

## **EXXARO RESOURCES LIMITED**

Incorporated in the Republic of South Africa

(Registration Number: 2000/011076/06)

JSE share code: EXX

ISIN: ZAE000084992

ADR code: EXXAY

**(Exxaro or the company or the group)**

### **FINANCE DIRECTOR'S PRE-CLOSE MESSAGE**

#### **Six-month period ending 30 June 2024 (1H24) (the period)**

*This is an overview of the group's expected business performance for 1H24, encompassing strategic, operational, and financial information. Unless otherwise indicated, all comparisons are against the six-month period ended 31 December 2023 (2H23).*

#### **DEAR STAKEHOLDER**

As of 31 May 2024, the group has achieved a total of twenty-one months without a work-related fatality but recorded 4 lost time injuries resulting in a lost time injury frequency rate (LTIFR) of 0.06 against the set target of 0.05. The current performance indicates a 25% improvement when compared to the same period last year (1H23: 0.08). Exxaro has recorded zero high potential incidents across the group, compared to 4 for the full year ended 31 December 2023. To sustain this further, various safety initiatives have been deployed across all our business units.

After a soft start to 2024, the global economic growth prospects improved, mainly led by upward revision to the anticipated economic performances for the US, the eurozone, UK and India. Following a higher-for-longer headline consumer price index in the US, the initial policy rate reductions were postponed, and anticipated to take effect during the second half of 2024.

With respect to Exxaro's key commodities, the average benchmark API4 Richards Bay Coal Terminal (RBCT) export price for 1H24 is expected to average US\$101 (2H23: US\$112) per tonne, free on board (FOB), a decline from the previous six months, and the iron ore fines price for 1H24 is expected to average US\$117 (2H23: US\$121) per dry metric tonne, cost, and freight (CFR) China.

Total coal production (including buy-ins) and sales volume for 1H24 are expected to decrease by 14% and 12% respectively, mainly due to the reduced demand from Eskom at Grootegeluk, based on their latest internal plan.

In terms of our capital allocation programme, we expect the capital expenditure for 1H24 in our coal business to be about 33% lower, due to lower sustaining capex spend at the Grootegeluk complex.

As at 31 May 2024, the group had net cash of R15.3 billion (excluding energy's net debt of R4.2 billion). The group therefore has sufficient liquidity and will remain a going concern for the foreseeable future.

We will provide a detailed account of 1H24 business performance and an outlook on the subsequent six months (2H24) when we announce our interim results on or about 15 August 2024.

Yours sincerely  
Riaan Koppeschaar  
Finance Director

## MACRO-ECONOMIC ENVIRONMENT

### GLOBAL ECONOMY AND COMMODITY PRICES

Global inflation rates continued to trend down, enabling central banks to consider cutting interest rates. The expectation is for the Federal Reserve, the European Central Bank, the Bank of England, and the South African Reserve Bank, amongst others, to start lowering official policy interest rates during the remainder of this year. The initial policy rate cuts will mark the end of the most aggressive rate hiking cycle in four decades. With inflation rates retreating and interest rates easing imminent, the global economy is expected to maintain its momentum during 2024. After a 2.7% increase in 2023, world real GDP is expected to expand at the same pace in 2024.

Seaborne thermal coal prices started the year under pressure due to weak demand in Asia and Europe and lower natural gas prices. As 1H24 progressed, prices strengthened due to concerns around the impact on tightening sanctions on Russia, ongoing geopolitical tensions in the Middle East, disruptions to US coal exports to India following the collapse of the Baltimore bridge as well as disruptions to rail operations on South Africa's main coal export line, resulting in higher European natural gas prices.

The volatility in steel demand continued to be the key driver for the iron ore market and pricing. Fading optimism and rising concerns for China's steel demand weighed on sentiment towards the end of 1H24. The indication from the Chinese government regarding steel production curbs this year has dampened market sentiment.

## OPERATIONAL PERFORMANCE

### COAL OPERATIONS

#### MARKETS

The bearish trend on pricing continued from 2023 into 1Q24, mainly driven by sufficient supply of coal in major markets such as Europe, Japan, Korea, and Taiwan (JKT), with lower gas prices favouring gas power generation.

There was a late recovery in prices towards the end of March 2024, mainly driven by geopolitics and the Transnet Freight Rail (TFR) derailments in March and May 2024 which resulted in tight supply.

India's economic growth resulted in active participation in the seaborne market, with some headwinds (strong renewables generation, revision of coal phase-out targets and cheaper gas prices) in Europe and JKT expected to affect short-term demand and price sensitivities.

The South African market remained relatively stable, though macro factors impacted numerous domestic end users. 1Q24 remained challenging regarding offtake from Eskom's power stations in the Waterberg region, however improvements were observed in the second quarter. Price improvements in 2Q24 improved the economics of exports through alternative ports, and also improved the demand for export products in the domestic market.

