Conference call transcript

16 March 2023

ANNUAL RESULTS PRESENTATION

Mzila Mthenjane:

Welcome and safety message
Good morning, ladies and gentlemen, and welcome to Exxaro's results presentation for the year 2022. My name is Mzila Mthenjane, and I'm the Executive Head for Stakeholder Affairs at Exxaro. Before we start, just a safety briefing. We saved our guests from the 15 or 20 minute induction that you will usually be subjected to when you visit the conneXXion. So, I think it will be important that I share with you our safety briefing. Firstly, we don't have any emergency drill planned for today. So, if the alarm is activated, we do need you to react. But please do stay calm. We do have safety marshals who will assist you with evacuating the building and accompany you to a designated assembly point outside of this building, where a roll call will be conducted.

We will remain at this assembly point until further instructions are issued to re-enter the building. Also note that we have medical personnel on site. Should you require any medical assistance, please do let us know. And for those who are here with me, ablution facilities are located along the passage to your right as you exit. You will leave through the door at the back of this auditorium. This is also a very important announcement to make that we do not envisage any load shedding. However, should we experience a power outage, do not despair as we have generators on site, which will kick in within a few minutes. We will then get back to emergency lights, plugs, and then the ever important WiFi.

Introduction
So, if we can then start off: to extend a welcome to some of our board members who I've seen here today; the Pensioners club, always an important cohort to acknowledge, and all our other guests. And so, if I can just provide a preamble; as I was going through the preparation for these results, I was thinking that if the results were presented as a streaming documentary by a Hollywood producer, the title of the documentary would probably be something like "Confessions of a Price Taker". And this would be a documentary infused with drama and exaggeration of regional wars, unrest and strikes, derailments, electricity rationing, and certainly no doubt, a dose of climate activism. It will be an accurate description in the title, no doubt, but definitely not a complete description and reflection of the true story of the great efforts of the people of Exxaro who generated a coal tonnage and the gigawatts of renewable energy to be able to take advantage of the favourable prices that we experienced during 2022.

So, I do have here with me the team to narrate the undramatised real life performance and results of the business. And so, in the order that the presentation will be delivered, is that firstly Dr Nombasa Tsengwa, our CEO, will take us through the macro context and performance highlights. And she'll come back later to present a strategic outlook at the close of the presentation. She'll be followed by Kgabi Masia, our MD for Minerals, who will present the coal operations' performance, and then Riaan will give a layout of the price effects on the production and operational performance. I'll then come back and facilitate a Q&A session when Nombasa has concluded. So, if I can hand over to you, Nombasa.

Nombasa Tsengwa: Welcome, Introduction, Macro View and Perfomance Highlights
Thank you, Mzila. So, in my normal informal sense, this morning I thought I would tell a joke. And I would have done this in the form of showing a slide. But Mzila told me that it is not done here. But what it would have done, it would have thrown you a picture of how you or probably people look when they are waiting for results. So, please just check yourself, fix yourself and please look normal. Good morning, ladies and gentlemen. It is indeed a special day in our corporate calendar, and exciting to see all of you in attendance today, including those who are joining us online. A special welcome to our Chairman, who was supposed to be here. I've not seen the Chair, but the Chair was supposed to attend. And our fellow board members in attendance, and also, as Mzila said, the members of the infamous Pension's Club.

My team and I are happy to share with you our 2022 annual results, a year of two distinct halves. The first half started with strong thermal coal prices going as high as $448 per ton, followed by a second half where prices receded to as low as $127. With these attractive prices, and our high quality product mix, you can imagine how attractive the European market was and the demand thereof. However, the persistent logistical challenges to evacuate our coal to RBCT continued to limit our ability to maximise supply to these markets. Despite all these challenges, the team has demonstrated resilience and delivered the best results possible under these tough circumstances.

Slide 5: Macro environment in 2022 Global Markets
So, if we just look at the macroeconomic environment, the sad tragedy of the Russia-Ukraine conflict sent global markets into turmoil and really started the European energy insecurity, which, amongst others, broadened South African seaborne thermal trade as international sanctions for Russian thermal coal came into effect in the third quarter. As a result, RSA RBCT coal exports to Europe increased from 2.3 million tonnes in financial year 2021 to a whopping 14.3 million tonnes in the financial year 2022. In addition, the renewed COVID-19 lockdowns in China were amongst a series of economic shocks that disrupted supply chains, fuelled further inflation, increased energy costs, and slowed economic growth, which ended at 3% compared to the strong finish of 6% in the previous year.

Commodity markets were mixed and volatile throughout the period under review. In respect of our portfolio of commodities, as you can see on the graph below, API4 thermal coal prices averaged at $271 versus an average of $124 per ton in the previous year. The iron ore fines price averaged at $120 per ton versus $160 per ton in 2021. And you can see the draw. And we'll come back and show how this has impacted our equity income as Koppies will be talking to you. As we always indicate, our commodity portfolio is robust and self-reinforcing. Throughout the year, with the envisaged pressure on margins, as market prices started to decline, and inflationary pressure emerged from fuel and higher royalties, cost containment became a key focus to our team.

Slide 6: South Africa has become a different place to do business
And looking at our country and looking at what has really unfolded in the last year, ladies and gents, I'm sure you will agree with me that South Africa has become a different place to do business. Worsening logistics constraints and rising electricity supply shortage introduced new challenges to us. The changing, increasingly difficult environment has demanded resilience and significant structural adjustments which compels business to grow new skills of either being self-sufficient or reliant on alternative means of doing business. This is all outside the norm of how we're used to doing business in the country.

As reported by the Minerals Council of South Africa, together with our South African peers, we continue to face losses of volumes due to the rail capacity as well as financial losses. Once we found alternative channels for our coal to reach markets through road trucks and alternative ports, these options were neither sufficient nor optimal to make up for the loss in rail capacity. In addition, these alternative channels were at a higher cost, which we are able to withstand from the high export coal price, obviously depending on where the price stands. As a responsible corporate citizen, we recognise the detrimental impact of the increasing number of trucks on the roads, and what that does to the infrastructure, and the social impact of the infrastructure damage to the communities around them. We appreciate the collaborative efforts between the MCSA, the Transnet management and the board wherein we are all participants.

The worsening electricity supply shortage is compounding the negative impact on business, and particularly our SMEs as well as other facets of our society. A direct impact, is firstly, to small businesses in our supply chain that are supported through our enterprise and supplier development programme. These small businesses are experiencing difficulties in deploying their services and fulfilling their financial obligations. Secondly, the welfare and the morale of our employees and their families is severely affected. This is an unfortunate and evolving situation for all of us in South Africa. Due to this complexity, we do not by any means suggest that solutions will be simple. However, it is quite encouraging for us to witness some of the actions that the government have taken. Transnet's decision, for instance, to concession the Johannesburg to Durban freight line, and the national treasury's requirement for Eskom to do the same for some of its power stations. We really expect to see a bit more as well from our government in this line of commitment.

