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Exxaro Resources Limited
Briefing ahead of AGM on 25 May 2022

1. Introduction

Exxaro Resources Limited's (Exxaro's) annual company reports emphasise its support for the goals of the Paris Agreement and acknowledge climate risk and coal's contribution to global emissions. Exxaro recognises the need to transform its coal and heavy minerals mining business into one that supports the low-carbon transition.

However, Exxaro has neither a Paris-aligned decarbonisation strategy nor science-based emission reduction targets.

Exxaro acknowledges that "the largest contributor to our emissions profile is from our scope 3 emissions" (i.e., the burning of the coal it sells), but it appears to have no plan at all to reduce these emissions.

In fact, although these emissions make up 98.6% of the company's total emissions, they are completely excluded from Exxaro's emission reduction targets. This exclusion renders meaningless the company's claimed commitment to the goals of the Paris Agreement, and to climate science, because achievement of the Paris goals requires an urgent and rapid shift away from coal production. Even for developing nations, coal production must "begin an immediate decline, reducing by half within a decade with all extraction ceased by 2040".[1]

By 2050, Exxaro envisages that its coal will be mined efficiently, and that its coal mines will be powered by renewable energy, making the mining process "carbon neutral". But Exxaro envisages that the fossil fuel itself will still be sold and burned by its customers, for which Exxaro takes no responsibility.

Coal is the most carbon-intensive fossil fuel, and the biggest contributor to global climate change. The Intergovernmental Panel on Climate Change (IPCC) finds that, in order to stand a chance of limiting global heating to 1.5ºC:

- Global coal emissions should have peaked in 2020;
- Global coal use in electricity generation must fall by 80% below 2010 levels by 2030;
- OECD nations should end coal use entirely by 2030; and
- All coal-fired power stations must be shut by 2040 at the latest.

2. Key take-aways

a. Exxaro does not produce a standalone report in terms of the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), but rather sets out the TCFD-recommended disclosures and indicators in a table, and then directs the reader to the various places in its 248-page ESG report and 158-page annual integrated report where these

[1] https://www.research.manchester.ac.uk/portal/files/213256008/Tyndall_Production_Phaseout_Report_final_text_3_.pdf – see page 52.

disclosures are made. While there is an argument to be made for incorporating TCFD disclosures into other reports in this way, it must be noted that the length of these reports, and the multitude of repetition they contain, renders them extremely user-unfriendly.

b. Exxaro does not shy away from acknowledging climate change, and the precariousness of a coal business in the transition to a low-carbon world. However, it claims to have a "decarbonisation plan", in circumstances where such strategy and targets as it does have, will not result in significant decarbonisation at all.

c. Although Exxaro claims to be transforming into a "diversified company", it seeks to maximise the value of its coal assets for as long as possible. Rather than planning to responsibly wind down these assets on a Paris-aligned timeframe, it will invest capital to maintain a "robust coal portfolio" and to ensure that its coal business "remains resilient".

d. In 2021, Exxaro committed to publishing "interim targets and plans to achieve net zero by 2050". However, Exxaro does not have a Paris-aligned decarbonisation strategy or science-based emission reduction targets. Such targets as it has set, do not apply to its scope 3 emissions (the emissions from the use of its products), which make up approximately 98% of Exxaro's emissions. It is also not made clear what baseline Exxaro uses for its emission reduction targets – which is clearly crucial for evaluating progress.

- Exxaro has set a long-term target of carbon neutrality by 2050 (for its scope 1[2] and scope 2[3] emissions).
- In the medium-term, Exxaro has set a target to reduce its scope 1 and scope 2 emissions by "at least 40% by 2030" (presumably from a 2020 baseline).
- In the short-term, Exxaro refers to "[a]ctual for previous year less 5%" for its scope 1 and 2 emissions (presumably starting in 2022). This is not explicitly reported as a target, but is included in a table of the company's emissions.

e. Exxaro appears to suggest that the only way it can reduce its scope 3 emissions is by "educating" its stakeholders. This is a bizarre abdication of responsibility, reminiscent of the widely criticised and ridiculed campaigns by big oil companies to "help" their customers reduce their personal carbon footprints, while allowing them to continue with a business-as-usual approach of maximising sales from fossil fuels.[4]

f. Exxaro states that its decarbonisation plan requires it to address three main areas: operations optimisation; value chain partners; and stakeholder engagement, but it does not appear to have detailed plans to achieve its emission reduction targets. Beyond 2025, it simply refers to green hydrogen, methane capture and use, carbon capture use and storage and emissions offsetting as "opportunities" to reduce emissions that Exxaro is "evaluating and considering".

g. Exxaro depicts the potential emission reductions that are being considered up to 2025 as estimated to bring its Scope 1 and 2 emissions down by **56% against its current (2021) Scope 1 and 2 emissions**. If this is the case, it is unclear why:
   - no target is set for 2025; and
   - its target for 2030 is only a 40% reduction in Scope 1 and 2 emissions.

