



Understanding our business

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Our Sustainable Growth and Impact strategy has been designed to transform Exxaro into a diversified company that will transition from a coal base to a minerals and renewable energy business while maximising the value of our coal assets.

TRANSITIONING OUR ASSETS

This chapter provides an overview of our business. It provides insight into the areas we operate and impact, the assets we use to create value and the operating context that impacts us. It explains how we plan to transition our business in consideration of these variables, to ensure our resilience and long-term relevance.

Chairperson's statement

Final dividend declared

1 175 cents
per share

Total ordinary dividends
for 2021

3 252 cents
per share



Geoffrey Qhena
Chairperson

The performance of the business in 2021 was particularly robust against a tough macro-economic context, subdued growth prospects, the ongoing pandemic, logistics constraints and global climate change concerns from a physical and transitional perspective. As we head into 2022, the operating environment continues to be challenging. However, as an organisation, Exxaro embraces these challenges as an opportunity to better reflect on how we do business and support our stakeholders. In this way, we can address their concerns and position ourselves for the future, ensuring we continue to deliver long-term value.

POSITIONED FOR A RESPONSIBLE TRANSITION

Through our Sustainable Growth and Impact strategy, Exxaro is committed to supporting the just transition to a lower-carbon economy. Our strategy is designed to transform Exxaro into a diversified company that will transition from a coal base to a minerals and renewable energy business while maximising the value of our coal assets. Integral to our strategy is the understanding that we must create sustainable impact in the communities where we operate by leveraging Exxaro's Impact at Scale model, which seeks to lead better and bigger development initiatives.

Over the past two years, these goals have materialised with the acquisition of Cennergi – which forms the foundation of our energy business as we seek to become a leading renewable energy solutions provider locally and internationally.

FROM STRATEGIC OVERSIGHT TO IMPLEMENTATION

As a board, we support the strategic direction of the organisation and recognise our role in providing oversight and insight while assuming accountability. The process to develop Exxaro's strategy was robust and involved thorough engagement with leading experts and relevant stakeholders. As we move into the implementation phase, we have reviewed and updated the governance structures that support the delivery of our strategy.

Our board committees' terms of reference and delegation of authority framework were revised to enable agile decision making in the minerals and energy businesses while maintaining decentralised decision making in the coal business. Going forward, we will implement key performance indicators (KPIs) that ensure transparent reporting of measurable outcomes.

True to our commitment to transition at speed and scale, and in accordance with our capital allocation framework, specific actions in 2021 included disposing of our shares in Tronox and our equity interest in Exxaro Coal Central Proprietary Limited (ECC*) to fund our investment in renewable energy projects, to repay debt and return value to shareholders. In addition, we concluded a share buyback of R1.5 billion.

PURPOSE-DRIVEN BOARD

A key enabler of the delivery of our strategy is having the right skills, structure and rigour at board level to support decision making. As such, the board reviewed the focus areas of its committees and subsequently updated their terms of reference and names to reflect their responsibilities more accurately. The sustainability, risk and compliance committee was renamed the risk and business resilience (RBR) committee to include oversight of strategic, financial and operational business resilience. The social and ethics committee was renamed the social, ethics and responsibility committee (SERC) to ensure ESG-related issues receive the appropriate level of focus.

The structure and diversity of our board supports engagement and decision making, and we have succession strategies that address continuity, skills and diversity gaps. With this in mind, we made several changes to our board during the year. On 1 February 2021, we appointed Chanda Nxumalo as an independent non-executive director. Chanda brings 15 years' experience in the renewable energy and power sectors. Mandlesilo (Mandla) Msimang – a seasoned executive with experience in governance,

* Divestment concluded in September 2021.

When I was appointed to Exxaro's board on 19 April 2021, I joined a visionary company with a board dedicated to powering better lives in Africa and beyond. I thank my predecessor, Jeff van Rooyen, for the governance tone and framework he established, and look forward to working with my fellow board members who are committed to sharing their knowledge, skills and experience for the sustainability of the business.

information and communications technology regulations and policy – was appointed as a non-executive director on 15 March 2021. Isaac Malevu, appointed as a non-executive director on 22 June 2021, is a chartered accountant, the current chief financial officer of the Industrial Development Corporation (IDC) and brings a wealth of experience to the board.

Post-year end, we appointed Phumla Mnganga, Karin Ireton, Billy Mawasha and Ben Magara to the board as independent non-executive directors with effect from 7 February 2022. Phumla is experienced in human resource development and change management, and sits on various South African boards. Karin is an international sustainability specialist with exposure to coal power generation, mining and the banking sector. Billy comes with strong operational and technical leadership experience in the mining sector as well as strategic investment and technical leadership skills he shares with other companies. Ben is a highly skilled mining veteran who has led large companies with skills in underground and surface operations management. We look forward to the diversity of thinking and rigour they will bring.



To see our board's detailed curricula vitae, refer to our ESG report on page 150.

SUCCESSION WITH INTENT

Any changes in leadership can often be challenging for a business, and transitions must always be done in a way that is measured and meaningful. The responsible approach Exxaro followed in our CEO succession is designed to ensure smooth progression and continuity of our strategic goals.

We are grateful for the invaluable leadership of Mxolisi Mgojo, our CEO, who has driven the development of our Sustainable Growth and Impact strategy in a challenging time, and ensured the operational success of Exxaro with remarkable resilience.

As part of our carefully considered succession planning, our CEO designate, Nombasa Tsengwa, will assume the CEO role effective 1 August 2022, having headed our coal operations since 2016 and serving as managing director of our minerals business since July 2020, ensuring a smooth and phased handover of duties and responsibilities.

