EXXARO RESOURCES LIMITED
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(Exxaro)

FINANCE DIRECTOR'S PRE-CLOSE MESSAGE
Financial year ending 31 December 2021 (FYE21)

This is an overview of the group's expected business performance for FYE21, encompassing strategic, operational and financial information. Unless otherwise indicated, all comparisons are against the financial year ended 31 December 2020 (FY20).

Dear stakeholder,

The health and safety of our employees and communities has remained our priority. In line with our Health and Wellness Strategy, which focuses on diagnosis, management and prevention of diseases, our response to the COVID-19 pandemic (the pandemic) has prioritised *avoiding, reducing and managing* COVID-19 infections. As at 17 November 2021, the group has had 5 140 confirmed cases and a recovery rate of 99%. We remain committed in our fight to prevent further loss of life and continue to implement COVID-19 preventive measures in line with government regulations and recommendations.

Our target is to vaccinate 80% of employees and contractors and, to date, a total of 9 579 (62%) employees and contractors have been vaccinated.

The group is now at a record performance of 4 years and 8 months without a work-related fatality and a lost-time injury frequency rate (LTIFR) of 0.08, in line with our set target of 0.08. Zero Harm remains Exxaro's key business and sustainability objective.

During 2021, continued COVID-19 flare-ups coupled with increased vaccination rates, high commodity prices, supply chain disruptions, economic recovery with inflationary pressures, and a shift in energy transition policy, characterised the world's economy. Overall, commodity market fundamentals remained tight over the period under review. In respect of Exxaro's key commodities for FYE21, the API4 coal export price index is expected to average US$115 (FY20: US$65) per tonne, free on board (FOB), and the iron ore fines price US$156 (FY20: US$109) per dry metric tonne, cost and freight (CFR) China.

Total coal production (excluding buy-ins) and sales volumes are both expected to decrease by 8%, mainly due to logistical constraints and the disposal of Exxaro Coal Central (ECC) operations on 3 September 2021, being earlier than anticipated.

In terms of our capital allocation programme, we expect the capital expenditure for FYE21 in our coal business to be about 22% lower when compared to FY20, mainly due to key projects reaching completion as well as the disposal of ECC. We have concluded our share repurchase programme of R1.5 billion with the last trade executed on 2 November 2021. The total number of shares repurchased was 9 401 662 shares, representing 2,62% of Exxaro's issued share capital (as before the buyback) at an average gross price of R159.55 per share (an average of a 6,4% discount to the volume weighted average price over the buyback period). The shares bought back between July and November will be cancelled and de-listed by the JSE Limited, resulting in issued share capital of 349.3 million shares projected for the year ending 31 December 2021. As at 31 October 2021, the group had net cash of R0.5 billion (excluding Cennergi's net debt of R4.5 billion). The group therefore has sufficient liquidity and will remain a going concern for the foreseeable future.

We will provide a detailed account of FYE21 business performance and an outlook on the subsequent six months (1H22) when we announce our annual financial results on or about 3 March 2022.

Yours sincerely
Riaan Koppeschaar
Finance Director

MACRO-ECONOMIC ENVIRONMENT

GLOBAL ECONOMY AND COMMODITY PRICES

During the second quarter of 2021, global economic activity reached an important milestone, surpassing the pre-pandemic real gross domestic product (GDP) peak attained in the fourth quarter of 2019. The global economic expansion lost momentum in the third quarter of 2021, as new waves of the pandemic dampened consumer sentiment and idled production. However, after a 3.4% contraction in 2020, global real GDP is projected to increase by 5.5% in 2021, its strongest advance since 1973.

The implementation of domestic Chinese policy impacted both global thermal coal and iron ore markets. Iron ore prices traded at record levels on the back of very strong Chinese steel production, supported by the rest of the world's robust demand conditions. This was before concerns around China's economy slowing, pollution related steel output cuts and relatively low steel mill profitability triggered a change in sentiment as well as significant price declines towards the end of 2021.

