Thungela Resources Limited

Briefing ahead of AGM on 24 May 2022

1. Introduction

Thungela Resources Limited's (Thungela's) first suite of annual reports contains a multitude of misleading claims relating to climate science, energy security and poverty alleviation, the viability and affordability of so-called "clean coal" and carbon capture and storage, and the company's impacts on people and the environment. Just Share's responses to a selection of the most egregious of these claims are set out in the tables below.

Thungela has no Paris-aligned emission reduction strategy and has not reported in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures.

Over the past few months, as Thungela's share price has soared on the back of the global commodity boom, asset managers who claim to integrate environmental, social and governance (ESG) factors into their investment decision-making, and to be taking climate risk seriously, have bought up stakes in this company despite the severe ESG-related risks that it represents.

We hope that these shareholders will be responsible in challenging Thungela on the misleading and inaccurate claims it makes in its first set of reports, and in applying pressure on the company to take climate risk seriously, and to urgently embark on a process of developing a robust, science-based climate strategy.

This briefing aims to assist the many South Africans whose savings are invested in Thungela to understand the dangers posed by its cavalier approach to climate risk – both to their own investments, and to our national efforts to achieve a just transition to a low-carbon economy.

Thungela is a "pure play" thermal coal company, i.e., the only product it produces is thermal coal, or coal that is used to generate electricity. Most of Thungela's coal is exported to overseas markets.

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.

The fact that the price of coal is currently at record highs does not alter climate science.

2. Key take-aways

a. Thungela has not reported in alignment with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), the global best practice standard for climate risk disclosures. It says that it will do so, "as far as possible", "during 2022".

b. Thungela has not set any emission-reduction targets since its demerger from Anglo American in June 2021, when a target was set to reduce carbon emissions by 15% by 2025, off a 2016 baseline. The company states that it has achieved this target, with its 2021 emissions 17.3% lower than the 2016 baseline.

c. However, these reductions are due to external factors, not to proactive steps taken by the company to reduce emissions. Reductions were "driven partly by energy-saving initiatives, but also by lower-than-expected production volumes … COVID-19 and the impact of [Transnet Freight Rail's] underperformance." In fact, Thungela plans to expand its operations.

d. Thungela plans to set intermediate emission reduction targets and develop a "pathway to net-zero by 2050", during the course of 2022. It identifies its first goal as the finalisation of "intermediate carbon reduction targets" by 2023.

e. Even Thungela's commitment to "developing a pathway to achieve net-zero emissions by 2050" is "subject to the requirements of the countries in which we operate and the markets that we serve".

f. A pure-play thermal coal company which has not reported in alignment with the TCFD, which has no science-based climate strategy or emission reduction targets, and which expresses its intention to expand its operations, should be a serious red flag for investors.

g. Thungela's operations, and the legacy environmental liabilities it has inherited from Anglo American, represent a significant risk to the company and to the environment and people in its areas of operation. This is evidenced by more than one serious toxic spill of acid mine water in the last 6 months from inadequately-rehabilitated mine shafts for which the company is responsible.

In the tables below, we have selected some of the main statements, claims and commitments made by Thungela in its reports, and provided our response to these.

3. Climate risk

Report & page no.	Thungela Resources' statement	Just Share's response
ESG Report 2021: Mining for the Future, p.14	*As a carbon company, we recognise the importance of addressing climate change. In fact, we are as concerned about it as everyone else…* *The reality is that there are still nearly 800 million people who do not have access to electricity, many*	There is no indecision or uncertainty about the "most suitable and appropriate" technologies for the "energy demands of tomorrow". **Renewable energy is already - and has for some time been - the cheapest source of energy.** **Of the 800 million people worldwide who lack electricity, 85% live in rural areas where distributed renewable energy is better able to**

	of whom live in the countries that we serve… *Development envisions the achievement of universal energy access by 2030, but the truth is, we cannot wait that long. We cannot sit back until society has decided which technologies are most suitable and appropriate for the energy demands of tomorrow, when the markets we serve are critically dependent on the production of high-quality coal today.*	**provide electrification more quickly and at a lower cost. Solutions to address the variability of solar and wind power are well-established.**
ESG Report, p.42	*For many countries, particularly across the developing world, and in South Africa, access to reliable and affordable energy depends on access to thermal coal.*	Thungela is an exporter of thermal coal, its operations do not supply Eskom's coal-fired power stations, and therefore do not contribute to power generation for people in South Africa. In South Africa, electricity powered by coal is the opposite of "reliable and affordable", as evidenced by ongoing loadshedding and major tariff hikes. The urgent need for the mass roll-out of renewable energy that is the solution to this situation, has been delayed and derailed by State Capture, regulatory inertia, policy contradictions and the vested interests of the coal industry. Renewable energy will ensure energy security, create jobs, grow the economy and significantly improve our prospects of ensuring that we meet our climate commitments.
ESG Report, p.14	*As coal enables economic growth, so too does it enable the provision of basic utilities such as water and power, and social services such as healthcare and education. In this light, there is more to our purpose as a coal mining company than the mining of coal.*	South Africa's outsized reliance on coal-fired power generation has significantly constrained economic growth. A recent report by PwC estimated that, in 2021 alone, load-shedding cost the economy up to 400 000 jobs and reduced real GDP growth by up to 3.1%. Continued and ongoing reliance on coal, and on outdated, dangerous narratives about its longevity and role in the just energy transition, will only prolong and exacerbate these constraints.
ESG Report, p.14	*To be a responsible company means that we have a duty of care, which compels us to find a balance between the competing polarities of climate change and society's needs. We have a duty to ensure*	Thungela exports all of the coal that it mines to other countries, so it is unclear in what way this coal "belongs to the people of the country". The narrative that climate action and social responsibility are competing "polarities" is false,

