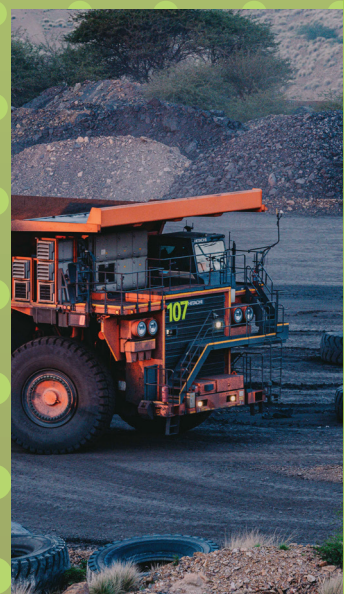
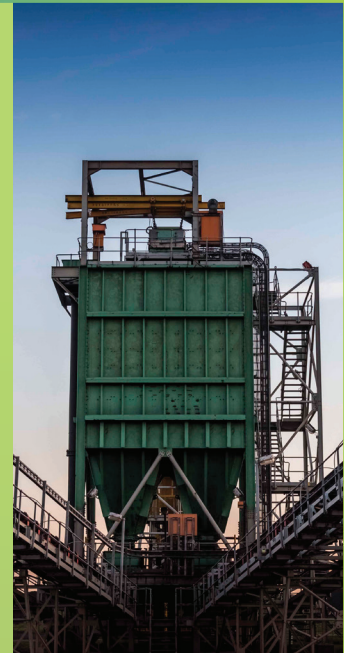


# Understanding our business

We are preparing Exxaro to achieve our vision of resources powering a clean world – with our Sustainable Growth and Impact strategy considering our purpose, prospects and social obligations within an evolving operating context.

- 5 Chairperson's statement
- 7 About Exxaro
- 10 Sustainable growth and impact
- 12 Our operating context



# Chairperson's statement

Through the persistent tough macro-economic background that included global inflationary challenges and ongoing logistical constraints, Exxaro continued to deliver excellent results, displaying our agility to navigate the obstacles we faced.

Mvuleni Geoffrey  
Qhena  
Chairperson



In 2022, we reported a record 78% increase in EBITDA\* to R19 002 million and a 28% increase in headline earnings per share (HEPS) at R60.16. This resilient performance was mainly due to the exceptional performance of our coal, driven by high-quality product mix, and increases in export and domestic sales prices. These results reflect that our early value coal strategy is once again delivering results, and the importance of our continuing efforts to deliver on our commitments to stakeholders through the Sustainable Growth and Impact strategy.

## Reflecting on Exxaro's strategic progress

Our strategy of transforming Exxaro into a diversified company that thrives in a low-carbon future requires responsibly extracting maximum value from existing coal assets while transitioning from a coal base to a minerals and renewable energy business. The strategy further recognises the important role Exxaro must play in the just energy transition, which considers South Africa's growth and development needs. While balancing these needs can be challenging, we believe that this transition offers opportunities for our organisation to embrace the context and evolve with it.

The board reviewed and recommitted to the strategy, and oversaw several drivers that strengthen, enable and enhance its successful implementation. These included:

- Approving a revised capital allocation model to assist the business in balancing acceptable value distribution to shareholders with long-term investments
- Approving the new Social Impact and diversity, equity and inclusion strategies and human rights policy, which outline Exxaro's commitment to sustainable growth and impact that benefits communities and broader society, and Exxaro's commitment to protecting human rights throughout our value chain
- Setting and monitoring performance and culture expectations for the group through the remuneration-linked short-term incentive (STI) scheme, with the inclusion of new targets for water security and efficiency and energy efficiency to strengthen our greenhouse gas (GHG) mitigation and business resilience efforts
- The appointment of Leon Groenewald as managing director of the renewable energy business in March 2023, further demonstrating our commitment to succession planning
- Overseeing the establishment of the executive ESG steering committee which is mandated to coordinate the integration of the ESG risks and opportunities and ensure outcomes-based measurements and assurance

\* Net operating profit before interest, tax, depreciation, amortisation, impairment charges or impairment reversals and net losses or gains on the disposal of assets and investments (including transaction differences recycled to profit or loss).

# Chairperson's statement continued

In line with our diversification commitments, Exxaro developed a pipeline of renewable and new minerals projects for consideration and performed due diligence on several of these. However, we have not been able to conclude the projects at this stage due to, among other factors, deferring value expectation on those assets.

The development of the Lephalale self-generated solar plant is progressing well with the necessary regulatory approvals being obtained. This further displays our commitment to responsibly transitioning into a low-carbon business.