CLOSING

I would like to express my appreciation to our board, management and employees who make Exxaro a leading mining and energy solutions company, especially in the fields of decarbonisation and renewable energy. I would like to thank Mark Moffett, who resigned from the board in May 2021, and Ras Myburgh who retires in 2022. Both Mark and Ras have made an enormous contribution to the Exxaro board, and we wish them well in their future endeavours.

Our board remains committed to implementing Exxaro's Sustainable Growth and Impact strategy, and responsibly managing our transition and expansion into other minerals sectors, commodity markets and territories with our purpose to power better lives in Africa and beyond without value destruction.

Geoffrey Qhena
Chairperson

4 April 2022

Positioning Exxaro for sustainable growth and impact

As we entered the final phase of our previous strategy, successfully concluded in 2020, we reflected on our purpose, prospects and social obligations in our changing operating context. Through this process of reflection and careful consideration, we have clearly identified our future path to achieve our vision for *resources powering a clean world*.

FORCES SHAPING OUR STRATEGY

Understanding the narrowing opportunity and the growing exogenous risk as the world accelerates to a net zero carbon economy

We have long understood the need to balance the country's socio-economic development, which relies on coal generated power, with the need to support the transition towards a low-carbon economy to reduce carbon emissions and the harmful impacts of climate change, thus contributing to humanity's sustainability. These are major changes that will raise future challenges and increase external risks for those who do not adapt but will present significant opportunities for those who are able to evolve.

Climate change

Climate change increases competition between communities for scarce resources like water and biodiversity while factors such as rising heat increases the risk of safety and health incidents in our operations.

Energy transition

The growth in disruptive technology in the energy sector has potential to displace our business in the medium to long term.

Just transition

The transition towards a low-carbon economy has significant socio-economic implications for our business and the communities we operate in.

Stewardship

Our coal assets do not belong to us. We are stewards of responsibly maximising their value. We have a responsibility to use these coal assets to build a sustainable business for our investors, employees and communities, and a sustainable future for the planet.

TRANSITIONING TO A RESILIENT, DIVERSIFIED RESOURCES COMPANY

Minerals business



Coal

Early value coal to maximise our high-quality assets

- Continue to contribute to energy security in South Africa and beyond
- Decarbonising will further strengthen our existing competitive advantage and extend the horizon of our coal business

Minerals

Diversify into minerals supporting a low-carbon future

- Diversify earnings and contribute to Exxaro's growth
- Clearly defined investment criteria that ensure we invest in the right opportunities within geographies where we can execute
- Balance sheet and capabilities provide a competitive advantage

Energy business



Renewable energy

Build a leading global renewable energy solutions business by 2030

- Own one of South Africa's leading managers of renewable assets and one of its largest wind asset bases
- Strategy underpinned by three interdependent pillars: utility generation, distribution generation and services
- Long-term stability to Exxaro's cash flow

Sustainable impact is at the core of our purpose and future

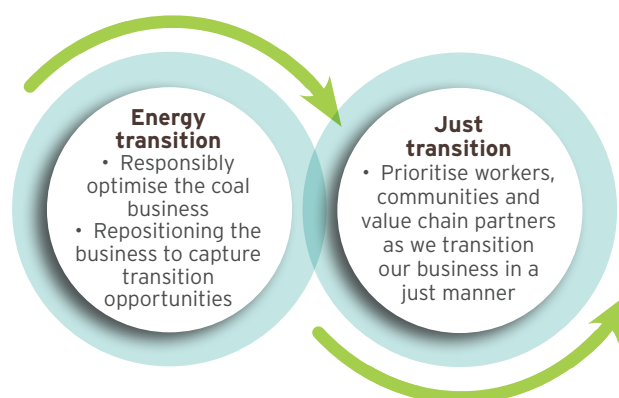
- Commitment to invest in and support the resilience of society in the just transition
- Remain a responsible custodian of the assets entrusted to us, as evidenced in our ESG performance
- Balancing acceptable value distribution to shareholders with investment for the long term for all stakeholders
- Operate our businesses with social and environmental stewardship

Our Sustainable Growth and Impact strategy aims to transform Exxaro in a systematic and integrated manner into a diversified company that will transition from a coal base to a minerals and renewable energy business that will thrive in a low-carbon future.

OUR RESPONSE

The transition imperative

To responsibly enter a carbon-constrained future given our base as a carbon-intensive coal asset, our approach involves:



Sustainable

- Responding to the growing threat of the low-carbon transition by building climate resilience
- Carbon neutrality by 2050
- Reduce climate-related risk and maximise runway of our assets
- Deliver positive social impact
- Resilient and enduring
- Building an enduring business

Growth


- Diversify minerals business towards commodities for a clean world
- Grow renewable energy business and further develop existing capabilities
- Strategic priorities supported by disciplined capital allocation and a robust investment process

Impact

- Use our established ESG performance platform to become a catalyst for sustainable economic and environmental development in our ecosystem
- Delivering social and environmental Impact at Scale
- Minimise environmental harm and provide a just transition for workers and communities

STRATEGIC OBJECTIVES



 For further detail on our strategy, strategic development process and performance against our objectives, please see our strategy section on page 66.

About Exxaro

Exxaro has two decades of experience in mining, energy and ESG.

We have a diversified asset portfolio comprising interests primarily in coal, a growing renewable energy solutions business and equity-accounted investments in ferrous (iron ore) and zinc. We have plans to invest and diversify into manganese, bauxite and copper.

