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Our business

Exxaro is positioning itself to navigate a rapidly evolving landscape, with environmental sustainability and social equity as key drivers. Led by our purpose, we will not only adapt but thrive, transforming our operations to provide resources that contribute to a cleaner, more equitable world.

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Chairperson's statement

In the face of myriad challenges, our strategic initiatives and the collective resilience of our people and operations enabled us to not only withstand but also navigate volatility with confidence and purpose, recording the second highest ever EBITDA of R13.4 billion, thus laying a solid foundation for continued growth and impact.

Mvuleni Geoffrey Qhena
Chairperson



For Exxaro, the volatile macro-economic climate impacted commodity markets and trade, making strategic flexibility essential. The group navigated these global upheavals while contending with South Africa's internal challenges, including the ongoing constraints of inadequate infrastructure and logistics supply.

Building on legacy, embracing the future

As Exxaro moves forward, we find ourselves at a pivotal juncture, urged by the global mandate for environmental stewardship and climate action. Exxaro has made strides in our climate strategy, developing a comprehensive decarbonisation roadmap with the ambitious endpoint of carbon neutrality by 2050. In its mature phase, this roadmap outlines actions to guide the group's sustainable transition in anticipation of more stringent environmental regulations, reaffirming Exxaro's leadership in sustainable practices.

The board rigorously evaluated Exxaro's Sustainable Growth and Impact strategy's progress, timing, and scenario planning against our strategic scorecard framework. This included endorsing a unified ESG framework and enhancing our strategic approach to sustainability. We also evolved our strategic performance management dashboard, improving the visibility of strategy execution and enriching governance discussions within Exxaro's tiered governance structure.

Adapting to an evolving landscape, our annual board governance roadshow delved into the potential impact of global sanctions and financial threats, including grey listing and interest rate fluctuations. The discussions led to a thorough analysis of these risks and their implications for Exxaro, which remains under active board and committee review.

Exxaro's resilient operations are rooted in innovation and strong technical expertise, reinforcing safe production, robust financial performance and an effective approach to our strategic capital allocation. To support this, the board has been leveraging our Digital@Exxaro strategy, deep mining and energy expertise, strong balance sheet, stable earnings, high-quality products and a strong record of delivering sustainable impact.

Fostering robust governance and leadership continuity

The board continues to demonstrate its commitment to governance excellence as the bedrock for sustained value creation. Leadership quality is paramount for strategic success, necessitating the right blend of skills, diversity and oversight at the board level. Our board consistently focuses on achieving the right size, balance, independence and diversity to effectively fulfil its governance mandate.

Demonstrating our dedication to these principles, Andiswa Ndoni transitioned from group company secretary to the chief strategic resilience and governance officer. Her expertise will continue to benefit the group in this pivotal role. Michelle Nana will succeed her as group company secretary from 1 May 2024. With a background spanning over 30 years in company secretarial roles across various geographies, and as a law graduate and esteemed member of relevant professional bodies, Michelle is well positioned to uphold the governance standards that underpin our operations.

We are also pleased to announce Nosipho Molope's appointment as an independent non-executive director and a member of the audit committee effective from 3 January 2024. Nosipho, a distinguished chartered accountant, brings extensive experience from her service on numerous boards, enhancing our governance with her proficiency in audit, risk and ethical oversight.

While we embrace these new appointments, we also bid farewell to Likhapha Mbatha who retires by rotation at the 2024 AGM. Likhapha retires as a member of the social, ethics and remuneration committee and has made a lasting impact on Exxaro. The board extends its gratitude for her exceptional service.

These changes reflect Exxaro's ongoing commitment to strategic board renewal and succession planning, ensuring the group remains at the forefront of governance excellence and prepared to navigate future challenges with resilience and integrity.

Chairperson's statement continued

Engaging to deliver lasting positive outcomes

The board firmly believes in the power of stakeholder engagement to forge lasting, positive outcomes. True to the ethos of King IV, our stakeholder-inclusive approach underpins our governance philosophy.

We recognise that understanding and balancing our stakeholders' diverse needs, interests and expectations against the organisation's long-term interests is pivotal for sustained success.

