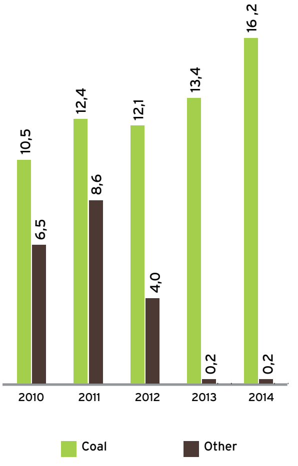
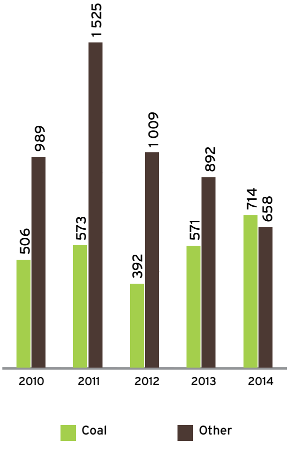
FINANCE DIRECTOR'S REVIEW

Exxaro has delivered a solid set of financial results for the 2014 year in a subdued bulk commodity industry. Some of the main features included:

- 14% increase in our coal business' net operating profit
- 32% decrease in the equity-accounted investment contribution from SIOC
- 11% reduction in losses recorded by Tronox
- A strong financial position with a debt: equity ratio of 3%
- A final dividend of 210 cents per share, bringing 2014 total dividend declared to 470 cents per share (cps).



Revenue (Rbn)



Headline earnings per share (cents)

Comparability of results

Several key events and transactions in the past two years make financial results for 2014 and 2013 not comparable, mainly the impairment of our Mayoko iron ore project in the ferrous operating segment in 2014, as well as profit on the sale of our base metals subsidiaries in 2013.

Group performance

Group revenue increased by 21% to R16,4 billion for 2014 compared with R13,6 billion in 2013, mainly due to higher revenue from the coal business. The group's headline earnings declined by 6% to R4,9 billion as Exxaro faced the same challenges as experienced by the industry, particularly iron ore as evident in the 32% decrease in the equity-accounted investment contribution from SIOC. This was partially offset by a 25% increase in the coal business's contribution to R2,5 billion.

Coal business

We are proud of the performance of our coal business, which achieved overall production volumes (excluding buy-ins and semi-coke) that were 0,34Mt higher than 2013, while sales volumes were 1,47Mt higher. Grootegeluk achieved an increase of 11% in metallurgical coal production as a result of more trains being available and an increase of 869kt (kilo tonnes) in power station coal volumes as Medupi is ramping up. Transnet Freight Rail (TFR) performed on a stable platform of around 72Mt. Exports increased by 19% due to higher availability of trains (Grootegeluk) and higher third-party buy-ins (700kt) mainly to balance export volumes, logistics and commitments.

Exxaro recorded a 19% lower average dollar price at US$65 (2013: US$80) but only an 8% lower rand price of R709 (2013: R771) due to lower average overall US$ commodity prices and lower quality in export mix (67% vs 92%).

Coal's net operating profit increased by 19% to R3 297 million for review period, mainly due to higher volumes (R632 million), favourable exchange rate as the local currency weakened against the US$ (R561 million), lower allocated corporate costs (R91 million), the saving against prior-year losses realised at NCC after it was placed under care-and-maintenance (R243 million), offset by higher royalty tax provision (R86 million); higher distribution costs (R137 million); higher depreciation costs (R141 million); higher buy-ins from Mafube JV (R181 million), weaker prices (R54 million); inflationary pressures recorded at a general inflation rate of 7,5% (R400 million), as well as the impact of changes in environmental rehabilitation provision other than the unwinding of the discount rate (R768 million).

We have initiated a proactive implementation of the DMR's requirements for probable future liabilities provisions for affected water treatment, governed by the MPRDA and National Water Act (NWA). Given the limited guidance on determining liabilities in these pieces of legislation, we have calculated the probable future liabilities' net present values, which resulted in an additional R370 million of water treatment potential liabilities being recorded in the second half of 2014.

