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CAPITAL MARKETS DAY 2021

Sustainable Growth and Impact

Just Transition

Capital Allocation for Low Carbon Growth (Riaan Koppeschaar, FD)

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AGENDA

1. **What is our capital allocation framework?**
2. What are our sources of cash?
3. What are our expectations of the future strategy?
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7. Summary

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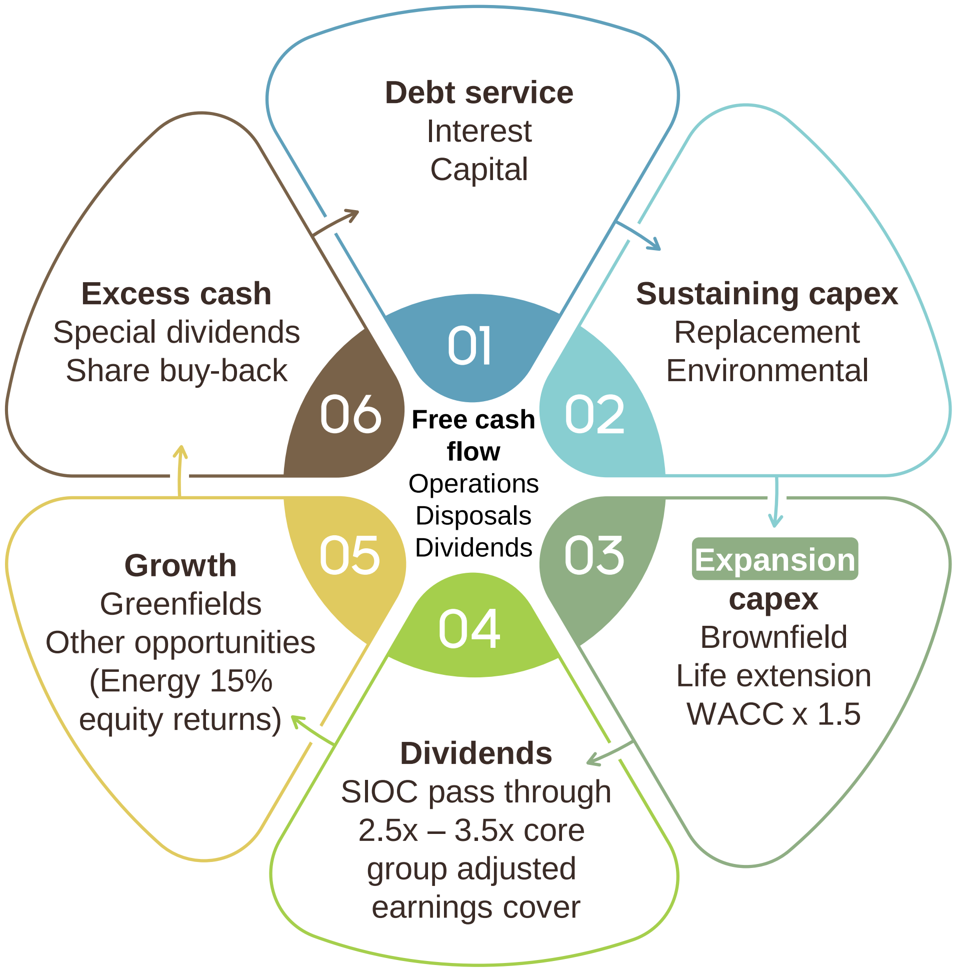
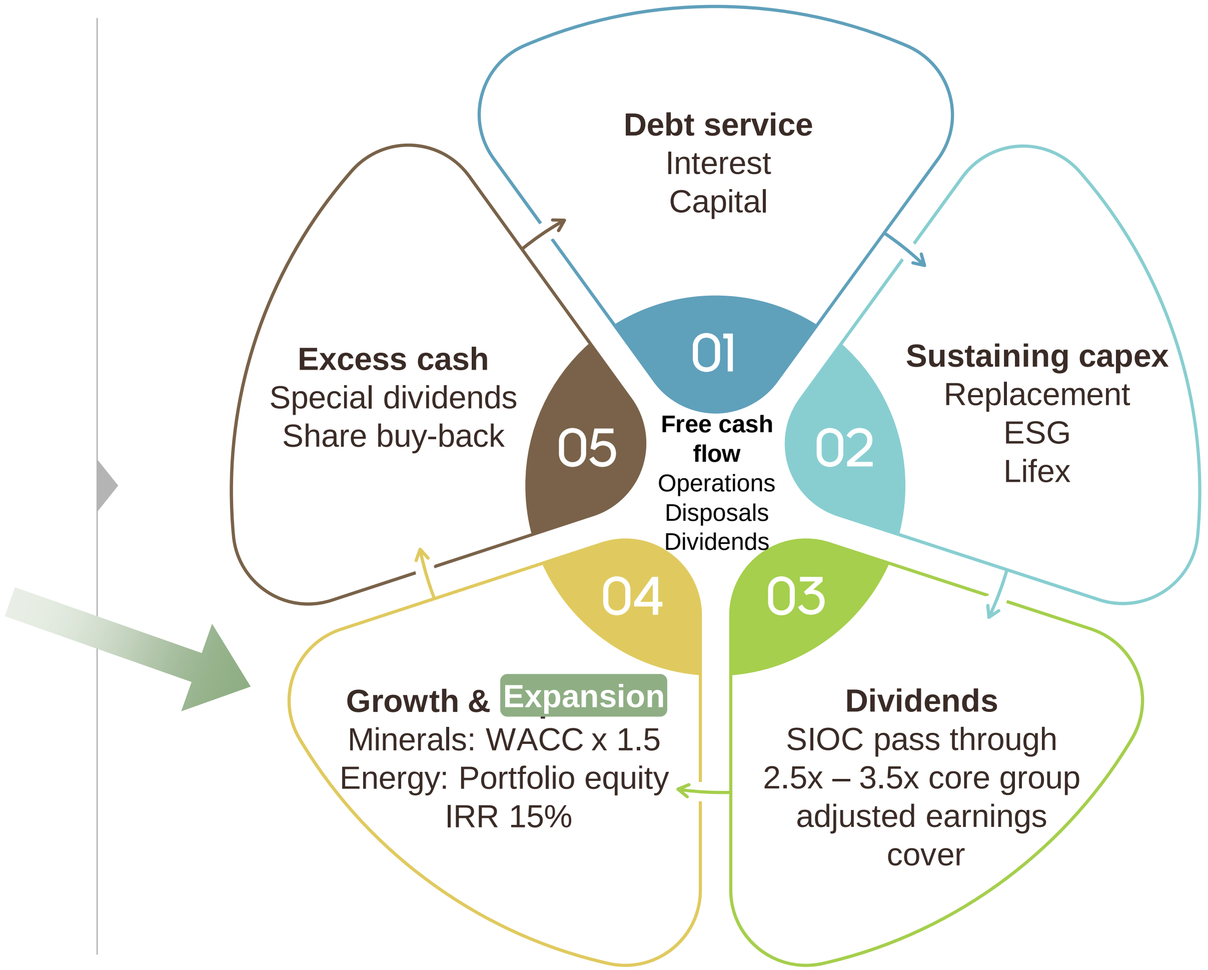
Revised capital management framework





