

EXXARO RESOURCES LIMITED
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(Exxaro or the company or the group)

FINANCE DIRECTOR'S PRE-CLOSE MESSAGE
Financial year ending 31 December 2022 (FYE22)

This is an overview of the group's expected business performance for FYE22, encompassing strategic, operational, and financial information. Unless otherwise indicated, all comparisons are against the financial year ended 31 December 2021 (FY21).

DEAR STAKEHOLDER

By the end of October 2022, Exxaro had recorded five (5) lost time injuries (LTI's) across the group bringing the LTIFR to 0.04, against a set target of 0.06. The current safety performance of 5 LTI's translates to a 55% improvement compared to the same period in FY21, whereas the high potential incidents (HPI's) of the group increased to five (5) against one (1) for the same period in 2021.

Regrettably, after a record performance of 5 years without a fatality, on 15 August 2022, Exxaro recorded a fatality at Belfast Coal. Mr Mathews Moanalo, aged 40 years was fatally injured at the hard park area, a dedicated area where all haul trucks are parked between shifts. An investigation on the circumstances of the accident has been concluded, with learnings being implemented across our operations.

The impact of the Russia-Ukraine war and renewed COVID-19 infections and lockdowns, mostly in China, have further disrupted supply chains, fuelled inflation, significantly increased energy cost and slowed economic growth. As a result, commodity markets were mixed and volatile throughout the period under review. In respect of Exxaro's key commodities, the API4 coal export price index is expected to average US\$271 (FY21: US\$124) per tonne, free on board (FOB), and the iron ore fines price US\$116 (FY21: US\$160) per dry metric tonne cost, and freight (CFR) China.

Total coal production (excluding buy-ins) is expected to increase by 3% and sales volumes are expected to increase by 1%, despite the logistical constraints and the disposal of Exxaro Coal Central (ECC) operations on 3 September 2021.

In terms of our capital allocation programme, we expect the capital expenditure for our coal business to be about 30% lower when compared to FY21. This decrease is a combination of project savings, the completion of our GG6 expansion project and improved timing on project execution.

As at 31 October 2022, the group had net cash of R8.9 billion (excluding Cennergi Holdings Limited's (Cennergi) 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 FYE22 business performance and an outlook on the subsequent six months (1H23) when we announce our annual financial results on or about 16 March 2023.

Yours sincerely
Riaan Koppeschaar
Finance Director

MACRO-ECONOMIC ENVIRONMENT

GLOBAL ECONOMY AND COMMODITY PRICES

After a strong finish to 2021, the global economic expansion lost momentum during 2022. A 5.8% growth rate in 2021 decreased to 2.8% in 2022. As financial market conditions deteriorated during the second half of 2022, the global economy remained at its highest vulnerability, with the risk of a global economic recession emerging.

During 2022, our supply into global thermal coal markets were influenced by the Indonesian government's temporary ban on exports, inclement weather conditions, rail challenges in South Africa and labour issues in Australia. In addition, the Russia–Ukraine war sent global markets into turmoil as Europe's energy insecurity surfaced, which, amongst others favoured South African seaborne thermal coal trade as international sanctions for Russian coal came into effect. For most of the year, the tight global gas market remained supportive to thermal coal demand and prices.

Despite the property sector weakness and widespread renewed COVID-19 lockdowns in China, the iron ore market started off the year relatively stable, supported by strong Chinese steel production. The iron ore market softened during April/May, after which sentiment strengthened from new stimulus measures and due to the easing of lockdown restrictions, by the Chinese government towards the end of 1H22. Weak demand sentiment in both China and Europe and global recession risks are expected to weigh on the iron ore market for the remainder of the year.

OPERATIONAL PERFORMANCE

COAL OPERATIONS

MARKETS

A substantial increase in gas prices, reduction of gas supply from Russia, the implementation of a European Union embargo on Russian coal imports, and the tightness of higher calorific value (CV) coal supply sustained the strong pricing of high CV coal through 3Q22. However, low water levels in the Rhine River (Europe), high gas and coal inventories at some of Europe's power utilities, as well as mild winter temperatures in October and November have sent the coal prices on a downward trajectory since the start of 4Q22.

Strong Indonesian output and weaker import coal demand in China and India maintained the downward pressure on the lower CV coal pricing in the first three quarters of the year. Although China and India's imported coal demand is expected to pick up in 4Q22, ample Indonesian supply and increased supply of discounted Russian coal will keep low-energy coal prices under pressure.

Domestic demand for our high CV coal remains stable and we expect this segment to continue to perform well.

As a result of ongoing constraints on the rail logistics we are selling export coal in the domestic market to exporters that have access to export capacity, as well as trucking and exporting coal through alternative ports.