 [Our strategy: positioning Exxaro for sustainable growth and impact](#) (page 44)

## Embracing good governance

The board is the custodian of the group's strategy and governance and we believe that robust governance practices provide the foundation for value creation.

Critical to the successful execution of any strategy is the team that leads its delivery. This includes having the right skills, structure and rigour at board level to support decision making. The board is committed to striving for the appropriate size, balance of power, independence, diversity, skills, knowledge and experience to enable it to discharge its governance role and responsibilities objectively and effectively. In line with this commitment, the board adopted a policy that includes a broader definition of board diversity and inclusion, with revised targets, as well as a nomination and appointment policy. The changes made to the board in 2021 and 2022 aimed to strengthen our skills and diversity.

Dr Nombasa Tsengwa has succeeded Mxolisi Mgojo who retired on 31 July 2022. Since taking the helm, Nombasa has skilfully steered the ship, delivering on our strategic promise to stakeholders. We once more thank Mxolisi, who received a Business Leader of the Year award in 2022, for his invaluable contribution to Exxaro.

Nondumiso Medupe was appointed as an independent non-executive director on 3 January 2023. Nondumiso brings a wealth of experience in governance, accounting, risk management and sustainability.

We will bid farewell to three longstanding board members. Ras Myburgh retired by rotation this year, and Vuyisa Nkonyeni and Isaac Mophatlane will retire by rotation at the AGM. On behalf of the board, I would like to thank Ras, Vuyisa and Isaac for their valuable and outstanding contributions to Exxaro over the years.

## Prioritising engagements with our stakeholders

In line with King IV, Exxaro embraces a stakeholder-inclusive approach to governance. As part of this process, the board actively balances the needs, interests and expectations of our stakeholders with the organisation's best interest over time. In 2022, several key engagements took place to enhance our relationships through meaningful dialogue.

After two years of COVID-19 restrictions, Exxaro held a three-day governance roadshow with shareholders in September 2022. The roadshow provided a platform for shareholders to meet our leadership and for Exxaro to share insights and progress on issues such as delivering on our strategy, our revised capital allocation model, our shareholder structure and returns, remuneration and our ESG performance, among others. This engagement also allowed us to receive shareholder feedback, which informs our decision making.

We held a stakeholder day at Grootegeluk, with the board, social, ethics and responsibility committee (SERC) and management in attendance, to share our progress and performance, and receive the community's feedback on Exxaro's social performance and impact. Engagements were scheduled over three days with enterprise and supplier development (ESD) and socio-economic development stakeholders in Limpopo and Mpumalanga. Participants included national, district and local government, community leaders, union representatives, ESD programme implementation partners and social and labour plan (SLP), ESD and mega-project beneficiaries.

These engagements highlight the board's belief that effective stakeholder engagement leads to improved relationships founded on respect and trust, and better informed decision making.

## Closing

We expect that the operating environment will remain challenging, with global macro-economic drivers likely to shape the operating context once again. However, I am confident that the work undertaken to date has positioned the business to respond swiftly and with agility.

Safety is one of Exxaro's key priorities. Management continues to lead in this regard and this is also reflected in their performance contracts. Sadly, and after over a five-year fatality-free period, we lost Mathews Moanalo at the Belfast mine. We pass our deepest condolences to his family, friends and colleagues. Exxaro will continue to strive to achieve and maintain our zero-fatality approach in our activities.

My deepest gratitude to my colleagues on the board, the management team, under the leadership of Nombasa and our employees across the business. As we look ahead to 2023, it is thanks to your continued commitment and dedication that we are delivering on our purpose – to power better lives in Africa and beyond.