FINANCE DIRECTOR'S REVIEW (continued)

The Medupi coal supply agreement addendum 9 was successfully finalised between Exxaro and Eskom in the third quarter of 2014. This followed on coal tonnages delivered to Medupi power station in July 2014. In total, GMEP produced 2,7Mt of coal for Medupi in 2014 with deliveries of 3,1Mt as per addendum 9. The total capital expenditure for the project remains within the forecast R10,2 billion.

In line with our capital allocation discipline, we continue to review our allocation programmes. Our group capital expenditure at R3,2 billion (of which coal-related capital expenditure amounts to R2,2 billion) was 33% less than 2013, with future expansion capex significantly reduced.

Ferrous business

In January 2014, the Mayoko mining convention was signed by the government of the RoC, along with in-principle agreement on rail and port infrastructure to develop the 12Mtpa Mayoko mine. A concept study on a revised 12Mtpa project was concluded in June 2014. The outcome of this study and delays in concluding further definitive agreements for rail and port infrastructure resulted in Exxaro impairing its investment in the project.

The overall ferrous net operating loss increased to R6 238 million mainly due to the impairment of the Mayoko iron ore project (R5 803 million) and higher costs incurred on the Mayoko project which are no longer eligible for capitalisation after the impairment in 2014.

The reality of current market conditions and their impact on our equity-accounted investment SIOC has meant that SIOC's core post-tax equity-accounted contribution to Exxaro's net profit after tax has declined by 32% to R2,8 billion. Combined with the 17% higher dividend cover applied by SIOC, our share of its dividend declared decreased by 42%. However, even at the bottom of the cycle, SIOC remains a great investment and significant contributor to our bottom line of some 60% of group HEPS, albeit at a lower level than in the past.

Titanium dioxide

Although lower selling prices were recorded in all regions, the core equity-accounted loss contribution from Tronox decreased by 11% to R568 million, mainly on a significant improvement in operating income from the pigment segment due to sales volume gains and lower feedstock costs. Operating income from the mineral sands segment declined from 2013, driven mainly by lower selling prices and sales volumes. The US$ losses were exacerbated by the impact of the weak rand exchange rate.

As a major shareholder, we are encouraged by Tronox's latest announcement of the acquisition of Alkali Chemicals, a division of FMC Corporation Limited. Alkali Chemicals is expected to add stability and has a history of consistently delivering strong operational and financial performance. Exxaro will continue to equity-account the Tronox investment, including the contribution made by the Alkali Chemicals business.

Energy

The equity-accounted investment in Cennergi contributed R92 million in losses, an 11% decrease on losses recorded in 2013 mainly due to lower operating, business development and project costs.

Other

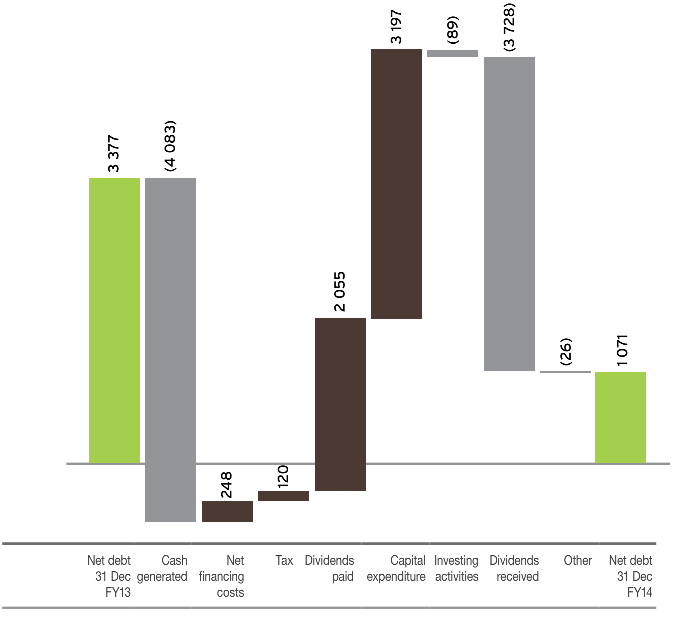
It is pleasing to see our people's efforts to reduce costs come to fruition. Support functions' costs (functions other than those directly linked to mining activities) reduced by R124 million on the prior year. This resulted in a net lower recovery from the coal and ferrous businesses of R116 million. The cost reduction was mainly due to savings on salaries, bonuses and share scheme payments.