Slide 7: Highlights I ESG
Looking at ESG, it is an integral part of our value system, and is evident in the improvement of our FTSE Russell ESG score from 3.8 to four out of five, driven amongst other things by our intentions and efforts to decarbonise our operations. Our support to Africa's tourism through environmental stewardship and biodiversity conservation saw us donating a further seven black rhinos and 20 white rhinos to Mozambique's Zinave National Park, a neighbourly initiative which created 90 direct jobs and numerous potential indirect tourism business opportunities in the region.

We believe responsible mining of coal includes active decarbonisation of current mining activities and obviously activities along the value chain. So firstly, the ECC divestment has reduced our Scope 2 emissions by 19%. And next in line, which is of significance, is going to be the reduction after we introduce our LSP project at Grootegeluk. And we will talk a little bit about this later. And we're very proud to mention that we have reduced the number of trucks at GG that will also contribute to the reduction of our CO2 emissions. Our decarbonisation plans remain very firm, still in place, as you can see in one of the back-up slides. (slide 35)

On the safety front, the 15th of August was a very sad day in our life. That is when we regrettably lost the life of our colleague, Mr Matthews Moanalo at our Belfast mine after five years and five months fatality-free. We have learnt a lot from this unfortunate event. Once again, we send our sincere condolences to his family, friends and colleagues. Notwithstanding this, we continue to choose safety at our workplace. We continue to ask our employees to always choose safety first, as we call it, #KhethaUkuphepha. And at work, it is always safety and all the way home. And this initiative for many years has been built on five solid safety pillars that have underpinned our zero harm efforts over the last decade. So, I really owe thanks to Mongezi Veti, who is our Executive Head of Safety and Sustainability, to Kgabi Masia and his teams for leading the safety re-energising efforts across the group.

On the social impact front, we want to make a significant difference in the communities where we operate and in society at large. We have communicated and also committed a significant financial resource of about R6.4 billion in the last five years to 2021. Now, in 2022, our direct social expenditure of R1.6 billion, which covered broad areas of need, such as local procurement of about R1 billion, infrastructure, enterprise, and supplier development, and social welfare initiatives. Being a small business like Boitlhamo a construction and brick company based in Lephalale, which was founded in 2020 by three young graduates from Grootegeluk within the skills development Initiative, which then grew from really three employees to 20 employees. And really this is very gratifying to see because this is just one example of many cases where indeed, we're making a difference in the communities where we operate.

Slide 8: Highlight I Operational

Now coming to operations. The teams were able to respond with resilience and tenacity to the macro challenges presented. And I've mentioned how proud we are to have seen such a performance. If we look at the core business, they delivered 1.4% production increase. We're very proud of this achievement. And we once again commend the teams for this performance, despite the logistical constraints on our export sales, which reduced by 32%. We achieved a record average realised price of 93% against the API4 index. And this is an increase of 16% compared to the financial year of 2021. This sterling performance was enabled by our robust and diverse coal portfolio on the back of our early value strategy. So, it's not just about price, what we're talking about here. And our market to resource optimisation initiatives also have really come to the party.

Our cost performance was 1.1% below the mine inflation of 13.8%, which is an admirable performance by the coal team given the prevailing global inflationary pressures and rising distribution costs. Really thanks to Mellis for working with those field managers across the business to make sure that they really manage the cost to the extent that we can. But if we exclude the royalties, our costs increase amounted to 7.3%. The performance of the energy business is also within the seasonal trend range. The wind energy decreased by an average of 7% compared to the financial year 2021. Whilst we have low wind factor, the team has maintained their availability of turbines at 98%, above the 97% contracted levels. So, really great results don't drive themselves. But the great people of Exxaro did.

Slide 9: Highlight I Financial

As I have already mentioned, despite operating in a high inflationary environment, cost containment and high prices saved the day. Having said this, ladies and gentlemen, it is not merely high price. And I want to repeat this because I want people to understand. Our 95% record average price realisation against API4 is a huge feat, which is attributable to the growth of our RB1 element in our product mix with the innovative means that Sakkie and his team continue to apply on the logistics chain to the RBCT. As you can see, strong prices on the back of the strength of our people and then the product mix should continue to create shareholder value. So, the first one is the EBITDA, which increased by 78% from the previous year, a record EBITDA for us. We delivered headline earnings for the period of R60.16 cents per share, which is 28% higher than 2021. This performance includes the contribution from SIOC and Mafube JV equity interests despite our adjusted equity income being down 26%, largely due to SIOC and the decline in iron ore prices.

We achieved an annualised return on capital employed of 47%. This achievement is attributable to our efforts on critical areas of performance, being efficient capital deployment, and really good cost management. Given this performance, and considering the unfolding uncertainty ahead of us, and obviously our growth aspirations, it is my pleasure to announce the dividend as declared by our board of R11.36 cents per share. And this is really based on our dividend policy, which Koppies will unpack a little bit later. After that, I'm not sure whether it's bad news or not, let me run off the stage and give over to Kgabi.

Kgabi Masia: Minerals – Operational Perfomance

Thank you, Nombasa. We have experienced a very exciting and challenging period during my first year. I mean, I can't believe it's been a year with Exxaro. It feels like 10 years. As mentioned by Dr Nombasa, we cannot celebrate any performance without being reminded of the loss of our employee, Mr Matthews Moanalo, at our Belfast operation on the 15th of August 2022. Our thoughts and prayers are with the family. I'm proud to be associated with this minerals team who have demonstrated resilience and adapted to positively respond to the significant challenges that the business faced in 2022. We managed to achieve the following remarkable results. Good performance in all areas on our safety, health, environmental and community scorecards. We achieved great operational performance, and we were able to improve on our production volumes irrespective of our logistical challenges. Our cost remains well contained irrespective of increased inflationary pressures. We are creating value by ensuring we invest in relevant projects to successfully sustain our operations.

Slide 11: Safety, Environment & Social Impact I Our drive for a safe and sustainable future
I will now go through the details of our performance. We strive for a safe, sustainable future with a very specific focus on our safety, health, environmental and social impacts. Regrettably, the mining industry recorded 49 fatalities in 2022, one of whom was our very own Mr Matthews Moanalo, who was fatally injured at our Belfast operation. Following this incident, investigations were concluded, learnings shared and leadership interventions focusing on the management of high risk activities interest at all sites. As of December 2022, we recorded six lost time injuries across our operations. This resulted in a 38% decrease from 2021 in our lost time injury frequency rate which decreased from point 0.08 to 0.05 against a target of 0.06. We congratulate our operations on this remarkable improvement.

On the health side we've recorded 23 occupational diseases, resulting in an occupational health incident frequency rate of 0.16, which is 11% lower than the set target on 0.18. On the environmental front, we maintained our 2021 performance or land disturbed, carbon intensity and water intensity. On carbon intensity, we established a multidisciplinary task team at all operations to optimise energy efficiency, and we are confident that the activities of these teams will result in a positive performance. A good performance on water intensity as we remain below the target level of 180 litres per ton of run of mine. We had a remarkable performance on our level one incident with a decrease from 43 incidents in 2021, to only nine in 2022, resulting in a 79% improvement. We maintained our performance with zero level two and zero level three incidents, which remains in line with our internal targets.