### PRODUCTION AND SALES VOLUMES

TABLE 1: Coal product

'000 tonnes	Product						
	2H23 Actual	1H24 Forecast (1)	% Change	FY24 Forecast (1)	FY24 Previous Guidance (2)	% Change	FY23 Actual
Thermal coal	21 005	18 095	(14)	39 410	38 611	2	39 824
Buy-ins							175
Total thermal product (Including buy-ins)	21 005	18 095	(14)	39 410	38 611	2	39 999
Total metallurgical	1 077	997	(7)	2 325	2 465	(6)	2 465
Total product	22 082	19 092	(14)	41 735	41 076	2	42 464

(1) Based on the latest internal management forecast assumptions. Final numbers may differ by  $\pm 5\%$ .

(2) Provided during the 31 December 2023 results presentation held on 14 March 2024.

## Production

**Thermal Coal production:** The expected decrease of 14%, is mainly linked to the lower demand from Eskom at Grootegeluk, based on their latest internal plan.

**Metallurgical coal production:** Production aligned with market demand and logistics availability.

Total expected production remains within 2% of the guidance provided previously.

## Tied mine (Matla)

Coal production and sales at Matla decreased by 1% in line with the end of the Mine 2 short wall and the transition to the Mine 1 re-establishment.

**TABLE 2: Coal sales volumes**

'000 tonnes	Sales						
	2H23 Actual	1H24 Forecast (1)	% Change	FY24 Forecast (1)	FY24 Previous Guidance (2)	% Change	FY23 Actual
<b>Thermal coal</b>	18 390	15 317	(17)	33 656	33 727		34 733
- Eskom	12 212	10 714	(12)	25 438	25 875	(2)	23 693
- Domestic	2 821	1 293	(54)	2 790	2 852	(2)	5 025
- Tied (3)	3 357	3 310	(1)	5 428	5 000	9	6 015
<b>Total metallurgical</b>	344	277	(19)	625	636	(2)	684
<b>Exports</b>	2 661	3 269	23	6 579	6 023	9	5 109
<b>Total sales</b>	<b>21 395</b>	<b>18 863</b>	<b>(12)</b>	<b>40 860</b>	<b>40 386</b>	<b>(1)</b>	<b>40 526</b>

(1) Based on the latest internal management forecast assumptions. Final numbers may differ by ±5%.

(2) Provided during the 31 December 2023 results presentation held on 14 March 2024.

(3) Production supplied to Eskom.

Eskom sales are expected to decrease by 12% based on lower Eskom demand linked to their internal maintenance and production plans.

Domestic thermal coal sales are expected to decrease by 54% based on the diversion of domestic sales into the export markets, mainly at the Mpumalanga mines.

An increase of 23% is expected in export sales enabled by moving volumes through alternative export channels, mainly at Belfast.

Total expected sales remain within 1% of the guidance provided previously.

**TABLE 2: Coal Capex**

R'million	2H23 Actual	1H24 Forecast (1)	% Change	FY24 Forecast (1)	FY24 Previous Guidance (2)	% Change	FY23 Actual
Grootegeluk Complex	1 511	962	(36)	2 116	2 261	(6)	2 217
Mpumalanga	145	155	7	558	474	18	216
<b>Total</b>	<b>1 656</b>	<b>1 117</b>	<b>(33)</b>	<b>2 674</b>	<b>2 735</b>	<b>(2)</b>	<b>2 433</b>

(1) Based on latest internal management forecast assumptions and estimates (excluding Matla). Final numbers may differ by ±5%.

(2) Provided during the 31 December 2023 results presentation held on 14 March 2024.

The coal business's capex is expected to decrease by 33%, mainly due to the timing of the equipment replacement strategy and the license to operate projects at Grootegeluk and the Mpumalanga mines.

## **LOGISTICS AND INFRASTRUCTURE**

TFR railed 20.26 Mt to RBCT for the five-month period ended 31 May 2024, equivalent to an annualised rate of 46.75 Mtpa. Three derailment incidences impacted negatively on export performance. TFR and the coal industry continue to collaborate on efforts to improve rail performance. Industry has supported various initiatives during the past six months and continues to engage to support improvement initiatives.

## **ENERGY OPERATIONS**

Cennergi's wind operations are forecasted to generate 325 GWh of electricity by 30 June 2024 (2H23: 392 GWh), which is in line with previous guidance. The average plant availability is forecast to be marginally below the contracted availability of 97% in 1H24.

Construction of the 68 MW Lephalale Solar PV Project (LSP) at Grootegeluk continues with commercial operations anticipated in 1H25.

## **CAPITAL ALLOCATION**

In terms of the Group's Sustainable Growth and Impact Strategy we continue to evaluate investment opportunities in minerals and energy aligned with our capital allocation framework and investment criteria.

## **PORTFOLIO OPTIMISATION**

The FerroAlloys disposal process is progressing well with the signing of a sale and purchase agreement expected to be concluded in 4Q24.

## **SUSTAINABLE DEVELOPMENT**

### **CLIMATE CHANGE RESPONSE STRATEGY IMPLEMENTATION**

The refinement of the Exxaro decarbonisation roadmap has commenced. Upon finalisation, a peer review of the roadmap will be undertaken to ensure credibility, risk management and capital allocation. The goal is to finalise the roadmap in 3Q24.