NET DEBT TO EBITDA RATIO < 1.5 TIMES (EXCLUDING PROJECT FINANCE)

Disciplined capital allocation

Free cash flow	Operations Disposals Dividends	• Robustness of current coal assets continuously assessed
Debt service	Interest Capital	• Strong balance sheet • Net debt : EBITDA (excl. project financing) consistently below target of 1.5 times
Sustaining capex	Replacement ESG Lifex	• Coal remains an important energy source in all our key markets for the immediate and short term and we are committed to prudently maximising the value of our coal portfolio
Dividends	SIOC pass through 2.5x – 3.5x core group adjusted earnings cover	• Represents the minimum return to shareholders • Change in dividend policy from 2H18 to include pass through of SIOC dividend and cover ratio applied to coal earnings • Updated cover ratio from 2H20 to apply to group adjusted earnings
Growth & Expansion	Minerals: WACC* x 1.5 Energy: Portfolio equity IRR** 15%	• Renewables will play a key role in decarbonising and therefore protecting the value at stake of our coal business • We are building on mining capabilities to diversity into low carbon minerals
Excess cash	Special dividends Share buy-back	• If there is no immediate need for capital for value accretive investment purposes, it may be used for further return to shareholders in the form of special dividends and/or share buy-backs

* *Weighted average cost of capital* ** *Internal rate of return*

Ongoing robustness review of coal assets

CRITERIA FOR THE IDEAL EXXARO COAL PORTFOLIO

1	Operate in lower half of global cost curve (over LOM)	✔	KEY CRITERIA
2	EBIT margin (> 20%)	✔	
3	Robustness score (> 10)	✔	
4	Capital intensity (ROCE > 20%)	✔	
5a	Multi product flexibility	✔	
5b	Multi market flexibility		
6	Significant LOM (> 8 years life)	✔	SECONDARY CRITERIA
7	Time to cash	✔	
8a	Leverage synergies – Products	✔	
8b	Leverage synergies – Other		
9	Logistics	✔	

