CHAPTER 1:
THE YEAR IN BRIEF

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HIGHLIGHTS

R28.9 billion
Revenue, up 12%

R7.8 billion
Cash generated by operations, up 47%

R7.2 billion
EBITDA, up 22%

R12.43 per share
Final dividend

R6.4 billion
Equity-accounted income, up 37%

R5.43 per share
Special dividend

GROUP FINANCIAL RESULTS

REVENUE

Group revenue increased by 12% to R28 924 million (2019: R25 726 million), mainly due to higher commercial coal revenue and record coal export volumes as well as the inclusion of renewable energy sales from 1 April 2020.

EARNINGS

Earnings decreased by 26% to R7 283 million (2019: R9 809 million) or 2 902 cps (2019: 3 908 cps). The decrease in earnings was mainly due to the BEE Parties sharing in the consolidated Eyesizwe results for 12 months in 2020, compared to two months in 2019, partially offset by better profitability from controlled operations and higher equity-accounted income from non-controlled operations.

Other contributing factors for the lower earnings were:
- Impairment of the ECC operation, amounting to R1 378 million
- Impairment of investments in associates, amounting to R504 million
- An increase in finance costs of R692 million, mainly relating to the consolidation of Cennergi from 1 April 2020
- Gain on partial disposal of our Tronox investments (including the realisation of the foreign currency revaluation reserve) amounting to R2 336 million in 2019,

partially offset by:
- Improved EBITDA performance of R1 293 million
- R1 718 million increase in our share of income of equity-accounted investments
- Gain on deemed disposal of the Cennergi JV amounting to R1 321 million.

Headline earnings decreased to R7 417 million (2019: R7 599 million) or 2 955 cps (2019: 3 027 cps). Refer note 5.3 for the detailed headline earnings reconciliation.

CASH FLOW AND FUNDING

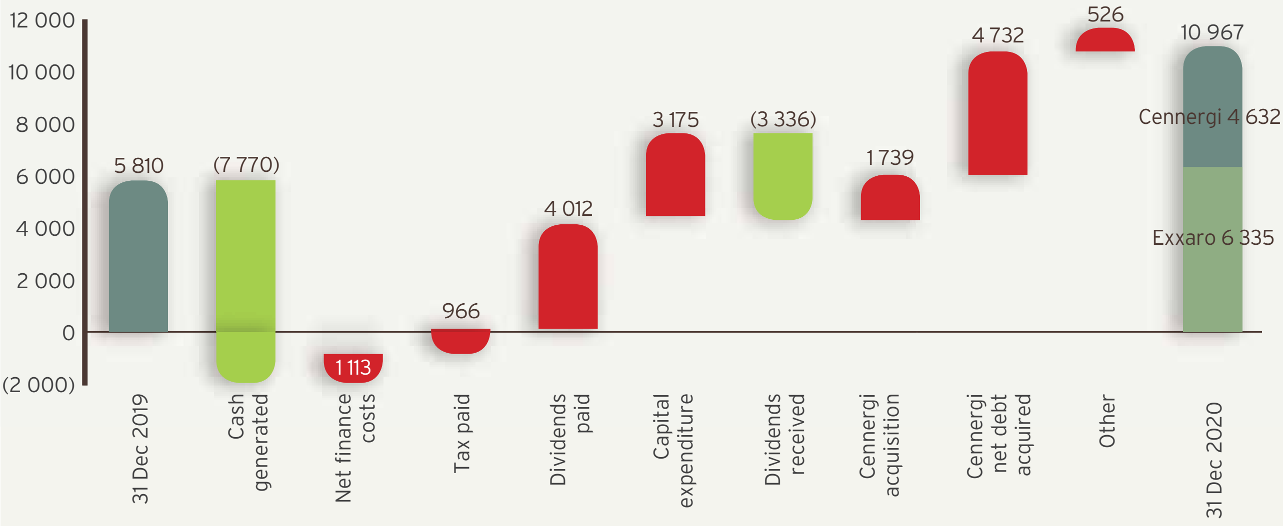
Cash generated by operations of R7 770 million (2019: R5 273 million) increased by 47% and, together with dividend income from our equity-accounted investments of R3 263 million (2019: R4 146 million), were sufficient to fund capital expenditure, ordinary dividends paid, taxes and net finance costs.

Total capital expenditure of R3 175 million (2019: R6 076 million) decreased by R2 901 million, comprising R277 million decrease in sustaining and environmental capital (stay-in-business capital) and R2 624 million decrease in new capacity (expansion capital).

DEBT EXPOSURE

Net debt for the year ended 31 December 2020 increased by R525 million to R6 335 million (excluding Cennergi's net debt of R4 632 million) (2019: R5 810 million). The main cash outflow items during 2020 include the funding of our capital expenditure programme of R3 175 million, R198 million cash payment in respect of contingent consideration and R1 739 million for the acquisition of the remaining 50% interest in Cennergi.

