

FINANCE DIRECTOR'S PRE-CLOSE MESSAGE



SIX-MONTH PERIOD ENDING 30 JUNE 2022 (1H22) (THE PERIOD)

This is an overview of the group's expected business performance for 1H22, encompassing strategic, operational and financial information. Unless otherwise indicated, all comparisons are against the six-month period ended 31 December 2021 (2H21).

DEAR STAKEHOLDER

Zero Harm remains Exxaro's key business objective with the health and safety of our employees and communities remaining a priority, including the continuation of our COVID-19 preventative measures in line with government regulations and recommendations. As at 24 June 2022, a total of 13 611 (89.8%) employees and contractors have been vaccinated, exceeding our target of 80% vaccination as well as the national target of 75% of the adult population.

It is pleasing to report a record safety performance and we are now sixty-three months without a work-related fatality with a lost-time injury frequency rate of 0.05 for past six months against our set target of 0.06.

During 1H22, a series of global economic shocks; the Russia-Ukraine war and new COVID-19 lockdowns in China have further disrupted supply chains, fuelled inflation and slowed economic growth. As a result, the impact on 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\$270 (2H21: US\$151) per tonne, free on board (FOB), and the iron ore fines price

US\$142 (2H21: US\$137) per dry metric tonne cost and freight China.

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

Cennergi Holdings Limited (Cennergi) confirmed the successful registration of its 80MW Lephalale solar project (LSP) by the National Energy Regulator of South Africa and the Regulator Executive Committee on 6 June 2022. The LSP is the first phase of the decarbonisation of Exxaro's flagship operation, Grootegeluk mine in Limpopo and aims to reduce the scope 2 emissions of the operation.

Furthermore, and in keeping with the memorandum of understanding which Cennergi executed with Eskom in 2021 the Company is advancing a comprehensive renewable energy solution for Exxaro's operations in Mpumalanga, which accords with the planned Just Energy Transition in the province.

In terms of our capital allocation programme, we expect the capital expenditure for 1H22 in our coal business to be about 47% lower, mainly due to key projects reaching completion, as well as the disposal of ECC.

As at 31 May 2022, the group had net cash of R5.9 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 1H22 business performance and an outlook on the subsequent six months (2H22) when we announce our interim results on or about 18 August 2022.

Yours sincerely

Riaan Koppeschaar
Finance director

Macro-economic environment

GLOBAL ECONOMY AND COMMODITY PRICES

At the beginning of 1H22, global supply chain pressures showed some encouraging signs of easing. However, the combination of the war in Ukraine and the lockdowns in China have worsened supply chain disruptions and catalysed the rise in energy costs. After a strong 2021 finish, global economic growth slowed in 1Q22 and stalled in 2Q22. The global economic expansion lost momentum following a 3.4% contraction in 2020, and a strong 5.8% rebound in 2021. Global real growth domestic product (GDP) growth is likely to slow to 2.9% in 2022.

The Russia-Ukraine war and Europe's quest for alternative suppliers of especially high-quality thermal coal continues to drive the shortages. Extremely high and volatile prices were recorded during 1H22. Seaborne thermal coal prices rebounded upward as several governments firmed plans to sanction Russian coal imports. The European Union (EU) approved an alternative coal supplier plan, effective after mid-August 2022, while Japan announced alternative plans without an effective date. These geopolitical developments were the single most critical factor that influenced the energy complex markets during 1H22.

The iron ore price was relatively stable and supported by strong Chinese steel production, despite the ongoing property weakness and widespread lockdowns in China. However, the market softened during April/May, after which sentiment strengthened as new stimulus measures were announced by the Chinese government and lockdown restrictions eased towards the end of the period under review.

Operational performance

Coal operations

MARKETS

During 1H22, international coal prices reached a record high primarily driven by the Russia-Ukraine war. Global trade flows were affected, resulting in increased demand from Europe for South African high-quality coal, as alternative supply sources were sought to reduce dependency on Russia.

In stark contrast to the increased demand from Europe, the resultant high coal prices reduced demand from Asia, especially from India and Pakistan due to affordability factors.