ASSETS:

R75.7 billion
at 31 December 2021
(2020: R78.6 billion)

Five
Coal mines

Two
Windfarms

30.81%
Black-empowered

COAL PRODUCTION:

42.5Mt
in 2021
(2020: 47.4Mt), including buy-ins of 0.2Mt (2020: 0.3Mt), reflecting contributions from our expanded flagship Grootegeluk mine

Constituent of the JSE Top 40 Index

RENEWABLE ENERGY GENERATION:

724GWh

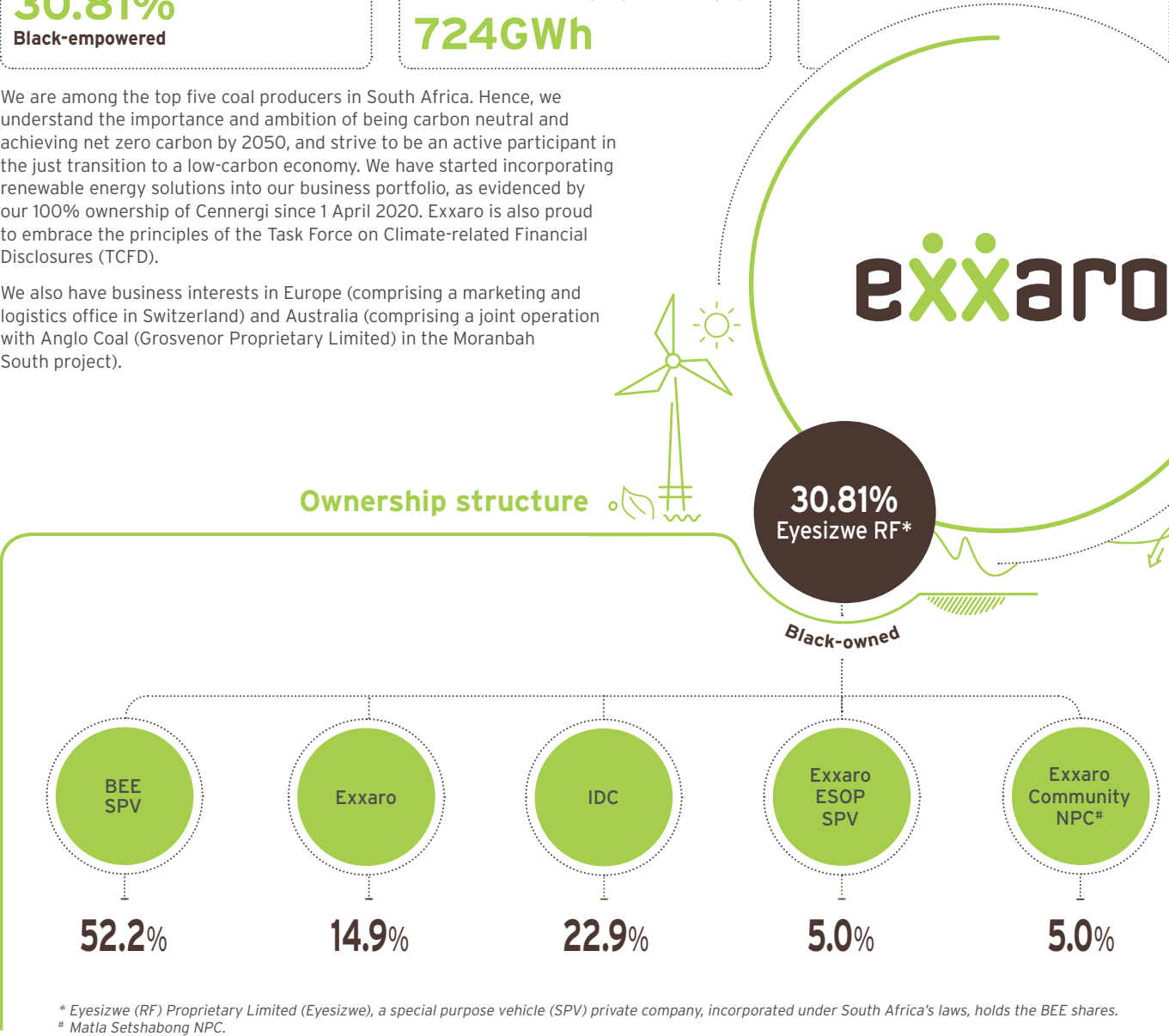
MARKET CAPITALISATION:

**R53.4 billion/
US\$3.4 billion**
in 2021
(2020: R50 billion/US\$3.4 billion)

Among the top 30 in the FTSE/JSE Socially Responsible Investment Index

We are among the top five coal producers in South Africa. Hence, we understand the importance and ambition of being carbon neutral and achieving net zero carbon by 2050, and strive to be an active participant in the just transition to a low-carbon economy. We have started incorporating renewable energy solutions into our business portfolio, as evidenced by our 100% ownership of Cennergi since 1 April 2020. Exxaro is also proud to embrace the principles of the Task Force on Climate-related Financial Disclosures (TCFD).

We also have business interests in Europe (comprising a marketing and logistics office in Switzerland) and Australia (comprising a joint operation with Anglo Coal (Grosvenor Proprietary Limited) in the Moranbah South project).



Our company is rooted in South Africa and respected by our peers for innovation, ethics and integrity.



