FINANCE DIRECTOR'S PRE-CLOSE MESSAGE

SIX-MONTH PERIOD ENDING 30 JUNE 2021 (1H21) (THE PERIOD)

exxaro
POWERING POSSIBILITY

DEAR STAKEHOLDER

We have provided an overview of the group's expected business performance for the period, encompassing strategic, operational and financial information. Unless otherwise indicated, all comparisons are against the six-month period ended 31 December 2020 (2H20).

The health and safety of our employees and communities continues to be our priority, as South Africa experiences a third wave of COVID-19 infections. 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 20 June 2021, the infection rate of the group is 0.51% (93 active cases) and our recovery rate is 96%. 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.

We have successfully vaccinated 100% of our healthcare workers and have commenced with the vaccination of employees over 60 years of age. The Grootegeluk and Matla occupational health centres have been registered and approved as primary vaccination sites with the National Department of Health. These sites have commenced with the procurement processes of vaccines for the inoculation of our employees.

Amid the backdrop of the pandemic, it is pleasing to be able to report on our record year-to-date safety performance as at 31 May 2021. We have achieved a total of 51 months without a work-related fatality and a lost-time injury frequency rate (LTIFR) of 0.08, the same as the set target. This is, however, 40% worse than the 0.05 reported for FY20. Zero Harm remains Exxaro's key business objective.

World economic recovery from the pandemic and associated restrictions which induced recession continued into 2021. After a temporary pause during 1Q21, the global economic expansion resumed in the second quarter of 2021, lifting global economic output above pre-pandemic levels. However, increased commodity prices, poorly functioning supply chains and some labour supply challenges increased global inflationary pressures during the period under review. In respect of Exxaro's key commodities for 1H21, the API4 coal export price index is expected to average US$95 (2H20: US$64) per tonne, free-on-board (FOB), and the iron ore fines price at US$183 (2H20: US$122) per dry metric tonne, cost and freight (CFR) China.

Total coal production (excluding buy-ins) and sales volumes are expected to decrease by 11% and 9% respectively, mainly due to logistical constraints linked to the Transnet Freight Rail (TFR) performance, the impact of the pandemic on our operations and some adverse weather conditions, further explained under operational performance.

In terms of our capital allocation framework, we expect the capital expenditure for 1H21 in our coal business to decrease by 39% compared to 2H20, mainly due to timing in sustaining capital expenditure and some projects nearing completion, offset slightly by the roll-over of GG6 expansion spend from FY20 due to the pandemic. As at 31 May 2021, the group's net debt (excluding Cennergi's net debt of R4.6 billion) was R1.4 billion (FY20: R6.3 billion). As previously mentioned, Exxaro concluded its stated strategy to monetise its investments in Tronox during March 2021 and receiving proceeds of R5 763 million from the disposal.

Following the release of the Annual Results for the year ended 31 December 2020, Exxaro has continued its strategy to reward shareholder investment. In May 2021, approximately R1 950 million was paid to shareholders as a special dividend. Exxaro has also implemented a share repurchase program of R1.5 billion. This is being executed in terms of the general authority granted by shareholders at the company's annual general meeting, held on 28 May 2020 and again on 27 May 2021. The share repurchase program will continue after the commencement of the prohibited period on 30 June 2021. Shares that may be repurchased during the prohibited period will be done so in accordance with a repurchase program put in place by Exxaro prior to the prohibited period pursuant to paragraph 5.72 of the JSE Listings Requirements.

On 26 April 2021, Exxaro implemented and effected a drawdown on a new facility agreement with various financial institutions as a combined facility to refinance the term loans and revolving credit facility. The new facility, amounting to R8 billion in total, is comprised of a bullet term loan facility of R2.5 billion (with a term of five years); an amortising term loan facility of R2.25 billion (with a term of five years); and a Revolving Credit Facility (RCF) of R3.25 billion (with a term of five years). Exxaro may, at any time during the accordion availability period, increase the RCF commitment in an amount which, when aggregated with the amount of any previous accordion increases, does not exceed R2 billion.

From a solvency and liquidity perspective, in addition to operational measures implemented to combat the spread of COVID-19 and the drawdown on the new facility, further downside scenarios have been used to stress test our position. As a result, management and our board of directors believe that the group has sufficient liquidity to withstand an interruption to our operations and will remain a going concern for the foreseeable future.

We will provide a detailed account of our 1H21 business performance and an outlook on the subsequent six months to year-end (2H21) when we announce our interim financial results on 12 August 2021.