**Mvuleni Geoffrey Qhena**

Chairperson

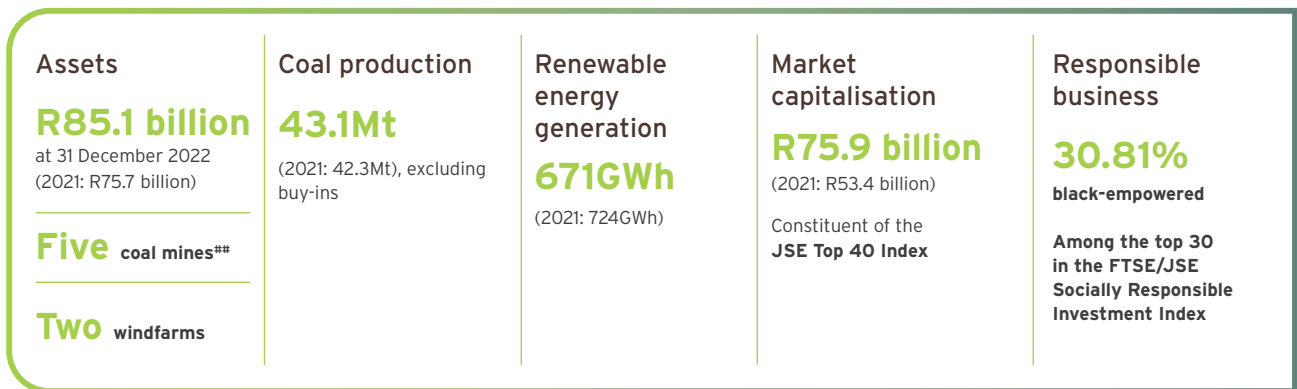
14 April 2023

# About Exxaro

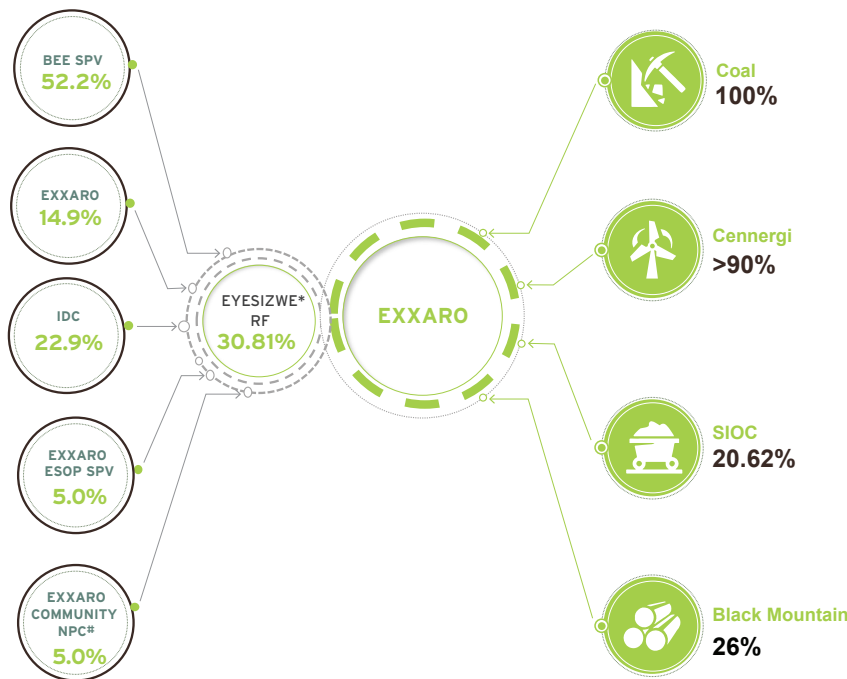
## Our business's sustainability and impact depend on our contribution to accelerating economic growth, practicing environmental stewardship and driving positive change.

Our diversified asset portfolio comprises interests primarily in thermal coal (where we are among the top five South African coal producers), a growing renewable energy solutions business and equity-accounted investments in ferrous (iron ore) and zinc among other base metals. We will contribute to a more sustainable future by expanding our business portfolio to include manganese, bauxite and copper. Our business interests in Europe comprise a marketing and logistics office in Switzerland. A joint operation with Anglo Coal Grosvenor Proprietary Limited, the Moranbah South project, is conducted in Australia.

We are aiming to be carbon neutral by 2050, and are committed to being an active participant in the just transition to a low-carbon economy. The renewable energy solutions business and our scope 1 and 2 emissions reduction efforts are critical activities in this regard. Reduction of scope 3 emissions is a longer-term goal influenced by the country's energy mix.



## Ownership structure



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

Our coal mining business is structured under four legal entities, all managed and operated by Exxaro, supplemented by a 50% JV with Thungela Resources Limited in Mafube and a 12.04% legal equity interest in RBCT.

Our renewable energy business, Cennergi, consists of 229MW of wind generation assets in the Eastern Cape that contribute to the national energy supply.

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

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

We continue evaluating our options to dispose of our shareholding in Black Mountain.

\* Eyesizwe (RF) Proprietary Limited (Eyesizwe), a special purpose vehicle (SPV) private company, incorporated under South Africa's laws, holds the black economic empowerment (BEE) shares.

# Exxaro Matla Setshabeng NPC.

\*\*Including one joint venture, Mafube.

# About Exxaro continued

## Our assets

### Minerals business

Our minerals business comprises coal operations and our equity investments in iron ore and zinc. We have deep roots in mining with a track record of operational excellence and delivering value. Our coal asset base is a key differentiator and critical part of how we create value for our stakeholders. Only mineral assets with Measured and Indicated Resources are listed in this report. Inferred Resources are reported in the supplementary [CMRR report](#).



