

FINANCE DIRECTOR'S PRE-CLOSE MESSAGE

SIX MONTHS ENDING 30 JUNE 2020 (1H20) (THE PERIOD)



We are pleased to report that Exxaro achieved a milestone of three years, and a record of 38 consecutive months as at 31 May 2020 without a fatal incident

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 2019 (2H19).

Zero harm remains Exxaro's key business objective. In the reporting period the lost-time injury frequency rate (LTIFR) was 0.10 (9% better than the set target of 0.11) and 16% better than 0.12 recorded in FY19. We are pleased to report that Exxaro achieved a milestone of three years, and a record of 38 consecutive months as at 31 May 2020 without a fatal incident. Regrettably two high potential incidents (HPIs) have been reported at Grootegeluk mine during 1H20 (1H19: OHPIs).

In line with our zero harm vision, measures have been implemented across our operations to manage the COVID-19 (the pandemic) risks. To date a total of eight COVID-19 positive cases were recorded, of which one has fully recovered and seven remain active cases. We are pleased that Exxaro has not recorded any loss of life on account of COVID-19.

Disruptions to supply chains, demand, international trade flows and travel, along with lockdowns, collapsing currencies and stock prices, resulting from measures related to COVID-19, have dealt a heavy blow to the global economy. A deeper recession in 2020 compared to 2008/09 is anticipated. However, commodity markets recorded mixed results over the period under review. In respect of Exxaro's key commodities for 1H20, the API4 coal export price index is expected to average US\$66 (2H19: US\$69) per tonne, free on board (FOB), and the iron ore fines price US\$90 (2H19: US\$96) per dry metric tonne, cost and freight (CFR) China.

Total coal production (excluding buy-ins) and sales volumes are both expected to decrease by 1% and 2% respectively, mainly due to the impact of the pandemic on market demand and the lockdown measures impacting our Mpumalanga operations. While we expect to achieve higher export volumes, this is offset by lower commercial domestic sales volumes. We expect a weaker US dollar sales price per tonne will be realised, in line with the weaker API4 coal export price index, cushioned somewhat by a weaker rand/dollar exchange rate.

In terms of our capital allocation programme, we expect the capital expenditure for 1H20 in our

coal business to decrease by 61% compared to 2H19, mainly due to project delays linked to the pandemic and timing in equipment replacements. At 31 May 2020, the group's net debt (excluding Cennergi's net debt of R4.7 billion) was R5.3 billion (FY19: R5.8 billion). In addition to operational measures implemented by us to combat the spread of the virus, further downside scenarios have been used to stress test our solvency and liquidity 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 1H20 business performance and an outlook on the subsequent six months to year end (2H20), when we announce our financial results on 13 August 2020.

Yours sincerely

Riaan Koppeschaar
Finance director

exxaro
POWERING POSSIBILITY

Macro-economic environment

GLOBAL ECONOMY AND COMMODITY PRICES

During 1H20, the global economy recorded the worst downturn since the 1930s. As a result, global real GDP for 2020 is expected to contract by 6%, compared to a growth of 2.6% in 2019. Aggressive fiscal and monetary stimulus by governments and central banks, respectively, were injected into the global economy to soften the downturn and, in turn, support economic recovery.

Chinese steel production remained strong and, together with continued low iron ore inventory levels and high steel margins, supported the iron ore price during the period under review. Additionally, constrained Brazilian supply, as a result of COVID-19 related disruptions, have kept the global iron ore market balance very tight.

The titanium dioxide (TiO₂) pigment market fundamentals softened with high supply, most notably from China, and weakened global demand especially during the second quarter of 2020. The willingness to spend by a weakened

consumer base, and behavioural changes to end markets for which TiO₂ is most exposed to, have negatively influenced overall demand levels during 1H20.

During 1H20, the Brent crude oil market was characterised by the significant impact of COVID-19 measures, collapsing demand and the Saudi Arabia and Russia price war. In addition, there was a major milestone in oil market history, as for the first time ever, the United States, Russia and Saudi Arabia – the world's three largest oil producers – cooperated to boost oil prices from historically very low levels.