Yours sincerely

Riaan Koppeschaar
Finance director

MACRO-ECONOMIC ENVIRONMENT

GLOBAL ECONOMY AND COMMODITY PRICES

During 1H21, the pandemic continued to shape global and regional economic activity. A tightening of virus containment measures in late 2020 and early 2021 has stalled global real GDP growth in some countries and regions during 1Q21. Robust growth in the United States of America (USA) and China continued to lead the recovery, supported by fiscal stimuli and accelerating vaccination campaigns. After a contraction of 3.5% in 2020, global real GDP is projected to increase by 6% in 2021, its strongest advance since 1973.

Chinese steel production remained strong, also supported by the rest of the world's (excluding China) robust demand conditions. The global purchasing managers' index (PMI) continued to rise together with a very strong global GDP outlook for 2021. Additionally, Brazil's iron ore exports remained soft, keeping the global iron ore market very tight and resulting in spot prices hitting all-time highs.

Strong brent crude oil demand was evident across most countries and regions, notably in the USA, Europe and China. This is partly offset by weakness in India as a result of the surge in new COVID-19 cases, especially during 1Q21. Overall, the recovery of the brent crude market is well underway with the price back at pre-pandemic levels and OPEC continuing to increase supply levels, albeit cautiously, both being indicative of improving global demand conditions. Additional supply, once an agreement is reached on the Iran nuclear deal, will limit the potential upside in prices.

OPERATIONAL PERFORMANCE

COVID-19 PANDEMIC IMPACT ON OPERATIONS

Our coal operations continued operating at various capacities, while complying with the Disaster Management Act regulations on COVID-19 as implemented by National Government. To reduce downtime brought on by the COVID-19 testing of our employees, an optimised strategy was implemented. It included the use of antigen testing for screening and polymerase chain reaction (PCR) testing at our laboratories, only as confirmatory testing. Ongoing COVID-19 preventive protocols have been implemented in response to the current third wave of infections.

Coal: markets

India experienced a severe second COVID-19 wave which has substantially impacted the economy amid provincial lockdowns, resulting in constrained production and, subsequently, reduced coal demand. We still see Australian coal competing head-on in traditional South African export markets, resulting in wider than normal discounts on coal subgrades. In the midst of various supply issues, the API4 index price has reached US$118 per tonne in June 2021. It is expected that with the continuing poor performance of TFR in South Africa, the index price will continue to gain momentum as supply wanes.

In the domestic market, demand for sized products remains stable following the easing of COVID-19 lockdown restrictions and increased economic activity coming back online. However, the demand for unsized coal continues to be subdued because of TFR's poor performance and lower demand for Power Station Coal due to Eskom currently having sufficient stock.

COAL: PRODUCTION AND SALES VOLUMES

The table below shows a comparison of production and sales performance between 1H21 and 2H20.

Table 1: Coal production and sales volumes

	PRODUCTION				SALES			
'000 tonnes	1H21 Forecast[1]	2H20 Actual	% Change	FY20 Actual	1H21 Forecast[1]	2H20 Actual	% Change	FY20 Actual
Thermal	**20 053**	**22 482**	**(11)**	**44 933**	**20 747**	**22 898**	**(9)**	**45 723**
Commercial:								
Waterberg	12 120	12 882	(6)	26 554				
– Eskom					12 048	12 150	(1)	24 704
– domestic					583	509	15	925
Commercial:								
Mpumalanga	5 193	6 500	(20)	12 226				
– Eskom					20		100	
– domestic					1 048	880	19	1 767
Exports: commercial					4 315	6 250	(31)	12 170
Tied[2]	2 740	3 100	(12)	6 153	2 733	3 109	(12)	6 157
Metallurgical	**911**	**1 050**	**(13)**	**2 222**	**529**	**579**	**(9)**	**1 036**
Commercial:								
– domestic	911	1 050	(13)	2 222	529	579	(9)	1 036
Total (excluding buy-ins)	**20 964**	**23 532**	**(11)**	**47 155**	**21 276**	**23 477**	**(9)**	**46 759**
Thermal coal buy-ins	138	6	100	291				
Total (including buy-ins)	**21 102**	**23 538**	**(10)**	**47 446**	**21 276**	**23 477**	**(9)**	**46 759**

[1]*Based on latest internal management forecast assumptions. Final numbers may differ by ±5%.*
[2]*Matla Mine supplying its entire production to Eskom.*

COMMERCIAL MINES
Production

Thermal coal production from Waterberg is expected to decrease by 6%, mainly due to increased rainfall, compulsory COVID-19 testing following the December holiday break and poor TFR performance. Production at the Mpumalanga commercial mines is expected to be 20% lower due to Leeuwpan having been impacted by market constraints and poor TFR performance, and at Belfast due to the logistical constraints linked to TFR performance. Exxaro Coal Central Proprietary Limited (ECC) experienced geological challenges and Mafube was impacted by the pandemic and equipment challenges.