- 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
- Produced 43.1Mt of thermal and metallurgical coal (2021: 42.3Mt), up 1.9% in 2022 - the majority of power station coal is supplied to Eskom
- Grootegeluk is one of the largest integrated mining and beneficiation operations globally, running the largest coal beneficiation complex, and the only producing mine in the coal-rich Waterberg, adjacent to Eskom's Matimba and Medupi power stations
- As at 31 December 2022, 15% of R1.7 billion capital expenditure was spent on greenfield and brownfield expansion projects (2021: 34%, R2.5 million)

#### Limpopo



#### 1 Grootegeluk complex

**Location:** West of Lephalale  
**Market:** Domestic and export  
**Product:** Thermal and metallurgical coal  
**Coal Resources (inclusive):**  
 • Measured: 3 039Mt  
 • Indicated: 967Mt  
**Coal Reserves:**  
 • Proved: 2 034Mt  
 • Probable: 550Mt  
**Mining method:** Open-cut  
**Run of mine (RoM):** 56.52Mt  
**Life of mine (LoM):** 19+ years\*



#### 2 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:** 24 years

#### Mpumalanga



#### 3 Belfast

**Location:** South of Belfast  
**Market:** Export (alternative domestic)  
**Product:** Thermal coal  
**Coal Resources (inclusive):**  
 • Measured: 101.6Mt  
 • Indicated: 8.0Mt  
**Coal Reserves:**  
 • Proved: 35.8Mt  
 • Probable: 1.4Mt  
**Mining method:** Open-cut  
**RoM:** 2.65Mt  
**LoM:** 11 years

#### Mpumalanga



#### 4 Leeuwpaan

**Location:** South-east of Delmas  
**Market:** Domestic and export  
**Product:** Thermal coal  
**Coal Resources (inclusive):**  
 • Measured: 65.8Mt  
**Coal Reserves:**  
 • Proved: 36.1Mt  
 • Probable: 3.3Mt  
**Mining method:** Open-cut  
**RoM:** 3.71Mt  
**LoM:** 7 years



#### 5 Matla

**Location:** West of Kriel  
**Market:** Domestic (Eskom)  
**Product:** Thermal coal  
**Coal Resources (inclusive):**  
 • Measured: 657Mt  
 • Indicated: 91Mt  
**Coal Reserves:**  
 • Proved: 130Mt  
 • Probable: 38Mt  
**Mining method:** Underground  
**RoM:** 6.16Mt  
**LoM:** 2+ years\*



#### 6 Mafube joint venture (50%)

**Location:** East of Middelburg  
**Market:** Domestic and export  
**Product:** Thermal coal  
**Coal Resources (inclusive):**  
 • Measured: 125.0Mt  
 • Indicated: 16.3Mt  
**Coal Reserves:**  
 • Proved: 80.6Mt  
 • Probable: 40.8Mt  
**Mining method:** Open-cut  
**RoM:** 5.44Mt  
**LoM:** 21+ years\*

#### 7 Moranbah South project (50%)

**Location:** Queensland, Australia  
 Undertaking prefeasibility study to inform decision for development prospects.

\* Adequate Reserves well beyond expiry of mining right.



## Renewable energy business

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



**Cennergi** is a southern African-based independent power producer (IPP) that focuses on developing, owning and operating renewable assets. Cennergi has two established wind projects (the Tsitsikamma community and Amakhala Emoyeni windfarms).

The renewable energy business is also developing the 68MW Lephalale solar project in a ring-fenced SPV that will supply renewable energy to Grootegeluk, reducing the carbon footprint and electricity costs of this mining operation. The energy business has also concluded a joint development agreement with Enertrag, an established German IPP, to develop projects in Mpumalanga for the mining industry.

### Eastern Cape



#### 8 Tsitsikamma community windfarm

**Location:** Near Tsitsikamma  
**Capacity:** 95MW  
**Number of turbines:** 31 x 3.1MW  
**Performance:** Generation output in line with P50 targets since 2016  
**Customer:** Eskom  
**Power purchase agreement:** 20 years  
**Commercial operation:** 2016  
**Shareholding:** Cennergi (75%), RE Times (16%) and the Tsitsikamma Development Trust (9%)



#### 9 Amakhala Emoyeni windfarm

**Location:** Near Bedford and Cookhouse  
**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:** Cennergi (95%), Cookhouse Community Trust (2.5%) and the Bedford Community Trust (2.5%)

### Limpopo



#### 10 Lephalale solar project

**Product:** Solar energy  
**Capacity:** 68MW  
**Customer:** Exxaro Coal Proprietary Limited (Grootegeluk)  
**Power purchase agreement:** 25 years  
**Commercial operation:** 2025  
**Shareholding:** 100% Cennergi Holdings Proprietary Limited  
**Financial close:** 31 March 2023  
**Estimated commercial operation:** 2025

# Sustainable growth and impact

Our Sustainable Growth and Impact strategy is anchored on measurable and multi-stakeholder value creation. The 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.