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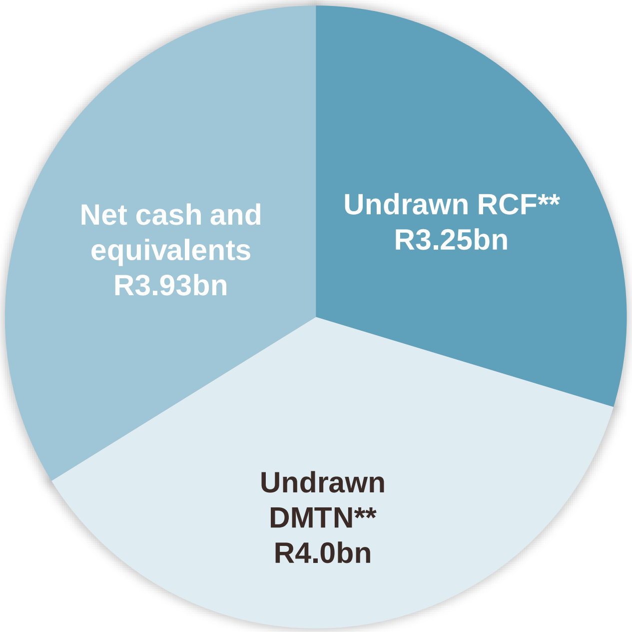
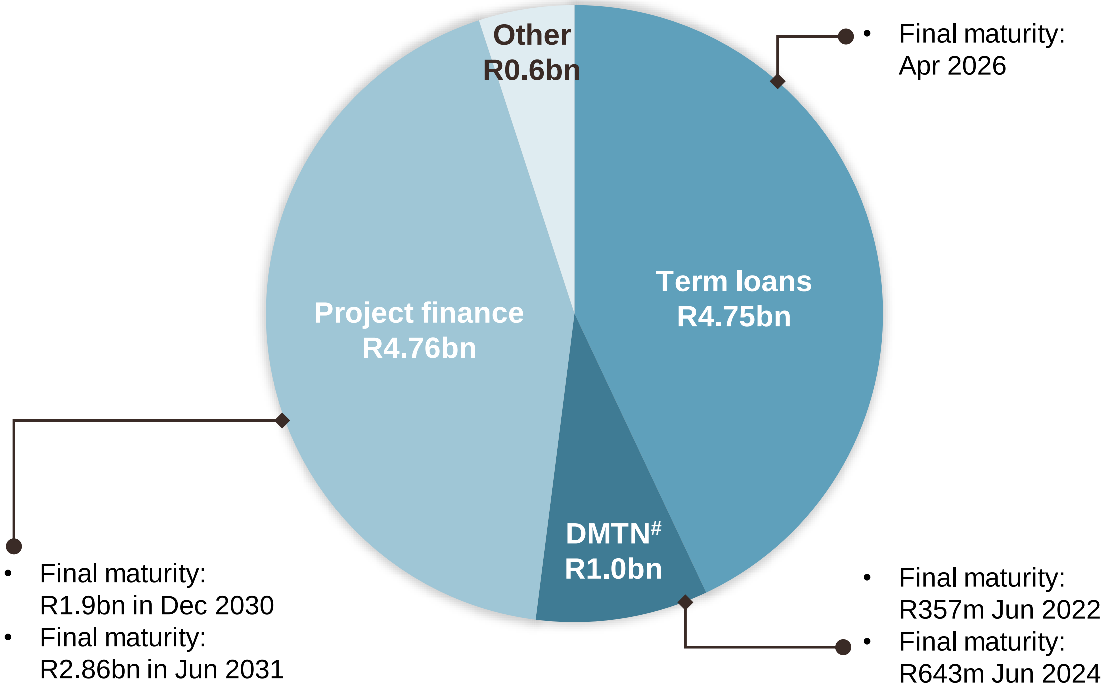
Strong balance sheet to fund growth*

Liquidity



- Optimise cash position by reducing gross debt levels
- Total liquidity : R11.2bn

Debt



- Diversified debt instruments
- Project finance debt ring-fenced

NET DEBT: EBITDA (EXCLUDING PROJECT FINANCE) OF 0.4 TIMES (TARGET < 1.5 TIMES)

** As at 30 June 2021   ** Revolving credit facility   # Domestic Medium-Term Note*

Energy financing options

RE* ASSETS ATTRACT HIGH LEVELS OF RING-FENCED DEBT BUT EARLY STRATEGIES MAY REQUIRE CREATIVE FINANCING SOLUTIONS

01 Risk profile: non-recourse

Long-term contractual cash flow: Highest quality lending with limited to no recourse to shareholders.

Gearing of 50% to 80% – cash flow predictability and risk mitigation:

- Long term off take agreements
- Fixed tariff mostly with CPI-linked escalation
- Government support / bankable counterparty underpins off take
- Equipment with guarantees from the Original Equipment Manufacturer (OEM), Engineering, Procurement and Construction (EPC) and Long-Term Service Agreements (LTSA)
- Refinancing at more optimal terms once further de-risked

02 Sources

Strategic maturity
Return enhancement

Low cost

High cost

Low cost sources of financing:

- Green bonds
- Non-recourse heavily structured project financing
- Portfolio financing
- Limited recourse term loans
- Equity-enhancing bridge financing
- Initial equity refinanced post operation

Applicable to:

- Europe and mature portfolios RE assets
- Utility and credit-worthy DG**
- Smaller Commercial & Industrial (C&I)
- New geographies / customers
- REIPPPP# and Credit-worthy DG
- Smaller Projects / new Strategies

03 Cennergi example

SA banks' sophistication and terms have improved considerably since Amakhala & Tsitsikamma.