Metallurgical coal production is anticipated to decrease by 13% due to increased rainfall and decreased TFR performance, impacting on stockpile levels.

Coal buy-ins are expected to be 132kt higher to comply with existing sales commitments and to avoid demurrage costs due to the poor TFR performance.

Sales

The expected 31% decrease in export sales volumes is driven by logistical constraints linked to TFR performance. Sales to Eskom are expected to decrease by 1%, mainly due to the higher energy value of the offtake at Grootegeluk, resulting in slightly lower volumes.

Domestic thermal coal sales are expected to be 17% higher, mainly due to export product at ECC being diverted to the domestic market, as well as some of the Grootegeluk customers increasing offtake as they recover from the COVID-19 lockdown impact, partly offset by lower demand at Leeuwpan.

TIED MINES (MATLA)

Thermal coal production and sales are both expected to decrease by 12%, mainly due to difficult geological conditions at the Mine 2 short-wall, as well as pit room limitations in Mine 2 and Mine 3.

COAL: MAJOR CONTRACTS UPDATE
MATLA MINE 1

The Matla Mine 1 relocation project commenced construction in August 2020. Exxaro continues to engage Eskom on additional funding to complete the full scope of the project. Approval is estimated to be received in 3Q21.

COAL: LOGISTICS AND INFRASTRUCTURE

TFR railed 24.3Mt to Richards Bay Coal Terminal for the period January to the end of May 2021, which is equivalent to an annualised tempo of 58Mtpa. The performance from Grootegeluk dropped from 6.9 trains per week on average in 2020 to 5.1 trains per week. The Mpumalanga export rail performance dropped from 25.3 trains per week in 2020 to 14.9 for the period January to end-May 2021.

The alarmingly low TFR performance is due to poor locomotive availability, increased incidences of cable theft as well as increased vandalism of rail infrastructure. This matter has been extensively discussed with TFR by both Exxaro and the Coal Industry Forum through the Minerals Council South Africa.

Ferrous other: Sishen Iron Ore Company Proprietary Limited (SIOC)

Guidance on SIOC's equity-accounted contribution will be provided when we have reasonable certainty on its 1H21 financial results.

Energy: Cennergi Proprietary Limited (Cennergi)

Electricity generation at the Amakhala windfarm is expected to be in line with planned numbers, while equipment availability and the capacity factor for the six-month period ending 30 June 2021 are forecasted to be slightly lower than planned levels due to the five-year warranty inspections, resulting in increased downtime.

Electricity generation at the Tsitsikamma windfarm is expected to be below planned numbers due to lower wind conditions. Equipment availability and the capacity factor for the six-month period ending 30 June 2021 are forecasted to be slightly lower than planned levels, also impacted by the five-year warranty inspections.

CAPITAL ALLOCATION

Exxaro's focus remains on optimising and implementing our portfolio of growth and sustaining capital.

Table 2: Coal capex

(R'million)	1H21 Forecast[1]	2H20 Actual	% Change	FY21 Forecast[1]	FY21 Previous Guidance[2]	% Change	FY20 Actual
Sustaining	**695**	**1 513**	**(54)**	**2 071**	**2 332**	**(11)**	**2 110**
Waterberg	528	1 227	(57)	1 529	1 740	(12)	1 683
Mpumalanga	164	270	(39)	519	569	(9)	411
Other	3	16	(81)	23	23		16
Expansion	**446**	**358**	**25**	**909**	**969**	**(6)**	**950**
Waterberg	424	303	40	843	805	5	643
Mpumalanga	22	55	(60)	66	164	(60)	307
Total	**1 141**	**1 871**	**(39)**	**2 980**	**3 301**	**(10)**	**3 060**

[1]*Based on latest internal management forecast assumptions and estimates, excluding tied operations. Final numbers may differ by ±5%.*
[2]*Provided in 31 December 2020 results presentation in March 2021.*

Exxaro expects coal capital expenditure for 1H21 to decrease by 39% compared to 2H20. This is driven by:
- timing in sustaining capital projects at Grootegeluk, Leeuwpan and ECC
- the ECC expansion project nearing completion

Partially offset by:
- higher GG6 expansion spend due to project delays in FY20 linked to the pandemic.

FY21 total capex is expected to be 10% lower than the guidance provided in March 2021. An 11% decrease in sustaining capex is expected, primarily due to cash preservation initiatives at Grootegeluk and Leeuwpan. The decrease of 6% on expansion capex is due to lower planned spending at ECC due to project delays in 1H21, partly offset by higher spend on the GG6 expansion project.