On the social front, as Dr Nombasa has mentioned, we spent R1.6 billion on our local communities in 2022, an increase of 14% compared to 2021, where we had spent R1.4 billion. This spend was delivered through several mechanisms, namely community development at R179 million, skills development at R126 million, enterprise and supplier development at R217 million, local procurement at R1.1 billion, and the mineral succession programme at R2.4 million.

Slide 12: Loadshedding
Our operational resilience resulted in an improvement of 1.4% in production, with an improvement at most of our operations, with the GG6 project contributing as a major factor. This was achieved despite the divestment of Exxaro Coal Central complex, which we call ECC, in 2021, the impact of the unfortunate fatality at Belfast and immense logistical challenges.

Unfortunately, our sales decreased by 1.6% with the bulk of the reduction included the ECC divestments exaggerated by our logistical challenges. We created value through increasing our domestic sales by 5%. The team did very well under leadership of Sakkie. We used the opportunity to sell our export product in the local market, enabling production at our operations.

Slide 13: Exports I Marketing

The severe impact of the logistical challenges on our export sales is evident on the bar graph on the bottom left, where our sales decreased from 12.2 million tonnes in 2020 to 5.2 million tonnes in 2022, resulting in a 32% decrease over this period. In 2023, we forecast production to increase by 3.2% and sales by 5.7%, mainly due to the following: an increase at GG or Grootegeluk of 1% with the ramp up of GG6 improving product quality; a 21% increase in Mpumalanga's production, driven by market demand and the utilisation of alternative logistical channels at Leeuwpan and Belfast to supplement our export sales; Matla decreases by 6.5% impacted by resource availability and production challenges, due to the Mine 1 funding delays.

The decline in the API4 index does pose a challenge in sending our products through alternative ports as this comes at an additional cost. We however continue to pursue this option while optimising value. Looking at the right hand corner, you will note the following regarding our markets. Our proportion of sales into the important Indian market has reduced on the back of lower Indian demand for South African coal during the time of high coal prices. Demand from China was also a bit lower, but general demand from Pacific customers remained strong. Our high quality product portfolio resulting from our early value strategy continues to support our market positioning. We saw strong demand for our diversified suite of products and Exxaro was very successful in placing significant volumes into Europe, increasing from 3% to 46%. That is a real improvement.

Moving to our product mix at the bottom left, we continue to benefit from and improve on the quality of our export sales products with RB1 improving from 31% to 58%. We expect this trend to continue improving as indicated. Looking at the bottom right hand corner, it is evident that 2022 was a year of record high coal prices on the back of market tightness, as well as high oil and gas prices supported by security concerns, most notably in Europe. Our robust and diverse product portfolio coupled with market resource optimisation initiatives enabled us to increase the price realisation by 16%. As Dr Nombasa has mentioned, this is a record. We have achieved 93% of the index across total export volumes.

Slide 14: Cost containment

We continue to focus on finding solutions across numerous domestic and export channels, amidst the challenges on rail logistics. We managed to come in at 1.1% below the mining inflation of 13.8% despite major inflation increases impacting our production cost. Please note that the mining inflation indicator we use to measure ourselves against excludes royalties. If we also exclude the royalties, our inflation increase will be 7.3% against the inflation of 13.8%. We will however continue with the stretch target we've set ourselves to ensure our cost competitiveness.

We continue to benefit from our digital and operational excellence programmes. This is driven by Tony in my team. Insights from advanced analytics enabled the necessary focus on costs, assisting to avoid inflation impact of R179 million, which is about 1.1% of our cost. As shown in the blue shaded block, we successfully managed our production cost at 0.6% below the 2021 base with the major contributors as follows. Optimising contractors by reducing our costs by 37% which is a combination of the following. Our strategic decision to divest from ECC, improving our strip ratio at Grootegeluk and Belfast. This saving was offset by major pressures driven by an increase in fuel of 49%, countering the inflation impact of 60.7% through mining efficiencies. Maintenance of our mining equipment and hiring equipment at Leeuwpan resulted in an increase of 8%. And an increase in blasting cost of 39% impacted by higher ammonia prices due to global shutdowns of ammonia plants. Cost management remains an imperative as inflationary pressure increases globally and in South Africa. And we remain with our guidance of continuing to beat inflation. Riaan will further unpack the other costs increases.

Slide 15: Capex I Disciplined Capital Execution
Our total capital spend is 5% below our guidance provided in 2022. Expansion capital, consisting of the GG6 project, remained within the original guidance of R5.3 billion and ramped up in 2022. The project is concluded with minor cash flow still in 2023. On sustaining capex, we aim to maximise value, improve efficiency of our capital process, thus promoting a responsible capital spend approach. We have seen some of these benefits in 2022. And this can be attributed to our positive approach in embracing the start of our capital journey. The capital journey project is being run by Mellis and Londi to ensure that there is a discipline in terms of how we deploy capital. Our sustaining capital was 4% lower than the previous guidance mainly due to timing and optimisation in our various projects. We will sustain our business at an average of between R2 billion to R2.5 billion per year in real terms, as previously advised, executing our capital improvement journey and maintaining our commitment to executing our added value strategy.

I would like to thank the minerals operations team, supported by our colleagues here at the conneXXion for their commendable loyalty and good performance, which highlights that we have the right calibre of talent. There is good talent in Exxaro, and I've experienced it. And hence we're talking the results we're talking about, and no challenge is too big to handle. I now hand over Riaan.

Riaan Koppeschaar: Financial Results
Slide17: Group Perfomance I Double-digit growth
Thanks, Kgabi. Good morning, ladies and gentlemen. It's a pleasure presenting our financial results for the year ending 31 December 2022. As usual, the results will be compared to the full year ending 31 December 2021. The IFRS results are adjusted for non-core items to make them more comparable. And from 2021 onwards, the IFRS results were only adjusted with headline earnings adjustments, and further details are included in the backup slides. So, on the first slide, the high level overview of the group results highlights the difference between our own managed operations depicted on the top left revenue and right EBITDA graphs, and income from our equity accounted investments on the bottom left graph. We are proud to report double digit growth in our earnings despite the reduction in equity income. Revenue and EBITDA will be unpacked later on in the slides.

The contribution from our non-managed operations showed a significant decrease with equity income being 26% lower mainly as a result of the performance of our investment in SIOC. This translated into a headline earnings per share of R60.16, an improvement of 28%.

Slide 18: diverse portfolio.
On the next slide, you will see our financial scorecard, again highlighting the double digit growth in EBITDA, headline earnings, cash generated from the operations and also our cash balances. If we look at EBITDA, the coal EBITDA increased 78% to R19 billion whilst the energy EBITDA was 9% lower due to lower energy generation, which I will unpack later on. Looking at the equity income, the decrease in equity income from SIOC was mainly driven by lower iron ore prices, combined with lower volumes as Sishen also experienced logistical challenges. Cost in 2022 was also higher, but partially offset by the impact of the weaker Rand Dollar exchange rate.

Mafube, our 50% joint venture with Thungela, recorded an equity accounted profit of R1.9 billion as a result of higher coal prices combined with higher volumes sold. We also had higher equity income from Black Mountain, mainly due to the higher sales volumes and the higher prices for zinc, lead and copper. So, as a result of this, the headline earnings increased 26% to R14.6 billion. The cash generated from operations increased to R18.9 billion resulting in a positive net cash balance at the end of December of R5.2 billion.