Engagements with crucial stakeholders like Transnet and Eskom underscore our proactive approach in finding solutions to assist in managing the material risks and operational challenges we are facing. The board's logistics committee, now institutionalised as a permanent fixture of our governance, is pivotal in managing all logistics risks faced by the company. It will continue to focus on long-term international market access and immediate logistic solutions.

Community engagements remain critical. By building relationships grounded in understanding community needs, Exxaro fosters collaboration and pre-emptively addresses community concerns. The group also emphasises shared value creation through local employment, procurement, and supplier and community development initiatives, seeking to deliver value beyond specific operational lifespans. This is illustrated through our community investments, which totalled R1.9 billion this year, a 17% increase since 2022.

In November 2023, class action litigation was launched against South African coal mining companies, including ourselves, relating to mineworkers who contracted coal mine dust lung disease, as well as dependants of those mineworkers who died and whose deaths were likely attributable to coal mine dust disease. We are taking this action very seriously, since the health and safety obligations of our employees are paramount. We are investigating all the facts pertaining to the class action and will respond appropriately. The group proactively researches and reinforces health and safety measures, including cutting-edge occupational hygiene and medical surveillance programmes, to prevent occupational health diseases.

Feedback from our governance roadshow has been affirming. Investors have recognised our engagement efforts and suggested further improvements in our climate lobbying disclosures. We value this feedback as it enhances our reporting processes and ensures alignment with stakeholder expectations.

The board remains convinced that effective stakeholder engagement is a cornerstone of robust governance. It fosters relationships founded on respect and trust, leading to better informed and more effective decision making.

Looking ahead

We are acutely aware of the ongoing global fluctuations and persistent local challenges that loom large.

We continue to monitor socio-economic and political events, such as the upcoming 2024 elections, both in South Africa and the other countries we operate in.

Our response is one of vigilance and proactive stakeholder engagement, working collaboratively to foster a climate of stability and growth. Likewise, the safety of Exxaro's people is a top priority, and our leadership, company culture, and performance contracts reflect this.

Looking to the future, Exxaro's determination is unyielding – not only to adapt to an ever-evolving landscape but also to be the architect of change.

Our commitment to diversification remains. Although we have not concluded a mineral transaction as yet, the board is satisfied with management's efforts in this regard and is comfortable that a value creating asset will be added to the company's portfolio. Our intention is to ensure that we are strategically concentrating on critical areas such as minerals and energy to leverage the expanding opportunities within the green economy. Our comprehensive approach ensures that all efforts are harmonised with our goal of building a diversified enterprise primed for resilience and growth within a transforming energy sector.

In closing, I want to thank my fellow board members, the executive team under the leadership of Dr Nombasa Tsengwa, and all Exxaro employees for their dedication and hard work.

We thank all our stakeholders for your continued trust and support. As we move forward, we do so with a clear vision and a strong sense of purpose, ready to embrace the opportunities and tackle the challenges that lie ahead.



Mvuleni Geoffrey Qhena
Chairperson

10 April 2024

Who we are

Exxaro is a South African diversified resources company with existing coal mining operations and growth prospects in energy transition minerals, energy business and private rail infrastructure.

We are building Exxaro into a sustainable and impactful business that catalyses economic growth, principled governance, environmental stewardship and positive change.



Sustainable Growth and Impact strategy

The Sustainable Growth and Impact strategy is an integrated, multi-stakeholder approach to positioning the business for a resilient and sustainable future.



Business overview

Assets
R92.9 billion
 at 31 December 2023

(2022: R85.1 billion)

Five coal mines*

Two windfarms and a solar project under construction

Coal product
42.5Mt
 (including buy-ins)

(2022: 43.1Mt)

Market capitalisation
R71.4 billion

(2022: R75.9 billion)