Waterberg

GG6 EXPANSION

The GG6 expansion project is still being forecast to complete cold commissioning during 4Q21 with project close-out expected in 1H22. The current estimated capital overrun of approximately 10% for the GG6 project is still as per previous guidance provided. The forecasted final cost to completion remains R5.3 billion.

THABAMETSI MINE

We are finalising our options regarding the future of this resource. This is because the utilisation of this resource will not continue in its current form as key funders have withdrawn from the independent power producer (IPP) project.

PORTFOLIO OPTIMISATION

SALE OF NON-CORE ASSETS AND INVESTMENTS

As previously noted, Exxaro undertook a strategic review of its portfolio of coal assets and projects. Leeuwpan and ECC were identified as non-core to the future objectives of Exxaro, and a decision was taken to dispose of them. The completion of the ECC disposal is anticipated in 2H21 following receipt of the Section 11 approval by the Department of Mineral Resources and Energy (DMRE). On 31 December 2020, the ECC operation was classified as a non-current asset held for sale.

The disposal process for Leeuwpan continues with definitive legal agreements envisaged to be signed in 2H21 and regulatory approvals obtained after that.

PERFORMANCE AGAINST NEW B-BBEE CODES AND MINING CHARTER

While the FY20 audit is still in progress, we are expected to maintain our level 2 B-BBEE status. The certificate will be published as soon as the audit is concluded.

SUSTAINABLE DEVELOPMENT

SOCIAL INVESTMENT

Our social investment activities continued to gather momentum, following the disruption from lockdowns during FY20, with a primary focus on Enterprise and Supplier Development (ESD) and community infrastructure projects.
- We provided funding, totalling R105.1 million, to seven SMMEs during the period under review through our ESD programme, while also prioritising non-financial support through a contractor development programme with the Gordon Institute of Business Science and a financial excellence programme with SAICA Enterprise Development.
- A total of R25 million was spent on schools, building an Enterprise and Supplier Development Hub and water infrastructure projects through our Social and Labour Plans (SLP), in both Mpumalanga and the Waterberg. We estimate that 1 446 community members will benefit from services to be provided from these projects. A total of 151 jobs were created during the construction period.
- In our continuing efforts to protect livelihoods in response to the effects of COVID-19, we have partnered with World Vision South Africa to assist 703 households by providing them with hygiene and food packs in Limpopo, the Eastern Cape and KwaZulu-Natal. In Mpumalanga, we will approach this intervention through schools in Emalahleni, which will be assisted with the provision of food gardens. This project will commence at the beginning of July 2021.

MINING AND PROSPECTING RIGHTS

Following the announcement of Exxaro's divestment from ECC, the Section 11 application was successfully submitted to the DMRE. A Section 102 was also submitted to conclude the agreement between Exxaro and Arnot Opco.

However, our interactions with the DMRE, the Department of Human Settlements, Water and Sanitation (DHSWS) and other state departments continue to be impacted by the pandemic. The following applications remain in process at the DMRE and DHSWS:
- Section 102 application amending the Matla mining right to swap coal reserves as part of a commercial deal
- 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 mining infrastructure
- Environmental authorisation and integrated water use licence for the Dorstfontein-West discard dump expansion project.

The group compliance to valid licences or authorisations for current operations for 2021 is at 97%. Where rights and other licences are nearing expiry dates, renewal applications are submitted timeously.

OUTLOOK FOR 2H21

ECONOMIC CONTEXT

For 2H21, the progress of vaccination campaigns will be pivotal to global economic activity and recovery. Consumer spending is expected to be resilient as economies reopen, travel picks up, and social activities resume.

The shift in energy transition policy will continue to intensify towards a global move for carbon neutrality/Net Zero by 2050 in the run-up to COP26, scheduled for November 2021.

The South African economy has been hit hard by the pandemic as it further exposed the growing lack of fiscal capacity, reinforced by a worsening debt trajectory, rising gross borrowing requirements, and a high level of contingent liabilities granted by the government. These fiscal imbalances will have a knock-on effect on the economic reconstruction and recovery path for South Africa into 2H21.

During 1H21, the South African rand (ZAR) strengthened remarkably on the back of strong global appetite for risky assets, a weaker US dollar, robust commodity prices, better-than-expected domestic fiscal outcomes and encouraging signs that the governing political party started to act decisively against corruption allegations within its ranks.

The rand/dollar exchange rate is expected to hold within current fair value levels, but to remain volatile during 2H21.