## Forces shaping our strategy

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

We need to balance South Africa's socio-economic development, which relies on coal generated power, with supporting the transition to a low-carbon economy. These are major changes that will raise future challenges and increase external risks for those who do not adapt. They will also present significant opportunities for those who can evolve.

### Climate change

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

### Just transition

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

### Energy transition

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

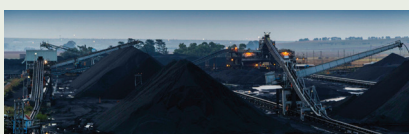
### Stewardship

We believe we do not own coal assets but 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.

These forces have increased in prominence over the past year. Significantly, the global energy crisis, exacerbated by the Russia-Ukraine conflict, increased global action for decarbonisation, and investor funding targeted to ESG equity funds. These trends support the positioning and direction of our strategy.

## 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 to support 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
- Strategy underpinned by three interdependent pillars: utility generation, distributed generation and services
- Long-term cash flow stability

As we start implementing our strategy, we are refining and consolidating the drivers of our strategic direction, how we measure our future success and reflect on our past strategic performance. The board fully supports our strategy and we have clearly identified our future path to achieve our vision. We believe our sustainable growth can only be achieved if our communities and broader society benefit from our sustainable impact efforts. In 2022, we developed our Social Impact strategy to support the achievement of this goal.

## Our response

### The transition imperative

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

#### Energy transition

- Coal and renewable energy businesses play a key role in energy security
- Responsibly optimise the coal business
- Repositioning the business to capture transition opportunities

#### Just transition

- Prioritising workers, communities and value chain partners as we transition our business in a just manner

This informs our **Sustainable Growth and Impact strategy**

#### Sustainable

- Be carbon neutral by 2050
- Maximise value from coal through early value and market to resource strategy
- Reduce climate-related risks
- Deliver positive impact through our Social Impact strategy

#### Growth

- Diversify into resilient future-facing minerals and renewable energy, ensuring a significant EBITDA contribution in these areas by 2030
- Grow renewable energy business to 1.6GW (net) by 2030
- Ensure disciplined capital allocation to maximise value, supported by a robust investment process

#### Impact

- Deliver social, economic and environmental benefits
- Contribute to sustainable livelihoods
- Strengthen contribution to a just energy transition
- Go beyond compliance to achieve sustainable impact

### 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

### Strategic objectives

#### Transition at speed and scale

**Make our minerals and energy businesses thrive**

**Empower people to create impact**

**Be carbon neutral by 2050**

**Become a catalyst for economic growth and environmental stewardship**

Refer to [our strategy](#) (page 44) for detail on our strategy, strategic development process and performance against our objectives.



# Our operating context

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

Global and domestic economic conditions	1	Commodity markets	7
ESG	2	Coal markets	7.1
Geopolitics	3	Coal logistics	7.2
Foreign currency market	4	Iron ore market	7.3
Inflation and interest rates	5		
Cyber threats	6		

## Our broader operating context: trends influencing our business

### 1 Global and domestic economic conditions

The Russia-Ukraine conflict and renewed COVID-19 lockdowns in China are among the series of economic shocks that disrupted supply chains, fuelled inflation, increased energy costs and slowed global economic growth. After a strong finish to 2021 at 6.1%, global economic expansion lost momentum in 2022, with a slower growth rate of 3.0%.

Financial market conditions deteriorated during the second half of 2022, and the global economic outlook for 2023 has weakened to fall short of potential growth levels. The end of 2022 experienced the weakest growth and the global economy remained at its highest vulnerability in early 2023, when any major economic shock could have tipped the world economy into recession.

**Global gross domestic product (GDP): 3.0% (2021: 6.1%)**

#### Real GDP growth rate (%)

	2023 forecast	2022	2021
World	2.1	3	6.1
US	0.7	2	6
Eurozone	0.50	3.6	5.4
China	5.2	3	8.5
India	5.1	6.7	9.1
South Africa	0.6	2.0	4.9
Russia	(1.32)	(2.20)	4.8
Ukraine	8.0	(35.4)	3.4

Source: S&P Global, February 2023.