Operational performance

COAL: COVID-19 IMPACT ON OPERATIONS

As defined an essential service for providing coal to Eskom for electricity generation, as well as being an exporter, our coal operations continued operating at various capacities, while complying with the COVID-19 lockdown restrictions as implemented by the national government.



COAL: MARKETS

Due to the impact of COVID-19 and the subsequent lockdown, many industrial customers in the domestic market have either reduced demand or stopped coal offtake during April and May. In addition, coal exporters produced a sized coal product for the local markets due to very low export pricing. This resulted in an oversupply, negatively impacting domestic prices.

It is estimated that the seaborne market is oversupplied by at least 40Mt. We have seen the worst of the lockdowns, with negative impacts on the energy complex. The prices of both oil and gas have dropped to record levels and the API4 index price dropped to historically low levels of \$40/t. Markets like Vietnam and Pakistan took advantage during this period of low prices to buy more South African coal

while the Indian demand fell below the normal offtake. As governments across the globe try to revive their economies we do see a gradual uptick in demand in some markets.

COAL: PRODUCTION AND SALES VOLUMES

The table below shows a comparison of production and sales performance between 1H20 and 2H19.



Table 1: Coal production and sales volumes

'000 tonnes	PRODUCTION				SALES			
	1H20 Forecast ¹	2H19 Actual	% change	FY19 Actual	1H20 Forecast ¹	2H19 Actual	% change	FY19 Actual
Thermal	21 912	22 384	(2)	43 203	22 486	22 951	(2)	43 503
Commercial:								
Waterberg	13 302	12 826	4	25 683				
– Eskom					12 347	12 089	2	23 157
– domestic					403	652	(38)	1 286
Commercial:								
Mpumalanga	5 518	6 176	(11)	11 529				
– Eskom						1 250	(100)	2 241
– domestic					890	757	18	1 734
Exports: commercial					5 760	4 822	16	9 087
Tied ²	3 092	3 382	(9)	5 991	3 086	3 381	(9)	5 998
Metallurgical	1 211	907	34	2 074	483	480	1	1 030
Commercial:								
– domestic	1 211	907	34	2 074	483	480	1	1 030
Total (excluding buy-ins)	23 123	23 291	(1)	45 277	22 969	23 431	(2)	44 533
Thermal coal buy-ins	417	244	71	305				
Total (including buy-ins)	23 540	23 535		45 582	22 969	23 431	(2)	44 533

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 product from Waterberg is expected to increase by 4% in line with improved production and Eskom offtake. Production at the Mpumalanga commercial mines is expected to be 11% lower, mainly at Exxaro Coal Central (ECC) and Leeuwpán due to the impact of the pandemic on market demand and the lockdown impacting operations as well as a 10-day shut at Leeuwpán, Belfast and ECC over the Easter period to mitigate the risk of full stockpiles at RBCT and to preserve cash and costs. This was partly offset by Belfast ramping up to full production in 1H20.

Metallurgical coal production is anticipated to increase by 34% due to our high value strategy being implemented and enabled by improved value chain visualisation.

Coal buy-ins are expected to be 173kt higher, mainly to fulfil supply commitments in 1Q20.

SALES

The expected 16% increase in export sales volumes is driven by the availability of export product from our own operations, as markets return to normality, as well as good demand in alternative markets.

Total sales to Eskom are expected to decrease by 8% as the supply agreements at ECC and Leeuwpán are still being negotiated, partly offset by higher offtake from Grootegeluk.

Domestic thermal coal sales are also expected to be 8% lower, mainly due to the impact of the pandemic on key customers resulting in lower offtake, which is countered by slightly higher offtake by other local customers at Leeuwpán.

TIED MINES (MATLA)

Thermal coal production and sales are both expected to decrease by 9%, mainly due to the impact of the pandemic on operating protocols and difficult geological conditions in Mine 3.





COAL: MAJOR CONTRACTS UPDATE MATLA MINE 1

A revised capital estimate has been submitted to Eskom to fulfil the full scope of the project, with construction planned to commence in 2H20.

ARNOT MINE

Although the arbitration process on contractual matters has been finalised in Exxaro's favour, there is continuing action to resolve outstanding payments from Eskom as per the order of the court.

