

Climate change and the mining sector financial sustainability: Risks, responsibilities, and opportunities

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Building a sustainable future as a mining company requires an understanding of the financial risks and opportunities that climate change poses for the industry.

The Intergovernmental Panel on Climate Change (IPCC) has long identified increased concentration of Greenhouse Gases (GHG) in the atmosphere as the most significant contributor to global warming, caused predominantly by the burning of fossil fuels.

The rise in the Earth's temperature not only leads to the disruption of ecosystems and an increased likelihood of natural disasters, but also threatens political, economic and social stability.



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Exxaro, for instance, recognises this and has a strategy in place that will allow us to both mitigate risk and maximise our ability to take advantage of the opportunities presented by the transition to low carbon economy. We will be a carbon neutral company by 2050 and we will build a portfolio that is resilient in a low-carbon future.

Of course, strategic objectives guided by scientific research are important but to really power those objectives, companies in the mining sector need to be committed to more than just good returns and reduced risks: we need to be committed to having a positive impact on society and the environment. If we are not guided by this purpose, we will not be able to fulfil our responsibilities to the communities and societies in which we operate.

A just transition to a greener future

While the global use of coal is expected to decline in the longer term, it is likely to remain the predominant source of affordable energy in South Africa for many years. As the largest supplier of coal to Eskom, we have a responsibility to continue coal production in an environmentally and socially responsible manner. If we abruptly stop producing coal, this would have a devastating impact on our economy and our people.

As we shift to more sustainable energy solutions, informed by the Just Transition framework, Exxaro, for example, will provide a range of social interventions and an expanded renewable energy programme that will secure jobs and livelihoods as we envision a low-carbon future that leaves no one behind.

As early as 2010, Exxaro began building this future by investing in two wind farms through renewable-energy producer Cennergi. As our investments in renewable energy increase over time, our revenue from them will grow too.

The importance of transparency

We have completed our alignment assessment to the Task Force on Climate-related Financial Disclosures (TCFD) recommendations. Going forward we will be aligning our external climate risk financial disclosures to the TCFD recommendations. This will provide transparency regarding our targets, strategies, climate change risk management and opportunities to our stakeholders.

Investors, asset managers, and financial institutions are increasingly demanding that companies disclose their climate-related financial risks and opportunities. These disclosures allow more effective valuations of risk exposure and empower markets to reward sustainable and resilient business models. Reporting in line with the TCFD recommendations is the strongest signal to our shareholders that our business considers climate-related financial risks and opportunities as critical.

As we transition to a low-carbon portfolio, we have engaged consistently with our shareholders and financial partners on our strategy to address the risks and opportunities of climate change that may affect our operational and financial sustainability. We have also participated in local and international climate action networks, such as being a headline sponsor of the South African pavilion at the UN Conference of the Parties meetings.

This partnership approach to climate change has allowed us to share our knowledge and seek new approaches to bolstering our portfolio resilience.

Preparing for future scenarios

Coal demand will continue to come under pressure both domestically and globally, which is why we have developed three climate change scenarios using IPCC and International Energy Agency (IEA) data to guide our response strategy.

These scenarios range from a 'contained' situation where global temperatures rise by 1.5°C to a 'partly contained' 2°C scenario, to a 'slipping out of control' global scenario (with a rise of 3°C or more) where the Paris Agreement objectives have not been achieved, but finance for low-carbon projects will be more readily available.

What is important to consider, however, is that even if the 2°C objective is achieved, southern Africa warms on average at almost twice the global rate, which would result in an unthinkable domestic temperature rise of 4°C.

A low-carbon transformation will be vital to mitigate the exposure risk for not only our business but also the broader national economy. Therefore, over the next decade, we plan to ensure that our revenue is primarily generated from low-carbon

business operations.

Looking forward

Despite the challenges of today's economic environment, Exxaro continues to reduce greenhouse gas emissions and will leverage opportunities that are presented by the transition to cleaner energy. Although mitigating climate change is critical to our company, we depend on good financial performance to support our investments in low-carbon innovations.

With a portfolio in both high-quality coal and renewable energy assets, as well as our strong credit rating, prudent capital management, history of transparency with climate disclosure and active engagement with stakeholders, we have established ourselves as a trusted and responsible provider of energy in South Africa.

Climate change may pose unprecedented risks, but if we are prepared to respond strategically and meet our responsibilities, it presents even greater opportunities – which we will engage with stakeholders on an ongoing basis.

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