

Finance director's pre-close message

Six-month period ending 30 June 2023 (1H23) (the period)

This is an overview of the group's expected business performance for 1H23, encompassing strategic, operational, and financial information. Unless otherwise indicated, all comparisons are against the six-month period ended 31 December 2022 (2H22).

DEAR STAKEHOLDER

As of 15 June 2023, Exxaro recorded six lost time injuries resulting in a lost time injury frequency rate (LTIFR) of 0.10 against the set target of 0.05. The current LTIFR indicates a 40% decline in performance when compared to the same period last year. However, year-to-date, Exxaro has recorded two High Potential Incidents across the group, compared to five for the full year ended 31 December 2022.

To prevent and mitigate further incidents, various safety initiatives have been deployed across all our business units.

Following China ending its zero-COVID policy, and despite the continued challenges of high inflation, tightening financial conditions and geopolitical conflicts, the global economy has so far managed to avert a recession. This negative global sentiment was, however, evident throughout the period under review and weighed on commodity markets. In respect of Exxaro's key commodities, the average benchmark API4 Richards Bay Coal Terminal (RBCT) export price for 1H23 is expected to average US\$127 (2H22: US\$265) per tonne, a significant decline from the previous six months, and the iron ore fines price for 1H23 is expected to average US\$117 (2H22: US\$101) per dry metric tonne, cost, and freight (CFR) China.

Total coal production (excluding buy-ins) and sales volume for 1H23 are expected to decrease by 4% and 7% respectively, due to reduced demand from Eskom as well as logistical constraints. A new Coal Supply Agreement (CSA) is currently under negotiation with Eskom in relation to the Matla mine. In the interim the current CSA is being extended by a year.

In terms of our capital allocation programme, we expect the capital expenditure for 1H23 in our coal business to be about 8% lower, due to key projects reaching completion in 2022 as well as optimising benefits from our capital excellence programme.

As at 31 May 2023, the group had net cash of R12.0 billion (excluding Cennergi's net debt of R4.3 billion). The group therefore has sufficient liquidity and will remain a going concern for the foreseeable future.

We will provide a detailed account of 1H23 business performance and an outlook on the subsequent six months (2H23) when we announce our interim results on or about 17 August 2023.

Yours sincerely,

Riaan Koppeschaar
Finance director

Macro-economic environment

Global economy and commodity prices

World real GDP growth increased from an annual rate of 1.6% quarter on quarter in 4Q22 to 2.5% in 1Q23. A mild deceleration is expected in the second quarter; however, moderate growth is anticipated to be sustained for the rest of 2023. After a 3.1% increase in 2022, world real GDP is expected to expand by a moderate 2.3% in 2023.

During 1H23, seaborne thermal coal prices have remained under pressure due to weak demand in Europe and Northeast Asia. Both thermal coal and gas prices declined significantly to levels last recorded two years ago. Europe remains very well stocked for both gas and thermal coal. Stronger renewables availability also boosted base load generation, further reducing the role of gas and thermal coal in the European energy mix.

Since the beginning of 2023, seaborne iron ore prices have been supported by positive market sentiment for demand recovery for steel in China. This was before the announcement of China's government considering to potentially limit or even reduce crude steel output during 2023, which resulted in declining seaborne prices. China's steel production quotas were confirmed in May, at local, and not at national level, limiting the adverse impact on iron ore prices. Iron ore supply was strengthening towards the end of the period under review, although demand remained weak. However, positive market sentiment returned in response to the expectation that the Chinese government would further relax policy restrictions in the real estate market.

Operational performance

Coal operations

MARKETS

The bearish market sentiment in 1H23 is characterised by price declines, due to sufficient gas and coal stocks in Europe, exacerbated by warmer than usual winter temperatures, strong renewables performance, and materially lower gas prices.

The lower coal prices resulted in an increase in demand for South African coal from India. Demand from India retreated in 2022 due to the soaring prices.

Changes in global trade flows are seen, as Australia resumed supply into China, and Russian supplies to Europe and Japan reduced materially.

Europe's reassessment of coal-fired power capacity for the upcoming winter is continuing, with mixed decisions from different governments, as the drive to phase out coal gains momentum in that region.

The decline in export prices has impacted exporters' ability to truck coal economically to alternative ports. Domestic end-use demand for coal remained stable, but an increase in coal inventory levels across the industry value chain is evident due to export logistical constraints.

PRODUCTION AND SALES VOLUMES

Table 1: Coal product and sales volumes

'000 tonnes	PRODUCT				SALES			
	1H23 Forecast ¹	2H22 Actual	% Change	FY22 Actual	1H23 Forecast ¹	2H22 Actual	% Change	FY22 Actual
Thermal production/sales	19 078	20 496	(7)	41 136	16 593	18 007	(8)	36 188
– Eskom					11 780	12 577	(6)	25 392
– Domestic					2 116	2 357	(10)	4 639
– Tied ²					2 697	3 073	(12)	6 157
Buy-ins	175	4	>100	20				
Total thermal product (including buy-ins)	19 253	20 500	(6)	41 156				
Total Metallurgical production/sales	1 417	904	57	1 988	358	288	24	691
Exports					2 511	2 672	(6)	5 214
Total product	20 670	21 404	(3)	43 144	19 462	20 967	(7)	42 093

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

² Matla Mine supplying its entire production to Eskom.