ESKOM FORCE MAJEURE

Exxaro, through a SENS announcement on 21 April 2020, has communicated Eskom's calling of a force majeure on coal supply agreements at Matimba and Medupi. We have also communicated that the company is of the view that this event does not constitute a force majeure as stipulated in the coal supply agreements and that the company will vigorously defend its position in this matter and take the necessary action.

Eskom and Exxaro are still engaging on this matter, with offtake currently in line with contractual volumes.

COAL: LOGISTICS AND INFRASTRUCTURE

Transnet Freight Rail (TFR) railed 29Mt from January to end May 2020 which equates to a 66Mt on an annualised basis. This compares to 30.5Mt for the same period during 2019 and is reflective of the impact of lockdowns on production in the coal export industry.

The TFR North-West Corridor Expansion Project remained on schedule until the beginning of the lockdown period. The performance at Grootegeluk was an improvement on the 1Q19 performance of 4.8 trains per week to 7.2 trains per week from January to May 2020, including a peak of 12 trains per week.



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 1H20 financial results.

Energy: Cennergi Proprietary Limited (Cennergi)

The effective date of the consolidation of Cennergi results into the Exxaro group is 1 April 2020.

Total generation output for the year to date is marginally below (-1.5%) planned numbers.

Eskom issued a force majeure notice to Cennergi in March 2020 indicating that they may curtail generation from all windfarms. This notice was lifted by Eskom at the end of May 2020. Cennergi is engaging with Eskom on this notice as they are in disagreement regarding the contractual interpretation. Curtailment, although not material, occurred at both windfarms during the force majeure period.

Capital allocation

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

Table 2: Coal capex

Rm	1H20 forecast ¹	2H19 actual	% change	FY20 forecast ¹	FY20 previous guidance ²	% change	FY19 actual
Sustaining	725	1 287	(44)	2 080	2 292	(9)	2 245
Waterberg	533	1 000	(47)	1 470	1 554	(5)	1 753
Mpumalanga	192	270	(29)	588	712	(17)	475
Other		17	(100)	22	26	(15)	17
Expansion	543	1 989	(73)	1 359	1 744	(22)	3 572
Waterberg	363	721	(50)	984	1 653	(40)	1 198
Mpumalanga	180	1 195	(85)	375	91	312	2 301
Other		73	(100)				73
Total	1 268	3 276	(61)	3 439	4 036	(15)	5 817

¹Based on latest internal management forecast assumptions and estimates, excluding tied operations. Final numbers may differ by ±5%.

²Provided in 31 December 2019 results presentation in March 2020.

Exxaro expects coal capital expenditure for 1H20 to decrease by 61% compared to 2H19. This is driven by:

- lower GG6 expansion spend due to project delays linked to the pandemic;
- the Belfast project nearing completion;
- sustaining capital projects delayed at Grootegeluk due to the lockdown; and
- timing in equipment replacements at Leeuwan.

FY20 capex is expected to be 15% lower than the guidance provided in March 2020, primarily due to delays in the GG6 expansion project and delays on the Thabametsi approvals, partly offset by additional net cost capitalised on the Belfast project resulting from the low export prices experienced in 1H20. Sustaining capital is expected to be 9% lower due to capex and cash flow preservation initiatives to mitigate the impact of the pandemic.



Waterberg GG6 EXPANSION

All construction activities on the new small coal plant have commenced. We are preparing "return to work" plans to commence construction as per level 3 lockdown regulations. The estimated impact of the pandemic on the project timeline is approximately a further three-month delay bringing the total shift in the project timeline to approximately six to nine months. The mine is continuously working with the projects team to mitigate the impact of the delay on the business plan.

NEW RAIL LOAD OUT STATION

Grootegeluk's rapid load out station project is aligned with TFR's North-West Corridor Expansion Project. The project completed cold commissioning during 4Q19. The hot commissioning and ramp-up has been delayed due to the lockdown and are expected to be completed in 3Q20. Forecast final costs are

expected to be within the allocated project budget and the delay will not affect the TFR ramp-up schedule.

THABAMETSI MINE

The conclusion of the Thabametsi power plant has been impacted by the delay in finalisation of all regulatory approvals as well as lenders withdrawing their support of financing greenfield coal-fired power stations. Exxaro has completed all its Thabametsi mine studies and has obtained all the necessary licences and permits to operate the mine but will not proceed further until the IPP can achieve financial close.