MINERALS

Minerals

100%* ownership: Coal

Our core operation is thermal, semi-soft coking and metallurgical coal mining, supplying Eskom, other domestic markets and offshore markets

Our **coal mining business** (including Reductants) is structured under five legal entities, all managed and operated by Exxaro, supplemented by a joint venture for the Mafube operation and an equity interest in Richards Bay Coal Terminal Proprietary Limited (RBCT)

Base metals

26% equity interest: Black Mountain

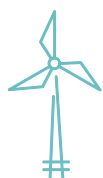
Black Mountain operates two underground mines and a processing plant in the Northern Cape producing zinc and other minerals

We continue evaluating our options to dispose of our shareholding in Black Mountain following the suspension of the sale in December 2020

Ferrous

20.62% equity interest: SIOC

SIOC is a leading supplier of high-quality iron ore to the global steel industry and a subsidiary of Kumba Iron Ore



ENERGY

Renewable energy

Our renewable energy business consists of 239MW of wind generation assets in the Eastern Cape that contribute to national energy supply

100% ownership

Cennergi

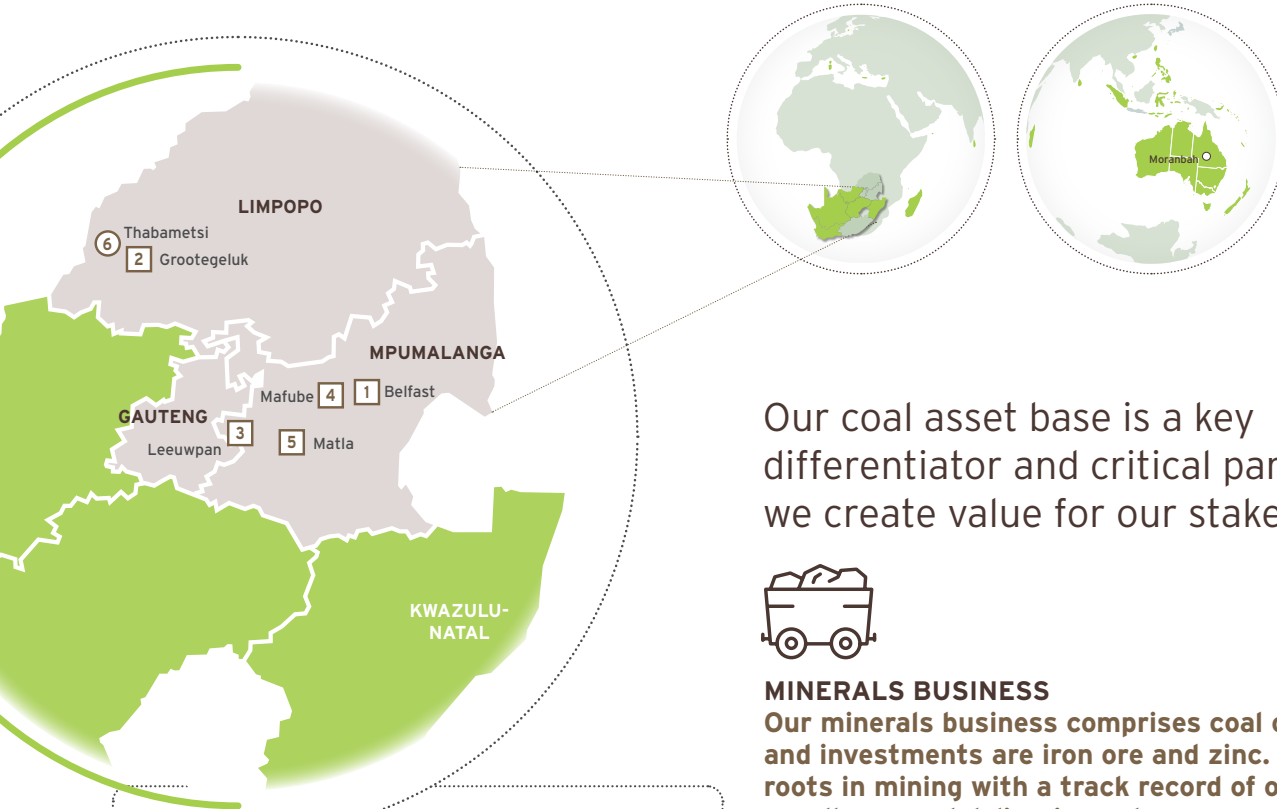
Our renewable energy business

* Includes 50% joint control of Mafube.

About Exxaro continued

Our coal asset base is a key differentiator and critical part of how we create value for our stakeholders.

OUR ASSET LOCATIONS



Our coal asset base is a key differentiator and critical part of how we create value for our stakeholders.



MINERALS BUSINESS

Our minerals business comprises coal operations and investments in iron ore and zinc. We have deep roots in mining with a track record of operational excellence and delivering value.

MINERAL ASSETS

Coal mining is our primary business, structured under five legal entities that we manage and operate. We also have a:

- 50% joint venture with Thungela Resources Limited in the Mafube operation
- 10.26% effective equity interest in RBCT
- 26% effective equity interest in Black Mountain
- 20.62% effective equity interest in SIOC

Mining operations South Africa

Location

1	Belfast	South of Belfast
2	Grootegeluk complex	West of Lephalale
3	Leeuwpán*	South-east of Delmas
4	Mafube (50%)	East of Middelburg
5	Matla	West of Kriel
6	Thabametsi project ¹	West of Lephalale

□ Mine ○ Project

Australia

Location

○ Moranbah South project (50%) ²	Queensland
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* Divestment process underway.