South Africa's real GDP surpassed its 2019 level in the first quarter of 2022, signalling complete recovery from the COVID-19-induced recession of 2020. Subdued growth in 2022 reflected the lingering effects of unrest in July 2021, extensive flooding in April 2022, slowing global growth and inadequate electricity supply. Speedy and judicious implementation of energy reforms could raise private investment to benefit economic activity.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Russia-Ukraine conflict</li> <li>• Renewed COVID-19 lockdowns in China</li> <li>• Slower global economic growth</li> <li>• Unrest in July 2021 and extensive flooding in April 2022 in South Africa</li> <li>• Inadequate electricity supply in South Africa</li> </ul>	<ul style="list-style-type: none"> <li>• South Africa's energy mix and demand</li> <li>• Higher inflation on operations</li> <li>• Higher interest rates</li> </ul>	<ul style="list-style-type: none"> <li>• Cost management</li> <li>• Customer engagement</li> <li>• Supplier engagement: cost</li> <li>• Logistics: ensure passage of coal to ports</li> </ul>

## 2 ESG

ESG is an integral part of our Sustainable Growth and Impact strategy. To this end, the executive committee established an ESG steering committee to coordinate the integration of the ESG risks and opportunities and ensure outcomes-based measurements and assurance. These include decarbonisation and social impact.

Global responses to climate change are driving economic reforms, commitments and regulations to steer decarbonisation efforts. The 2022 UN Climate Change Conference (COP27) finalised the details of a work programme to urgently scale up mitigation, ambition and implementation in this critical decade. During this conference, issues impacting developing countries and businesses operating in these countries were highlighted and included:

- **The submission of ambitious nationally determined contributions (NDCs) by countries:** South Africa submitted ambitious NDC targets for 2025 and 2030. It is envisaged that these targets will impact Exxaro and other businesses through stringent climate change policies, carbon prices and carbon budgets
- **Low-carbon technologies** such as hydrogen and carbon capture storage are associated with high costs and not commercially available
- **Energy storage:** Challenges associated with storing renewable energy will impact decarbonisation efforts of businesses like Exxaro, which are targeting 100% consumption of renewable energy and reduction of scope 2 emissions
- **Carbon pricing:** The EU's Carbon Border Adjustment Mechanism and its potential impact on developing countries and businesses operating in these countries. There might be future financial implications for Exxaro associated with carbon-intensive products for export to the EU

Social impact is an outcome our Sustainable Growth and Impact strategy and addresses material social and compliance matters that concern stakeholders.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• ESG is a priority for all stakeholders</li> <li>• Integration of ESG into corporate strategies, decision making and stakeholder reporting</li> <li>• Countries pledged to scale up carbon mitigation, ambition and implementation</li> <li>• South Africa aims to access significantly higher levels of climate finance during the implementation of NDCs</li> <li>• An increasingly distressed socio-political and strained economic operating environment characterised by inequality, unemployment and poverty</li> </ul>	<ul style="list-style-type: none"> <li>• It is imperative for us to demonstrate our ESG commitments as this impacts shareholders' assessments of our company and our social licence to operate</li> <li>• Stringent climate policy and carbon prices</li> <li>• Increase decarbonisation efforts</li> <li>• Global energy demand and transition</li> <li>• Social impact should result in a harmonious co-existence between Exxaro and local communities, creating a thriving environment</li> </ul>	<ul style="list-style-type: none"> <li>• Established an ESG steering committee</li> <li>• Separate annual ESG report</li> <li>• Invest in and expand a diversified minerals and renewable energy business</li> <li>• Energy efficiency and scope 1 emission reduction</li> <li>• Renewable energy installation (scope 2 emission reduction)</li> <li>• The Social Impact strategy aims for a market-driven, multidimensional and scaled approach to improve the lives of communities. It aims to shift from inequality, unemployment and poverty to empowered communities with skills and capabilities</li> <li>• Upskilling will enable employment and entrepreneurial opportunities, which creates economic wellbeing, social progress and dignified livelihoods</li> </ul> <p> <a href="#">Creating value through stakeholder engagement</a> (page 36)</p> <p> <a href="#">Our environment</a> (page 103)</p> <p> <a href="#">Social licence to operate</a> (page 101)</p>