COMMODITY MARKETS AND PRICE

The API4 index price is expected to be supported into the early part of 2H21 by strong demand from the northern hemisphere summer and rising gas prices, together with the slow recovery of supply. However, towards the latter part of 2H21, prices are expected to soften as supply is anticipated to recover while demand weakens as temperatures cool. The possibility exists that China could relax restrictions on imports during 2H21.

Turning to the iron ore market, tight market conditions are expected to persist during 2H21. Strong steel mill profitability, ongoing stimulus and multi-year highs on leading indicators such as PMI reinforce the likelihood of further acceleration in steel production and iron ore demand.

OPERATIONAL PERFORMANCE

We anticipate the demand and pricing for sized coal domestically to remain relatively stable, as economic activity improves from levels observed in 2020 because of the pandemic. The domestic unsized market will continue to experience tremendous pressure on the back of TFR's performance, as domestic mining operations continue to struggle with the evacuation of coal destined for export. On the international front, we expect that the impact of the pandemic on coal markets will continue into 3Q21 as the second and third waves grip different parts of the world.

TFR's poor performance on domestic and export flows is most concerning and we expect this situation to continue to impact very negatively on our ability to move coal to customers and ports, resulting in lower than previously guided sales volumes. Further impacts on production and sales will be reviewed and communicated during our next market guidance in August.

The changes in product demand and TFR performance has put a strain on our ability to produce coal at optimal levels, putting pressure on our unit cost in the Mpumalanga region. This has compelled us to think innovatively about how we can respond quickly to the value chain interruptions. Our integrated operation centres (IOCs), coupled with our Market to Resource (M2R) optimisation programme, have enabled speedy decision making in our business, enabling quick responses to fluctuations in the value chain, whether resulting from rail performance or product demand.

Our Operational Excellence and digital programmes are now focusing on specific projects to manage stock levels and production costs. This will allow us to continue with our efforts to land our product competitively across various markets.

The pre-feasibility study on determining the way forward for the Moranbah South hard coking coal project is on track to commence in 2H21.

Although our operating and sales performances have been hampered during 1H21, as indicated above, Exxaro is ready to deliver and is geared to send coal to our customers as soon as the TFR challenges have been resolved.

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.

PRE-REGISTRATION LINK

Guests wishing to participate in the finance director's pre-close message must pre-register through this link: www.diamondpass.net/1794457 and will receive their dial-in number post registration.

TELECONFERENCE CALL DETAILS

A dial-in teleconference call on the details of this announcement will be held on Tuesday, 29 June 2021 at 12h00 (GMT+2:00).

PARTICIPANT TELEPHONE NUMBERS (assisted)

• Johannesburg (Telkom)	010 201 6800
• Johannesburg (Neotel)	011 535 3600
• UK	0 333 300 1418
• Other countries (Neotel)	+27 11 535 3600
• Other countries (Telkom)	+27 10 201 6800
• USA and Canada	1 508 924 4326

PLAYBACK

A playback will be available 1 hour after the end of the conference call and will be available until 8 July 2021. Participants will be required to state their name and company upon entering the call. To access the playback, dial one of the following numbers using the playback code 39846#:

• 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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JOINT EQUITY SPONSOR

Tamela Holdings Proprietary Limited.

EDITOR'S NOTE

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

Interim results for the six-month period ending 30 June 2021 will be announced on (or around) 12 August 2021.

ENQUIRIES

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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)

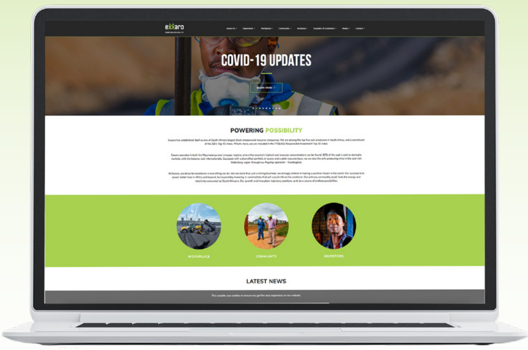
LEGEND

1Q21 – First quarter ended 31 March 2021
3Q21 – Third quarter ending 30 September 2021
4Q21 – Fourth quarter ending 31 December 2021
1H21 – Six-month period ending 30 June 2021
1H22 – Six-month period ending 30 June 2022
2H20 – Six-month period ended 31 December 2020
2H21 – Six-month period ending 31 December 2021
FY20 – Financial year ended 31 December 2020

COMMODITY PRICES SOURCE

Coal - IHS Energy
Iron ore - MB Online

29 June 2021



DISCLAIMER

The financial information on which any outlook statements are based have not been reviewed nor reported on by Exxaro's external auditors. 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 as a result of new information or future developments.

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