[2] "Direct GHG emissions (measured in tCO2e) from sources owned or controlled by Exxaro using diesel, petrol, gas, and anthracite combustion in day-to-day mining operations".
[3] "GHG emissions from electricity generated by utility Eskom and purchased by Exxaro".
[4] https://www.theguardian.com/commentisfree/2021/aug/23/big-oil-coined-carbon-footprints-to-blame-us-for-their-greed-keep-them-on-the-hook

3. Maximising coal assets: Sustainable Growth and Impact Strategy (SGIS) and Early Value Strategy (EVS)

Exxaro's SGIS, announced at its Capital Markets Day in September 2021, is designed to transform Exxaro into a "diversified company that will transition from a coal base to a minerals and renewable energy business", **while maximising the value of its coal assets.**

The company reports that "[o]ur coal assets do not belong to us, we are stewards for responsibly maximising their value. We have a responsibility to use the coal assets to build a sustainable business for our investors, employees, communities and a sustainable future for the planet."[5]

In relation to the future of its coal business, Exxaro reports that although its "coal business is well positioned to maximise good returns", it has "taken deliberate steps to reduce the risk of stranded assets. We have increased the proportion of high-quality coal in our product mix and we are continually improving our cost and resource efficiency. Due to the need to reduce carbon emissions in our country and the planet's energy mix to manage the dynamic risks presented by climate change and to create value over the long term, our capital allocation is geared towards projects that drive this agenda as well as grow our renewable energy business and prepare to execute on our minerals strategy".[6]

But Exxaro's plans do not contemplate the winding down of its coal assets, as would be required for a Paris-aligned decarbonisation strategy.

Exxaro reports that "[o]ur capital allocation and project execution remains focused on leveraging the growth investments already made, supporting our early value coal strategy and sustaining our businesses by implementing our portfolio of stay-in-business capital projects. **Our early value strategy means we are strategic about our capital allocation. Allocating capital to the coal business will ensure we sustain a robust coal portfolio with strong cash flow generation... To ensure our coal business remains resilient, we will continue spending stay-in-business capital**"[7] (our emphasis).

The company reports that it is "targeting average capital of between R2 billion and R2.5 billion annually in real terms"[8] for this "stay-in-business" spend.

4. Emission reduction target-setting inadequate

Scope 1 and scope 2 GHG emissions

Exxaro has set a long-term target of carbon neutrality by 2050. However, although not immediately apparent in all of its reports, this target only applies to its scope 1 and 2 emissions. In response to a question from Just Share at its 2021 AGM, Exxaro committed to publish interim targets and plans to achieve its long-term target.

These targets are now reflected as:

- medium-term: in order to achieve carbon neutrality by 2050, "Exxaro will need to actively reduce our emissions by at least 40% by 2030" (scope 1 and 2 only); and

[5] Integrated Report 2021 see page 8.

[6] Integrated Report 2021 see page 117.

[7] Integrated Report 2021 see page 119.

[8] Integrated Report 2021 see page119.

- short-term: "[a]ctual for previous year less 5%" (this is not explicitly mentioned as a target in the narrative but it is included in a table of emissions).

Exxaro has not made clear the baseline from which these targets are measured, but it appears that this is 2020.

From 2018 to 2019, Exxaro's scope 1 and 2 emissions increased by 25%. From 2019 to 2020, they decreased by 5%; and in the last year, they decreased by less than 4%.

Exxaro states that its decarbonisation plan requires it to address three main areas: "operations optimisation"; "value chain partners"; and "stakeholder engagement". It also identifies ten "decarbonisation work streams". However, there is very little specificity reported as to how Exxaro will achieve its emissions reductions.

For instance, although Exxaro states that it has "set five broad strategic objectives supported by measurable outcomes to deliver our [SGIS]", in relation to the objective to "be carbon neutral by 2050", it states only that it will achieve this through "focused decarbonisation and social impact initiatives." There are no stated outcomes in regard to absolute scope 1 and 2 emission reductions. Exxaro only refers to "reduced carbon intensity of operations" as a "key datapoint for interim stops along the journey".[9]

In this regard, despite Exxaro's key performance indicator (KPI) targets to reduce scope 1 and scope 2 carbon **intensity** by 5% each year, and its statement in its 2020 ESG report that it expected the "decreasing trend" of carbon intensity to continue as "we implement initiatives to support 2050 our (sic) carbon-neutrality target", its **carbon intensity in 2021 increased 13%** "due to lower total tons of material moved".

In any event, reducing **absolute emissions, not just carbon intensity,** is essential for limiting the physical amount of climate-changing GHGs that enter the atmosphere.