Decarbonisation projects include the implementation of two nature-based carbon offset pilot projects at Grootegeluk and Leeuwpaan, with the objective of scaling across the group and creating social and environmental impact.

### **SOCIAL INVESTMENT AND DEVELOPMENT**

Social investments for the five-month period ended 31 May 2024 amounted to R1.045 billion, (1H23: R 0.896 billion), building on the FY23 trend and commitment to creating socio-economic impact in host communities. The local procurement spend on black Small Medium and Micro Enterprises (SMME's) constitutes 74% of the social investment. Combined, these initiatives supported 237 SMME's, through local procurement as well as enterprise and supplier development.

## **LEGAL MATTERS**

As previously reported, in November 2023, the company received service of an application seeking the permission of the High Court of South Africa to certify classes for purposes of a class action for damages against Exxaro and three of its related entities, being Exxaro Coal (Pty) Ltd, Exxaro Coal Mpumalanga (Pty) Ltd and Mafube Coal Mining (Pty) Ltd, as well as 14 other respondents.

Exxaro Resources Limited filed a notice to oppose the class action on behalf of Exxaro Resources Limited, Exxaro Coal (Pty) Ltd and Exxaro Coal Mpumalanga (Pty) Ltd and will be filing its answering affidavit in accordance with the agreed timetable.

## OUTLOOK FOR 2H24

### ECONOMIC CONTEXT

Various headwinds to the anticipated global growth rates include financial conditions that will be less accommodative than expected and geopolitical uncertainties. Global inflation is expected to continue its downward path, barring any significant supply shocks. As a result, policy interest rates are predicted to start declining, affecting both global investment sentiment and economic activity.

South Africa's real GDP contracted by 0.1% in 1Q24, after rising by 0.1% in 4Q23. An improvement in economic activity is expected in response to easing infrastructure constraints, however, the growth trajectory will be informed by uncertainty associated with South Africa's new government of national unity and foreign exchange rate developments feeding through to inflation rate expectations which will determine the scope for policy interest rate relief.

### COMMODITY MARKETS AND PRICE

Extreme weather patterns, together with the anticipated tightness in spot supply availability, are expected to support high Calorific Value (CV) seaborne thermal coal prices, offset by improving output in Australia and better gas and nuclear performances in key markets. Turning to low CV seaborne thermal coal, increasing renewables generation in China, along with healthy levels of inventory, will limit any significant price increases.

India's strong economic growth and power demand is expected to continue driving seaborne demand, despite robust domestic production.

JKT's demand is on the decrease mainly due to low electricity demand, due to a milder winter and strong renewables and nuclear generation. Gas prices will continue influencing coal prices in JKT and Europe, since it forms a significant part of the energy mix in those regions, resulting in switching between coal and gas power generation.

The domestic market will continue to remain sensitive to macro factors which severely affect the coal offtake for domestic end users, while export prices will remain the key driver for the demand of export products in the domestic market.

The seaborne iron ore price will be supported as overall global steel demand is sustained with continuous property sector stimulus measures implemented by the Chinese government.

### BUSINESS PERFORMANCE

The TFR annual shut down is scheduled for July 2024.

Our optimization programmes focus on reducing cost and improving efficiencies across the whole value chain, thus protecting our business from external factors. We are continuing with the digital programme and advanced analytics to provide visibility and insights, which enable our business to be responsive and resilient, throughout the prevailing economic conditions.

## 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 Tuesday, 25 June 2024 starting at 12:00 SAST.

### PRE-REGISTRATION LINK

Participants must pre-register for the conference through the link below:

<https://services.choruscall.za.com/DiamondPassRegistration/register?confirmationNumber=6965352&linkSecurityString=1b0dd24910>

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

## CONFERENCE REPLAY

A conference replay will be available one hour after the end of the conference until 4 July 2024. To access the playback, dial one of the following numbers using the playback code 46358:

- 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>

25 June 2024

## LEAD EQUITY SPONSOR AND DEBT SPONSOR

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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 coal, iron ore and renewable energy commodities. [www.exxaro.com](http://www.exxaro.com)

Interim results for the six-month period ending 30 June 2024 will be announced on or about 15 August 2024.

## ENQUIRIES

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## LEGEND

*1H23 – Six-month period ended 30 June 2023*

*2H23 – Six-month period ended 31 December 2023*

*4Q23 – Fourth quarter ended 31 December 2023*

*FY23 – Financial year ended 31 December 2023*

*1Q24 – First quarter ended 31 March 2024*

*2Q24 – Second quarter ended 30 June 2024*

*1H24 – Six-month period ending 30 June 2024*

*3Q24 – Third quarter ending 31 December 2024*

*4Q24 – Fourth quarter ending 31 December 2024*

*2H24 – Six-month period ending 31 December 2024*

*FYE24 – Financial year ending 31 December 2024*

## COMMODITY PRICES SOURCE



POWERING POSSIBILITY

*Coal – IHS Energy*  
*Iron ore – MB Online*

## **DISCLAIMER**

The operational and financial information on which any outlook or forecast statements are based has not been reviewed nor reported on by the group'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 operational and financial information. Exxaro undertakes no obligation to update or reverse any forward-looking statements, whether because of new information or future developments.