Net debt movement analysis (Rm)



CHAPTER 1:
The year in brief continued

COAL BUSINESS

Notwithstanding the COVID-19 lockdown restrictions imposed in 2020, steam coal demand remained fairly steady in the domestic market. There was good offtake from Eskom at Matimba Power Station, with Medupi Power Station falling slightly short for the year. Eskom did not take coal from Leeuwpan and ECC as the parties are still in the process of concluding new coal supply agreements.

Demand from AMSA was impacted due to the initial lockdown restrictions and lower steel demand. AMSA's offtake recovered somewhat with the easing of the lockdown restrictions.

Internationally, the onset of the COVID-19 pandemic impacted global demand as industries ceased production under lockdown conditions. This was evident in the sponge iron markets on the East Coast of India. As restrictions eased, demand in India returned to pre-pandemic levels in the last quarter of 2020. The import ban on Australian thermal coal into China caused a stir as China imported coal from South Africa. In turn, Australian coal found its way into the Indian and Pakistani power generation and cement markets.

The average benchmark API4 RBCT export price of US$65 per tonne was 10% lower (2019: US$72 per tonne), resulting in an 11% lower average price per tonne achieved of US$48 (2019: US$54 per tonne). The average spot exchange rate was weaker at R16.45 to the US dollar (2019: R14.44).

CAPEX AND PROJECTS

Exxaro's coal capital expenditure of R3 060 million decreased by 47%, driven by lower expansion capital spend. At Grootegeluk, the GG6 project was delayed by seven months due to the impact of the COVID-19 pandemic, resulting in an overall delay of 13 months. The current estimated capital overrun of approximately 10% for the GG6 project is still as per previous guidance provided. The forecast final cost to completion is expected to be R5 300 million with project close-out expected in the second quarter of 2022. The rapid load out station at Grootegeluk and the Belfast mine have been completed within budget.

Coal capex	2020 Rm	2019 Rm	Change %
Sustaining	2 110	2 245	(6)
Commercial – Waterberg	1 683	1 753	(4)
Commercial – Mpumalanga	411	475	(13)
Other	16	17	
Expansion	950	3 572	(73)
Commercial – Waterberg	643	1 198	(46)
Commercial – Mpumalanga	307	2 301	(87)
Other		73	
Total coal capex	3 060	5 817	(47)

EQUITY-ACCOUNTED INVESTMENT

Mafube, a 50% JV with Anglo, recorded lower equity-accounted income of R67 million (2019: R127 million) mainly due to the impact of the COVID-19 lockdown restrictions imposed during the first half of 2020.

ENERGY BUSINESS

The effective date of consolidation of Cennergi into the Exxaro group was 1 April 2020 (refer note 8.3 for detail of the business combination), reporting a net operating profit of R379 million for the nine-month period ended 31 December 2020. Cash generated for the nine-month period was R714 million.

Net operating profit	2020 Rm	2019 Rm
Cennergi nine-month performance	379	
Other energy operations	(22)	
Impairment of associate: GAM		(58)
Gain on deemed disposal of JV	1 321	
Losses on share of cash flow hedge reserve recycled to profit or loss on deemed disposal of JV	(59)	
Total net operating profit	1 619	(58)

Total generation output at 553 GWh for the nine-month period is marginally below planned numbers due to lower wind conditions. Equipment performance and Eskom grid availability remain according to plan. Electricity generated for the 12-month period amounted to 727 GWh, which is slightly lower (-4%) than 2019, which was an exceptionally good year for generation, especially in July 2019 where the Amakhala windfarm generated more than 150% of its intended target.

FERROUS BUSINESS

EQUITY-ACCOUNTED INVESTMENT

The 39% increase of R1 712 million in equity-accounted income from SIOC to R6 125 million (2019: R4 413 million), was primarily driven by the higher iron-ore prices in combination with cost-saving initiatives implemented.

Dividends amounting to R3 119 million (2019: R4 051 million) were received from our investment in SIOC. SIOC has declared a final dividend to its shareholders in February 2021. Exxaro's 20.62% share of the dividend amounts to R3 663 million. The dividend will be accounted for in 2021.

TiO_2 BUSINESS

EQUITY-ACCOUNTED INVESTMENT

Equity-accounted income of R207 million from Tronox SA was in line with the previous year's equity-accounted income of R234 million.

Subsequent to 31 December 2020, Exxaro divested from its investments in Tronox (refer note 18.4).

OTHER

BLACK MOUNTAIN

Exxaro continues to evaluate its options to dispose of its 26% shareholding in Black Mountain following the suspension of the sale process in December 2020.

INSECT TECHNOLOGY

The investment in Insect Technology was no longer considered to be a strategic fit for Exxaro. Consequently Exxaro will not participate in any further fund raising.

Insect Technology was unable to raise funding for pre-commissioning, research and development as well as operational expenses. The delays in the fund raising had an impact on working capital requirements and the company found itself in severe financial distress. Due to the uncertainty of whether Insect Technology will continue as a going concern, a decision was taken to fully impair the investment (refer note 8.5).