## 3 Geopolitics

Global geopolitical tensions continued to impact supply-demand dynamics for key Exxaro commodities. The Russia-Ukraine conflict and subsequent sanctions, and continuing US-China and China-Australia tensions were evident during 2022. The European Union's ban on coal imports from Russia and the restart of thermal power plants significantly impacted supply-demand balance, trade flows and seaborne thermal coal pricing.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Russia-Ukraine conflict</li> <li>• China import restrictions on Australian coal</li> <li>• Global supply chain disruptions</li> </ul>	<ul style="list-style-type: none"> <li>• Opportunities in the European thermal coal market</li> <li>• Higher but volatile seaborne thermal coal prices</li> <li>• Availability and/or higher costs of material input</li> </ul>	<ul style="list-style-type: none"> <li>• Market strategy adapts to changing global flows</li> <li>• Market to resource optimisation</li> <li>• Increased collaboration with stakeholders</li> </ul>

# Our operating context continued

## 4 Foreign currency market

Economic turmoil usually brings about two key dynamics of the US dollar:

- The US dollar's continued role as the dominant global reserve currency and the corresponding role played by the Federal Reserve as the world's central bank
- The view that US dollar assets, especially US treasury bills and bonds, are regarded as safe havens

This was no different during 2022. As central banks significantly increased interest rates with recessionary risks on the horizon, the US dollar's exchange value soared in response to rising US dollar bond yields and investor flight to safety. This added to inflation and financial stress in developing and emerging countries.

In South Africa, the rand weakened by 10.7% during 2022 on the back of the strong US dollar, declining commodity prices (with the exception of the energy complex), flight to safety and recessionary risks. The US\$/R exchange rate is expected to remain volatile in 2023, mainly dependent on whether the surge in inflation is brought under control by the major central banks and recessionary risks.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• US dollar strength</li> <li>• Recessionary risk sentiment</li> <li>• Increasing interest rates to curb inflation</li> </ul>	<ul style="list-style-type: none"> <li>• Forex volatility, weaker exchange rate favourable to local exports</li> </ul>	<ul style="list-style-type: none"> <li>• Rand-based pricing for input products</li> <li>• Limited hedging</li> <li>• Local sourcing</li> </ul>

## 5 Inflation and interest rates


Persistent high inflation led to the world's major central banks tightening their monetary policies. In 2022 we saw high interest rate increases and a resolve to restrain actual and expected inflation. Policy trade-offs are challenging as inflation extends beyond food and energy, with risks that over-tightening could tip the global economy into a severe recession and under-tightening could further entrench inflation.

In 2022, South Africa's headline inflation averaged 6.9%, and is expected to remain above the mid-point of the South African Reserve Bank's inflation target range of 3% to 6% during 2023. The repurchase rate increased by a cumulative 300 basis points during 2022. Further normalisation into 2023 may be needed to raise rates to levels consistent with a stable and lower inflation rate.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Persistent high inflation</li> <li>• Interest rate increases</li> <li>• Monetary policy trade-offs</li> </ul>	<ul style="list-style-type: none"> <li>• Cost and revenue escalations</li> <li>• Borrowing cost increases</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation-linked escalations</li> <li>• Reduce debt levels</li> <li>• Cost management</li> </ul>

## 6 Cyber threats

Exxaro's Digital@Exxaro programme is a key catalyst in driving modernisation and digital transformation.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Digital and technological innovation enables improved productivity, safety and environmental management in the mining industry</li> </ul>	<ul style="list-style-type: none"> <li>• The programme has enabled data-driven decision making and drives end-to-end integration and optimisation of our value chain to remain competitive</li> </ul>	<ul style="list-style-type: none"> <li>• The Exxaro digitalisation and innovation journey is a strategic initiative driven by the CEO</li> <li>• Our award-winning Digital@Exxaro programme is transforming our company culture to ensure we are more open and agile when we engage with internal and external stakeholders</li> </ul> <p> <a href="#">Driving innovation and information management</a> (page 90)</p>

# Our markets

During 2022, global markets were affected by the impact of the Russia-Ukraine conflict, renewed COVID-19 infections and lockdowns in China, mixed and volatile commodity prices, continued supply chain disruptions, inflationary and interest rate pressures and global recessionary risks.

## 7 Commodity markets

Exxaro's commodity markets recorded mixed and volatile performances in 2022. The energy complex markets remained relatively tight compared to industrial mineral markets. Key drivers included the Russia-Ukraine conflict, resurgent COVID-19 infections and lockdowns in China, supply chain disruptions and recessionary risks.