The domestic market has also been impacted by the higher export price, as the improved attractiveness of alternative export distribution channels allows for domestic volumes to be sold in the international market. The resulting domestic supply tightness has resulted in a higher domestic price outlook.

PRODUCTION AND SALES VOLUMES

Table 1: Coal product and sales volumes

'000 tonnes	PRODUCT				SALES			
	1H22 Forecast ¹	2H21 Actual	% change	FY21 Actual	1H22 Forecast ¹	2H21 Actual	% change	FY21 Actual
Thermal production	20 535	20 398	1	40 351	18 103	17 899	1	34 171
– Eskom					12 697	12 478	2	24 462
– domestic					2 387	2 217	8	3 810
– tied ²					3 019	3 204	(6)	5 899
Buy-ins	14	93	(85)	232				
Total thermal product (Including buy-ins)	20 549	20 491		40 583				
Total metallurgical production	1 095	1 031	6	1 894	455	464	(2)	956
Exports					2 594	3 531	(27)	7 632
Total product	21 644	21 522	1	42 477	21 152	21 894	(3)	42 759

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

²Matla Mine supplying its entire production to Eskom.

Operational performance continued

Production

Thermal Coal production is expected to increase by 1% mainly due to the ramp-up of the GG6 plant at Grootegeluk and the placement of Belfast and Mafube product through alternative distribution channels, offset somewhat by the disposal of ECC in September 2021.

Metallurgical coal production is expected to increase by 6% based on improved yields.

Coal buy-ins are expected to be lower as more product is placed in the local market.

Sales

Sales to Eskom are expected to increase by 2% in line with their demand.

Our domestic thermal coal sales are expected to be 8% higher, due to increased local demand supporting the diversion of export product to domestic sales across all our mines, offset by the sale of ECC.

Metallurgical coal sales are expected to decrease by 2%, due to poor rail performance impacting the offtake from ArcelorMittal SA Limited.

Export sales volumes are expected to decrease by 27% mainly due to the lower rail performance at Leeuwpan and Belfast, the impact of the sale of ECC, offset by improved sales at Grootegeluk due to a slight improvement in rail performance supported by utilising alternative logistical channels. Our price realisation on exports is expected to be in line with previous API4 index price realisation.

Our domestic and export flows remain severely impacted by logistical constraints and it continues to impact our ability to move coal to customers and ports. Despite the current challenges, Exxaro is successfully pursuing alternative markets and logistic channels to realise value for our business. The export guidance now includes 1.4Mt at risk, reducing the original 7.6Mt export guidance for FY22 to 6.2Mt.

Tied mine (Matla)

Thermal coal production and sales volumes are both expected to decrease by 6% due to the unfavourable geological conditions in Mine 2 Shortwall.

LOGISTICS AND INFRASTRUCTURE

Transnet Freight Rail (TFR) railed 24Mt to Richards Bay Coal Terminal for the five months ended May 2022, equivalent to an annualised rate of 54Mt. The performance from Grootegeluk has declined from an average of five trains per week in 2021 to four trains per week year-to-date in 2022.

The Mpumalanga export rail performance declined from 15 trains per week in 2021 to eight trains per week year-to-date in 2022.

The rail performance is due to poor locomotive availability, derailments and instances of cable theft and vandalism. We continue to engage with industry and TFR on initiatives to improve overall operational rail performance and are exploring various logistics initiatives to mitigate this constraint.

Energy operations

Energy generation from the Cennergi windfarms for 1H22 is seasonally low but has been impacted more than expected by poor wind speeds, especially at the Amakhala windfarm.

Combined electricity generation for 1H22 is expected to be 318GWh (Gigawatt hours) which is lower than the previous guidance of approximately 350GWh.

Capital allocation

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

Table 2: Coal capex

(R'million)	1H22 Forecast ¹	2H21 Actual	% change	FY22 Forecast ¹	FY22 Previous guidance ²	% change	FY21 Actual
Sustaining	568	902	(37)	1 802	1 870	(4)	1 564
Expansion	89	348	(74)	390	390		840
Total	657	1 250	(47)	2 192	2 260	(3)	2 404

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

²Provided on the 31 December 2021 results presentation held on 3 March 2022.