The Brent crude oil market recovered to pre-pandemic levels after demand collapsed in 2020 and the Saudi-Russia price war. The Organisation of the Petroleum Exporting Countries (OPEC) remained cautious to increase production above scheduled levels, even with the surge in energy demand and accelerated drawdowns of oil inventories globally supporting prices.

OPERATIONAL PERFORMANCE

COAL OPERATIONS

MARKETS

International coal prices reached an all-time high amidst constrained supply. Gas prices saw a substantial increase that supported the switch to coal, further driving the increase in demand for coal. In South Africa, the continuing poor rail performance severely impacted our ability to move product according to our plans.

The on-going political tension between China and Australia has resulted in China exploring different supply options, including South Africa. Whilst China has reacted negatively to the current high pricing, it does appear that prices will remain strong as the northern hemisphere braces itself for a cold winter. In contrast, we have experienced poor demand from India as affordability has become a crucial factor.

The domestic market demand for power station coal remains depressed as Eskom remains well supplied with average stock of around 48 days, which is significantly higher than their minimum of 20 days. The poor rail performance continues to also impact all domestic coal markets, further exacerbating high stock levels at the mines.

PRODUCTION AND SALES VOLUMES

The table below shows a year-on-year comparison of production and sales performance between FY20 and FYE21 as well as FYE21 compared to previous guidance.

TABLE 1: COAL PRODUCTION AND SALES VOLUMES (‘000 tonnes)

	Production				Sales			
	FY20 Actual	**FYE21 Previous Guidance[1]**	**FYE21 Current Forecast[2]**	**% Change Previous Guidance**	**FY20 Actual**	**FYE21 Previous Guidance[1]**	**FYE21 Current Forecast[2]**	**% Change Previous Guidance**
Thermal	44 933	41 668	41 310	**(1)**	45 723	42 961	42 053	**(2)**
Commercial: Waterberg	26 554	24 545	25 906	**6**				
- Eskom					24 704	24 569	24 744	**1**
- domestic					925	1 206	1 246	**3**
Commercial: Mpumalanga	12 226	11 439	9 377	**(18)**				
- domestic					1 767	2 909	2 532	**(13)**
Exports: commercial					12 170	8 610	7 512	**(13)**
Tied[3]	6 153	5 684	6 027	**6**	6 157	5 667	6 019	**6**
Metallurgical	2 222	2 396	2 011	**(16)**	1 036	1 145	1 007	**(12)**
Commercial: domestic	2 222	2 396	2 011	**(16)**	1 036	1 145	1 007	**(12)**
Total (excluding buy-ins)	**47 155**	**44 064**	**43 321**	**(2)**	**46 759**	**44 106**	**43 060**	**(2)**
Thermal coal buy-ins	291	138	141	**2**				
Total (including buy-ins)	**47 446**	**44 202**	**43 462**	**(2)**	**46 759**	**44 106**	**43 060**	**(2)**

[1]Provided at 30 June results presentation in August 2021.
[2]Based on latest internal management forecast assumptions and estimates. Final numbers may differ by ±5%.
[3]Matla Mine supplying its entire production to Eskom.

Commercial mines

Production

Thermal Coal production from the Waterberg is expected to increase by 6% from previous guidance, in line with off-take volumes.

Production at the Mpumalanga commercial mines is expected to be 18% lower than previous guidance, mainly due to Mafube and Leeuwpan being impacted by lower rail performance, with Leeuwpan further impacted by market constraints and the ECC disposal on 3 September 2021 (forecasted to realise in December 2021), offset by higher production at Belfast where export sales product was diverted to the local market.

Metallurgical coal production is anticipated to decrease by 16% due to poor rail performance.

Coal buy-ins are expected to be in line with previous guidance.

Sales

The expected 13% decrease in export sales volumes from previous guidance is mainly driven by logistical constraints linked to lower rail performance.