Constituent of the JSE Top 40 Index

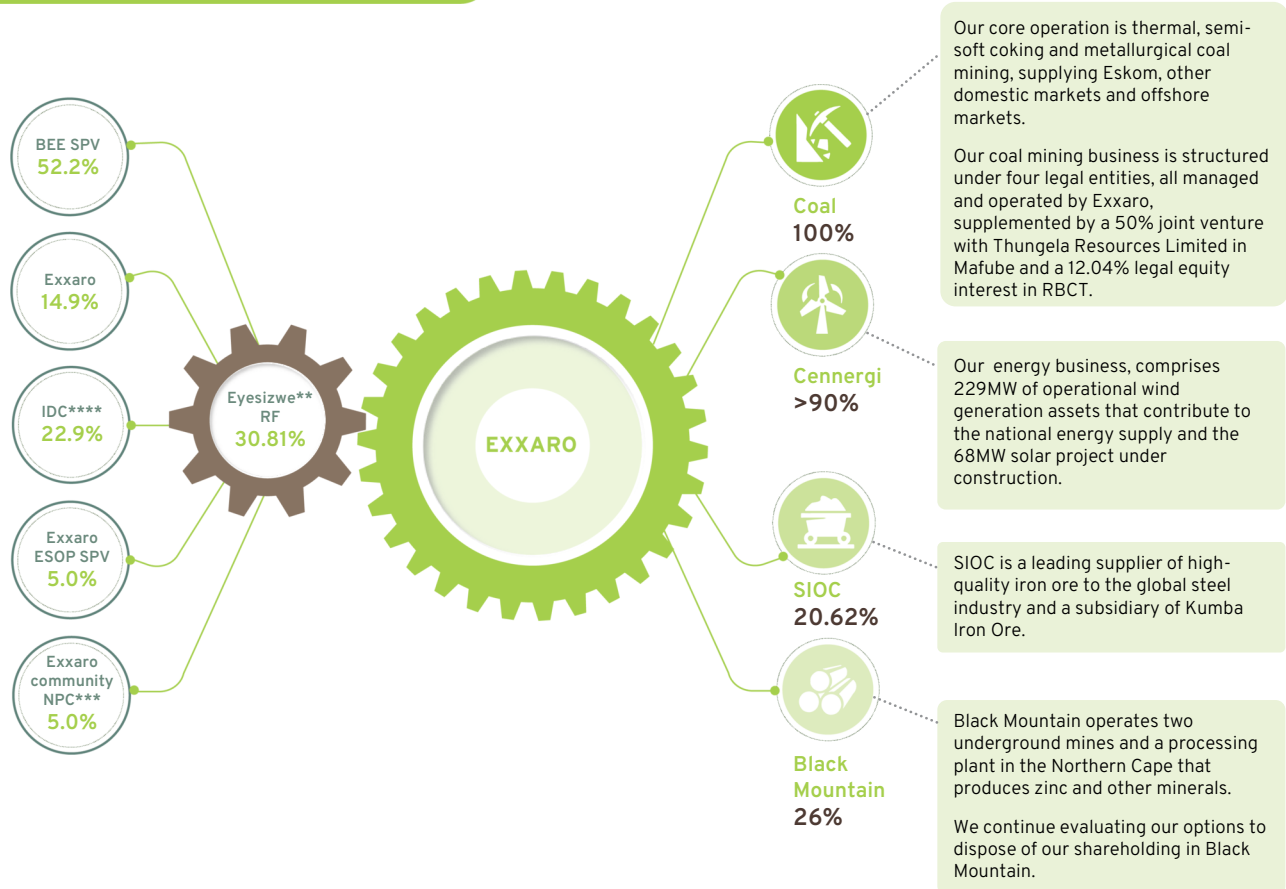
Renewable energy
727GWh

(2022: 671GWh)

Responsible business
30.81% black empowered

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

Ownership structure



* Including one joint venture, Mafube.

** 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 Aga Setshaba NPC (formerly Matla Setshabeng NPC).

**** Industrial Development Corporation of South Africa.



For detailed information on our group structure, refer to the 2023 [annual financial statements](#).

Who we are continued

Our assets

Our diversified asset portfolio comprises interests primarily in thermal coal (where we are among the top three South African coal producers), a growing energy solutions business and equity-accounted investments in ferrous (iron ore) and zinc, among other base metals.

Expanding our business portfolio to include manganese, bauxite, copper, energy and broader energy transition minerals enables our contribution to a more sustainable future and shareholder value enhancement. 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 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.