Capital allocation continued

Capital expenditure is expected to be 47% lower. A 37% decrease is expected in sustaining capital, driven by lower spend at Grootegeluk and Leeuwan and the sale of ECC. The decrease of 74% in expansion capital is driven by the GG6 expansion project, expected to be concluded in 2022, and the sale of ECC.

FY22 total capex is expected to be 3% lower than the guidance provided in March 2022. A 4% decrease in sustaining capex is expected based on optimisation initiatives impacting on the timing of projects at Grootegeluk, offset by higher expected spend at Belfast and on the Digital @ Exxaro initiative.

GG6 EXPANSION

Commissioning and project close-out is forecast for 2H22. The forecast final cost of completion remains R5.3 billion as per the previous guidance provided.

MATLA MINE 1

The Matla Mine 1 relocation project commenced with construction in August 2020. Intermediate approval on the Northwest Access was received in 1H22. The final approval on Mine 1 relocation is still awaited. Exxaro continues to engage Eskom for additional funding to complete the full scope of the project.

MORANBAH SOUTH

The pre-feasibility study to determine 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 disposal process for Leeuwan is progressing slower than expected with definitive legal agreements now expected to be signed in 3Q22 and regulatory approvals obtained thereafter.

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 short-term incentive scheme 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.

SOCIAL INVESTMENT

We continue with our efforts of community development and investment to alleviate the strain of poverty and unemployment, which continues to weigh heavily on local communities, resulting in community protests at our business units, with demands for employment and procurement opportunities. However, community protests are peaceful and we have ensured timely response and

engagement, thus preventing escalation and eliminating negative impacts on people and production. For the year to date, we have embarked on and progressed with the following initiatives:

- We achieved a local procurement spend of 14%, equal to R455 million, compared to our target of 10%. This local procurement spend has empowered over 209 local black women-owned and black youth-owned small, medium and micro enterprises (SMMEs).
- We approved enterprise supplier development funding of R62 million to eight SMMEs employing 58 people. Initially, 17 enterprises graduated from the contractor development programme implemented in partnership with the Gordon Institute of Business Science with a further 54 graduating in the second half of 2022. We continued to provide support to 29 enterprises on a financial excellence programme with the South African Institute of Chartered Accountants.
- A total of R4.1 million was spent on infrastructure development through our social and labour plans initiatives, including a road rehabilitation project in the town of Belfast, Mpumalanga, which will improve road safety. This expenditure will increase as project schedules gain momentum.

Sustainable development continued

- 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. This Exxaro YES Programme will provide opportunities for job creation and development of small and medium enterprises (SMEs) or co-operatives, therefore contributing to the alleviation of the unemployment crisis in the country. The partners, Lularides and SME Tax, provide skills programmes in scooter delivery training and accounting training, respectively. There are currently 100 learners on both programmes and this number will increase as recruitment initiatives are rolled out. To date we have spent R3.6 million out of a budget of R21 million for 2022.
- Edumap College was approved in 2019 as the bridging school to support high-potential matriculants with the opportunity to improve their Maths and Physical Science to qualify for entry into a formal tertiary institution. In 2022, 10 learners were recruited from the community areas that the business operates and enrolled at Edumap College to complete the 12-month bridging programme. The annual budget for the programme is R1.3 million. To date, 29 learners have completed the programme.

MINING AND PROSPECTING RIGHTS

The Leeuwpan Water Use Licence (including the Witklip Borehole) was renewed on 7 April 2022. The scoping report for the environmental authorisation application for the Belfast Mine expansion project was submitted to the Department of Minerals and Energy (DMRE), and the water use licence application submitted. We expect to receive these licences in 1Q23.

The Belfast Mine Dam 2 water use licence application was lodged, and we expect it to be concluded in 4Q22.

The following applications, as reported previously, are still in process at the DMRE:

- The execution of Grootegeluk's section 102 application amending the mining right boundary to include various farms.
- 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 abandon a portion previously mined by Seriti Coal Proprietary Limited as part of a commercial agreement between parties.