Non-recourse project finance

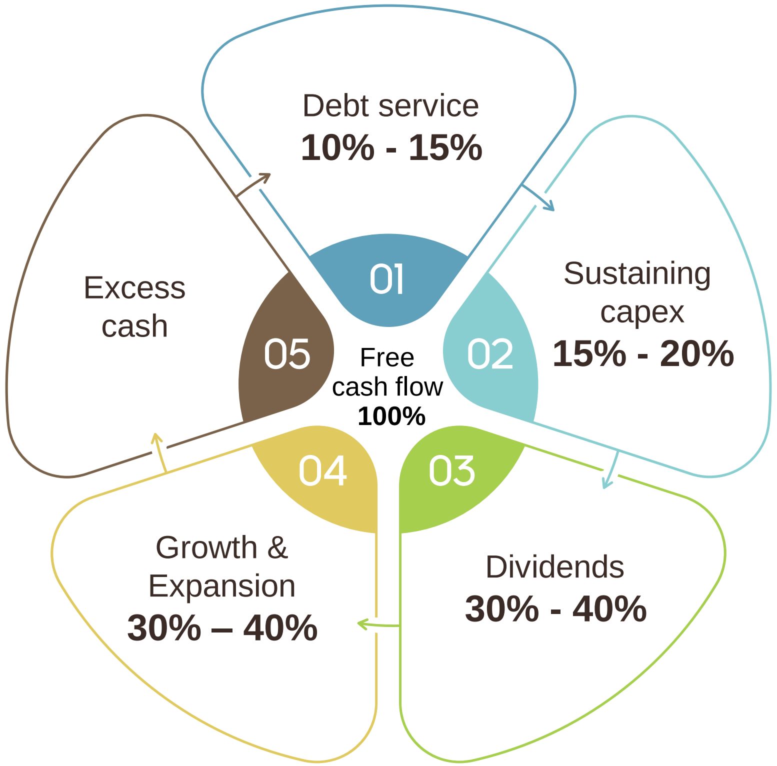
- **Amakhala** – 80% geared
- **Tsitsikamma** – 75% geared
- Non-recourse debt after completion (limited recourse until that point)
- Financing tenor 15 years – tail in relation to the 20-year REIPPPP PPA##

** Renewable energy ** Distributed generation # Renewable Energy Independent Power Producer Procurement Programme ## Power purchase agreement*

Strong free cash flow generation

R million	FY18	FY19	FY20
Free cash flow*	**8 804**	**12 888**	**9 942**
Debt service	(289)	(269)	(1 113)
Sustaining capex	(2 847)	(2 502)	(2 225)
Ordinary dividend paid	(5 730)	(7 203)	(4 012)
Cash flow before growth	**(62)**	**2 914**	**2 592**
Growth and expansion capex	(3 274)	(4 152)	(3 151)

FY21 – FY30 indicative range



WITHIN TARGET OF NET DEBT : EBITDA < 1.5 TIMES

* *Free cash flow includes cash from Coal and new investments in Energy and Minerals operating activities, dividends received (includes SIOC dividend), proceeds from disposals and tax paid after working capital changes*

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Impact of future strategy on capital allocation

Coal

- **Continue with early value strategy**
  - ✓ Strong cash flow generation
  - ✓ Exit ECC & Leeuwpan
- **Stay-in-business capital of R2.0 - R2.5 billion* p.a.**
- **Complete GG6 expansion project in FY22**
  - ✓ R824 million – FY21
  - ✓ R142 million – FY22
- **Returns = WACC x 1.5 times**

2030 Group EBITDA contribution[#]:

45%

Energy

- **2nd largest SA-owned** renewable IPP at 231 MW
- Targeting **3 000 MW** net generation capacity by **2030**
- Total **capital deployment** of **R45 billion*** (1/3 equity and 2/3 debt)
- Peak **EBITDA of R6.2 billion***
- **Portfolio returns delivering Equity IRR = 15%**

2030 Group EBITDA contribution[#]:

30%

Minerals

- **Acquisitive growth targeting 50% of Coal EBITDA by 2030**
- **Returns = WACC x 1.5 times**

Mineral investments**

- **Explore opportunities to maximise** value of investment in iron ore through shareholding in SIOC
- **Exit zinc market** through Black Mountain divestment

2030 Group EBITDA contribution[#]:

25%

STRONG GOVERNANCE AND PROJECT EVALUATION PROCESS

** Real terms   ** Income from equity-accounted investments not included in EBITDA   [#] Aspirational contribution*

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WACC and targeted returns

WACC

- Key metric for decision making
- Under review for Minerals and Energy
- Energy WACC should be lower
  - ✓ Higher gearing potential through project finance
  - ✓ Lower beta due to predictable cash flow
  - ✓ 3% to 5% lower than for Minerals

TARGETED RETURNS

Energy

- Equity IRR of 15% on portfolio
- Long-term predictable cash flow
- Less volatile on risk adjusted basis
- RE companies trading at higher EBITDA multiples than Minerals

Minerals

- WACC x 1.5 times
- Favourable supply/demand fundamentals
- Targeting cash generative assets
- Synergistic opportunities
- Cyclical

Societal returns through decarbonisation

DISTINCTIVELY DIFFERENT BUSINESSES AND RISK PROFILES

Strict financial evaluation process

Capital and investment

Inception → Capital allocation and portfolio optimisation → Capital approval process → Value engineering and assurance → Execution → Post implementation reviews

Centralised capital allocation

- Affordability testing
- Covenant compliance
- Base case and scenarios
- Technical and financial reviews

Standardised evaluation process

- Macro economic and price forecast function under Finance
- Standardised financial modelling methodologies
- Assumptions reviewed at least bi-annually
- Projects evaluated independent from project sponsor