PRODUCTION AND SALES VOLUMES

The table below shows a year-on-year comparison of production and sales performance between FY21 and FYE22 as well as FYE22 compared to previous guidance.

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

	Production				Sales			
	FY21 Actual	FYE22 Previous Guidance ¹	FYE22 Current Forecast ²	FYE % Change Previous Guidance	FY21 Actual	FYE22 Previous Guidance ¹	FYE22 Current Forecast ²	FYE % Change Previous Guidance
Thermal	40 351	42 299	41 415	(2)	41 803	43 624	42 385	(3)
Waterberg	25 335	27 473	27 489	-	25 698	27 275	27 116	(1)
Mpumalanga	9 113	8 743	7 805	(11)	2 574	4 679	3 894	(17)
Exports					7 632	5 592	5 260	(6)
Tied ³	5 903	6 083	6 121	1	5 899	6 078	6 115	1
Metallurgical	1 894	2 444	2 166	(11)	956	932	769	(17)
Waterberg	1 894	2 444	2 166	(11)	956	932	769	(17)
Total (excluding buy-ins)	42 245	44 743	43 581	(3)	42 759	44 556	43 154	(3)
Thermal coal buy-ins	232	16	16	-				
Total (including buy-ins)	42 477	44 759	43 597	(3)	42 759	44 556	43 154	(3)

¹Provided at results presentation for the six-month period ended 30 June 2022 on 18 August 2022.

²Based on latest internal management forecast assumptions and estimates. Final numbers may differ by ±5%.

³Matla Mine supplying its entire production to Eskom.

Production

Thermal Coal production from Waterberg is expected to be in line with previous guidance, aligned with the indicative offtake volumes from Eskom.

Production at the Mpumalanga commercial mines is expected to be 11% lower than the previous guidance, mainly attributable to Belfast, where production was negatively impacted by the fatality in August 2022. There was also decreased production at Leeuwpán and Mafube due to poor rail performance.

Metallurgical coal production is anticipated to decrease by 11% when compared to previous guidance due to poor rail performance, exacerbated by the Transnet strike.

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

Sales

Domestic thermal coal sales at Waterberg are expected to be in line with previous guidance.

Mpumalanga domestic thermal coal sales are expected to be 17% lower, mainly attributable to the impact of the fatality on Belfast production and the poor rail and road performance impacting the local market at Leeuwpán. The forecast decrease in sales is mitigated by higher sales through road transport at Mafube.

The forecast 6% decrease in export sales volumes from previous guidance is mainly driven by lower rail performance, exacerbated by a train derailment and the Transnet strike, offset partially by exports channelled through road transport to alternative ports.

Metallurgical coal sales are expected to decrease by 17% from previous guidance, due to the Transnet strike and rail performance resulting in a reduction in the offtake from ArcelorMittal SA Limited.

Tied mines (Matla)

Thermal coal production and sales are both expected to increase by 1% from previous guidance, based on the improved performance at the Mine 2 and Mine 3 sections.

LOGISTICS AND INFRASTRUCTURE

Transnet Freight Rail (TFR) railed 52.67Mt to Richards Bay Coal Terminal (RBCT) from January to the end of October 2022, equivalent to an annualised tempo of 54.32Mtpa. The performance from Grootegeluk averaged 4.9 trains per week due to the lower TFR declared capacity of 60Mtpa. The Mpumalanga export rail performance averaged 9 trains per week from January to October 2022.

ENERGY OPERATIONS

Cennergi is forecasting 675 GWh of electricity generated for FYE22 (FY21: 724 GWh). Overall performance is expected to be below our previous guidance of 695 GWh due to persisting low wind conditions. In South Africa and regions such as Europe, wind farms have experienced below-normal wind conditions over the past twelve months.

Our average equipment plant availability at 97.9% has been better than contracted levels and in line with normalised levels.

CAPITAL ALLOCATION

We remain focused on supporting our early value coal strategy and sustaining the businesses operations through our Capital Excellence journey.

TABLE 2: COAL CAPEX (R'million)

	FY21 Actual	FYE22 Previous Guidance ¹	FYE22 Current Forecast ²	% Change Previous Guidance
Sustaining	1 564	1 787	1 430	(20)
Waterberg	1 285	1 423	1 158	(19)
Mpumalanga	261	348	256	(26)
Other	18	16	16	-
Expansion	836	390	257	(34)
Waterberg	705	390	257	(34)
Mpumalanga	131			
Total	2 400	2 177	1 687	(23)

¹ Provided at results presentation for the sixth-month period ended 30 June 2022 on 18 August 2022

² Based on latest internal management forecast assumptions and estimates, excluding tied operations. Final numbers may differ by ±5%.