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](#)

Snapshot

- Largest high-quality Coal Reserves remaining in the country, providing a platform for early value returns
- One of the largest suppliers of coal to Eskom and ArcelorMittal South Africa Limited
- 42.5Mt of thermal and metallurgical coal product (2022: 43.1Mt), down 1.4% in 2023 – 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 2023, we invested R2.4 billion in sustaining our coal business (2022: R1.6 billion)



Energy business

In line with our goals to decarbonise and diversify, Exxaro's energy business comprises interests in energy through our wholly owned subsidiary, Cennergi. This business supports Exxaro's ambition of generating 1.6GW of power by 2030 and includes supporting our current coal and future minerals operations through self-generation and providing energy to external customers in mining and select markets.



Cennergi is a southern African-based independent power producer that focuses on developing, constructing and operating energy assets. Cennergi has two operational wind assets (the Tsitsikamma community and Amakhala Emoyeni windfarms).

Once operational, the LSP will supply solar energy to Grootegeluk, reducing the operation's carbon footprint and electricity costs. A pipeline of opportunities continues to be developed by the energy business for Exxaro and external offtake.

Snapshot

- Cennergi's operating wind assets generated 727GWh of electricity (2022: 671GWh) – an 8% increase due to improved wind conditions, despite the 15GWh generation loss at one of the wind facilities due to an Eskom distribution line fault that occurred earlier in the year
- The LSP at Grootegeluk reached financial close on 29 June 2023 under a 25-year power purchase agreement with Exxaro Coal Proprietary Limited. Construction commenced in 2023 and commercial operation is expected in early 2025. Refer to the case study on page 43 ([ESG report](#)) for details
- Cennergi's operating wind asset project financing of R4 348 million (2022: R4 554 million) will mature and be fully settled by the end of 2031. Cennergi's solar asset project financing will mature and be fully settled by the end of 2042



Limpopo

	1 Grootegeluk complex	2 Thabametsi	3 Belfast
Location	West of Lephalale	West of Lephalale	South of Belfast
Market	Domestic and export	Domestic	Export (alternative domestic)
Product	Thermal and metallurgical coal	Thermal coal	Thermal coal
Coal Resources (inclusive)	<ul style="list-style-type: none"> • Measured: 2 978Mt • Indicated: 967Mt 	<ul style="list-style-type: none"> • Measured: 270Mt • Indicated: 749Mt 	<ul style="list-style-type: none"> • Measured: 98.4Mt • Indicated: 8.0Mt
Coal Reserves	<ul style="list-style-type: none"> • Proved: 1 971Mt • Probable: 550Mt 	<ul style="list-style-type: none"> • Probable: 130Mt 	<ul style="list-style-type: none"> • Proved: 33.2Mt • Probable: 1.4Mt
Mining method	Open-cut	Open-cut	Open-cut
Run of mine (RoM)	56.05Mt	0Mt	3.16Mt
Life of mine (LoM)	18+ years*	23 years	10 years

Mpumalanga

	4 Leeuwan	5 Matla	6 Mafube joint venture (50%)
Location	South-east of Delmas	West of Kriel	East of Middelburg
Market	Domestic and export	Domestic (Eskom)	Domestic and export
Product	Thermal coal	Thermal coal	Thermal coal
Coal Resources (inclusive)	<ul style="list-style-type: none"> • Measured: 63.4Mt 	<ul style="list-style-type: none"> • Measured: 634Mt • Indicated: 92Mt 	<ul style="list-style-type: none"> • Measured: 141.0Mt • Indicated: 2.2Mt
Coal Reserves	<ul style="list-style-type: none"> • Proved: 30.5Mt • Probable: 3.3Mt 	<ul style="list-style-type: none"> • Proved: 126Mt • Probable: 31Mt 	<ul style="list-style-type: none"> • Proved: 82.6Mt • Probable: 32.0Mt
Mining method	Open-cut	Underground	Open-cut
RoM	4.82Mt	6.01Mt	4.79Mt
LoM	6 years	1+ years*	20 years

* Adequate Reserves well beyond expiry of mining right.