Evaluation of range of outcomes

Prices	NPV
Cost	IRR / Equity IRR
Capital	EBITDA margin
Exchange rates	Payback
Volumes	Scenario analysis

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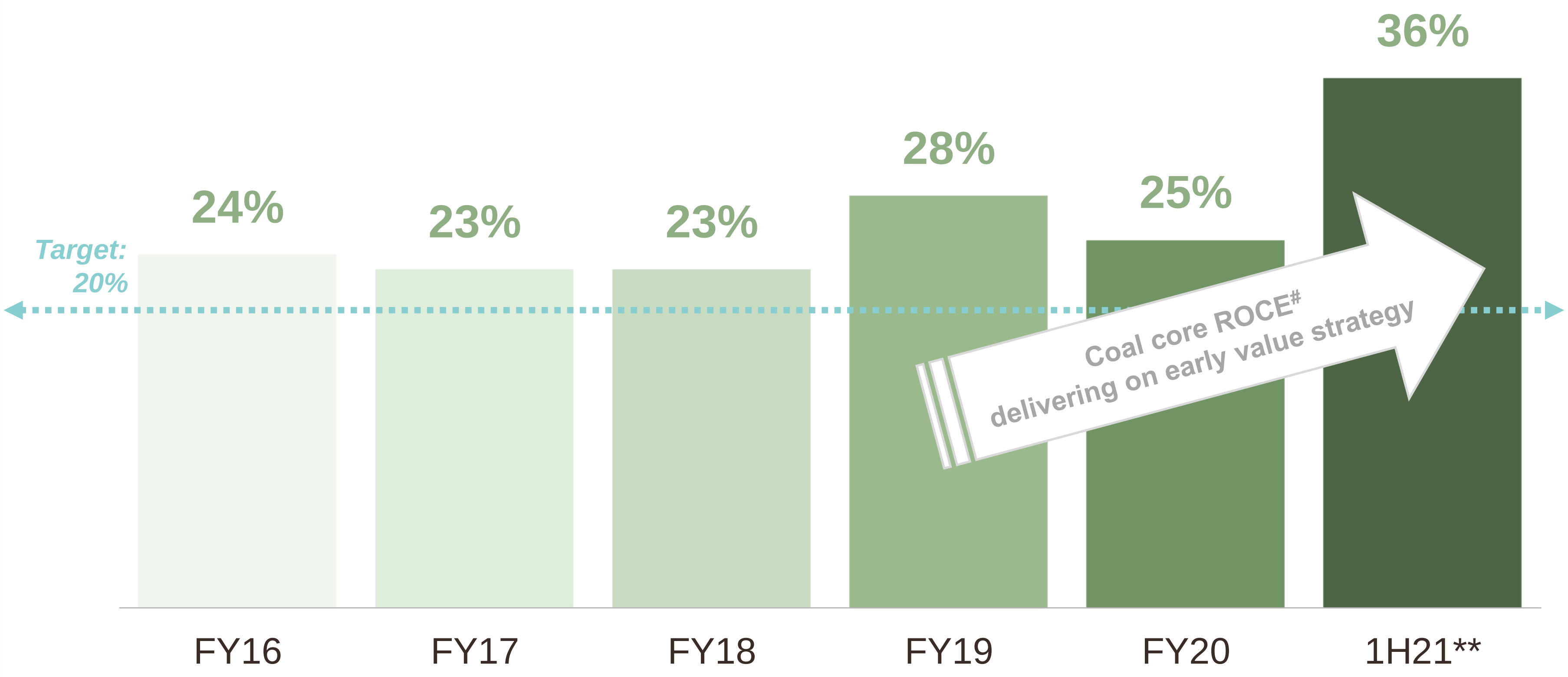
Return on capital employed* (ROCE)

Historical ROCE above 20% target

Coal early value strategy of WACC x 1.5 times
Disposal of non-core coal assets

Minerals investments to generate returns of WACC x 1.5 times

Energy investments to generate returns of Equity IRR of 15%



Combined group ROCE still expected to exceed our target of > 20% in the medium term

* *Return on capital employed: Net operating profit plus income from both equity-accounted and non-equity-accounted investments, as a percentage of the average invested capital*

** *Measured over 12-month period from 1 July 2020*

\# *Coal core ROCE includes intercompany funding and coal earnings is adjusted for non-core items*