Mpumalanga BELFAST

We are pleased to report that the plant acceptance test was completed on 24 February 2020. The project is now in the close-out phase and will be completed within budget and schedule.

Portfolio optimisation

TITANIUM DIOXIDE (TiO₂): TRONOX LIMITED (TRONOX)

We remain committed to monetise our remaining shareholding in Tronox plc Holdings in the best possible manner, taking into account prevailing market conditions.

SALE OF NON-CORE ASSETS AND INVESTMENTS

Exxaro is in the final stages of concluding an agreement for the sale of its 26% shareholding in Black Mountain Mining Propriety Limited. It is anticipated that the agreements will be concluded before the end of June. On 30 November 2019 the investment was classified as a non-current asset held-for-sale and the application of the equity-accounting method ceased.

As mentioned previously, Exxaro announced its intention to divest from ECC and the Leeuwanpan operations. These divestments will be executed through a formal disposal process which is currently well underway. It is expected that a transaction can be concluded towards the end of the year. The proposed transaction is a category two transaction in terms of the JSE Listings Requirements and is therefore not regarded as material.



Sustainability



COVID-19 impact on Exxaro RESPONSE IN RELATION TO OUR EMPLOYEES

Safety measures have been reinforced through various technical committees including:

- Established hygiene practices and provision of PPE to all employees (sanitisers, gloves and masks) and HR guidelines throughout the business;
- Amended business processes to ensure social distancing and working from home enabled;
- Modified processes at high-risk areas (eg vehicles, change rooms and lamp rooms); and modified high-risk processes (eg suspending some certificate of fitness (COF) to alleviate pressure on the occupational health centres);
- Tracing system to identify people that could have interacted with infected persons; and
- Ongoing communication through various digital channels to encourage safety practice, de-stigmatising campaigns, reminder of available resources for mental wellbeing and keeping employees engaged.

RESPONSE IN RELATION TO OUR COMMUNITIES

Exxaro adopted a collaborative approach in mitigating the spread of the virus, through:

- A contribution of a R20 million donation to the Solidarity Fund;
- Quarantine and isolation facilities have been made available in host communities;
- We are in the process of setting up two private COVID-19 polymerase chain reaction (PCR) testing laboratories in Limpopo and Mpumalanga. A PCR test is one of the dominant ways that global healthcare systems are testing citizens for COVID-19. These testing laboratories would be mainly used by the Exxaro Group of companies for our employees. We envisage that capacity allowing, these facilities will support the local public health departments in our host communities. In both locations, the facilities will be shared - in Limpopo with Eskom and in Mpumalanga with Seriti Coal operations;
- Closer collaboration with businesses and municipalities in host communities to conduct COVID-19 screening; provide humanitarian relief in the form of food packages and consumables to clinics and hospitals in host communities; and
- Prioritising water-related infrastructure projects in our Social Labour Plan-led (SLP-LED) programme.



MINING AND PROSPECTING RIGHTS

Exxaro has continued to interact with the Department of Mineral Resources and Energy (DMRE) to ensure that Exxaro's rights remain compliant and valid. However, due to COVID-19 the DMRE has been constrained in its ability to fully function and in particular, processing of applications. This has resulted in the delay of the processing of previously submitted applications. However, we are confident that the DMRE will address the backlog once it is fully functional.

The following are some of the pending applications lodged with the DMRE:

- The Matla mining right renewal application submitted in August 2019;
- A section 102 application to amend Matla mining right as part of a commercial deal to swap coal reserves;
- The execution of the consolidation of the two Leeuwpans rights into a single mining right; and
- The execution of a section 102 at Grootegeluk to incorporate the two farms on which Exxaro has mining infrastructure.

Climate change policy

We remain committed to the implementation of the Task Force on Climate-related Financial Disclosures (TCFD) recommendations across Exxaro in line with our energy development strategy. We started with an assessment process prior to the lockdown and due to the setback from COVID-19, the publication of the recommendation report will be delayed. We expect to complete the assessment and publication of the report in the second half of this year.