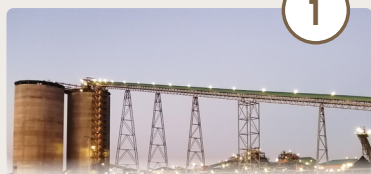
¹ Not undertaken as Thabametsi Coal IPP has been suspended.

² Undertaking pre-feasibility study to inform decision for development prospects.

- Largest high-quality Coal Reserves remaining in the country, providing a platform for early value returns
- Largest supplier of energy coal to Eskom and ArcelorMittal South Africa Limited (AMSA)
- Five managed coal operations (including 50% share of Mafube) produced 42.5Mt of thermal and metallurgical coal (2020: 47.4Mt), down 10% in 2021 – the majority of power station coal is supplied to Eskom
- Grootegeluk is acknowledged as one of the largest integrated mining and beneficiation operations globally, running the world's largest coal beneficiation complex, and the only producing mine in the coal-rich Waterberg, adjacent to Eskom's Matimba and Medupi power stations – Grootegeluk's capacity is expanding by 7% (1.7Mtpa) with the double-stage beneficiation plant, Grootegeluk 6 (GG6) and new rapid load-out station to enhance the growth of our export sales volumes
- As at 31 December 2021, 82% of the R17.5 billion capital expenditure was spent on greenfield and brownfield expansion and sustaining projects (2020: 74%)

Only mineral assets with Measured and Indicated Resources are listed. Inferred Resources are reported in the supplementary CMRR report.

1



BELFAST

Location: South of Belfast

Market: Export

Product: Thermal coal

Coal Resources (inclusive):

- Measured: 68.3Mt
- Indicated: 19.9Mt

Coal Reserves:

- Proved: 37.5Mt
- Probable: 2.4Mt

Mining method: Open-cut

Run of mine (RoM): 2.8Mt

Life of mine (LoM): 12 years

2



GROOTGELUK COMPLEX

Location: West of Lephalale

Market: Domestic and export

Product: Thermal and metallurgical coal

Coal Resources (inclusive):

- Measured: 2 481Mt
- Indicated: 1 421Mt

Coal Reserves:

- Proved: 1 682Mt
- Probable: 898Mt

Mining method: Open-cut

RoM: 51.5Mt

LoM: 20+ years*

3



LEEUPPAN

Location: South-east of Delmas

Market: Domestic and export

Product: Thermal coal

Coal Resources (inclusive):

- Measured: 77.9Mt

Coal Reserves:

- Proved: 40.2Mt
- Probable: 3.2Mt

Mining method: Open-cut

RoM: 4.0Mt

LoM: 8 years

4



MAFUBE (50%)

Location: East of Middelburg

Market: Domestic and export

Product: Thermal coal

Coal Resources (inclusive):

- Measured: 104.3Mt
- Indicated: 9.9Mt

Coal Reserves:

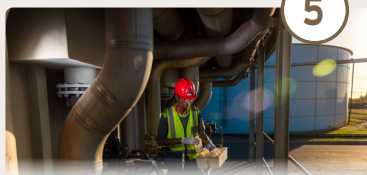
- Proved: 26.7Mt
- Probable: 23.0Mt

Mining method: Open-cut

RoM: 5.2Mt

LoM: 10 years

5



MATLA

Location: West of Kriel

Market: Domestic (Eskom)

Product: Thermal coal

Coal Resources (inclusive):

- Measured: 639Mt
- Indicated: 114Mt

Coal Reserves:

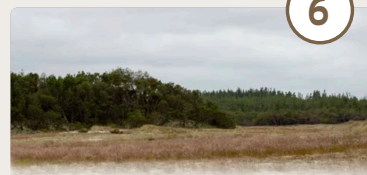
- Proved: 124Mt
- Probable: 38Mt

Mining method: Underground

RoM: 5.9Mt

LoM: 3+ years*

6



THABAMETSI

Location: West of Lephalale

Market: Domestic

Product: Thermal coal

Coal Resources (inclusive):

- Measured: 270Mt
- Indicated: 749Mt

Coal Reserves (inclusive):

- Probable: 130Mt

Mining method: Open-cut

RoM: Project

LoM: 25 years

* Adequate Reserves well beyond expiry of mining right.

About Exxaro continued

Our energy business comprises interests in renewable energy through our wholly owned subsidiary, Cennerg.

Renewable energy assets

Cennerg is a southern African-based diversified independent power producer (IPP) that focuses on asset management and the development, ownership, operation as well as maintenance of its own renewable energy projects and some owned by other companies. Cennerg has two established wind projects in the Eastern Cape (the Tsitsikamma community windfarm (95MW) and Amakhala Emoyeni (134MW)), which reached commercial operation in 2016. The energy business is also planning the development of the 70MW Lephalale Solar Project in a ringfenced SPV that will supply renewable energy to our Grootegeluk complex, reducing our carbon footprint and electricity costs.

The two windfarms are SPV companies with no management or employees. Cennerg provides full business, project execution and operations management services under separate management service agreements. Cennerg is responsible for the windfarms' environmental and social management and implementation of SPV commitments, and ensures adherence to applicable environmental, social, legal, regulatory and corporate requirements.

Our investments in renewable energy will enable us to deliver on our strategy, detailed on page 66.