Operational performance continued

Production

Thermal Coal production is expected to decrease by 7%, mainly due to lower demand from Eskom at Grootegeluk, based on their latest internal planning requirements.

Metallurgical coal production is expected to increase by 57% as the GG6 plant is now fully ramped up.

Coal buy-ins are expected to be higher, driven by logistical challenges and timing of sales obligations.

Sales

Sales to Eskom are expected to decrease by 6% in line with their demand.

Domestic thermal coal sales are expected to decrease by 10% due to the slower diversion of export coal into the local market, mainly at the Mpumalanga mines.

Metallurgical coal sales are expected to increase by 24%, as alternative transport arrangements are enabling supply to our local customers.

Export sales volumes are expected to decrease by 6% due to poor rail performance to RBCT as well as the viability of trucking coal to alternative ports being negatively impacted by the lower coal prices.

Tied mine (Matla)

Thermal coal production and sales volumes are both expected to decrease by 12% due to unfavourable geological conditions.

LOGISTICS AND INFRASTRUCTURE

Transnet Freight Rail (TFR) railed 19.948Mt to RBCT for the five months ended 31 May 2023, equivalent to an annualised rate of 46.46Mtpa. Various challenges, including poor locomotive availability, train derailments, and instances of cable theft and vandalism continue to impact 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 operating wind assets are forecasting to generate 318 GWh of electricity by 30 June 2023 (2H22: 364 GWh and FY22: 671 GWh). Tsitsikamma experienced an Eskom distribution line fault resulting in 15GWh of lost generation over a one-month period of the fault. An improvement in wind conditions is observed from the prior year. The average plant availability is forecast to be above the contracted availability of 97%.

Financial close of the 68 MW Lephale Solar PV Project (LSP) at Grootegeluk is imminent.

Capital allocation

Exxaro remains focused on optimising and implementing its portfolio of sustaining capital.

Table 2: Coal capex

(R'million)	1H23 Forecast ¹	2H22 Actual	% Change	FY23 Forecast ¹	FY23 Previous Guidance ²	% Change	FY22 Actual
Sustaining	736	678	9	2 211	2 500	(12)	1 374
Expansion	73	202	(64)	73	0	100	231
Total	809	880	(8)	2 284	2 500	(9)	1 605

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

² Provided on the 31 December 2022 results presentation held on 16 March 2023.

Capital expenditure is expected to be 8% lower in 1H23, with sustaining capital expenditure expected to decrease at Grootegeluk, offset by higher spend at Leeuwan and Belfast in the latter half of 2023. The decrease of 64% in expansion capital is due to the conclusion of the GG6 project in 2022, as guided previously.

FY23 capex is expected to be in line with our earlier guidance of R2.5 billion (on average in real terms). Capex is regularly reviewed and projects re-prioritised as part of the Capital Excellence journey to optimise planning, timing, cost, and business impact.

GG6 EXPANSION

The GG6 expansion project is complete, with final administrative project close out expected in 2H23.

MATLA MINE 1

The Matla Mine 1 Relocation project commenced with construction in August 2020. In 1H23 Eskom approved Mine 1 Relocation funding of R1.4 billion. Expected completion date of the project is 1H26.

MORANBAH SOUTH

The pre-feasibility study to determine the way forward for the Moranbah South hard coking coal project is being re-scoped, with the intent of commencing with the revised scope in 2H23.

Portfolio optimisation

INVESTMENT IN GROWTH

We actively evaluate and participate in investment processes for our minerals and energy businesses.

SALE OF NON-CORE ASSETS AND INVESTMENTS

As part of the broader Exxaro strategic review, the company continuously seeks opportunities to unlock value to support its Sustainable Growth and Impact strategy. Exxaro has identified that the FerroAlloys business is no longer considered a strategic fit within our envisaged Minerals business portfolio. We, however, believe that there is still significant value to be unlocked in the hands of a potential buyer and have therefore decided to commence a sales process to dispose of our entire shareholding in Exxaro FerroAlloys Proprietary Limited.

Exxaro is perusing its options to dispose of its 26% shareholding in Black Mountain.

Sustainable development

CLIMATE CHANGE RESPONSE STRATEGY IMPLEMENTATION

Our decarbonisation roadmap to carbon neutrality by 2050 currently reflects our revised short-term emission reduction target of 40% (vs 43%) by 2026, which is based on the FY22 emissions. The 40% emissions reduction target will be achieved through energy efficiency projects, which have been implemented thus far at our operations and contribute to a 2% reduction in Scope 1 emissions, the LSP project at Grootegeluk which will reduce the group's Scope 2 emissions by 27%, and further portfolio optimisation initiatives, which will result in a further 9% reduction in emissions.

