, which will mitigate estimated data. For 2013, we intend to report on all water inflow categories. This will be aligned to the reporting format of Exxaro's annual submission to the Water Carbon Disclosure Project.</p> <p>For Exxaro, conserving water starts with quantifying and qualifying water abstraction and relating these volumes to efficiency indicators. Responsible custodianship can also be determined by re-use and recycling. In addition to these reporting areas, Exxaro's business units measure the use of water abstracted as well as the volumes of stored water.</p> <p>A centralised water accounting process was implemented in 2011 to enable accurate quantitative reporting. This was extended in 2012 to qualitative reporting. The database is aligned to report accurately on all voluntary and statutory requirements (Carbon Disclosure Project, integrated annual report, JSE SRI, GRI and United Nations Global Compact).</p> <p>A coal sector saving of 2.1% was achieved through efficiency and awareness, but as a group, a 46% saving was achieved, primarily attributable to the divestment of our mineral sands and base metals operations. Our water intensity has decreased from year to year. The proposed water treatment plant at Matla will reduce Exxaro's external potable water</p>

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			consumption significantly.
	<p>9: and encourage the development and diffusion of environmentally friendly technologies.</p>	<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"> • Grey-water recycling – recycled water used for toilets, garden and washing cars, etc; • Overhanging roofs to capture rainwater that can be used for cooking, washing and gardening; and • Solar systems to heat water; save electricity and reduce greenhouse emissions. <p>Secondly Exxaro continually utilises new technologies, for example:</p> <ul style="list-style-type: none"> • At the Grootegeluk Medupi expansion project, we have introduced dry screening of coal products • Exxaro has developed sanitation dams at the Grootegeluk mine; <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"> • Characterising and assessing coal discards for electricity generation; 	<p>Exxaro has made progress with the implementation of a number of green projects:</p> <ul style="list-style-type: none"> • Development of renewable energy projects, namely wind farm projects in the Southern and Eastern Cape (via Exxaro's subsidiary Cennergi receiving preferred bidder status) • 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 • The cleaner production investment is linked to Exxaro's goal of becoming a leading clean energy independent power producer. These projects were still in research stage during 2012.

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		<ul style="list-style-type: none"> Investigating further implementation of dry processing technologies as well as water treatment technologies 	
Anti Corruption	10: 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>As indicated in the 2011 reports, at the board's request, early in the review period we assessed the maturity of our 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.</p> <p>Although overall scores indicated that required activities were established, specific improvement initiatives were implemented to enhance the maturity, which included:</p> <ul style="list-style-type: none"> Revising the ethics committee's terms of reference Revising the following key policies to incorporate best practice and legislative changes: <ul style="list-style-type: none"> — Ethics — Whistle-blowing — Conflicts of interest — Fraud investigation — Fraud prevention — Fraud response — Gifts and benefits from suppliers Considering fraud-related risks during the annual risk assessment review Planning an anti-fraud and corruption awareness campaign to be launched in 2013 Evaluating and using a case management system Minor use of data analytics and considering the future use of data analytics to proactively identify potential risks Incorporating fraud-related surprise audits in the 2013 internal audit plan.

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			<p>The group's ethics processes are managed by the ethics committee, which comprises executives, representatives of internal audit and the chief audit executive. Chaired by the chief audit executive, it meets either monthly or as required 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. Required investigations are conducted by a dedicated forensics team that reports their findings independently to the chief audit executive. This approach is reinforced by articles highlighting the importance of ethical behaviour in the quarterly internal newsletter.</p> <p>A dedicated 24-hour reporting hotline is available to report any matters including possible fraud and corruption. This is independently operated by Tip-Offs at a cost of R48 000 per annum.</p> <p>The ethics committee formally reports to the social and ethics committee of the board, ensuring the board has full oversight of ethics-related matters.</p>