Integrated Annual Report, p.31	*that we do what is right for South Africa, on the understanding that the coal we mine does not belong to Thungela; it belongs to the people of the country. Out of that endowment, we must deliver as much value as we can, not only for the nation at large, but for the employees and communities that depend on us.* *Notwithstanding the climate change debate, coal will remain a critical input for affordable, reliable and resilient global power generation for years to come. The developing economies that constitute our key export markets, in Asia in particular, require large amounts of low-cost power as they develop, urbanise and industrialise.*	misleading and dangerous. Climate action is **necessary** to ensure that society's needs are met. Without climate action, we will see worsening poverty, inequality and unemployment as climate change increasingly causes devastation which disproportionately impacts the most vulnerable in our society. The recent floods in Kwa-Zulu Natal are a stark illustration of this. Coal mining also results in significant soil, water and air pollution, and coal-fired power generation is the main contributor to extreme levels of air pollution on the Mpumalanga Highveld. These are so bad that the Pretoria High Court has found that government's failure to address them constitutes a violation of the constitutional right of people living on the Highveld to an environment that is not harmful to health and well-being. The **fundamental premise of a just transition** is that such a transition needs to be well managed and "contribute to the goals of decent work for all, social inclusion and the eradication of poverty". To claim that these goals are in opposition to each other, displays a willful misunderstanding of climate change, climate action, and sustainability.
ESG Report, p.43	*Our business is exposed to a spectrum of risks from climate change, including physical, regulatory, market, cost and legal risks. Physical climate-related risks include extreme weather conditions such as higher-intensity, less-frequent rainfall and extreme heat. Security of energy supply, rising energy prices and the local carbon tax are also material risks for our operations.*	Thungela's clear recognition of the risks posed to its business by climate change undermines all of its other assertions about the importance of coal in the future energy mix.

4. Clean coal and carbon, capture and storage

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ESG Report, p.14	*We need to stay true to the Paris Agreement and its adherence to 'all clean technologies and cooperative action', including those that abate emissions from coal, such as carbon capture and storage, and high-efficiency, low-emissions technologies.*	Carbon capture and storage (CCS) is not mentioned in the Paris Agreement. In any event, this technology is most appropriate in relation to "last-mile" decarbonisation for sectors that are very difficult to decarbonise, like cement and steel, and the technology is not yet commercially viable. **Power generation is the easiest and cheapest sector to decarbonise, and CCS for coal-fired power does not make economic sense.**

		As described above, climate science necessitates the closing of all coal-fired power stations by 2040.
ESG Report, p.43 ESG Report, p.44	*Effective public policy is essential for providing the right framework of drivers and incentives to encourage coordinated, efficient and equitable response measures by all stakeholders. Thungela is committed to providing our expertise to assist the South African government and other stakeholders in developing such public policy and regulation. We work with industry and regulatory authorities to contribute to the development and implementation of efficient, effective and equitable climate change policies and regulations.* *Thungela's position on carbon tax is consistent with that of the Minerals Council South Africa. To accurately assess its impact on business, we will continue to influence and provide input on this tax and the update of subsequent phases.*	What Thungela is describing here is anti-climate lobbying. Despite increasing awareness of the urgency of taking climate action, the global policy response to climate risk has been weak and inadequate. A key reason for government climate inaction has been the unprecedented lobbying activity, by the fossil fuel industry and associated industry associations, to weaken, delay and oppose climate-related regulation. In many instances, this manifests itself in high-level public positions of support for the Paris goals, but closed-door undermining of climate action. Lobbying by fossil fuel interests, including the Minerals Council – with which Thungela closely aligns itself - has resulted in the extension of the first phase of the carbon tax -which makes provision for companies to receive 60%-95% tax allowances such as rebates or exemptions - until 2026. This in circumstances where South Africa's climate risk is severe, and a meaningful carbon tax is widely acknowledged as an essential tool to reduce greenhouse gas (GHG) emissions.
ESG Report, p.18 ESG Report, p.43	*We are leveraging our strategic relationships to support improved use of coal and we facilitate research into emission abatement technologies through the International Energy Agency Clean Coal Centre, the Coal Industry Advisory Board and the South African Centre for Carbon Capture and Storage. We strongly believe that the coal debate needs to shift from the phasing out of fossil fuels to the phasing in of all emission abatement technologies, including those relating to coal.* *Through our membership of the World Coal Association and the International Energy Agency's Coal Industry Advisory Board, we advocate for policy frameworks which support energy security. We encourage research and investments in all low-carbon technology, including those that abate emissions from coal combustion such as carbon*	Despite decades of experimentation, and huge financial expenditure, "clean coal" and carbon capture and storage (CCS) have failed to achieve commercial viability. The US government has, since 2010, subsidised 8 clean coal projects to the tune of $684m. All have failed. These technologies have limited success in reducing GHG emissions, and vastly higher capital costs. Even if these were commercially viable, clean coal technologies would make coal-fired power generation significantly more expensive than it is now, and it is already more expensive than other power generation options. The most ambitious CCS technologies aim to store, at most, a few million tons annually. In 2021, global carbon dioxide emissions were 36 billion tons. Work on CCS has been ongoing since the 1970s, but even these modest ambitious have not been achieved. In 2021, there were 27 operating CCS plants in the world, **which in total captured less than 0.1% of total fossil fuel carbon emissions.**