API4 coal export price averaged US\$270.87/t  
 (2021: US\$124.12/t)

Commodity prices (US\$/t)			
Commodity	2023 forecast	2022	2021
Thermal coal (RB1)	150	270.87	124.12
Thermal coal (RB3)	120	206.05	95.59
Iron ore fines	110	120.03	159.89
Lump premium	11	13.92	22.58

Source: Various commodity market intelligence reports, September 2022 and February 2023.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>Mixed price performance</li> <li>European energy insecurity</li> <li>Recessionary risks</li> <li>Supply constraints</li> </ul>	<ul style="list-style-type: none"> <li>Volatile commodity markets</li> <li>Higher received prices for coal exports</li> </ul>	<ul style="list-style-type: none"> <li>Portfolio management</li> <li>Maximise coal exports</li> </ul>

### 7.1 Coal markets

Thermal coal demand remained robust in 2022, largely driven by the higher coal demand from Europe. With the onset of the Russia-Ukraine conflict in March 2022, thermal coal markets experienced significant disruption and volatility as Europe sought alternative high-quality coal supply to reduce dependency on Russia. Low gas stocks, high gas pricing and uncertainty over energy security supported gas to coal switching in Europe.

As the spot demand for high-quality coal increased, record high global thermal coal prices were reached in 2022. With the implementation of the European embargo on Russian coal and the continued Chinese ban on Australian coal imports, global coal flows changed to respond to the new market dynamics. Exports from South Africa into Europe increased and displaced Russian coal was exported to Indian and Chinese markets.

Global thermal coal supply remained tight for most of the year with factors such as heavy rainfall, rail challenges and labour issues impacting the major supply regions and providing pricing support.

Pricing declined from the highs in the second half of 2022, as the European market entered winter season well stocked on coal and gas inventories and experienced milder than normal winter temperatures which in turn lowered heating requirements.

In South Africa, domestic demand remained robust throughout the year. The higher export price improved the attractiveness of alternative export distribution channels allowing for volumes normally destined for the domestic market to be sold in the international market. The resulting domestic supply tightness resulted in higher domestic prices.

Volatility and high prices were the key hallmarks of the 2022 global market for hard coking coal. Market tightness throughout the year was due to supply-side challenges out of Russia and Australia. As 2023 progresses, market prices are expected to trend downward as the results of stronger supply out of Australia, and modest demand, while the positive sentiment out of China is expected to be mostly outweighed by weakness in Europe.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>Russia-Ukraine conflict</li> <li>European gas, carbon and coal price shocks</li> <li>Dynamic global trade flow</li> </ul>	<ul style="list-style-type: none"> <li>High API4 index price</li> <li>Market volatility</li> </ul>	<ul style="list-style-type: none"> <li>Early value coal strategy</li> <li>Market to resource optimisation</li> <li>Alternative routes to market</li> </ul>

# Our operating context continued

## 7.2 Coal logistics

Transnet Freight Rail (TFR) railed 50.43Mt to RBCT from January to December 2022, compared to 58.12Mt for the same period in 2021. Rail was constrained throughout the year due to locomotive availability and security-related incidents, strike action and multiple derailments. Given these challenges, TFR reduced the contractual and performance commitment from 81Mtpa to 60Mtpa for the 2022/2023 period.

Exxaro's export sales reduced from 7.6Mt in 2021 to 5.2Mt in 2022 due to lower railings to RBCT. To mitigate the impact of the lower rail performance, Exxaro has successfully exported via alternative export ports and continues to strategically develop alternative routes to market.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Security-related downtime (cable theft, vandalism and sabotage)</li> <li>• Locomotive availability</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced export volumes and increased cost of alternative logistics channels</li> </ul>	<ul style="list-style-type: none"> <li>• TFR engagement</li> <li>• Develop alternative routes to market</li> </ul>

## 7.3 Iron ore market

At the start of 2022, the iron ore price was stable, supported by strong Chinese steel production, despite the ongoing property weakness and widespread re-established COVID-19 lockdowns in China. However, the market softened during April/May, after which sentiment strengthened as new stimulus measures were announced by the Chinese government and lockdown restrictions eased. Weak demand sentiment in China and Europe and global recession risks weighed on the iron ore market for the rest of the year.

We anticipate a relatively flat annual global steel production level for 2023. Higher iron ore supply and expected steady demand will likely see seaborne prices testing cost curve support levels. Higher steel production from China presents a key market opportunity and lower-than-expected seaborne supply poses a risk to the market.

Cause	Implications for Exxaro	Our strategic response
<ul style="list-style-type: none"> <li>• Volatile Chinese steel production</li> <li>• Weak demand sentiment in China and Europe</li> <li>• Global recession risk</li> </ul>	<ul style="list-style-type: none"> <li>• Performance of SIOC investment</li> </ul>	<ul style="list-style-type: none"> <li>• Exposure to higher-value iron ore lump product</li> </ul>



Coal rail transport at Grootegeluk mine