CURAPIPE

The investment in Curapipe was identified not to be a strategic fit for Exxaro and as a result, Exxaro embarked on a divestment process during 2020 for the total equity interest in Curapipe. On 30 June 2020, the investment in Curapipe was impaired to US$1. Subsequently, the investment was sold on 9 November 2020 under a deferred compensation offer comprising a cash component of US$1 and a contingent consideration receivable component.

SALE OF NON-CORE ASSETS AND INVESTMENTS

As mentioned previously, we undertook a strategic decision to dispose of our total equity interest in ECC and our Leeuwpan operation, having identified these assets as non-core to the future objectives of Exxaro. The resultant sales process is well underway and good progress has been made notwithstanding the COVID-19 environment. We are close to finalising the disposal of ECC with an announcement expected in the first half of 2021. On 31 December 2020, the ECC operation met all the criteria to be classified as a non-current asset held-for-sale (refer note 8.4). The disposal process for the Leeuwpan operation continues.

PERFORMANCE AGAINST NEW B-BBEE CODES

While the 2020 audit is still in progress, we are expected to maintain our level 2 B-BBEE status. The certificate will be published as soon as the audit is concluded.

SUSTAINABLE DEVELOPMENT

The COVID-19 pandemic has highlighted the deeply connected nature of our society and emphasised the importance of an integrated sustainable development approach, focused on agile responses to short-term challenges, while continuing to support a Just Transition towards a low-carbon economy and sustainable communities. Our embedded safety and health strategies and stakeholder relations have enabled us to respond timeously and effectively to the pandemic. Further details will be available in our 2020 integrated report.

TAKING A PROACTIVE APPROACH TO STEWARDSHIP

We continue to integrate responsible management practices into our operations, taking a holistic approach to climate change and environmental stewardship.

Outcome of the Taskforce on Climate Related Financial Disclosures (TCFD) Assessment

We have concluded the TCFD Assessment of the risks and opportunities to our business and the ability to remain resilient against climate change. The assessment has been invaluable in reaffirming our strategic considerations for sustainable growth and impact in preparation for a lower-carbon economy.

SUSTAINABLE DEVELOPMENT continued

TAKING A PROACTIVE APPROACH TO STEWARDSHIP continued

Outcome of the Taskforce on Climate Related Financial Disclosures (TCFD) Assessment continued

The assessment results considered a future scenario where temperature increases do not exceed 2˚C, in line with the Paris Agreement commitment. In this context Exxaro established and communicated a target of being carbon neutral by 2050, which we will achieve through, inter alia, a reduction in emissions to be determined. We are pleased to report that Exxaro achieved an alignment of between 90% and 100% to the TCFD recommendations. The gaps identified are addressed through our Sustainable Growth and Impact strategy in terms of describing how we will manage climate-related opportunities and the resilience of the business.

Environmental Incidents

In 2020 our Environmental Incidents Management Standard was reviewed and changes introduced in order to ensure that all environmental incidents are tracked, including incidents which had no visible environmental impacts (level zero incidents). We now have level 0 and level 1 to level 3 environmental incidents classifications. The classifications are based on the materiality of the risk or impact. This change standard will be implemented from 2021. In 2020 we had zero level 2 and level 3 incidents and 94 level 1 incidents.

SHAREHOLDER RETURN

In terms of our capital allocation framework, we will remain prudent in returning cash to shareholders, managing debt, and selectively reinvesting for the growth of our business. Exxaro's declared dividend policy was previously based on two components: a pass through of the SIOC dividend received and a targeted cover ratio of 2.5 times to 3.5 times core attributable coal earnings.

Our strategic approach to build our renewable energy business necessitated a review of our dividend policy. The board of directors therefore approved for the targeted cover ratios to be applied on Exxaro group earnings and not only coal earnings. The revised dividend policy is therefore as follows:

- 2.5 times to 3.5 times group core net profit after tax (excluding SIOC core equity-accounted income) less NCIs of Exxaro subsidiaries (excluding NCIs of Eyesizwe), "adjusted group earnings"
- Pass through of the SIOC dividend received

The targeted gearing ratio of below 1.5 times net debt to EBITDA remains unchanged.

The board of directors has declared a cash dividend, in line with the revised policy, comprising:

- 2.5 times adjusted group earnings and
- Pass through of SIOC dividend receivable of R3 663 million.

Based on the revised dividend policy, Exxaro declared a final dividend of 1 243 cps for 2020.

Taking into account the estimated proceeds of R5 763 million received from the disposal of Exxaro's shareholding in Tronox Holdings plc, the board of directors has resolved to pay a special dividend of 543 cps (approximately R1 363 million to external shareholders) and to implement a share buy-back programme of R1.5 billion.

The total dividend declared for 2020 is R24.29 per share, which includes the special dividend. We are proud to report that normal ordinary dividends declared for the 2020 financial year are the highest in Exxaro's history.

Historic dividend declarations