According to Exxaro, "[t]here are several exciting projects that will reduce our direct emissions, including a solar photovoltaic (PV) project at our flagship Grootegeluk mine, estimated to reduce our emissions by 208kt CO_2e…. Several operational efficiency programmes are ongoing to reduce both scope 1 and 2 emissions. However, these initiatives are primarily focused on reducing diesel consumption. It is estimated that these initiatives would reduce our emissions by 62 ktCO_2e".

Exxaro's plans to achieve its emission reduction targets beyond 2025 are even fuzzier. It refers to green hydrogen, methane capture and use, carbon capture use and storage and emissions offsetting as "opportunities" to reduce emissions that Exxaro is "evaluating and considering".

Scope 3

Exxaro has not set any scope 3 emission reduction targets. Exxaro's *Climate Change Response Strategy* (2020) stated: "to ensure we are effective and continuously improvistakeng our performance we will use both absolute or (sic) intensity targets that are then verified by the Science-Based Targets Initiative (SBTi)". The SBTi Criteria *C4 states that "[i]f a company's relevant scope 3 emissions are 40% or more of total scope 1, 2, and 3 emissions, a scope 3 target is required. All companies involved in the sale or distribution of natural gas and/or other fossil fuels shall set scope 3 targets for the use of sold products, irrespective of the share of these emissions compared to the total scope 1, 2, and 3 emissions of the company."[10]

[9] Integrated Report 2021 see pages 66-69.
[10] https://sciencebasedtargets.org/resources/files/SBTi-criteria.pdf

Scope 3 emissions from the use of Exxaro's product account for the majority of Exxaro's total emissions. In 2021:

- Scope 1 + scope 2 together amounted to 995 ktCO_2e; and
- Scope 3 alone was almost seventy-one times that, at 70 931 ktCO_2e.

In other words, less than 1.4% of Exxaro's total 2021 emissions of 71 926 ktCO_2e is made up of scope 1 and 2 emissions, and 98.6% of scope 3 emissions. Despite the SBTi requirements for fossil fuel companies to set scope 3 targets (and other companies to do so where scope 3 emissions constitute at least 40% of total emissions), Exxaro has not set any scope 3 emission reduction targets.

In addition, Exxaro's reports show that, in 2021, **its scope 3 emissions went up 2.5% from its 2020 baseline**. In 2020, its scope 3 emissions went up 2.5% from 2019, and in 2019, its scope 3 emissions rose 2.7% from 2018.

While Exxaro's frank acknowledgement of climate risk, the need for decarbonisation, and of its significant scope 3 emissions is refreshing, this purported transparency is significantly undermined by the fact that its scope 3 emissions are rising year-on-year, and by the company's failure to make any commitments, targets, or meaningful plans for reducing these emissions.

Exxaro appears to suggest that the only way it can reduce its scope 3 emissions is by "educating" its stakeholders:

> "We know that, while it is critical to reduce our direct emissions, the largest contributor to our emissions profile is from our scope 3 emissions. It is thus imperative for our stakeholders to understand the impact and importance of climate resilience. We have several ongoing education initiatives with stakeholders across our value chain. While the impact of these initiatives cannot be measured in terms of tCO_2 e saved, they are critical to ensuring that we take everyone along with us on our journey and that our transition is just. **We have already seen changes in behaviour from our employees, with increasing interest in reducing their personal carbon footprints**" (our emphasis).[11]

This is a bizarre abdication of responsibility, reminiscent of the widely criticised and ridiculed campaigns by big oil companies to "help" their customers reduce their personal carbon footprints, while allowing them to continue to maximise sales of fossil fuels.

5. Fair pay?

Exxaro has undertaken what it calls a "job family review" which is intended to "ensure that remuneration is managed fairly and more accurately." In addition, the company reports that "a vertical wage gap calculation will be done and benchmarked to measure the distribution of remuneration within the company."[12] The company does not indicate whether this calculation will be disclosed.

It reports further that "[s]alary increases awarded to employees within the bargaining unit was again higher than executive and management and specialist category employees as we continued to seek justifiable measures to reduce the wage gap. Executive and management and specialist employees

[11] ESG Report 2021 see page 48.

[12] ESG Report 2021 see page 200.

received a salary increase of 5.3% in 2021 while employees within the bargaining unit were awarded an increase of 7%."[13] Exxaro argues that the "smaller increases awarded to executives in previous years should help narrow the gap"[14] identified in the wage gap calculation.

This has become a common refrain in remuneration reports as companies are subject to increasing levels of scrutiny about executive pay, i.e., reporting that lower paid employees receive a higher percentage increase than executives and management. It is, however, a disingenuous distraction:

- The wage gap between executives and low paid workers is so vast that a few percentage points difference in increases will take decades to have any meaningful impact in reducing it.
- It is impossible for stakeholders to assess the impact of this approach when the company does not disclose the existing wage gap.
- The percentage increase only applies to executives' guaranteed salary, which on average only comprises around one-third of the total remuneration package paid to executives.

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[13] ESG Report 2021 see page 190.

[14] ESG Report 2021 see page 200.