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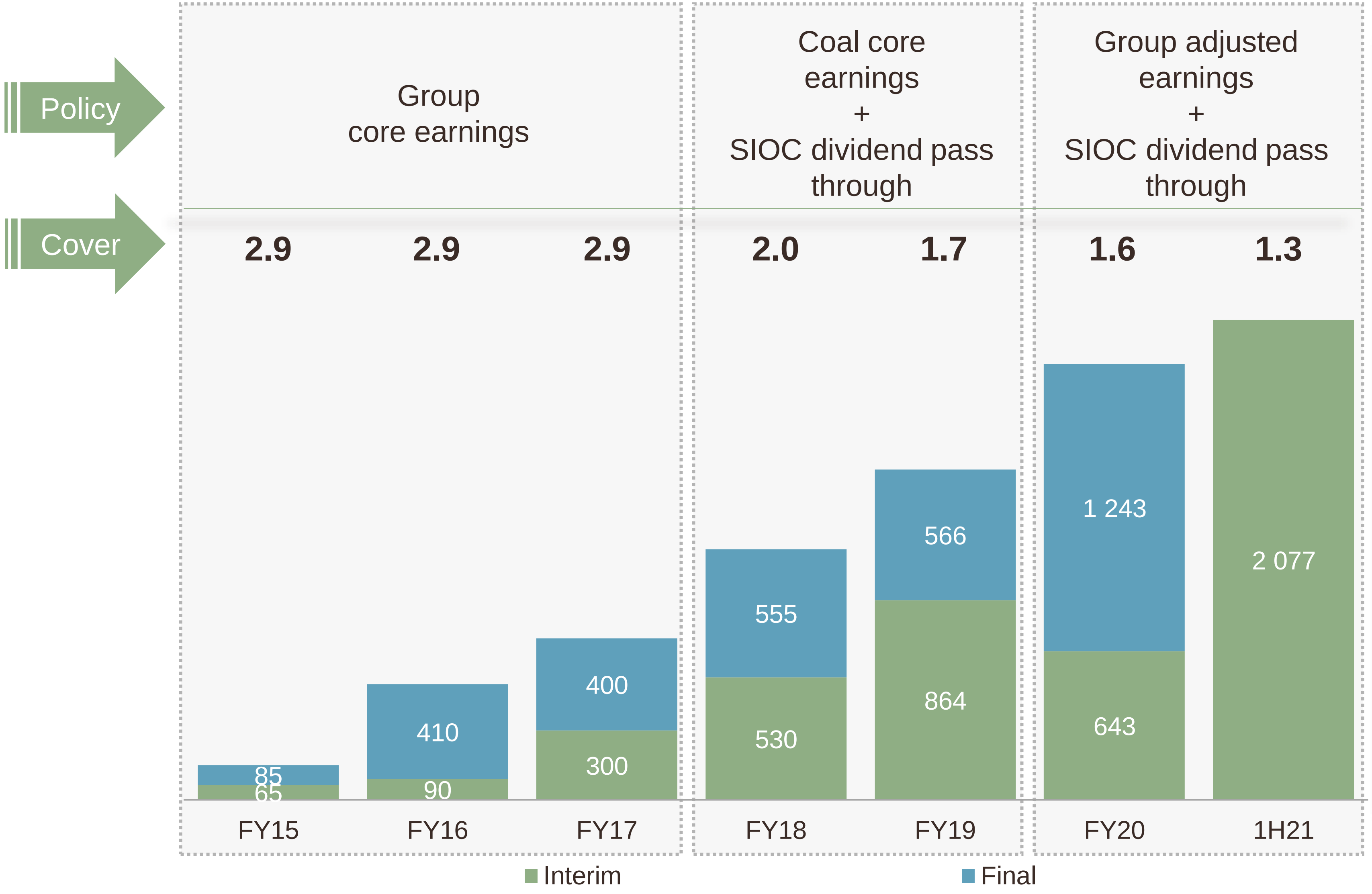
Dividend policy expected to remain the same



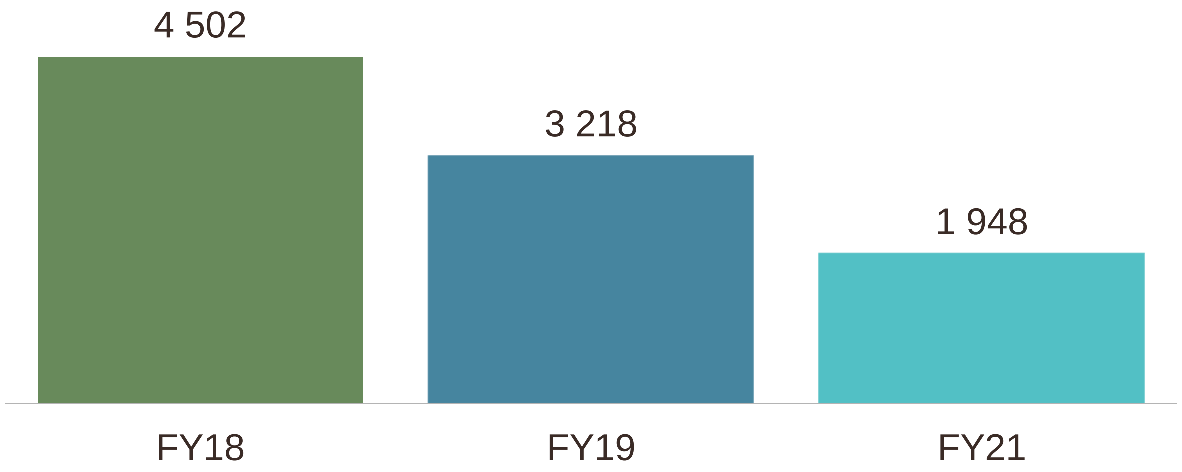
Dividend calculation: 1H21	Rm
Net profit after tax:	**10 586**
Less:	
SIOC equity-income	(6 321)
Non-core adjustments	(1 834)
Non-controlling interest of subsidiaries	33
Adjusted earnings	**2 464**
Cover ratio	2.5
Exxaro dividend (excluding SIOC)	986
SIOC dividend received	6 329
Total dividend payable	**7 315**