Slide 19: Group EBITDA I Record EBITDA despite

If we look at the EBITDA, firstly our exports were at the higher benchmark *API4 price*, and that resulted in an average price per ton achieved of $251 per ton, 161% higher compared to 2021, and as pointed out, only a 7.5% discount to the API4 benchmark price, due to the good quality and mix of our product and sales. Due to the logistical challenges, we also sold more coal originally destined for the export market in the domestic markets, but at higher prices. When we look at *volumes*, the domestic sales volumes increased in line with higher customer demand, and to mitigate the impact on logistical challenges we also sold more coal domestically.

As Kgabi pointed out, *inflation* is currently running at very high levels, and we are experiencing inflationary pressure with our diesel cost increasing 60%. So, our total diesel bill has gone from R1.1 billion to almost R2 billion during the past year. Electricity cost increasing just over 11%, and the rest of our cost at PPI of 14.5%. Despite all of the challenges, we were also able to contain our cost, and we are very proud of that. So, looking at the *cost bucket*, the buy-ins from Mafube are reflected here, and we bought in 643,000 tonnes of additional coal from Mafube, but due to the higher coal prices we paid just more than R1,055 a ton for these additional volumes. The royalties also increased R786 million, in line with the higher revenue, but with also having lower capex to offset against the revenue.

The higher *selling and distribution cost* was incurred due to additional road transport, demurrage and wharfage costs to mitigate the impact of logistical challenges. This was R550 million. And higher transport costs was also incurred for selling coal in the domestic market. This was R111 million. The net positive *forex* variances due to the impact of the weakening of the Rand Dollar exchange rate on the realised and unrealised forex differences on foreign debtors and cash balances. Included in the other negative variances under other is FECs amounting to R158 million and funds in the Environmental Trust Fund of R122 million. And we also add a higher community spent of R137 million. ECC is also stripped out for comparability purposes.

Slide 20: Coal I Value of coal growth

On this slide, we split out the revenue and EBITDA between the Waterberg and Mpumalanga operations. So, it's evident from this slide that we are starting to reap the benefits of the R17 billion we spent on our coal growth projects over the last couple of years. We are pleased to report a significant increase in EBITDA at both Waterberg and Mpumalanga commercial operations. The increase in EBITDA at Waterberg of R0.6 billion is attributable to an increase in revenue of R6.8 billion with a corresponding increase in the royalties expensed of R567 million at Waterberg. And also, inflationary impact as discussed earlier of R1.1 billion. And we also incurred higher distribution costs due to a portion of our export sales being evacuated via road. That was R285 million. As well as an increase in domestic transport costs with higher domestic sales volumes of R111 million. Our production cost was only R125 million higher, in line with the higher production volumes. The Mpumalanga increase in EBITDA is attributable higher revenue from the Mpumalanga mines of R6.4 billion offset by higher buy-ins from Mafube at higher prices of R2.6 billion as well as the inflationary pressures mentioned of R637 million. This all translated into a very healthy EBITDA margin of 42% for the coal business.

Slide 21: Cernnergi I Stable perfomance despite

On the Cennergi slide, in the second half of the year, the Cennergi energy generation was 364 gigawatt hours, a bit lower than our previous guidance due to the lower wind conditions, which were also recorded at other wind farms in South Africa and across Europe. In South Africa, many wind farms have experienced the lowest wind conditions over the past 12 months. Our normalised EBITDA at the operation is still very consistent, sitting at 80%, showing the predictability of the earnings and cash flow underpinned in the long term offtake agreements. The project finance debt of R4.6 billion will mature over time and be fully settled by 2031. There's no recourse to the Exxaro balance sheet. It is hedged through interest rate swaps at an effective rate of 12.3%, and hedge accounting is applied and therefore have limited volatility on the income statement.

Slide 22: Capital allocation I Framework rewarding

If we look at our capital allocation framework, we can see here that the framework has rewarded shareholders handsomely over the past five years. So, we've generated cash of R78 billion, of which we deployed sustaining capital of R10.6 billion. And in terms of the dividend policy, we paid R34 billion to shareholders as ordinary dividend. You will also see that the final dividend for this year as set out on slide 25 is the first time that the coal dividend actually exceeds the SIOC dividend. So, I think the pensioners will be very happy with that; we are very happy. We deployed more than R9 billion in our coal growth projects, which also included Belfast and the GG6 expansion projects. So, on the energy side, we acquired Tata's 50% interest in Cennergi in 2020 for R1.7 billion. And over the past five years, we paid more than R11 billion as special distributions to shareholders, mainly from the proceeds of the disposal of Tronox. This leaves us in a healthy cash position with a strong balance sheet to implement our growth strategy, with our return on capital employed well above our target rate of 20%.

We then come to the cash generation and capital allocation. So, applying the capital allocation framework, we always aim for net debt to EBITDA ratio below 1.5x. For 2021, cash inflows totalled R21 billion comprising R15 billion from our own operations and dividends of R6 billion mainly from our investment in Sishen. In terms of the framework, we then used this to pay financing costs of R332 million, sustain our operations and support functions with capital of R1.4 billion, and we paid a dividend of R9.7 billion consisting of a pass through of the SIOC dividend of R5.2 billion and R4.5 billion from our own managed operations. We also expanded our coal operations with further capex of R251 million, which is mainly the GG6 project. Included in the other bucket of R791 million are shares acquired to settle vested share based payment schemes of R441 million. So, excluding the Cennergi net debt of R4.4 billion, this resulted for the rest of the Exxaro group in a net cash position of R9.7 billion.

Slide 23: Capital Allocation I Record cash

We shared the economic value generated with all our stakeholders, including employees share of R4.4 billion. And as you can see there, we contributed R8.9 billion through taxes and royalties to the state's coffers during the year. R9 billion was shared with shareholders and a further R181 million with our local communities. Slide 24: Group Capital As pointed out on the capital expenditure, we've now successfully completed all the coal growth projects and we are guiding for sustaining capital in the coal business of between R2 billion and R2.5 billion per annum in real terms going forward from 2023. So, on the energy side, we're very excited. The energy capital of R1.5 billion is for the implementation of the Lephalale solar project, of which we are aiming to start construction in the second quarter of this year, with a construction period of 19 months.

Slide 25: Dividend declared I Consistent shareholder returns

Looking at the dividend, the board has resolved to pay a final dividend of R11.36 at an overall group cover ratio of 2.2x. This is a pass through of the SIOC dividend at a cover of 2.5x on the Exxaro's adjusted group earnings. So, taking into account the uncertainties associated especially with the logistical challenges, as well as growth prospects in minerals and energy, the board has not considered a special dividend at this point in time. So, with that, also, thanks to all the people that made the results possible, the finance team for the hard work, the people at the operations, the people at the corporate office. The efforts are appreciated, and without teamwork this would not have been possible. Thanks very much.