SOCIAL INVESTMENT AND DEVELOPMENT

For the six-month period ending 30 June 2023, Exxaro invested approximately R625 million through both coal and energy operations, including over R500 million on local procurement, on various community development initiatives despite a challenging business environment. Combined, these initiatives supported 228 SMMEs and provided 360 employment opportunities.

MINING AND PROSPECTING RIGHTS

We submitted the Environmental Impact Assessment report for the Belfast Expansion Project to the Department of Mineral Resources and Energy (DMRE) with approval expected in 4Q23. The Belfast mine has a valid water use license, which is currently being amended.

Matla's renewal application of the waste management license for the brine pond was recently submitted to the Department of Forestry, Fisheries and the Environment in June 2023 with approval expected in 4Q23. Matla's water use licence renewal is currently in process and approval is expected in 4Q23.

Leeuwan's amendment application for its water use license is in preparation and submission to the Department of Water and Sanitation is expected at the end of June 2023, with approval in 1Q24.

The DMRE still faces challenges with a backlog of applications. Exxaro has the following applications in process at the DMRE:

- The execution of Grootegeluk's section 102 application amending the mining right boundary.
- The execution of Leeuwan's section 102 application combining 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.

Outlook for 2H23

ECONOMIC CONTEXT

Although global inflation is on a downward path, underlying inflationary pressures persist. Policy interest rates are at or near their peaks, although a further tightening of bank lending standards will contribute to more restrictive financial conditions, affecting both global investment sentiment and economic activity.

Following a 1.1% contraction of GDP in the fourth quarter of 2022, South Africa avoided a technical recession during the first quarter of 2023, with a modest 0.4% expansion.

During 1H23, the Rand lost significant value against the major global currencies. Intensified load shedding with the perceived risk of a potential grid collapse, a widening current-account deficit, prospects of a widening fiscal deficit, US dollar strength and loss in investor interest following a political dispute between South Africa and the US, related to South Africa's relations with Russia, were the main reasons attributed to the rand weakness.

Rand volatility is expected to remain elevated during the second half of 2023.

COMMODITY MARKETS AND PRICE

Rising industrial activity and hot northern hemisphere summer weather have the potential to support energy demand during 2H23. Furthermore, despite Europe's comfortable energy status currently, risks for the winter energy supply remain. Europe's winter energy security depends on a range of uncertain and uncontrollable factors, including weather, the availability of liquefied natural gas and the risk of further gas cuts from Russia.

Rising iron ore supply and exports will be a limiting factor for iron ore prices during 2H23. Supply increases from major miners are expected, with a flat Chinese demand. Seaborne price volatility around the marginal cost level is likely to see marginal supply exit, rebalancing the market and providing limited price support.

BUSINESS PERFORMANCE

Our coal business performance continues to be impacted by logistical challenges, persistent inflation, and low coal prices. Our Optimisation programmes focus on reducing cost and improving efficiencies across the value chain, thus protecting our business from these external factors. The Digital programme and advanced analytics 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, 27 June 2023 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=9862547&linkSecurityString=190f3f1773>

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 30 June 2023. To access the playback, dial one of the following numbers using the playback code 44574#:

- 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>

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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

Interim results for the six-month period ending 30 June 2023 will be announced on or about 17 August 2023.

ENQUIRIES

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LEGEND

4Q22 – Fourth quarter ended 31 December 2022

1H22 – Six-month period ended 30 June 2022

2H22 – Six-month period ended 31 December 2022

FY22 – Financial year ended 31 December 2022

1Q23 – First quarter ended 31 March 2023

1H23 – Six-month period ending 30 June 2023

4Q23 – Fourth quarter ending 31 December 2023

2H23 – Six-month period ending 31 December 2023

FY23 – Financial year ending 31 December 2023

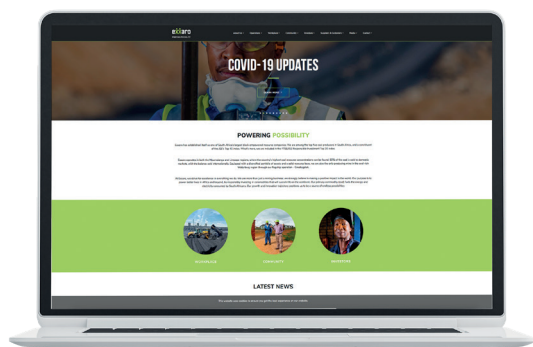
1Q24 – First quarter ending 31 March 2024

COMMODITY PRICES SOURCE

Coal – IHS Energy

Iron ore – MB Online

27 June 2023



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 because of new information or future developments.