Excess cash returned to shareholders

Special dividend paid = R9.7bn

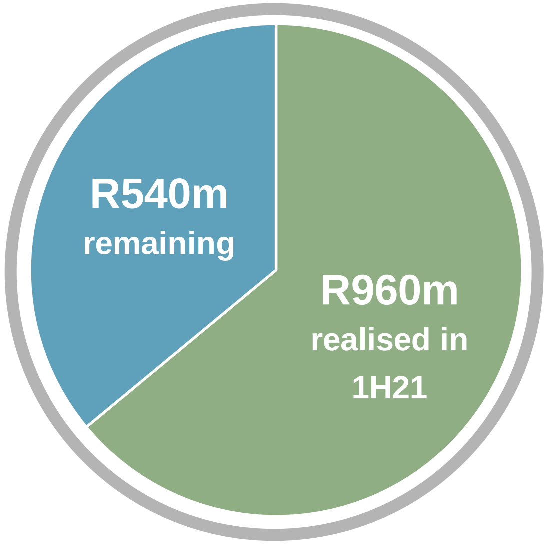
Proceeds from sale of investment in **Tronox** shared with stakeholders through payment of **special dividends**

R million



Share buy-back = R1.5bn

Exxaro favours share repurchases over special dividends whenever Exxaro management is of the view that the Exxaro **share price** is trading **below its intrinsic** value which increases earning per shares and is generally considered value enhancing to non-exiting shareholders.



The share buy-back program is subject to pre-agreed parameters including pricing and maximum daily participation

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Summary

R17 billion **Coal growth program** substantially completed mainly on time and budget

Robust Coal portfolio with **high earnings** potential

Good progress on **disposal** of non-core assets

- Monetisation of **Tronox** investments (incl. Tronox SA flip-in option)
- Disposal of **ECC** concluded
- Disposal of **Leeuwpan** in progress
- Relaunch disposal process of **Black Mountain** shareholding

Higher shareholder returns prioritised through revised capital allocation framework implemented in 2018

Robust process embedded to **evaluate growth opportunities** (incorporating lessons learned from the past)