Australia

7 Moranbah South project (50%)

Phase: Undertaking prefeasibility study to inform decision for development prospects.
Location: Queensland, Australia
Market: Export
Product: Coking coal
Coal Resources:

- Measured: 484.6Mt
- Indicated: 226.0Mt

Eastern Cape

	8 Tsitsikamma community	9 Amakhala Emoyeni	10 LSP
Location	Near Tsitsikamma	Near Bedford and Cookhouse	Lephalale
Product	Wind energy	Wind energy	Solar energy
Capacity	95MW	134MW	68MW
Equipment	31 x 3.1MW turbines	56 x 2.4MW turbines	
Performance	Adjusted P50 in the long term	Adjusted P50 in the long term	
Customer	Eskom	Eskom	
Commercial operation	2016	2016	2025
Power purchase agreement	20 years	20 years	25 years
Shareholding	Cennergi (75%), RE Times (16%) and the Tsitsikamma Development Trust (9%)	Cennergi (95%), Cookhouse Community Trust (2.5%) and the Bedford Community Trust (2.5%)	Cennergi (100%)

Our operating context

Exxaro's operating context is determined by the external drivers that influence our ability to create value. We review and assess global and local macro-economic factors and commodity market trends, as they highlight opportunities, inform our material matters and influence our strategic direction and performance.

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Our macro-economic context: trends influencing our business

1 Global and domestic economic conditions

In early 2023, global economic performance exceeded expectations, mainly led by the post-pandemic recovery. Despite the continued challenges of elevated inflation, sharply higher global interest rates, some turbulence in the banking sector and geopolitical conflicts, the global economy has managed to avert a recession.

World real gross domestic product (GDP) growth increased from an annual rate of 1.8% quarter on quarter in the fourth quarter of 2022 to 2.4% in the first quarter of 2023. Aside from an appreciation to 2.9% in the second quarter, the moderate economic growth pace recorded in the first three quarters continued for the rest of 2023. Strong momentum in the US, with increased economic activity in Japan, India and Brazil provided the necessary support to the world economy. After a 3.1% increase in 2022, world real GDP moderated to expand by 2.7% in 2023.

Global GDP: 2.7% (2022: 3.1%)

Real GDP growth rate (%)

	2024 forecast	2023	2022
World	2.6	2.7	3.1
US	2.4	2.5	1.9
Eurozone	0.50	0.6	3.5
China	4.7	5.2	2.95
India	6.5	6.9	7.3
South Africa	1.1	0.6	1.9

Source: S&P Global, February 2024, Exxaro analysis March 2024.

Despite unprecedented rolling loadshedding, South Africa's real GDP grew by 0.9% year on year in the first six months of 2023. This modest upside reflected higher investment in machinery and other equipment and a better-than-anticipated response to loadshedding. However, GDP decreased by 0.2% in the third quarter of 2023, followed by an expansion of 0.1% in the fourth quarter. For the year as a whole, the economy expanded by 0.6%, down significantly from 1.9% in 2022. The ongoing constraints of inadequate electricity and logistics supply (and, the continuous trend of broader infrastructure failure) have limited the local economy's future productive potential.

Cause

- Post-COVID-19 economic recovery
- Elevated inflation rates
- Sharply higher global interest rates
- Intensified rolling loadshedding in South Africa

Implications for Exxaro

- Any changes in South Africa's energy mix to impact demand conditions
- Higher inflation on operations
- Higher interest rates

Outlook

- Slower global economic growth in 2024. Besides the structural challenges, the resilience of the South African economy is expected to persist

Our strategic response

- Cost management
- Customer engagement
- Supplier engagement: cost
- Logistics: ensure passage of coal to ports

2 ESG

ESG is a fundamental component of our Sustainable Growth and Impact strategy. This is a business and social imperative driven by our strategy and in line with global drivers, such as urgent climate action; increased risk of liability for greenwashing; resource depletion (natural and finite resources); greater focus on ESG due diligence; sustainable supply chains and social equity and inclusion; increasing ESG regulatory requirements; converging ESG reporting standards; significant shift towards digitalisation and leveraging artificial intelligence (AI) to reveal ESG insights; growing stakeholder ESG expectations; international focus on ESG reporting transparency and comparability; and pressures of economic inequality and unemployment.

Social impact is an outcome of our Sustainable Growth and Impact strategy and addresses material social and compliance matters from a business imperative perspective.