	capture, utilisation and storage (CCUS). We support the development of CCUS in South Africa through the South African Centre for Carbon Capture and Storage, in which we have been involved since its inception in 2009.	The focus on clean coal and CCS is simply a distraction to buy time for the coal industry.

5. Social and environmental impacts

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ESG Report, p.42 ESG Report, p.14	*This reality reinforces our role as a responsible thermal coal miner that recognises society's needs, environmental expectations and the vital role that mines play in the economy and local communities.* ***There are many vocal opponents of coal who believe that closing mines would be the best solution. We invite them to visit coal-mining communities to experience first-hand the impact that the loss of mining would have on our people. Then they would realise the magnitude of our responsibility.***	This is far from an accurate reflection of the impacts of coal, as Just Share, and many others who have indeed "visited" coal-mining communities, will know. Despite these being extensively documented and incontrovertible, Thungela neglects to mention the extremely harsh conditions faced by people living in and around coal mines. These include heavily polluted air and water, serious health impacts, permanently contaminated land, cracked houses, severe dust and noise, and low wages.
ESG Report, p.56 ESG Report, p.56 ESG Report, p.15 ESG Report, p.19	*We believe that integrating mine closure planning into operational strategy is the best way to address many of the associated risks and opportunities, particularly through rehabilitating land in parallel with our mining activities.* *Since we have four opencast operations, it is particularly material that we rehabilitate land disturbed by mining to a level of post-mining land use agreed with stakeholders.* *We have comprehensive mine closure and rehabilitation programmes that seek to return previously mined land to its original condition for sustainable use.* *Our closure liabilities are fully funded in terms of the legal requirements and we have best practice closure and rehabilitation plans for all our sites, aligned with International Council on Mining and*	Although Thungela mentions the 14 February 2022 "uncontrolled release" at Kromdraai, it fails to mention that this was the subject of a directive against it from the Department of Water and Sanitation for its "**failure to take all reasonable measures to contain and minimise the effects of the incident**", and that a **criminal investigation** is pending against it. The acid mine drainage resulted in the deaths of at least three tonnes of dead fish (from 23 different species) and has caused water contamination and widespread devastation to ecosystems for up to 60km from the spill. Thungela's claims to be committed to ongoing and responsible mine closure are directly contradicted by its accounts of toxic spills from unrehabilitated and poorly rehabilitated mines. The Kromdraai spill was from an old mine shaft, sealed in 2019 but, like most mines in South Africa, poorly rehabilitated. Such spills are inevitable, given the nature of coal mining operations, and the inadequate rehabilitation measures. Thungela should not only make provision for its environmental liabilities, but also

	Metals (ICMM) good practice around integrated closure.	for potential litigation related to the impacts of its operations.
ESG Report, p.10	*We believe that the environmental pillar of ESG encompasses more than managing emissions, and we are committed to minimising our environmental impact by practising good water and land stewardship, and using scarce resources efficiently.* AND YET:	Anglo American handed over all of its significant environmental liabilities to Thungela with the demerger. Investors should insist that Thungela conduct a comprehensive audit of its unrehabilitated mine shafts, and other liabilities which are likely to cause major environmental incidents in future.
ESG Report, p.35	*There was unfortunately one level three incident in November 2021 at Khwezela colliery's Kromdraai complex. Mine-impacted water discharged from a decant sump into the adjacent environment and ultimately to the Kromdraaispruit due to the failure of a previously sealed culvert below the decant sump…*	
ESG Report, p.15	*On 14 February 2022, an uncontrolled release occurred at Khwezela's Kromdraai site, which resulted in the discharge of mine-impacted water into the Kromdraaispruit. This water source feeds into the Wilge River and the Upper Olifants River catchment. The event was classified as a level 4 environmental incident …*	

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