COAL RESOURCES AND COAL RESERVES

Other than normal life of mine depletion, no material changes are reported on the Coal Resources and Coal Reserves estimates.

Outlook for 2H22

ECONOMIC CONTEXT

Global inflation picked up significantly during 1H22 and is expected to moderate, albeit slowly, towards the end of 2H22. The process of unwinding the sticky global cost pressures built up over the past two years will take some time. The evolving global economic environment of rising interest rates, slower economic growth, and improving supply conditions are expected to bring some price pressure relief.

South Africa's real GDP rose above pre-COVID-19 pandemic levels in 1Q22; however, it is expected to come under renewed pressure in 2Q22 due to electricity supply disruption, business disruptions due to the KwaZulu-Natal floods and the impact of the COVID-19 lockdown measures in China. Furthermore, continued inflationary pressures, tightening monetary policy and the increasing risk of a further global economic slowdown limit domestic growth prospects during 2H22.

The USD/ZAR exchange rate is expected to remain volatile during 2H22.

COMMODITY MARKETS AND PRICE

European demand for South Africa's high calorific value (CV) coal is expected to increase in 2H22. This is mainly attributed to the European ban of Russian coal coming into effect in August 2022. The power crisis in India is also expected to contribute to higher demand as the government has now mandated all importing

coal-based plants to resume full scale operations. Market volatility is expected in 2H22 as Russian suppliers seek alternative markets to place product. We expect pricing to remain strong, given the overall higher pricing of the energy complex.

Domestic demand for high CV and power station coal is expected to remain strong should the current export price levels persist into 2H22, as market participants continue to truck coal to alternative ports due to the favourable pricing environment.

OPERATIONAL PERFORMANCE

Poor rail performance continues to put a strain on the mining value chain and our ability to produce at optimal levels. Our operational excellence programmes, especially our overall equipment effectiveness and cost optimisation drive, continue to focus on improving efficiencies in our value chain. These programmes aim to reduce the impact of the rail challenges and cost pressures experienced across the mining industry.

To remain competitive across various markets, our digitalisation programme remains focused on the visibility of the full value chain enabling our market to resource (M2R) optimisation strategy through timeous insights-driven decision making. Our data science initiatives are making good progress focusing on enhancing these insights using data and advanced analytics in critical areas of the business.

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 auditor.

TELECONFERENCE CALL DETAILS

A dial-in teleconference call on the details of this announcement will be held on Thursday, 30 June 2022, starting at 12:00 SAST.

PRE-REGISTRATION LINK

To register for the conference please pre-register through this link: www.diamondpass.net/8016730

Please note that you will receive dial-in details, a unique passcode and pin to access the call once you have registered. Also, note that your PIN (Personal Identification Number) is for your use only. If others wish to join the call, they should register to receive an individualised PIN.

PLAYBACK

A playback will be available one hour after the end of the conference until 5 July 2022. To access the playback, dial one of the following numbers using the playback code 42445#:

- 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 renewable energy commodities. www.exxaro.com

Interim results for the six-month period ending 30 June 2022 will be announced on or about 18 August 2022.

ENQUIRIES

Mzila Mthenjane, Executive Head: Stakeholder Affairs

Tel: + 27 12 307 7393

Mobile: +27 83 417 6375

Email: Mzila.mthenjane@exxaro.com

LEGEND

3Q21 - Third quarter ended 30 September 2021

4Q21 - Fourth quarter ended 31 December 2021

2H21 - Six-month period ended 31 December 2021

FY21 - Financial year ended 31 December 2021

1Q22 - First quarter ending 31 March 2022

2Q22 - Second quarter ending 30 June 2022

1H22 - Six-month period ending 30 June 2022

3Q22 - Third quarter ending 30 September 2022

4Q22 - Fourth quarter ending 30 September 2022

2H22 - Six-month period ending 31 December 2022

FY22 - Financial year ending 31 December 2022

1Q23 - First quarter ending 31 March 2023

COMMODITY PRICES SOURCE

Coal – IHS Energy

Iron ore – MB Online

30 June 2022



www.exxaro.com



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 as a result of new information or future developments.