Nombasa Tsengwa
Slide 27
Thank you, Koppies. Our strategy spells out that our future is beyond coal. However, the coal business is the current goose that lays the golden egg for us, for all our stakeholders, especially in South Africa. Over the last eight years, we have optimised the coal portfolio, which we've shared with you. But let's summarise that. By divesting non-core assets, rejigging the remaining key operations to deliver early value to avoid stranded high quality coal reserves, and implementing a sophisticated skill we acquired of market to resource flexibility. And we have also digitalised our operations to further improve efficiencies and productivity. We have enough coal resources to meet demand into the foreseeable future and will sustain the business at a capex of between R2.0 and R2.5 billion per annum.

I can confidently share with you today that based on our 2022 cash generation, our recently constructed and digitally connected mine at Belfast has already paid for itself three years ahead of project schedule. Therefore, it is our strategic choice to optimise value from the coal business to continue to create this value and generate returns to shareholders, and at the same time fuel the growth of our business into diversified minerals and a significant renewable energy business for a robust just transition.

In the following slide in your booklet, I outlined the key efforts that we would really put and prioritise in sustaining the coal business in this year. Nothing is new there, but you can read at your leisure. Slide 29: Strategic outlook. So, from a strategic point of view, we are really committed to grow into a diversified global minerals business. And a common theme amongst the key priority minerals that we chose, copper, bauxite, and manganese, is the expectation of insufficient supply in the long term relative to demand. So, we believe in the long term fundamentals of these minerals. The world needs significant investments in these minerals to support the energy transition and future economic growth. The long term fundamentals, as I said, really remain attractive. So therefore, for any business to grow, you've got to pursue acquisitions. And that's what we're doing, looking within these minerals, always taking cognisance of investment criteria, and capital allocation requirements to balance risk and return. And these we also shared with yourself.

In the past year, we have built an active pipeline of possible acquisition opportunities, where we pursued and evaluated a total of 12 potential opportunities, five in manganese, five in copper and two, in bauxite. Misalignment with our investment criteria, and high premiums have been key to the decisions we took not to proceed with some of these opportunities. So, across the industry, M&A activity in bauxite and manganese has been relatively muted in comparison with copper, although some moderate activity was observed in manganese. We've got the mineral team here. They've been looking at this for a year and a half. They've got the experience of being out there on the market and well prepared to share the experiences that they've had. So, there is market competition for future focus minerals. It is intense. And sellers have very high valuation expectations of these assets. And we have really exercised restraint and discipline to ensure that we create shared value in growing and diversifying your business. As we said before, we won't buy these for the sake of buying. We are in pursuit of deals that are right, good fit and at the right price.

Slide 30: Strategic Outlook I Growing your energy
Likewise, on the energy business, we have been building a pipeline of opportunities, including the Lephalale solar project, which our board has already approved. We expect to reach financial close at the end of this month with construction expected to commence in the second quarter of this year, at a cost of between R1.52 billion and R1.56 billion, which will add 68 megawatts to our portfolio. Our partnership with Enertrag aims to develop wind and solar solutions for the mining

industry in Mpumalanga. The first preferred site is materially permitted, and we are now focusing our attention on commercial and technical work streams. The partnership with Enertrag has a potential pipeline of 700 megawatts.

Furthermore, we are in discussion with various parties to acquire near permitted sites to further boost our entry into the market. The potential pipeline has a range of 770 to 975 megawatts. We are quite mindful of South Africa's grid constraints, which really remain a challenge in our energy strategy and other people's strategy for that matter in the country. There are around nine gigawatts of renewable energy projects under development in South Africa, of which the mining sector accounts for 6.5 gigawatts. Closing the electricity gap requires concerted efforts from citizens at large, but also more from the likes of our business to make meaningful investments. In the past 12 months we have pursued eight wind and solar acquisitive growth opportunities.

One opportunity was taken through our formal governance processes but went no further due to strategic reasons and very tight timelines. Six opportunities were internally reviewed and abandoned due to not meeting our investment criteria, while a remaining opportunity is still in due diligence process review. In August 2022, we presented our revised capital allocation model that facilitates coherent, robust, but fair decision making between competing investments internally. And this ensures alignment with our strategic intent. We remain committed in growing your business. However, as said earlier, we will not acquire opportunities at all costs. We will do so in a disciplined manner guided by this robust capital allocation model that we shared with you.

Last but not least, I am also pleased to announce the appointment of Mr Leon Groenewald as the MD of Energy. Can you stand up so that everyone sees you, sir? Leon is a long standing seasoned leader at Exxaro, having served across various divisions in the company over the last 25 years, with a proven record in business turnaround capabilities, and prudent capital optimisation. Leon was the shareholder representative when the business was still a JV with Tata Power. And he later delivered the 50% of Tata’s stake to Exxaro, and subsequently led the consolidation of the business to its current form.

Slide 61: Macro Environment Constraints

Now, turning to the macro outlook Constraints that challenged our business, as I've touched on a little bit earlier. So, Europe is still challenged to provide energy security, although 2023 has started with further moderation in thermal coal prices. European demand for South Africa's high CV coal is set to remain as Europe's drive to diversify supply from Russia will continue to be sustained. Demand from key markets is expected to remain strong. China's seaborne thermal imports are expected to increase to 235 million tonnes in 2023, compared to 208 million tonnes in 2022. And India’s thermal coal demand is also expected to remain robust.

Sadly, the South African thermal coal export volume for 2023 is expected to remain constrained as logistical challenges persist. The reopening of China after three years of zero COVID policies is anticipated to support commodity markets such as iron ore. South Africa's ongoing electricity supply shortage is estimated to shave off some economic growth from 2023. This crisis gives impetus to private and business investments in renewable energy capacity in partnership with government. To this end, Exxaro is well positioned to grow our renewable energy business and contribute to solving the national electricity shortage.

Slide 32: Conclusion

So, in conclusion, ladies and gents, our key message to you is as follows. Our strategy to grow the business and impact positively and society remains intact. We keep on repeating ourselves because we really want you to understand. Really the value that's underlying the coal business is sitting in the work that we've done in the last decades in making sure that we've got key strategies that extract this value, one of them being the early value strategy of the coal business, which we will continue to deliver this value, obviously coupled with other aspects of our strategy. We will also capture opportunities presented to our renewable energy business. We are creating this business for both decarbonisation of our business and also to power possibilities in Africa and beyond by growing additional generation capacity.

We acknowledge the market competition for high demand minerals. Commodity and asset prices remain elevated with markets anticipating future demand growth in a high inflationary environment. Our approach to allocating capital is prudent, with due consideration for balancing risk and return and the need to transition to a carbon neutral future. I'd like to thank all of our employees and the executive team for delivering such a sterling set of results despite times of deep uncertainty both in their personal lives and in business due to these logistical challenges, inflationary pressures, loadshedding and any other disruptions that we feel in our economy. As Nelson Mandela said, a winner is a dreamer who never gives up.

Thanks to our board for always challenging us. Our Chairman is sitting there at the back, by the way. He's looking at me straight in the eye. And thank you, Chairman, for always leading these very challenging and robust discussion when we talk about capital and our thoughts in terms of the investments, potential opportunities. We also appreciate the conversation within Investco. And we believe that these conversations really are quite healthy. And they do support our plans to grow this business. We have been listening very carefully to you, as the investor community, as well as stakeholders and employees. And we know that there is a better place to be tomorrow than where we are today. Thank you very much. I give over to Mzila.