Cash flow and funding requirements

The group is reaping the benefits of its diligent cash flow management over the last five years. This strategy has put us in a strong position to deal with many headwinds at the bottom of the cycle. We realised strong cash flow from operations which enabled us to pay for sustaining and expansion capital expenditure. Dividends from our investments (mainly SIOC and Tronox) were sufficient to pay our own dividends, interest and tax while the surplus was used to repay debt. In the end, we decreased debt by over R2 billion to end the year at just above R1 billion. We are therefore comfortably within the covenant terms of our finance providers as well as our board's strategic guidelines at 31 December 2014, with a strong financial position; sufficient undrawn facilities, and a comfortable maturity profile.

We have also arranged for sufficient facilities in preparation for funding requirements on the TCSA transaction. Once payment is effected, we expect that we will still be comfortably within our financial covenants.

Net debt analysis (R million)



Shareholder return

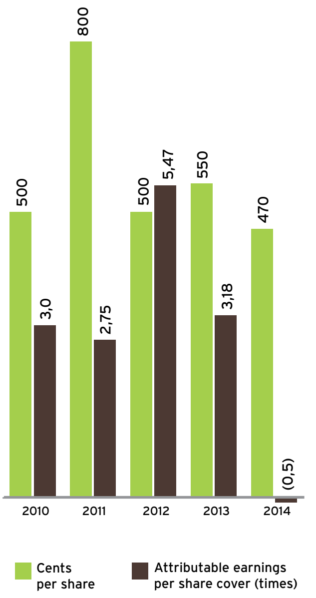
We remain committed to returning regular income through dividends to our shareholders and ensuring long-term capital growth on shares held. After careful consideration of the challenges that face Exxaro and the industry, the budget for the short to medium term, covenants with our finance providers as well as overall liquidity and the going-concern position, the board declared a final dividend of 210 cents per share, bringing the total dividend to 470 cents per share for 2014. The board believes this dividend can be safely declared without putting the current and future business under strain. The total dividend of 470 cents for 2014 represents a dividend yield of 7% (2013: 4%).

FINANCE DIRECTOR'S REVIEW (continued)

Outlook

We expect the challenging economic conditions that faced commodity markets in 2014 to continue in 2015. Economic growth is expected to remain constrained, and the rand exchange rate against the US$ to remain weak for most of 2015. We believe Exxaro will be able to withstand the downturn in US$ export coal prices through our exposure to the domestic Eskom business.

Group-wide sustainable cost management has become part of our life. To protect margins in future, ongoing focus is directed at managing controllable costs across the business.



Dividends (cps)

It is important to note that a change in sourcing coal will be required by the imminent Inyanda mine closure. This will be facilitated by the increase in exports from Grootegeluk on the back of more trains being allocated. As such, export performance in 2015 will hinge largely on TFR performance between the Waterberg and RBCT. Transnet is expected to maintain its record 2014 performance levels in 2015 as well. We expect overall 2015 exports to be around 4,5Mt as we plan to eliminate low-margin buy-ins.

Mayoko project expenditure for 2015 is expected to be limited to the cost of maintaining the minimal remaining footprint in the RoC, as well as costs for the project team's interaction with the RoC government until a final decision is made.

For more on the summarised group annual financial statements, refer to page 91.

Wim de Klerk
Finance director

9 April 2015