	Renewable energy operations South Africa, Eastern Cape	Location
7	Tsitsikamma community windfarm	Tsitsikamma
8	Amakhala Emoyeni	Cookhouse

7

TSITSIKAMMA COMMUNITY WINDFARM

Location: Near Tsitsikamma in the Eastern Cape

Capacity: 95MW

Number of turbines: 31 x 3.1MW

Performance: Achieved generation output in line with P50 targets since 2016

Customer: Eskom

Power purchase agreement: 20 years

Commercial operation: 2016

Shareholding: Cennerg (75%), RE Times (16%) and the Tsitsikamma Development Trust (9%)

8

AMAKHALA EMOYENI

Location: Near Bedford and Cookhouse in the Eastern Cape

Capacity: 134MW

Number of turbines: 56 x 2.4MW

Performance: Consistent performance since 2016, albeit at lower than planned P50 generation numbers

Customer: Eskom

Power purchase agreement: 20 years

Commercial operation: 2016

Shareholding: Cennerg (95%), Cookhouse Community Trust (2.5%) and the Bedford Community Trust (2.5%)

For details about our wind operations, refer to page 13 and 14.



Turbines at the Tsitsikamma windfarm

Our operating context

Exxaro's macro-economic operating context and commodity markets include global and local influences that affect our ability to create value for all our stakeholders over time.

OUR BROADER OPERATING CONTEXT: TRENDS INFLUENCING OUR BUSINESS

01

Gross domestic product (GDP) growth rates

During the second quarter of 2021, global economic activity reached an important milestone, surpassing the pre-pandemic real GDP peak attained in the fourth quarter of 2019. The global economic expansion lost momentum in the third quarter of 2021 as new waves of COVID-19 infections dampened consumer sentiment and halted production. However, after a 3.4% contraction in 2020, global real GDP is projected to increase by 5.8% in 2021; its strongest advance since 1973.

Going into 2022, the post-pandemic economic surge is expected to subside as pent-up demand is exhausted and allows for a downshift in global real GDP expansion. The withdrawal of fiscal and monetary policy stimuli will weigh on growth as governments contain spending and contend with higher debt burdens. COVID-19 vaccination rates are expected to increase further and, barring any renewed infection rate increases, enable affected economies to reopen.

Global GDP: 5.8% (2020: -3.4%)

REAL GDP GROWTH RATE (%)

	2022 forecast	2021	2020
World	3.3	5.8	(3.4)
US	3.3	5.7	(3.4)
Eurozone	2.4	5.4	(6.4)
China	5.1	8.1	2.3
India	6.4	8.8	(7.5)
South Africa	1.7	4.9	(6.4)

Source: IHS Markit, January 2022.

The pandemic has strained South Africa's fiscal position with public sector debt sustainability remaining under threat. Furthermore, South Africa experienced its worst-ever year of rotational power cuts with Eskom continuing to highlight the impact of high debt burdens, illegal connections and weak cash flow. This hampered Eskom's electricity rehabilitation programme. South Africa's electricity constraints are expected to continue impacting its growth prospects into 2022.



Cause

- COVID-19 pandemic and vaccinations
- Global economic recovery and expansion
- Implementation of South Africa's economic reforms
- Global economy surpassing the pre-pandemic real GDP level
- GDP expansion recorded in 2021



Implications for Exxaro

- South Africa's energy mix and demand



Our strategic response

- Eskom as a strategic customer

GDP growth rates

01

Currency markets

02

Inflation

03

Environment issues

04

Business sentiment

05

Big data and mining

06

Decarbonisation

07

Licence to operate

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Market-related economic growth and geopolitics

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Commodity markets

10

Coal markets

10.1

Coal logistics

10.2

Iron ore market

10.3

02

Currency markets

During financial and economic turmoil, two key dynamics of the US dollar normally come to the fore: the continued role of the greenback as the dominant global reserve currency and the corresponding role played by the Federal Reserve as the “world’s central bank”, and the view that dollar assets, especially US Treasury bills and bonds, are regarded as safe havens. This was no different in 2020 and the majority of 2021. However, global risk sentiment has become more volatile during 2021, sensitive to the threat posed by mutating COVID-19 strains, higher inflation and the shifts in international monetary policies.

In South Africa, the rand strengthened remarkably on the back of strong appetite for risky assets, 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. Frequent spells of risk aversion throughout the year tended to favour the US dollar. The US\$/R exchange rate is expected to remain volatile in 2022, mainly driven by whether the surge in inflation largely reflects transitory factors.



Cause

- US dollar
- Shifts in international monetary policies



Implications for Exxaro

- Forex volatility



Our strategic response

- Rand-based pricing for certain products
- Limited hedging

03

Inflation

Product price increases continue accelerating as economies recover from the 2020 pandemic-induced recession. Beyond the base effects, several factors accounted for this surge, including increased commodity prices, sharply higher shipping costs, and supply/demand mismatches in multiple segments of the global value chains. Fundamental differences between the producer price index (PPI) and consumer price index (CPI) resulted in weaker pass-through of producer to consumer prices for the period under review.

South Africa's 2021 PPI was 7.1% while CPI was 4.5% with CPI well within the Reserve Bank policy of between 3% and 6%. However, producer prices are expected to reduce while consumer prices edge up slightly, barring any major shocks to the rand, fuel and administered prices.



Cause

- Inflationary pressures
- Supply chain disruptions



Implications for Exxaro

- Cost and revenue escalations



Our strategic response

- Inflation-linked escalations

Our operating context continued

04

Environment issues

Companies need to demonstrate their contribution to a sustainable future and assist with the long-term economic and social growth in their host communities.



