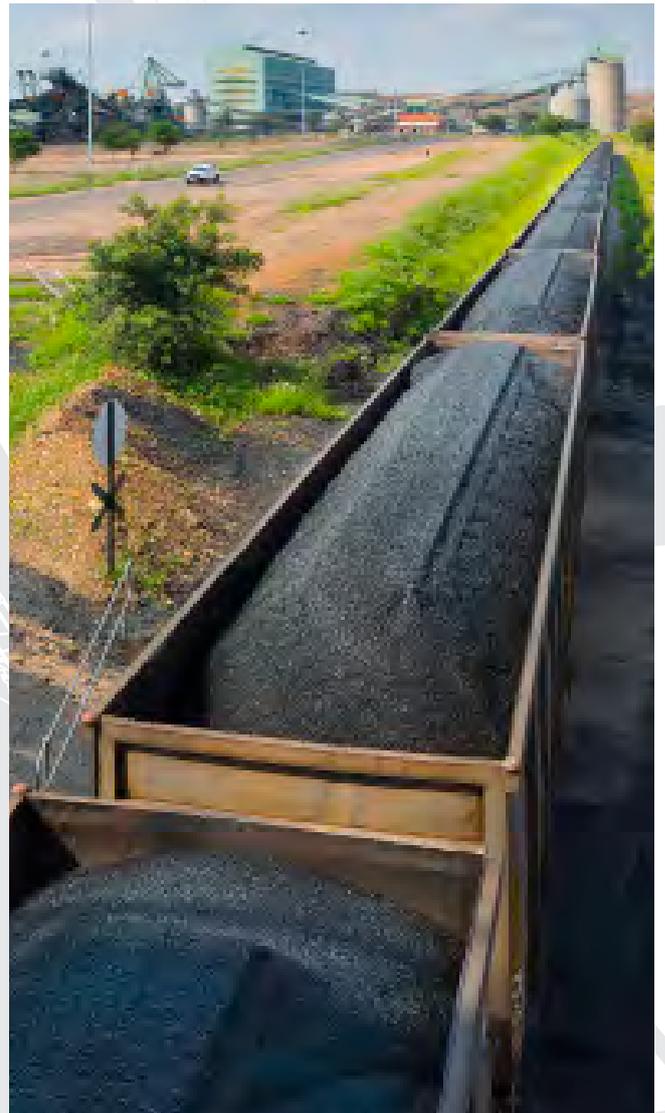


05

OUTLOOK



OUTLOOK

We expect 2016 to be another challenging year. The key risk to the South African economy for 2016 is the anticipated slowing growth (forecast 0,9%), and thus weakening fiscal fundamentals that could pave the way for a further credit-rating downgrades. We expect the already-weak exchange rate to remain vulnerable in 2016 on account of domestic political and global monetary policy events.

We anticipate that international thermal coal prices will remain at current levels for the short to medium term. There is, however, still good international demand for Exxaro's coal.

We expect demand from the local metals market to remain subdued in the short to medium term, given the oversupply in the market.

We expect iron ore markets to remain oversupplied, with suppliers focusing on cost reductions to lower the cost curve.

We also expect pricing weakness in the mineral sands and TiO₂ pigment sectors to continue throughout 2016, with the slowdown in the Chinese construction industry weighing heavily on the titanium value chain.

The challenges facing the group relate mainly to:

- Securing mining rights for the Thabametsi mine
- Securing water use licences and section 11 certificates (eg the Belfast project)
- Delays affecting the timely delivery of projects: we continue to liaise with the authorities to ensure licences are granted expeditiously
- Security of CSA's with Eskom.

As a result of delays in ratifying the Mayoko iron ore project mining convention, we will focus on maintaining the mining right in 2016 while finalising our options.

Our cost base was streamlined but, given the prevailing operating environment, we will continue to identify areas where we can achieve both reductions and efficiency improvements. We expect to receive no dividends from SIOC and significantly lower dividends from Tronox. In the meantime, we will continue to review our major investments as markets evolve. Part of this includes considering our options after Anglo American plc announced that it intended to dispose of its South African coal business and its interest in KIO at an appropriate time.

Given its strong domestic base and the benefits of the exchange rate, our coal business continues to outperform the balance of our portfolio. Accordingly, we are positioning Exxaro as a pure-play coal business for the next three to five years. Our objectives include:

- Maximising performance through operational improvements, consolidation, exploiting synergies, increasing throughput and fostering an innovation culture. We will continue to ramp up Grootegeluk 7 and 8 in line with our Medupi CSA, aiming to reach steady-state in 2019. Our aim is to entrench operational efficiency in the lowest half of the cost curve and restructure operations where necessary to 'fit-for-purpose'
- Aligning our capital allocation to the coal growth strategy, with significant capital expenditure in the Waterberg, home to Grootegeluk and Thabametsi

- Continuing mine closures (Inyanda - at end-of-life, and Arnot forced by termination of the Eskom CSA) and dispose of mines approaching end of life
- Growth will come from optimising ECC, developing Thabametsi to supply the proposed coal IPP, and starting the Belfast project, which has been delayed by the water use-licence appeal and rezoning objections.

In summary, our focus in the short to medium term will be to:

- Prioritise and stagger projects (mainly expansion capex) to preserve cash and ensure debt remains within acceptable levels. An internal target of net debt at less than two times EBITDA has been set
- Continue to reduce input and overhead costs by R300 million in 2016
- Ensure we maintain high levels of cash generated from controlled operations
- Maintain our dividend payout philosophy of between 2,5 to 3,5 times core earnings cover
- Develop Exxaro's future BEE shareholding strategy amid regulatory uncertainty and ensure the current BEE structure unwinds efficiently with minimal impact on stakeholders
- Evaluate our continued shareholding in key investments (mainly SIOC and Tronox) and assess the ability of these investments to contribute to our future earnings and cash flow
- Consider the ECC empowerment structure within the future structure of Exxaro's BEE shareholding as an option
- Increase the investment appeal of our coal business by communicating our strategy more effectively.

We believe Exxaro's solid operating performance and exciting growth potential present a compelling longer-term investment proposition, despite current markets:

Operating performance

- Largest domestic coal supplier
- Long-term commercial and tied contracts
- Secured export entitlement
- Stable exports

Growth potential

- Medupi ramp-up
- Thabametsi coal for IPP
- Further optimisation of ECC
- Focused capital allocation

Positive stakeholder engagement

- Stable workforce
- Constructive relationships with government, communities and Eskom

Stable business

- Project pipeline streamlined
- Targeted production and cost reduction
- Sustainable BEE position
- Maintaining dividend policy.