Capital expenditure for FYE22 is expected to be 23% lower compared to the previous guidance provided in August 2022, with 20% lower spend on sustaining capital and 34% on expansion capital.

We are starting to benefit from our Capital Excellence journey as is evident in the lower capital spend expected. This decrease is a combination of project savings and improved timing on project execution, as well as lower spend expected on the GG6 project, based on the latest estimates.

GG6 expansion project

The GG6 expansion project construction is complete. Final administrative project close out is expected in 1H23.

Matla Mine 1 project

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 expected in 4Q22.

Moranbah South project

The pre-feasibility study (PFS) phase 1 has been completed, and the completion of PFS phase 2 is expected by the end of 2023.

PORTFOLIO OPTIMISATION

SALE OF NON-CORE ASSETS AND INVESTMENTS

Exxaro initiated the Leeuwpan divestment process as part of its ongoing portfolio optimisation strategy to ensure the future resilience of our coal business. Unfortunately progress on the divestment stalled and the process was stopped in 3Q22 to ensure stability at the mine. Exxaro will continue to review its coal assets and projects in line with its strategic objectives.

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

SUSTAINABLE DEVELOPMENT

CLIMATE CHANGE RESPONSE STRATEGY IMPLEMENTATION

To strengthen our greenhouse gas (GHG) mitigation and business resilience efforts, water security, energy and water efficiency targets have been included as part of the group-wide Group Incentive Scheme (GIS) in 2022. The energy efficiency targets relate to diesel and electricity usage. Diesel accounts for over 95% of our Scope 1 GHG emissions, while coal-based electricity is 100% of our Scope 2 emissions. The implementation of these two key performance indicators is a progression of our climate change response strategy, our carbon neutrality 2050 target and further alignment with the Task Force on Climate-related Financial Disclosures.

COMMUNITY INVESTMENT AND DEVELOPMENT

Community investment and development remain a primary thrust, in efforts to uphold dignity and improve the livelihoods of communities as well as to create employment and procurement opportunities for local small, medium and micro enterprises (SMMEs). For FYE22, we have progressed on the following initiatives:

Coal business operations located in the Waterberg and Mpumalanga regions

- We achieved a local procurement spend of 13.4% (R853 million), compared to our target of 10%, which has empowered over 238 local black women-owned and black youth-owned SMMEs.
- We approved enterprise and supplier development funding of R250 million, a year-on-year improvement of 96%, to 22 SMMEs employing 972 people.
- We contributed R131 million towards education, health, and water infrastructure, which will benefit community households.
- Exxaro entered a relationship with two implementation partners, who are recognised by the Youth Employment Service (YES) ecosystem as providers of high-impact skills development and social entrepreneurship training. There is a year-to-date (YTD) total of 194 learners and spend of R8.6 million. Since 2019, 41 learners have been recruited from our host communities and enrolled at Edumap College in Gauteng to complete a 12-month bridging programme to help them improve their matric marks for acceptance at university.

Energy Business operations in the Eastern Cape

Both the Amakhala Emoyeni and Tsitsikamma wind farms have spent R18.2 million, in terms of the Renewable Independent Power Producer Programme commitments, up until September 2022 on several Socio-Economic Development (SED) and Enterprise Development (ED) initiatives.

- R4.1 million was spent on a water solution project, housing, and sports infrastructure. A total of 67 temporary jobs were created and approximately 6 051 households were impacted. Eleven local SMMEs benefited from these projects.
- R0.5 million was spent towards the fencing and paving of the Mzamohle clinic in Bedford. A total of 32 temporary jobs were created and two local SMMEs benefited.
- A partnership with the South African Institute of Chartered Accountants (SAICA) - Enterprise Development and experienced local agricultural consultants provided business mentoring, financial management and coaching support programme to local Agripreneurs and other business owners. To date, we have spent R4.4 million on various ED initiatives.
- To develop a pipeline of future talent, a total of R8.2 million was spent on various Education initiatives, such as an Early Childhood Development (ECD) programme, Adopt-a school programme and Information and Communications Technology (ICT) learning and support. A bursary programme which currently has 34 students from the seven communities at an investment is also in place.

Exxaro's Integrated and ESG Reports will be published in April 2023 and provide additional details regarding our Sustainable Development progress and impact.

MINING AND PROSPECTING RIGHTS

In respect of the licenses (environmental authorisation and water use license (WUL)) for the Belfast expansion project (Phase 1), there have been unexpected delays as a result of consultations with landowners. The WUL application submission has now been moved to 4Q23 to allow for the completion of this process.

The WUL for the Belfast Dam has been submitted to the Department of Water and Sanitation (DWS) and is under review. The WUL is expected to be granted in 1Q23.