Our Mpumalanga domestic thermal coal sales are expected to be 13% lower than previous guidance, mainly due to the earlier than anticipated divestment of ECC in September 2021, exacerbated by the impact of the lower rail performance on the local market at Leeuwpan. This impact is mitigated by the Belfast export product being diverted to the domestic market, as well as a nominal increase expected in Waterberg domestic sales.

Metallurgical coal sales are expected to decrease by 12% from previous guidance, due to lower rail performance negatively impacting the off-take from ArcelorMittal SA Limited.

The poor rail performance on domestic and export flows is most alarming and it is continuing to negatively impact our ability to move coal to customers and ports, resulting in lower than previously guided sales volumes in the export and domestic markets. The guidance now includes 4Mt at risk, up from the 3Mt indicated in August, bringing the original 11.6Mt export guidance for 2021 down to the current 7.5Mt forecast.

Tied mines (Matla)

Thermal coal production and sales are both expected to increase by 6% from previous guidance, mainly due to improved geological conditions at the Mine 2 short-wall.

LOGISTICS AND INFRASTRUCTURE

TFR railed 48.4Mt to Richards Bay Coal Terminal (RBCT) from January to the end of October 2021, which is equivalent to an annualised tempo of 58.81Mtpa. As a result, the performance from Grootegeluk has dropped from 7 trains per week in 2020 to 4 trains per week year-to-date in 2021. The Mpumalanga export rail performance dropped from 25 trains per week in 2020 to 15 trains per week for the period January to October 2021.

The alarmingly low levels of rail performance are due to poor locomotive availability, increased incidences of cable theft as well as increased vandalism of rail infrastructure. The coal industry intervened by appointing a security service provider to reduce cable theft and continue to engage on initiatives that can improve overall operational performance.

ENERGY OPERATIONS

The two windfarms are running below planned capacity due to lower than expected wind speeds earlier in the year. This along with increased maintenance, and end of 5-year warranty inspections, impacted energy generation mainly in 1H21. Combined electricity generation for the year ending 31 December 2021 is expected to be in line with previous guidance of approximately 719 GWh (Gigawatt hours).

CAPITAL ALLOCATION

Exxaro's focus remains 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.

TABLE 2: COAL CAPEX (R'million)

	FY20 Actual	FYE21 Previous Guidance[1]	FYE21 Current Forecast[2]	% Change Previous Guidance
Sustaining	**2 110**	**1 874**	**1 524**	**(19)**
Waterberg	1 683	1 514	1 201	(21)
Mpumalanga	411	337	302	(10)
Other	16	23	21	(9)

Expansion	**950**	**964**	**858**	**(11)**
Waterberg	643	824	738	(10)
Mpumalanga	307	140	120	(15)
Total	**3 060**	**2 838**	**2 382**	**(16)**

[1]*Provided on 30 June results presentation in August 2021*
[2]*Based on latest internal management forecast assumptions and estimates, excluding tied operations. Final numbers may differ by ±5%.*

Capital expenditure for FYE21 is expected to be 22% lower compared to FY20. A 28% decrease in sustaining capital is driven by lower spend at Grootegeluk, Leeuwpan, Belfast and the earlier than anticipated sale of ECC in September 2021. The decrease of 10% in expansion capital is driven by the timing of the GG6 expansion project concluding final items on the project, lower spend due to project close out at Belfast and timing in the sale of ECC.

FYE21 total capex is expected to be 16% lower than the guidance provided in August 2021 for the same reasons provided above.

GG6 expansion
The GG6 expansion project construction is expected to be completed during 4Q21 with project close out in 2H22. The current estimated capital overrun is approximately 10% for the GG6 project and is still as per previous guidance provided. The forecasted final cost of completion remains R5.3 billion.

Matla Mine 1

The Matla Mine 1 Relocation project commenced with construction in August 2020. Exxaro continues to engage Eskom on additional funding to complete the full scope of the project. Approval is estimated in the 2Q22.