Mzila Mthenjane: Q&A Session

1. **Question (s)**

Thank you very much, CEO, as well as to Kgabi and Riaan for your presentations. When I look at the list of questions here, it's not a long list, which suggests that perhaps you pre-empted some of the questions and have responded to them with your presentation. But I do have four questions, two from IDC from Tshilidzi Rabada, as well as Nkateko and Hennie Vermeulen. And I will maybe start and group Tshilidzi's questions together. He's worded the question as follows. What has been the quantitative impact of the logistics and electricity challenges on volumes and revenue? And I think, in there he has implied the cumulative sum of both logistics and electricity challenges. And how much is the business receiving from the logistics service providers versus contracted levels? And I think that question perhaps suggests the performance of those contractors in terms of what we've contracted with them and what they're actually achieving?

And then his second part of the question, just wanting a little bit more colour on the acquisition pipeline for the three commodities, specifically in terms of what do we mean by a good fit in considering some of these acquisitions? Maybe you want to start.

1. Response (s)

- **Nombasa Tsengwa**

  Let me ask the team. I mean, the team is prepared. The team is here. So maybe Sakkie can start with the logistics question. The subsequent one, Marius, you're going to lead us. And then the team with you can fill in. Go for it.

- **Sakkie Swanepoel**

Thank you very much for the question. So, on logistics, the level of performance you can calculate as we are contracted with Transnet to move 7.8 million tonnes per annum to RBCT. And last year, we exported a total of 5.2 million tonnes of which half a million tonnes was trucked to the ports. So, on the rail, we actually only did 4.7 million out of the 7.8 million that we contracted for.

- **Mzila Mthenjane**

Okay, and then the cumulative impact of logistics and electricity combined on volumes and revenue.

- **Sakkie Swanepoel**

Yeah, it's difficult to tell. And I think I must rather give this one to my finance colleagues on that side. But on the electricity side, our mines are not load shed, because we supply the very coal that Eskom requires. But on the logistic side, you can appreciate in the numbers that I've shared with you the impact on us. And if you look at the price levels that we've seen, you can calculate that impact on us as a business.

- **Mzila Mthenjane**

And I think it's a number that's been disclosed. We disclosed it last year and also industry wide in terms of the coal industry what that impact is. Okay, and then the last question around what we mean by good fit. Maybe you want to elaborate.

Nombasa Tsengwa

As he's standing up, please do come and talk to us. We always argue as to how much of this do we share with the market in terms of what we are looking at, for exactly this reason. You say I've looked at so much. You say, I didn't look at it. I didn't enquire. Then you're in trouble. You've got to share.

Marius

Sure. Nombasa, thank you very much. I think in terms of what is a good fit from an M&A perspective, we have during our capital market day in 2021 provided a very clear guidance on what we measure from an investment criteria perspective. I think what we have seen in terms of the number of opportunities that we have evaluated, and I think Nombasa also shared with you the specifics around what we looked at, is that market competition specifically around the copper assets continued to pressure the market in terms of where transactions are taking place from a pricing perspective. And if we measure that against our own investment criteria, it makes it very difficult for us to deliver the total returns that our shareholders are expecting, and that we have promised.

We continue to examine and look at opportunities on a very regular basis. I think what we have also indicated is that the market particularly around copper assets is more active than what we are seeing in the manganese and the bauxite space. However, that in itself creates opportunities in these commodities where the competition is slightly less. We will continue to comply with our investment criteria. And that to us, ultimately, if we're able to conclude a transaction that fits within our investment criteria, and complies with what our own requirements are, that would be a good fit for us and believe that will deliver shareholder value in terms of growing our business. Thank you.

Mzila Mthenjane

Thanks, Marius. If I can then move on to Nkateko Mathonsi's question from Investec. What is the risk on your higher FY23 production and sales outlook if the Eskom electricity availability factor does not improve from current low levels? I think the suggestion there, the extent to which that has a backward impact on our production?

Nombasa Tsengwa
Remember, we said there's no impact from load shedding. Remember that. And we have not seen necessarily any curtailment of any offtake from any of the mines that supply Eskom due to what is going on with loadshedding.

Mzila Mthenjane
So, we remain confident?

Nombasa Tsengwa
We remain neutral.

2. Question(s)

Mzila Mthenjane
Okay. And then the question from Hennie around export performance I think was responded to by Sakkie as a result of a question from Tshilidzi, where he was asking about the cause of the reduction in exports. Hennie, if you can hear me, if your question hasn't been answered, maybe you can post the question again. But I think to a large extent we responded to your questions. And then the next question came through from Thabo from Capital One Partners, wanting to know, since January 2023, what has been Transnet coal delivery run rate? I think Sakkie will take that. Those are the questions so far. There's not another one.

2 Response

Sakkie Swanepoel
Thank you very much. January and February, unfortunately, was not a good start to the year. For year to date we're actually performing below where we were last year. I don't have that exact number in my head. But I would think it's probably in the 40 million ton per annum level and not close to 50 million ton where we were last year.

3. Question(s)

Mzila Mthenjane
Okay. Let me come to the floor here. See a question from Tim as well as Brian.

Tim Clarke
Thank you very much. It's Tim Clarke from SBG Securities. First of all, just hearty congratulations on the cost performance. I thought it was really very good. And we've seen some pretty tough cost performance through this reporting season. Many of the companies out there are still talking to lag costs coming through despite energy costs turning around. I wonder if you could comment on your outlook for costs and whether you think you can retain this very strong cost performance, whether there's more benefit to come.

My second question is on M&A versus buybacks. Your stock is at quite big discounts to other stocks in the market. And I just wonder if at this stage. I mean, if I look at your balance sheet, I've got Dr Lou in front of me here. With the dividend potential that strong net cash balance leaves you, or a buyback, I just wondered if you didn't consider better pensioner returns. And then lastly, just on trucking what's the breakeven level? I see that you've got quite a big domestic forecast volume, which I assume is going to be trucked, right. But at some point, in time, I assume that it's not economic to truck. And so, what's that point? What's that breakeven point in your mind right now? Thank you.

3 Response(s)

- **Nombasa Tsengwa**

Okay. Mel, I think we will start with the cost and what your outlook is.

- **Mellis Walker**

Tim, thanks for the question. The cost performance guidelines that we gave you are still intact. We did indicate at half year last year that the cost pressures are increasing. And you saw that we were sitting at about 4.7%, where mining inflation was over 11% at the time. So, we did see more costs coming through in the latter part of the year. But Riaan unpacked some of those. The rehab number, which was water treatment, mainly at Belfast, and then some of the estimated credit losses etc., some of those once offs that were in there. So, the second half Rand per ton was higher, but year on year we're still comfortable that we will stay within mining inflation. And that 1% differential that we see, we still guide that going forward.

- **Nombasa Tsengwa**

We mentioned that we would come to a more average levels of stripping ratios. And if we see anything like that – because we know it always has a significant impact – we'll always announce it ahead of time.

- **Mzila Mthenjane**

And then the questions around returns, shareholders comparing M&A versus buyback, which is the better?