Cause

- ESG is a priority for all stakeholders
- An increasingly distressed socio-economic and political operating environment characterised by inequality, unemployment and poverty

Implications for Exxaro

- Embrace ESG commitments as a business imperative
- Integration of ESG into corporate strategies, decision making, and stakeholder reporting will require a coordinated effort, but will result in enhanced alignment, impact and efficiencies
- Social impact should result in a harmonious co-existence between Exxaro and local communities, creating a thriving environment

Outlook

- Expectations for enhanced ESG prioritisation and performance will continue to increase, driven by increased regulation and activism
- The 2023 United Nations Climate Change Conference or Conference of the Parties (COP28) outcomes on ESG are being considered, with prioritisation of key aspects such as transitioning away from fossil fuels, decarbonisation technologies, water security, carbon pricing, biodiversity management, nature-based solutions, ocean-based mitigation action and ensuring community resilience

Our strategic response

- Prioritise safety protocols, training and technology adoption
- Complete our draft decarbonisation roadmap to enable carbon neutrality by 2050, which reflects our short, medium and long-term targets
- Address capital allocation aspects associated with the implementation of the draft decarbonisation roadmap
- Invest in and expand a diversified minerals and energy business
- Ensuring low-carbon transition mineral operations are sourced responsibly and implementation of traceability systems and adhering to international standards
- Implement circular economy principles and investing in resource efficiency initiatives; adaptation measures in our operations and host communities to increase adaptive capacity and resilience; and nature-based solutions for carbon offsetting
- Produce a separate annual ESG report aligned with standards to meet stakeholder information needs
- Develop an ESG policy that will drive our approach to integrating and embedding ESG across the group
- Ensure compliance in ESG matters
- Accurate reporting of ESG efforts and adhering to global ESG reporting standards to bolster investor confidence
- Forming strategic partnerships to address South Africa and Exxaro's scope 3 emissions with stakeholders such as the memorandum of understanding with the Council for Geoscience on carbon capture, utilisation and storage

 [Engaging our stakeholders](#) (page 39)

 [Our environmental stewardship](#) (page 109)

 [Social impact](#) (page 106)

3 Geopolitics

Global geopolitical tensions in 2023 continued to impact supply-demand pricing dynamics for key Exxaro commodities. The implications of the Russia-Ukraine conflict and subsequent sanctions, the continuing US-China and China-Australia tensions, and the Israel-Hamas war were evident. The European Union's ban on coal imports from Russia and the easing of Chinese import restrictions on Australian coal significantly impacted supply-demand balance, trade flows and seaborne thermal coal pricing.

Cause

- Impact of Russia-Ukraine conflict
- Easing of China import restrictions on Australian coal
- Israel-Hamas war

Implications for Exxaro

- Opportunities in the European and Japanese thermal coal markets
- Lower but volatile seaborne thermal coal prices

Outlook

- Geopolitical tension and strategic competition to inform framework for relationships between countries, multilateral forums, global challenges, flows of trade and investment

Our strategic response

- Market strategy adapts to changing global flows
- Market to resource optimisation
- Increased collaboration with stakeholders

4 Foreign currency market

US dollar strength was more resilient in 2023. The persistent underlying price pressures prolonged the tight and restrictive global financial conditions, added financial stresses to developing and emerging countries, and prompted concerns of a wider economic slowdown and recession. The US dollar's position as the dominant global reserve currency and the fact that US dollar assets are regarded as safe havens, benefited the currency in these global uncertain economic and financial conditions.

During 2023, the South African rand lost significant value against major global currencies. This is attributable to intensified loadshedding with the perceived risk of a potential grid collapse, the country's grey listing by the Financial Action Task Force, widening current account and fiscal deficits, US dollar strength, global recessionary risk and widespread geopolitical tensions. The USD/ZAR exchange rate is anticipated to be supported in 2024 by an expected improvement in both global economic sentiment and investor confidence.

Cause	Implications for Exxaro	Outlook	Our strategic response
<ul style="list-style-type: none"> Restrictive global financial conditions US dollar strength Recessionary risk sentiment 	<ul style="list-style-type: none"> Forex volatility, weaker exchange rate favourable to coal exports 	<ul style="list-style-type: none"> Positive global economic sentiment expected to support USD/ZAR exchange rate The use of emerging markets' currencies for bilateral trade will increase 	<ul style="list-style-type: none"> Rand-based pricing for input products Limited hedging Local sourcing

5 Inflation and interest rates

Throughout 2023, global inflation continued its downward path, driven by tightening, cooling demand, supply chain resilience, declining commodity prices and the reversal of many of the inflationary forces from the COVID-19 pandemic (lockdowns, supply disruptions, extraordinary fiscal and monetary stimuli, and shifts in the composition of consumer spending).