Moranbah South
The pre-feasibility study on determining the way forward for the Moranbah South hard coking coal project started during 3Q21 and is expected to be completed by 1Q23.

PORTFOLIO OPTIMISATION

SALE OF NON-CORE ASSETS AND INVESTMENTS

The ECC disposal was effective 3 September 2021 and will be accounted for in 2H21.

The disposal process for Leeuwpan continues with definitive legal agreements envisaged to be signed in 1H22 and regulatory approvals obtained thereafter.

Exxaro continues to evaluate its options to dispose of it 26% shareholding in Black Mountain.

SUSTAINABLE DEVELOPMENT

CLIMATE CHANGE RESPONSE STRATEGY IMPLEMENTATION

Our decarbonisation project office is currently conducting an assessment to baseline our value chain emission profile and determine quick wins that can be implemented in 2022. As part of linking climate change outcomes to organizational risks and performance, water and energy intensity will be included as part of the revised group wide Short Term Incentive Scheme (STI) in 2022. This will ensure that we are able to implement strategic projects to mitigate the risk of water security and transition our energy use to more cleaner fuels.

SOCIAL INVESTMENT

Our social investment and engagement activities continued, following the disruption of lockdowns during FY20, with a primary focus on engagement to re-establish relationships, Enterprise and Supplier Development (ESD) and implementation of community infrastructure projects.

- We provided total ESD funding of R90.2 million to eight Small, Micro and Medium Enterprises (SMMEs) during the year under review. We have onboarded and provided support to 90 beneficiaries on the contractor development programme with the Gordon Institute of Business Science (GIBS) and 28 beneficiaries on a financial excellence programme with SAICA Enterprise Development.

- A total of R54 million has been spent to date on completion of schools, an Enterprise and Supplier Development Hub and water infrastructure projects through our Social and Labour Plans (SLP), in both Mpumalanga and Waterberg. A total of 178 jobs were created during the construction periods. To date 2 534 beneficiaries have been positively impacted.
- Three stakeholder days took place virtually during September 2021, providing Exxaro board members an opportunity to listen to beneficiaries directly - a balanced reflection of our performance on the ground was received from various participating stakeholders.
- We are pleased that we were able to maintain harmonious engagements with our communities leading up to the local government elections.

MINING AND PROSPECTING RIGHTS

Exxaro successfully divested from ECC on 3 September 2021. The future of the Thabametsi mining right is currently under internal review and the Department of Mineral Resources and Energy (DMRE) will be contacted upon conclusion of this review. The environmental license for the Belfast expansion project has been applied for.

Our interactions with the DMRE, Department of Water and Sanitation (DWS) and other state departments continue to be impacted by the pandemic. The following applications are in process at the DMRE:

- A section 102 application to amend the Matla mining right to swap coal reserves as part of a commercial transaction, and we continue to work with Seriti Resources to finalise this matter.
- The execution of the consolidation of two Leeuwpan mining rights into a single mining right.
- The execution of a section 102 application at Grootegeluk to incorporate the two farms on which we have operating mining infrastructure.

During the previous quarter, inspections have been conducted according to schedule and no concerns have been raised by the authorities.

Lastly, the group compliance to valid licences or authorisations for our current operations is at 96%. Where rights and other licences are nearing expiry dates, renewal applications are submitted timeously.

OUTLOOK FOR 1H22

ECONOMIC CONTEXT

Global economic growth recovery and expansion are anticipated to continue into 1H22. However, inflationary pressures together with the tightening of fiscal and monetary policies will moderate economic activity compared to 2021. COVID-19 vaccination rates are expected to increase further and barring any renewed infection flare-ups, enabling affected economies to reopen.

The pandemic has strained South Africa’s fiscus, with public-sector debt sustainability remaining under threat. As part of the Economic Reconstruction and Recovery Plan of October 2020, a landmark government announcement that lifts the licensing threshold for small-scale power-generation projects from 1 megawatt (MW) to 100MW, was made. This should unlock private investment in the renewable energy segment and the country’s economy.