- **Riaan Koppeschaar**

That is always something we do in our calculations to consider the return on a buyback versus the return on M&A. That is also one of the reasons why we haven't done anything at this stage. All of that is in the pot. And then also, in the current environment, as I pointed out, something like a special dividend and also the possible further buyback was not considered due to the uncertainties that we just mentioned around TFR, and also the growth aspirations for the group. But all of those items are always considered when we look at growth and dividends versus buybacks.

- **Mzila Mthenjane**

And then the other question was around where we see the break-even price for trucking. This has been quite a common question as well.

- **Sakkie Swanepoel**

Yeah, Tim. Thanks for the question. You would have seen in the media in the past week or so there was mention made of about $110; I think that's where some people indicated that all of the trucking will stop because it's not going to be economical. We agree. We definitely will stop at that level. But this is not where it becomes uneconomical. I would think at the $130 or $140 level quite a material chunk of even Mpumalanga coal cannot be trucked to ports economically. So, we're in that space where I think a big chunk of Mpumalanga coal is not making money on a trucking option. And we've just in the past week witnessed a very big increase in cost passed through by Transnet Port Terminals, which will make that situation even worse for the rest of the year for people wanting to export through alternative ports.

4. Question(s)

Mzila Mthenjane
Thank you very much. Brian.

Brian Morgan
Thank you very much. Just a couple of questions from my side. Firstly, to Sakkie. Sakkie, are you seeing any sign of your sponge iron customers in India coming back at these sorts of coal prices? And if so, what sort of volumes you think could come back into the market on the demand side? And then, perhaps just carrying on with the M&A question, a few questions there. Could you give us an idea of what sort of implied long term copper, manganese and bauxite prices are being shown in these deals? And then another question was, of the 12 deals that you looked at, how many are still open? Have you closed them all out or what do you have some left? And then perhaps if you could just share with us the location of the bauxite mines that you were looking at.

4 Response(s)

Nombasa Tsengwa
You are pushing it. Okay. Where is Marius? Okay, Sakkie.

Sakkie Swanepoel
Brian, thanks for the question. On the Indian market, India actually had a very good year last year in terms of total imports into the Indian market, higher than in 2021. The appetite for South African coal was just not there. Two factors. The very cheap Russian coal that was available and that India really climbed into. And the second one was the overall levels of coal price, where you normally see Indian buyers withdraw from the market if the coal price goes up. So, it's not that the Indian market demand is anything wrong with. It was an economics question. We definitely see India back in the market for South African coal. And we do see that demand in the market. So, there are some questions about the sponge iron industry in India. But it's not a coal demand issue. It's more where does that industry fit in the economics of the steel industry globally. But generally, we still see good demand.

Nombasa Tsengwa
So, thank you very much. Mohloana, pricing.

Mzila Mthenjane
Mohloana is our Manager for Minerals Business Development.

Nombasa Tsengwa
With the minerals team.

Mohloana Magwai
Good morning, ladies and gentlemen. Morning, Brian, and thanks for that question. Starting with the prices, our manganese long term price remains the same at $4 per DMTU on an FOB basis.

Mzila Mthenjane

And I think you should say real or nominal.

Mohloana Magwai
So, all the prices are on a real term basis that I will mention. So, that remains the same. On copper, in the past we were around $7,500 per ton. That has lifted slightly to $7,800 per ton. The reason for that is this positive sentiment in the long term, in terms of the demand for copper driven by the energy transition. So, it's at that level. Bauxite also remains the same around $45 a ton. So, that's at the level where these things make sense for us. In terms of the question of how much remains, I can't give you a number. But I can tell you that a significant number is still at play. A few are not at play, but quite a significant number is still at play. So, it is still ongoing. And as you can understand these things have a long period. So, they are at different stages of progress. For reasons you will understand we cannot share too much. The same with the bauxite question. I think maybe something worth saying there is that the reason you see fewer numbers there is not really because of anything from our side. It's just the nature of what's happening in the market. Bauxite assets are tightly held. They tend to be vertically integrated as well. And for that reason, they don't exchange hence as what you see with the other commodities. Thank you.

Mzila Mthenjane
Thank you very much, Mohloana. Do we have any questions from Choruscall?

5 Question(s)
Operator
Thank you. Yes, we do. Our first question is from Shilan Modi from HSBC. Please go ahead.

Shilan Modi
Morning, everyone. Congrats on a solid set of results in a difficult trading environment. A couple of questions from my side. First question. In the 40 million ton run rate that Sakkie mentioned, How much of the decline from 50 million to 40 million is actually driven by the elevated levels of load shedding versus other issues? Then in terms of your acquisition strategy, in terms of returns does it make more sense to pursue other minerals or to actually invest in electrical capacity in South Africa? And here I'm making mention not just of renewables, but actually could you participate in one of the concessions at a power station? I will pause there. I might have one or two after that.

5 Response(s)
Mzila Mthenjane
Okay, thanks for that, Shilan.

Nombasa Tsengwa
Thank you very much, Shilan. Maybe just on the question on the minerals. You know, every year we evaluate our position on the choices we've made in terms of the fundamentals of each one of those minerals. And as we've reiterated today, we still remain quite confident on the fundamentals of th commodities. Could the work we do expand or lead us into something else? That one we will leave it to the reviews that we always do, including the opportunity that you mentioned of power station operations. We look at all opportunities, especially in our adjacencies, value chain, etc. And if there's an opportunity, it's something that we will put on the table and discuss with the board. But at this point in time that has not come up from the teams. And if anything comes up, Shilan, we will share with you, or any changes to the choices that we've made. One thing we're very clear about – we kept on mentioning this – is when we realised that we had to rotate towards the cleaner minerals, we had to have a focus, because you can look at everything. So, the three we chose were

our initial focus, and we believe that is quite an important work that needs to be concluded before we can start looking elsewhere.

- **Mzila Mthenjane**
  Thanks, Nombasa. And I think it was back to Sakkie in terms of the TFR run rate that dropped from 50 million to 40 million. Whether it was due to load shedding, or other reasons for that.

- **Sakkie Swanepoel**
  Shilan, I must confess, I'm not 100% sure about the impact of load shedding on Transnet. But I've never heard that to be a major driver of rail performance. So, due to my knowledge, the drop that we've seen in January and February is more than anything a continuation of the same factors that we've seen in 2022 rather than load shedding as a reason.

6 Question(s)

- **Mzila Mthenjane**
  Thanks, Sakkie. Any other questions? Do you want to come back, Shilan?

- **Shilan Modi**
  Yes, please. So, if I compare the guidance that you guys provided to the market 12 months ago to the guidance you provided today, if I'm just looking at FY23, FY24. Your export sales guidance is about 2 million tonnes lower per year. Your volumes are slightly higher. And I think that's just because of Leeuwpan. That's total volume. But your capex also quite substantially higher. So, now you're guiding to about R4 billion per annum, whereas last year, I think it was about R1.5 billion to R2 billion. So, maybe can you just talk to us about how you're thinking about cash generation for the next year? And therefore, how does that translate into what you're thinking about dividend pay-out for next year?

6 response(s)

- **Nombasa Tsengwa**
  Is there anything you want to say?