Cause

- ESG became a priority for investors, shareholders and other stakeholders
- Global mining companies started integrating ESG into corporate strategies, decision making and stakeholder reporting



Implications for Exxaro

- It is imperative for us to demonstrate our ESG commitments as this impacts shareholders' assessments of our company and our social licence to operate



Our strategic response

- We publish an extensive separate stakeholder ESG report annually



For more information, refer to creating value through stakeholder engagement on page 32.

05

Business sentiment

Overall, business confidence in South Africa is improving. Amid the gradual relaxation of some COVID-19 restrictions during the second quarter of 2021, significant optimism was recorded and rose to well above pre-pandemic levels and the highest level since 2014. The civil unrest and looting in parts of the country was a temporary setback to what otherwise remained a cyclical economic recovery. Additionally, domestic coal producers and exporters were adversely impacted by logistical constraints linked to poor Transnet Freight Rail (TFR) operational performance.



Cause

- Cautious optimism



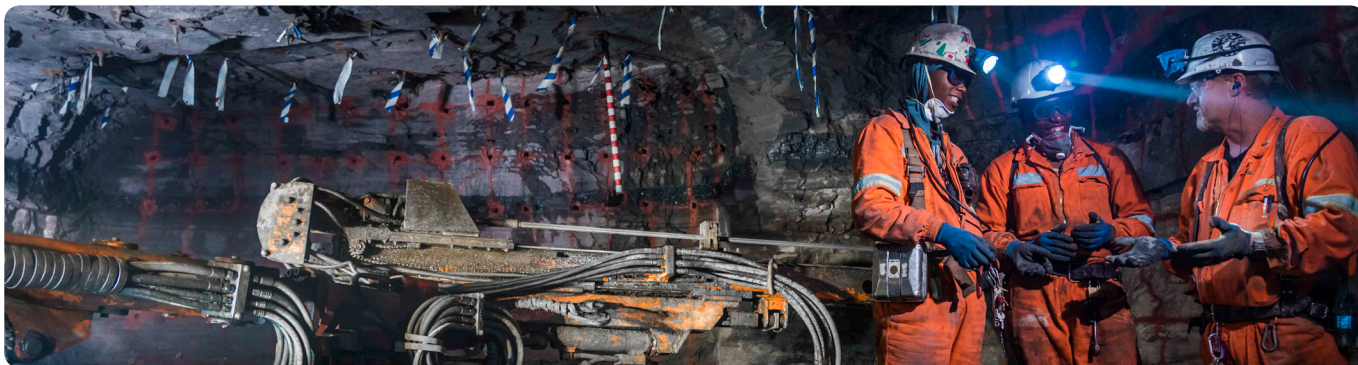
Implications for Exxaro

- Investor sentiment



Our strategic response

- Stakeholder engagement
- Market-to-resource (M2R) optimisation



Underground operations at ECC

06

Big data and mining

Companies are exploring new data-informed methods of mining, assisted by technology. This requires an understanding of the potential future workforce and the necessary skills sets.



Cause

- Digital and technological innovation opens avenues to improve productivity, safety and environmental management in the mining industry



Implications for Exxaro

- Exxaro needs to continue embracing big data to improve efficiencies and remain competitive in our environment



Our strategic response

- The Exxaro digitalisation and innovation journey is a strategic initiative driven by the CEO
- Our award-winning Digital@Exxaro programme is transforming our company culture to ensure we are more open and agile when we engage with stakeholders internally and externally



For more information, refer to Digital@Exxaro on page 121.

07

Decarbonisation

Globally, we are seeing an increase in transitional and physical climate change risks. Under the current trajectory, Exxaro expects the impact of these risks on our business to be medium to high over the next 10 to 20 years.

In response to climate change, global efforts are driving economic reforms, commitments and regulations to steer decarbonisation efforts. These include:

- The 2021 UN Climate Change Conference (COP26) summit where pledges were made to scale up clean power to achieve a transition away from unabated coal generation in support of the Paris Agreement to limit the average increase in global temperatures to below a 2°C warming pathway
- South Africa's Economic Reconstruction and Recovery Plan of October 2020 and just transition journey, which resulted in increased licensing thresholds for small-scale power generation projects (from 1MW to 100MW) to unlock private investment in the renewable energy segment and the country's economy



Cause

- COP26 held in Glasgow, Scotland, in November 2021
- Countries pledged to scale up clean power
- South Africa embarked on the just transition journey



Implications for Exxaro

- Global energy demand and transition



Our strategic response

- Invest in and expand a diversified renewable energy business
- An internal multifunctional task team is developing a decarbonisation strategy and implementation plan using the TCFD recommendations (progress and results will be presented to the market when the review process is complete)



For more information, refer to our environment on page 136.

08

Licence to operate

Stakeholders in global mining companies are expected to contribute to communities and economies, play a role in ethical supply chains and participate in combatting climate change.



Cause

- The gap between high and low-income groups has widened due to the socio-economic impact of COVID-19



Implications for Exxaro

- Companies are expected to drive a shared value framework system and demonstrate their positive contribution (important for our brand and our ability to access new resources, capital and debt)



Our strategic response

- Social investments focusing primarily on enterprise and supplier development (ESD) and community infrastructure projects
- Maintaining mutually beneficial relationships within communities where we operate



For more information refer to social licence to operate on page 132.

OUR MARKETS

During 2021, global markets were affected by fluctuations in COVID-19 infections rates, coupled with increased vaccination rates, high commodity prices, supply chain disruptions, economic recovery with inflationary pressures and a shift in energy transition policy.