The USD/ZAR exchange rate is expected to remain volatile during 2022, driven mainly whether the surge in inflation largely reflects transitory factors.

COMMODITY MARKETS AND PRICE

Going into 1H22, the international thermal coal market remains dependent on key weather patterns and whether China will achieve increased production targets during the northern hemisphere winter months. Natural gas markets have experienced strong demand and supply shortages across the globe. Any relief from high gas prices relies on the availability of increased gas pipeline supply into Europe.

In China, lower steel production is anticipated for 2022 due to power shortages, the property sector slump, emission controls in the lead up to the Winter Olympics, and a broad-based economic slowdown. Global iron ore supply growth remains a further downside risk to the expected softer market.

OPERATIONAL PERFORMANCE

The domestic unsized market will continue to experience pressure due to the availability of increased volumes in the domestic market on the back of lower rail performance, as domestic mining operations continue to struggle with the evacuation of coal destined for the export market. On the international front, we expect the demand for coal to remain strong as supply is constrained. The influence of high gas prices and expected cold weather in the northern hemisphere will continue to drive stable demand for coal.

As previously communicated, rail performance has put strain on the mining value chain and impacted our ability to produce coal at desired levels. The situation has highlighted the importance of being able to respond quickly to value chain interruptions; and through our integrated operations centres (IOC's) and Market to Resource (M2R) optimization strategy, we have continued to enable timeous decision making, allowing our business to focus on the controllable elements, thus limiting the impact of these disruptions. We are continuing to invest energy in enhancing this process further through our Data Sciences and Advanced Analytics, which is a large focus of our Digital program.

To further remain competitive across various markets, our Operational Excellence and Digital programs continue to focus on specific projects across the value chain which are aimed at managing stock levels, productivity, and production costs.

REVIEW OF THE UPDATE

The information in this update is the responsibility of the directors of Exxaro and has not been reviewed or reported on by Exxaro's external auditors.

TELECONFERENCE CALL DETAILS

A dial-in teleconference call on the details of this announcement will be held on Thursday, 2 December 2021 starting at 12:00 SAST.

PRE-REGISTRATION LINK

Participants can register for the conference by navigating to:
https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=7107896&linkSecurityString=c6f688db0
Please note that registered participants will receive their dial in number upon registration.

PLAYBACK

A playback will be available one hour after the end of the conference until 13 December 2021. To access the playback, dial one of the following numbers using the playback code 41234#:

- South Africa 010 500 4108
- UK 0 203 608 8021
- Australia 073 911 1378
- USA 1 412 317 0088
- International +27 10 500 4108

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EDITOR'S NOTE

Exxaro is one of the largest South Africa-based diversified resources companies, with main interests in the coal, iron ore and energy commodities. www.exxaro.com

Annual financial results for the year ended 31 December 2021 will be announced on or about 3 March 2022.

ENQUIRIES

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LEGEND

FY20 – Financial year ended 31 December 2020
1H21 – Six-month period ended 30 June 2021
3Q21 – Third quarter ended 30 September 2021
4Q21 – Fourth quarter ending 31 December 2021
2H21 – Six-month period ending 31 December 2021
FYE21 – Financial year ending 31 December 2021
2Q22 – Second quarter ending 30 June 2022
1H22 – Six-month period ending 30 June 2022
2H22 – Six-month period ending 31 December 2022
1Q23 – First quarter ending 31 March 2023

COMMODITY PRICES SOURCE

Coal – IHS Energy
Iron ore – MB Online

DISCLAIMER

The financial information on which any outlook statements are based have not been reviewed nor reported on by Exxaro's external auditor. These forward-looking statements are based on management's current beliefs and expectations and are subject to uncertainty and changes in circumstances. The forward-looking statements involve risks that may affect the group's operations, markets, products, services and prices. Exxaro undertakes no obligation to update or reverse the forward-looking statements, whether because of new information or future developments.

2 December 2021

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