In 2023, South Africa's headline inflation averaged 6% and is expected to remain above the mid-point of the South African Reserve Bank's inflation target range of 3% to 6% during 2024. The repurchase rate increased by a cumulative 125 basis points during 2023, and together with the 325 basis points increase recorded during 2022, policy interest rates remained restrictive and affected both global investment sentiment and economic activity.

Cause	Implications for Exxaro	Outlook	Our strategic response
<ul style="list-style-type: none"> Persistent high inflation Interest rate increases Monetary policy trade-offs 	<ul style="list-style-type: none"> Cost escalations exacerbated by delayed inflationary impacts on input cost Revenue escalations Borrowing cost increases 	<ul style="list-style-type: none"> Lower inflation and interest rates to be realised during 2024, although regional divergences expected to remain 	<ul style="list-style-type: none"> Inflation-linked escalations Reduce debt levels Cost management

6 Cyber threats, digital and innovation

Our award-winning Digital@Exxaro strategy empowers Exxaro to leverage its skills, capabilities and digital infrastructure to add value to the business and shareholders.

We will continue to leverage digital transformation to achieve operational excellence and, in support of our strategic objectives, to differentiate ourselves and achieve sustainable growth and impact.

Exxaro is investigating opportunities brought about by the recent technological advancements, such as generative AI and exploring how such technologies can add value to our business to reduce cost, improve productivity and enable ESG outcomes. We amplify the efficacy of our ESG strategies by exploiting digital solutions, ensuring a comprehensive and forward-looking approach to ESG responsibilities. This synergy between low-carbon technologies and digital innovation demonstrates our commitment to sustainability and technological advancement in pursuit of robust ESG objectives.

Cause	Implications for Exxaro	Outlook	Our strategic response
<ul style="list-style-type: none"> Digital and technological innovation enables improved productivity, safety and environmental management in the mining industry 	<ul style="list-style-type: none"> The programme has enabled data-driven decision making and drives end-to-end integration and optimisation of our value chain to remain competitive 	<ul style="list-style-type: none"> Given the economic climate, it is imperative for mining organisations to innovate to sustain a continued competitive advantage. Recent advancements in technology, such as generative AI, bring new opportunities for Exxaro and we will be continuously evaluating these for applicability 	<ul style="list-style-type: none"> We renewed our focus on innovation across the organisation, including advancing our award-winning Digital@Exxaro strategy in areas of advanced analytics and AI in support of our Sustainable Growth and Impact strategy

 [Business resilience](#) (page 92)

Our markets

During 2023, global commodity markets were affected by the inconsistent recovery from COVID-19 restrictions in China together with supporting policy measures, global macro-economic headwinds, persistent inflationary and interest rate pressures and recessionary risks, ongoing geopolitical tensions, China's weak property market, and gas supply risks.

7 Commodity markets

Exxaro's commodity markets recorded mixed and volatile performances in 2023. The year started with global economic optimism, however, as it progressed, global investor sentiment changed and weighed negatively on global economic activity and commodity markets.

API4 coal export price averaged US\$121.00/t (2022: US\$270.87/t)

Commodity prices (US\$/t)	2024 forecast	2023	2022
Thermal coal (RB1)	95	121.00	270.87
Thermal coal (RB3)	76	100.72	205.43
Iron ore fines	106	119.54	120.03
Lump premium	10	9.64	13.92

Source: Various commodity market intelligence reports, January to December 2023.

Cause	Implications for Exxaro	Outlook	Our strategic response
<ul style="list-style-type: none"> Global macro-economic headwinds Ongoing geopolitical tension China's weak property market Gas supply risks 	<ul style="list-style-type: none"> Volatile and weaker commodity markets Lower received prices for coal exports 	<ul style="list-style-type: none"> Commodity markets are anticipated to rebalance during 2024 to reflect fundamental market dynamics 	<ul style="list-style-type: none"> Portfolio management Maximise coal exports

7.1 Coal markets

For most of 2023, seaborne thermal coal prices remained under pressure due to weak demand for high-calorific-value coal from Europe and north-east Asia. Both thermal coal and gas prices declined significantly as Europe and Japan, Korea and Taiwan (JKT) remained well stocked with both gas and thermal coal. Stronger renewables availability further reduced the role of gas and thermal coal in the European energy mix. Towards the end of 2023, natural gas supply risks, the Israel-Hamas war and the uncertainty of the northern hemisphere winter were the key drivers for the energy complex markets and pricing.