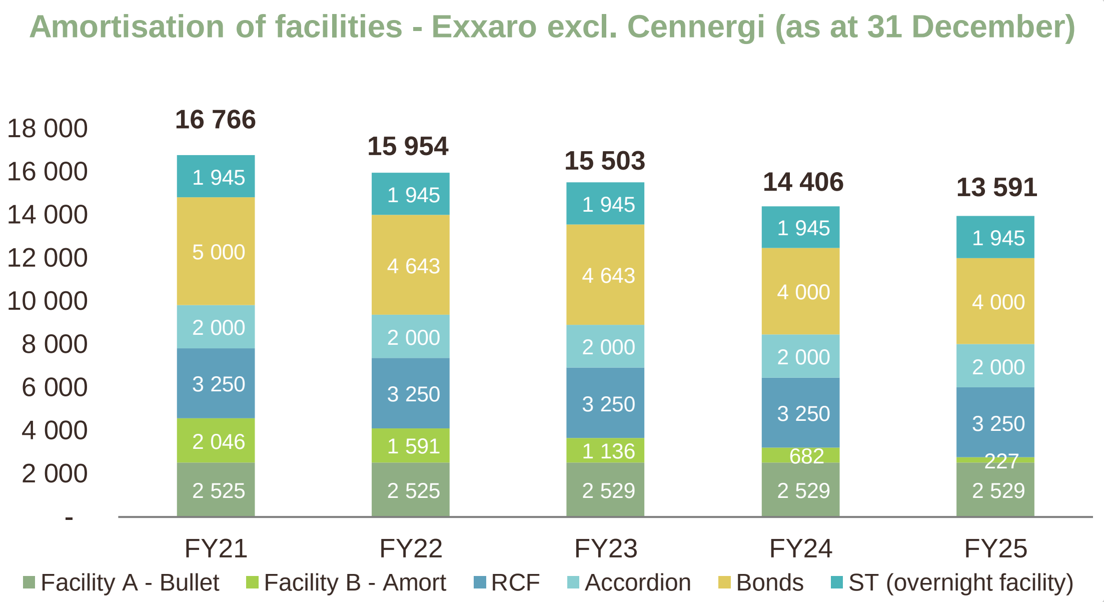
Dividend policy remains unchanged

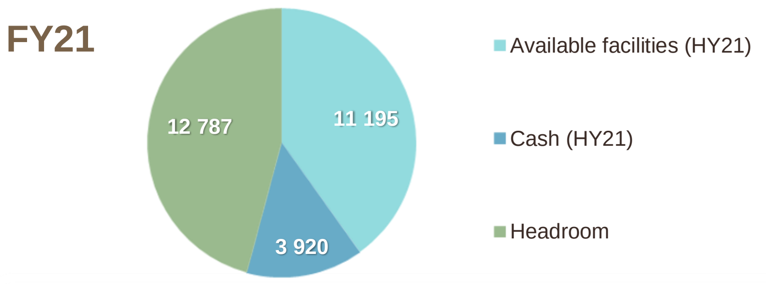
Thank you

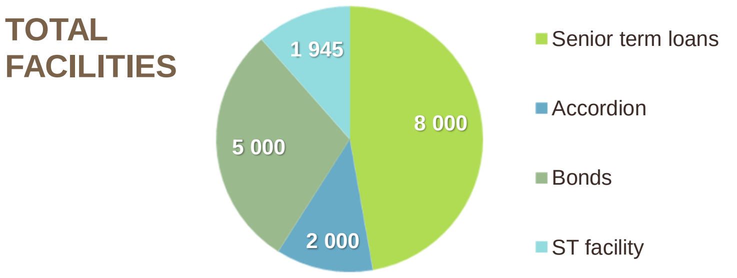
Additional information

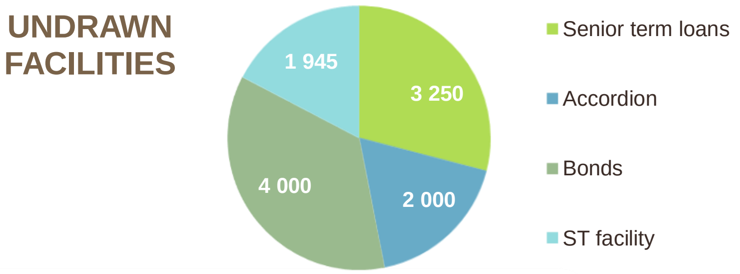
Debt service | Borrowing facilities available

Description	Facility (R'million)	Undrawn (R'million)	Final maturity	Pricing
Senior term loans	8 000	3 250	30 April 2026	3-months Jibar + 2.40%
Facility A – bullet	2 500		30 April 2026	3-months Jibar + 2.30%
Facility B – Amort	2 250			
Revolving credit facility	3 250	3 250	30 April 2026	3-months Jibar + 2.65%
Option to increase term loans (accordion facility)	2 000	2 000		
3-year note (Bond)	357		June 2022	3-months Jibar + 1.65%
5-year note (Bond)	643		June 2024	3-months Jibar + 1.89%
Medium term note (Bond)	4 000	4 000		
Short-term – (overnight facility)	1 945	1 945		
Total	**16 945**	**11 195**		







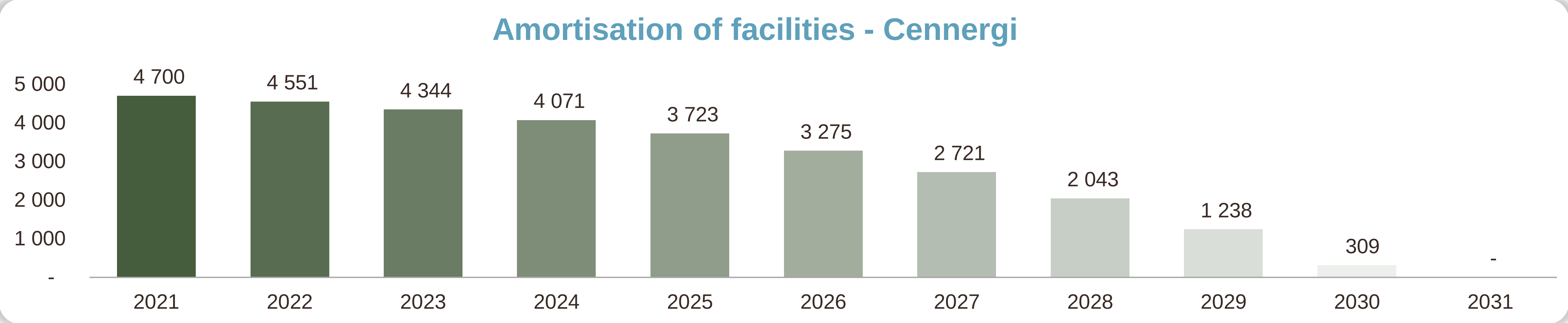


NOTES:

- Exxaro refinanced its facilities at the end of April 2021.The new facility will be in place for a period of 5 years
- The bond programme has been registered but needs to be activated and utilisation will only be considered if pricing is favourable
- 3-year and 5-year notes issued in 1H19

Debt service | Cennergi facilities available*

Description	Facility (Rm)	Undrawn (Rm)	Final maturity	Pricing
Tsitsikamma SPV loan facility	1 896	122	31 December 2030	3-month Jibar + 2.64%
Amakhala SPV floating rate facility	2 760	273	30 June 2031	3-month Jibar + a margin ranging between 3.59% and 6.81%
Amakhala SPV fixed rate facility	158		30 June 2031	All in margin ranging from 3.71% to 6.81% plus 9.46%
Total Cennergi facilities	**4 814**	**395**		



NOTE:

The Cennergi debt is without recourse to the Exxaro balance sheet, but consolidated as Cennergi is an Exxaro subsidiary

* *As at 31 December 2021*

Debt service | Exxaro total facilities

Amortisation of facilities – Exxaro (as at 31 December)