Performance against new B-BBEE Codes and mining charter

As a result of the national lockdown imposed, we have experienced delays in finalising the BEE verification process. Preliminary results indicate that Exxaro has broadly sustained its level 2 BEE performance overall, with a notable improvement in Enterprise Supplier Development (ESD) performance, but a weaker performance in skills development attributed to the retrospective regulatory changes in the DTI Codes during 2019. Exxaro continues to strive to improve its BEE contribution status.

Implementation of employee and community empowerment scheme

On 10 March 2020 all the transaction agreements giving effect to phase II of the replacement BEE transaction were signed. On 27 March 2020 the sale of 5% of Exxaro's shareholding in Eyesizwe RF to the Exxaro ESOP SPV was implemented, followed by the transfer of another 5% of Exxaro's shareholding in Eyesizwe RF to the Community Non-profit Company (NPC) on 11 May. Phase II of the Replacement BEE transaction has therefore been fully implemented.

Outlook for 2H20

ECONOMIC CONTEXT

For 2H20, the restarting of the global economy is anticipated to bring economic growth recovery. However, the uncertainty about the path of COVID-19 makes any assessment of the global economic outlook challenging.

The impact of COVID-19 on South Africa's fragile public finances has been devastating, with gross government debt as a percentage of GDP likely to rise significantly together with debt service costs. These fiscal imbalances will have a knock-on effect on the economic recovery path for South Africa into 2H20.

During 1H20, the rand depreciated to an all-time low in March, before it retracted significantly in June. The reversion to a more risky environment, as a result of the easing of global COVID-19 lockdown restrictions, supported the rand.

The rand/dollar exchange rate is expected to remain volatile during 2H20.

COMMODITY MARKETS AND PRICE

The API4 index price is expected to be supported as activity in the key seaborne market resumes and a greater supply/demand balance is achieved. However, weak demand and flat pricing is anticipated into the early part of 2H20, as the speed at which coal demand reduced as a result of the lockdown measures, far outpaced any supply response. Global seaborne thermal coal trade levels for 2020 are also expected to decline compared to 2019.

Despite steady Chinese iron ore demand, a recovery in seaborne trade is anticipated to offset a modest rebound in ex-China steel output. In addition, as China's iron ore port inventories rise towards the end of 2H20, a softening iron ore market is expected.

OPERATIONAL PERFORMANCE

We expect domestic coal demand to show a gradual recovery amid the slow return of industrial customers to full operations. We do

not expect to claw back on the sales lost during the past few months. However, we expect Matimba Power Station to continue meeting their contractual offtake volumes for the year from Grootegeluk while Medupi Power Station will need to increase offtake in an effort to catch up on some volumes not taken in 1H20.

In line with our digitalisation programme, we continue to roll out the Integrated Operations Centers across all our operations to enable the visualisation of the value chain. The increased visualisation of the overall value chain as well as data driven insights gained from our operations, will highlight inefficiencies and will enable improved in-time decision making relating to safety, productivity improvements as well as cost performance.

Regarding the Moranbah South coking coal project, Exxaro and Anglo American continue their endeavours to agree on a mutually beneficial development plan and timeline.



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.

PRE-REGISTRATION LINK

Guests wishing to attend the FD's pre-close may pre-register here <https://www.diamondpass.net/3860405> 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 Thursday, 25 June 2020 at 13:30 (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 one hour after the end of the conference call and will be available until 6 July 2020. To access the playback, dial one of the following numbers using the playback code 35390#:

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

SPONSOR

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EDITOR'S NOTE

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

Interim results will be announced on (or around) 13 August 2020.

ENQUIRIES

Mzila Mthenjane, executive head: stakeholder affairs
Tel: + 27 12 307 7393
Mobile: +27 83 417 6375
Email: mzila.mthenjane@exxaro.com

EXXARO RESOURCES LIMITED

(Incorporated in the Republic of South Africa)

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ISIN: ZAE000084992

ADR code: EXXAY

(Exxaro or the company or the group)

LEGEND

1Q19 – First quarter ended 31 March 2019

FY19 – Financial year ended 31 December 2019

2H19 – Six-month period ended 31 December 2019

2H20 – Six-month period ending 31 December 2020

COMMODITY PRICES SOURCE

Coal – IHS Energy

Iron ore – MB Online

Mineral sands and pigments – TZMI

25 June 2020

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 as a result of new information or future developments.



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