The switch from thermal coal to natural gas (coal-gas economics), including liquefied natural gas (LNG), particularly in Europe, where gas prices were at times more competitive, led to a downward trend in thermal coal prices, with the Argus/McCloskey Coal Price Index (API4) price index declining to US\$88.5 per tonne by July.

Changes in demand and trade flows were observed in the year. Lower coal prices resulted in a resurgence in Indian demand. China and India were the primary demand drivers due to their economic growth potential and buoyant power demand. Changes in global trade included the resumption of Australia's supply into China from a previous trade ban, a drastic reduction in Russian supplies to Europe and Japan, and Korea's gradual weaning off from Russian coal dependency.

Australia and Indonesia, after overcoming earlier weather-related production challenges, increased their thermal coal output. However, this coincided with a mild winter in Europe, which also contributed to a decline in seaborne coal prices globally.

Towards the end of the year, a resurgence in demand from China (driven by rising domestic prices) led to an increase in coal imports, as Europe and the JKT region experienced a drop in coal consumption and imports.

The South African domestic market demand remained stable throughout the year across multiple products. The decline in export pricing compressed margins and eroded profitability of alternative export channels. Operational challenges and equipment failures at Eskom's power stations impacted the offtake of power station coal in the Waterberg region.

Cause	Implications for Exxaro	Outlook	Our strategic response
<ul style="list-style-type: none"> European coal-gas economics Sufficient gas and coal stock levels in Europe and JKT Warmer than usual winter temperatures in northern hemisphere Changes in global trade flow because of geopolitical tensions such as the ongoing Russia-Ukraine conflict Global energy transition 	<ul style="list-style-type: none"> Lower API4 index price Market volatility 	<ul style="list-style-type: none"> The easing of global supply risks in both the thermal coal and natural gas (including LNG) markets is expected to filter through to market pricing 	<ul style="list-style-type: none"> Early value strategy Market to resource optimisation Exploring alternative markets Focusing on market adaptability Targeting high-demand markets

7.2 Coal logistics

Rail operations continued to face numerous challenges, including limited availability of locomotives, security incidents and vandalism. As a result, Transnet Freight Rail's (TFR) performance to RBCT dropped from 50.43Mt in 2022 to 47.92Mt in 2023. Exxaro's export evacuation via rail and RBCT slightly increased from 4.65Mt in 2022 to 4.68Mt for 2023. Exxaro was successful in developing alternative routes to market and continued to road truck coal and export via alternative export ports.

Cause

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

Implications for Exxaro

- Reduced export volumes and increased cost of alternative logistics channels

Outlook

- Our business operating performance continues to be impacted by the TFR challenges. We remain cautiously optimistic that the continuous collaborative approach between critical stakeholders will eventually result in the improvement of TFR's operational performance

Our strategic response

- TFR engagement
- Develop alternative routes to market

7.3 Iron ore market

Despite the property sector weakness in China, the seaborne iron ore market was supported by the resilience of China's steel output as the much-anticipated steel capacity cuts remained modest. In addition, the property market policy easing, announced in August, is expected to stimulate property demand and, in turn, stabilise the overall sentiment within the sector.

Continuous rising iron ore supply and exports remain the limiting factor for the iron ore prices. Major miners' supply is increasing, and while Chinese demand remains relatively flat, demand from the rest of the world is expected to recover in 2024. A stronger for longer pricing environment is expected to prevail, supported by higher marginal cost levels.

Cause

- Weak property sector in China necessitating government stimulus measures
- Resilience of China's steel output
- Supply and export increases from major miners

Implications for Exxaro

- Performance of SIOC investment

Outlook

- A balanced iron ore market expected for 2024
- Together with the easing of the property market policy and anticipated modest steel capacity cuts, a stronger for longer pricing environment is expected

Our strategic response

- Exposure to higher-value iron ore lump product