Tshikondeni community members celebrate the hand-over of a new crèche

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Market-related economic growth and geopolitics

The combined effects of COVID-19 on supply chains, the global energy crunch and inflationary pressures have impacted prices and demand in global markets while demand for sized product in the domestic market remained stable. Notable events included:

- China implemented import restrictions on Australian coals
- China had a shortfall in domestic thermal coal
- China's direct price intervention softened international prices
- Europe experienced gas, carbon and coal price shocks
- The seaborne thermal coal market remained very tight with Argus/McCloskey's Coal Price Index (API4) price at a record level of US\$247/t in mid-October

**Cause**

- COVID-19 infection rate fluctuations
- COVID-19 vaccinations gaining significant momentum
- Affected economies reopening
- Global supply chain disruptions

**Implications for Exxaro**

- For more information, refer to operational performance on page 114.

**Our strategic response**

- Our interests in Black Mountain and Chifeng NFC Zinc Co Limited's refinery remain non-core
- Completed the divestment in ECC
- Formal disposal process of the Leeuwan operation is in advanced stages
- Exxaro and Anglo American are reassessing the Moranbah South coking coal project

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Commodity markets

Exxaro's commodity markets recorded strong performances in 2021 as market fundamentals remained tight before softening towards the end of the year. Key drivers during the year were COVID-19 infection rate fluctuations, supply disruptions, the global energy crunch, implementation of China's domestic policy and continued energy transition themes.

API4 coal export price averaged US\$124/t
(2020: US\$65/t)

Commodity prices (US\$/t)

Commodity	2022 forecast	2021	2020
Thermal coal (RB1)	105.00	124.12	65.20
Thermal coal (RB3)	81.57	93.08	48.88
Hard coking coal	178	227.29	123.43
Iron ore fines	86.25	159.89	109.03
Lump premium	15.00	22.58	9.68

Source: Various commodity market intelligence reports, Nov 2021 & Jan 2022.

**Cause**

- Strong performance
- China's domestic policy
- Global energy crunch

**Implications for Exxaro**

- Performance of commodity markets

**Our strategic response**

- Portfolio management

Our operating context continued

10.1

Coal markets

As the world economy recovered from the pandemic-induced slowdown and COVID-19 vaccinations gained significant momentum, global energy demand increased but disrupted thermal coal supply chains struggled to catch up. COVID-19 restrictions, wet weather, mine accidents, licence disputes, rail underperformance, protests and strikes contributed to supply disruptions.

China's ban on Australian coal imports continued to disrupt the global thermal coal market and further fuelled China's domestic thermal coal shortfall in the process.

In Europe, the price of coal, gas and liquefied natural gas (LNG), as well as Europe-specific carbon prices, increased strongly for the better part of the year. Markets were also affected by continued cold weather during April and May, lower LNG import levels, declining gas production and higher demand for thermal generation as wind power dropped to low levels. Although gas storage was required to rebalance the market, the gas supply deficit impacted Europe's coal power markets, enabling a switch from gas to coal power.

Globally, natural gas markets experienced strong demand and supply shortages. Any relief from high gas prices relies on the availability of increased gas pipeline supplies into Europe.

The factors mentioned above resulted in record thermal coal prices at one point during the year.

The demand and pricing in the domestic market for sized coal remained relatively stable in 2021. The domestic unsized coal market continued to be oversupplied due to export rail performance challenges.

Turning to hard coking coal, strong purchasing by Indian steel mills was a major contributing factor to the record premium hard coking coal spot prices in 2021. With improving supply from Mongolia and expected supply improvements from Australia, the market is anticipated to moderate into 2022, barring any La Niña-related supply disruptions.



Cause

- China's domestic thermal coal shortfall
- Chinese import restrictions on Australian coal
- European gas, carbon and coal price shocks



Implications for Exxaro

- Fluctuating market demand and lower commodity pricing
- Market demand evolving and dynamic



Our strategic response

- M2R optimisation

10.2

Coal logistics

TFR railed 58.12Mt to RBCT from January to December 2021, compared to 70.1Mt for the same period in 2020. Rail remained constrained throughout the year due to security-related incidents and locomotive availability.

Given these challenges, TFR has informed industry that coal line capacity has reduced from 81Mt to 70Mt for the 2022/2023 period.

Export rail performance from Grootegeluk dropped drastically from 6.32 trains per week in 2020 to 4.61 per week in 2021. Exxaro is evaluating all strategic options in a drive to improve the Waterberg export logistics performance in the medium and longer term.



Cause

- Security-related downtime (cable theft, vandalism and sabotage)
- Locomotive availability



Implications for Exxaro

- Performance of export potential



Our strategic response

- TFR engagement

10.3

Iron ore market

During 2021, iron ore prices traded at record levels on the back of strong Chinese steel production, supported by the rest of the world's robust demand conditions, before concerns about China's economy slowing, pollution-related steel output cuts and relatively low steel mill profitability triggered a change in sentiment, followed by significant price declines towards the end of 2021.

The Chinese property sector slowdown was cyclical and structural as housing demand peaked and property is no longer used as a countercyclical policy instrument. The rapid deterioration in the financial condition of Evergrande, a large property developer in China, raised significant market risks around the activity outlook and therefore steel consumption.

For 2022, lower steel production is anticipated in China due to power shortages, a property sector slump, emission controls in the lead up to the winter Olympics, and a broad-based economic slowdown. Global iron ore supply growth remains a further downside risk to the expected softer market.



Cause

- Strong Chinese steel production
- Chinese property sector slowdown



Implications for Exxaro

- Performance of SIOC investment



Our strategic response

- Exposure to higher-value iron ore lump product



Coal train near Exxaro's Leeuwpan siding