- **Riaan Koppeschaar**
  So firstly, on the capex side, I think the guidance is still exactly the same. R2 billion to R2.5 billion on coal. The additional R1.5 billion you're referring to is for the Lephalale solar project. So, that capital will only be incurred over the next two years, then that is out of the way. So, the guidance is still exactly the same as we provided at the capital markets day, R2 billion to R2.5 billion. And then for now the dividend policy remains the same as we communicated to the market. And as we always pointed out, taking into account the operating environment; are there growth opportunities at that point in time, the board may consider special distributions. But taking into account where we stand, the board has not considered a special distribution in the current climate.

- **Mzila Mthenjane**
  And in fact, that's a question that just came through now from Itumeleng in terms of why a special dividend was not considered given the high net cash balance. I think if there's a question of the day today, it's certainly around

the dividend. So, I think you've spoken to that. And maybe whilst I have Itumeleng’s questions, it's more operational question around when we expect the high ammonia costs to moderate.

- **Nombasa Tsengwa**

We will have to take that advice from the market.

- **Mzila Mthenjane**

We don't know. Shilan, any other questions from your side?

Shilan Modi
No, thanks very much. That was brilliant.

Mzila Mthenjane
All right. Thanks. Any other questions from Choruscall?

7 Question(s)
Operator
Thank you. We have another caller. The question is from Thabang Thlaku from SBG Securities.

Thabang Thlaku
Thank you very much. I just have a couple of questions from my side. Number one, what are your strip levels looking like at your mines, particularly at GG? And number two, the 40 million ton run rate is quite concerning. So, I'm just wondering if this is going to have an impact on any of your operation. Some of the miners are talking about potentially either downsizing or putting some of their operations on care and maintenance because they can’t get volumes out. Is that something that Exxaro is struggling with? And then I'll leave it there. Maybe I'll come back with an additional question after.

7 Response(s)
Nombasa Tsengwa
Ronaldt, how much are you keeping on the ground?

- **Operator**

Ladies and gentlemen, please remain online. We will reconnect the venue shortly. Ladies and gentlemen, please remain online as we reconnect the venue.

- **Ronaldt Makoko (GNI – GGC)**

Throughput as a result of the fully ramped up GG6 and Eskom still being at a 25.2 million tonnes, we are maintaining a healthy level on the seasonal and strategic stockpiles. We try to keep that about 2 million, and between 150,000 and 200,000 on the live side. In terms of the high value stockpiles, it really varies from period to period. But it is safe to say that we peak at around half a million tonnes of stock between the strategic and the live.

- **Nombasa Tsengwa**

And some of that you may be keeping for a shut. And expectations of shuts ahead?

- **Ronaldt Makoko (GNI – GGC)**

Yeah, the 2 million tonnes should come very handy in terms of shuts.

- **Nombasa Tsengwa**

  Thank you very much.

- **Mzila Mthenjane**

  And then the question around the potential impact of the TFR run rate on operations given that there's some companies that are potentially throttling back.

- **Nombasa Tsengwa**

  Sakkie, just on this one, I don't recall that we've made any adjustments on new scenarios which we would have approved as part of our forecast process. So, if we need to, it will happen, but it has not happened.

- **Mzila Mthenjane**

  Thabang, are you happy with that response?

- **Thabang Thlaku**

  Yes, I am. So, I didn't hear the first answer properly. But it's fine. I'll ask it again in the sells-de round table session.

Mzila Mthenjane

Okay.

- **Thabang Thlaku**

  And then my follow up questions. Could you please remind us of the addendum number you are on with Eskom for the offtake at GG?

- **Nombasa Tsengwa**

  Nine. Nine, Thabang.

- **Thabang Thlaku**

  Addendum nine. Thanks, Nombasa. And then, with regards to that announcement we saw earlier in the year around Eskom paying Exxaro a take or pay, I believe the number was R9 billion. Are you able to give us a little bit more colour on that and what sort of annual penalty they pay to you guys for not taking their full contracted volumes?

- **Nombasa Tsengwa**

  So, I know we are constrained a little bit here by confidentiality, isn't it. So, I'm looking at Mellis' face, Thabang. And the way it looks is… maybe he can just talk about it without the numbers, but just the different buckets.

Mellis Walker

Thanks, Thabang. The R9.7 billion for us is almost fading into history because it's something that was happening and was contracted and negotiated between ourselves and Eskom at the time of the ramp up of Medupi. So, that started in 2014. And there were amounts that Eskom paid us, no doubt. If you scratch around in some of our historical results presentations, we actually put a table in there. And we indicated how much Eskom was paying us because of the take or pay. Take or pay is a bit of an all-encompassing term. It's not all take or pay. Take or pay is when you've got a certain ramp up and you don't offtake against that ramp up. You get penalised because you have an obligation to offtake.

There were other parts of the contract, and we told you we're on addendum nine now. There were other parts of the R9.7 billion which related to negotiated new ramp up curves. So, you had an initial one when the project was approved. That then was the offtake agreement that you had. If you slipped against that, there would be take or pay. There were a couple of negotiations where that ramp up curve was adjusted. It was later. It was potentially flatter and with a fully established year much later in the process. Actually, at the end of 2022, we're fully established now from the Medupi point of view. So, there are no penalties that Eskom are paying us currently. The last amount was in 2021. So, we saw that, and that was the last tail end of all of this money that they paid us as a result of the slippage. But there's been nothing over the last couple of years. And from the forecast that they've given us, they are actually very robust and bullish on the offtake that they're going to be seeing. So, we don't see that as a big issue going forward. Hopefully, that wasn't too much or too little.

- **Nombasa Tsengwa**

Are you able to share what the bucket are?

Mellis Walker
I can. The take or pay amount, it's roughly a third between the three buckets. (1) Take or pay is roughly a third of that number. (2) Then there's the shortfall income which was against the changed ramp up curve. (3) And then we call the premium income, which was then also billed because of the pricing difference and as well as the volume difference. Remember the contracts are actually not tonnage contracts. They are energy contracts. So, if you provide the energy in lower tonnage because it's higher quality product you're producing, then that is taken into account in the way the bill gets charged.

Nombasa Tsengwa
And thank you very much for that question, Thabang, because it really helps to clarify this issue. But one more important thing to share, is that this year's burn plan for Eskom is very robust. It actually demonstrates that there is not problem with any offtake that Eskom is anticipating. So, for us it's really one of the highest burn years that we've seen before.

Mzila Mthenjane
Thank you very much for that detailed response. Any other questions on the Choruscall before I come back to webcast, where I think we've exhausted all the questions?

Operator
Thank you, sir. There are no further callers on the line.

Mzila Mthenjane
Okay. Any other questions from the floor? And I think then that brings us to an end. Let me refresh one more time so that I'm not accused of excluding anyone. Okay, I think we've exhausted all the questions. And thank you very much for the continued interest, and the questions that have been posed, and to the team for their detailed responses. And what

remains for me is to say thank you very much to everyone who's helped bring this session to where it is today. I think it's been a very successful presentation. And to the team Exxaro for the wonderful performance, the safe performance, I think I should emphasise in terms of delivering the results. And now thank you and invite you for a small bite to eat and something to drink outside. Thank you very much. Let me also remind the sell side analysts that we will come together at 12:00. Thank you very much.

END OF TRANSCRIPT