The WUL renewal application for Matla was declined by DWS, however, an appeal has been lodged with the Water Tribunal ensuring that the WUL is valid until a decision has been made by the Water Tribunal. In the interim, Exxaro is constantly engaging with DWS in order to find an acceptable resolution.

The following applications remain in process at the Department of Mineral Resources and Energy (DMRE):

- The execution of Grootegeeluk's section 102 application amending the mining right boundary.
- The execution of Leeuwpan's section 102 application consolidating the two mining rights into a single mining right.
- A section 102 application amending Matla's mining right to swap Coal Reserves with Seriti Resources as part of a commercial transaction.

The group's compliance to valid licences or authorisations is at 96%. Projects to get the group to 100% compliance are being implemented. Where rights and other licences are nearing expiry dates, renewal applications are submitted timeously.

OUTLOOK FOR 1H23

ECONOMIC CONTEXT

The aggressive nature of the interest rate increases by central banks globally, on the back of stubbornly high inflation rates, moderated the global economic outlook for 2023 to fall short of the potential growth levels. The United Kingdom (UK) and broader Europe specifically run the risk of a recession, with any new major economic shocks that could tip the world economy into a global recession.

South Africa's 2022 subdued economic activity reflected the lingering effects of the unrest in July 2021, the extensive flooding in April 2022 and slowing global growth, alongside the structural constraint of inadequate electricity supply. Energy reforms are well underway, with tangible commitments expressed by potential investors. Speedy and judicious implementation could raise private investment, benefitting economic activity.

The USD/ZAR exchange rate is expected to remain volatile during 1H23.

COMMODITY MARKETS AND PRICE

The heightened European interest in South African thermal coal is expected to remain well into 2023 as Europe continues to find solutions to be independent from Russian-energy sources. South African thermal coal exports into high CV markets, such as South Korea and Japan, present further opportunities. The anticipated global gas trade flows and market prices, post the European winter months, are expected to remain supportive of seaborne thermal coal demand and prices. Stronger demand from the Pacific is expected as South African coal continues to trade at a discount to Australian coal.

Supply tightness and higher prices in the seaborne thermal coal markets spilled over into the South African domestic market and are expected to support domestic prices into 2023. The domestic market demand for both sized and unsized product remains strong despite declines in export pricing. Although pricing has held up relative to the export market, indications of pricing pressures are observed for products destined for export. Consequently, domestic market participants are experiencing margin squeeze when trucking coal to alternative ports, as export prices are declining.

For the iron ore market, a relatively flat annual global steel production level is predicted for 2023. Higher iron ore supply, together with an expected steady demand, is likely to see seaborne prices testing cost curve support levels. However, the net outcome between key market opportunities from higher steel production in China and the risk of seaborne supply once again falling short of expectations, will determine price levels for 2023.

OPERATIONAL PERFORMANCE

Given the ongoing challenges with rail performance, the business continues to respond with our Market-to-Resource optimisation strategy, ensuring continued operations and has diversified our export flows by trucking coal to alternative ports. We continue evaluating alternative logistical options to evacuate our product.

Operational Excellence and Digital programs are, among others, our greatest defences during the current unprecedented value chain disruptions and challenges ensuring we remain cost competitive.

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 independent external auditors.

TELECONFERENCE CALL DETAILS

A dial-in teleconference call on the details of this announcement will be held on Thursday, 1 December 2022 starting at 12:00 SAST.

PRE-REGISTRATION LINK

Participants must register for the conference through the following link:

<https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=1422053&linkSecurityString=31769c23d>

Please note that only registered participants will receive a dial-in number upon registration.

PLAYBACK

A playback will be available one hour after the end of the conference until 6 December 2022. To access the playback, dial one of the following numbers using the playback code 43385#:

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

To access the replay using an international dial-in number, please select the link below.

<https://services.choruscall.com/ccforms/replay.html>

Participants will be required to state their name and company upon entering the call.

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JOINT EQUITY SPONSOR

Tamela Holdings Proprietary Limited



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 2022 will be announced on or about 16 March 2023.

ENQUIRIES

Mzila Mthenjane, Executive Head: Stakeholder Affairs



POWERING POSSIBILITY

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LEGEND

FY21 – Financial year ended 31 December 2021
1H22 – Six-month period ended 30 June 2022
2Q22 – Second quarter ended 30 June 2022
3Q22 – Third quarter ended 30 September 2022
4Q22 – Fourth quarter ending 31 December 2022
2H22 – Six-month period ending 31 December 2022
FYE22 – Financial year ending 31 December 2022
1Q23 – First quarter ending 31 March 2023
1H23 – Six-month period ending 30 June 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.

1 December 2022