

**exxaro**

POWERING POSSIBILITY

# Audited group financial results and physical information

for the 12-month period ended 31 December 2008



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## VISION

Through our innovation and growth we will be a powerful source of endless possibilities

## MISSION

We create unrivalled value for all stakeholders of our diversified resources business through our processes, thinking and passion



## HIGHLIGHTS

- Revenue increases 36% to **R13,8 billion**
- Net operating profit up 71% to **R2,5 billion**
- Significant maiden profit contribution from **Namakwa Sands**
- Headline earnings of **1 058 cents per share**
- **Final dividend of 200 cents** per share; total dividend of 375 cents per share

## CONDENSED GROUP INCOME STATEMENT

Year ended 31 December	2008 Audited Rm	2007 Audited Rm
<b>Revenue</b>	<b>13 843</b>	10 157
Operating expenses	(11 376)	(8 713)
<b>Net operating profit</b>	<b>2 467</b>	1 444
Net financing costs (note 4)	(241)	(215)
Share of income from investments and equity-accounted investments	1 665	730
<b>Profit before taxation (note 2)</b>	<b>3 891</b>	1 959
Income tax expense	(510)	(512)
<b>Profit for the year</b>	<b>3 381</b>	1 447
<b>Profit attributable to:</b>		
Owners of the parent	3 405	1 427
Minority interest	(24)	20
<b>Profit for the year</b>	<b>3 381</b>	1 447

## GROUP STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	2008 Audited Rm	2007 Audited Rm
<b>Profit for the year</b>	<b>3 381</b>	1 447
<b>Other comprehensive income:</b>		
Exchange differences on translating foreign operations	193	176
Cash flow hedges	520	(39)
Share of comprehensive income of associates	187	46
Share-based payment movement	92	133
Income tax relating to components of other comprehensive income	(115)	2
<b>Other comprehensive income for the year, net of tax</b>	<b>877</b>	318
<b>Total comprehensive income for the year</b>	<b>4 258</b>	1 765
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	4 117	1 749
Minority interest	141	16
<b>Total comprehensive income for the year</b>	<b>4 258</b>	1 765
Ordinary shares (million)		
– in issue	355	353
– weighted average number of shares	343	341
– diluted weighted average number of shares	361	355
Attributable earnings per share (cents)		
– basic	993	418
– diluted	943	402

## CONDENSED GROUP STATEMENT OF FINANCIAL POSITION

At 31 December	2008 Audited Rm	2007 Audited Rm
<b>ASSETS</b>		
<b>Non-current assets</b>		
Property, plant and equipment	11 309	8 235
Biological assets	34	30
Intangible assets	79	76
Investments in associates and joint ventures (note 6)		
– unlisted	1 849	757
Deferred tax	1 083	732
Other financial assets (note 6)	1 577	1 031
	<b>15 931</b>	<b>10 861</b>
<b>Current assets</b>		
Inventories	2 481	1 531
Trade and other receivables	2 924	1 870
Current tax receivable	2	61
Cash and cash equivalents	1 769	850
	<b>7 176</b>	<b>4 312</b>
<b>Non-current assets classified as held for sale</b>	<b>78</b>	<b>2</b>
<b>Total assets</b>	<b>23 185</b>	<b>15 175</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Capital and reserves</b>		
Equity attributable to owners of the parent	12 996	9 804
Minority interest	128	19
<b>Total equity</b>	<b>13 124</b>	<b>9 823</b>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	3 650	1 259
Non-current provisions	1 746	1 329
Financial liabilities	31	
Deferred tax	1 257	1 077
	<b>6 684</b>	<b>3 665</b>
<b>Current liabilities</b>		
Trade and other payables	2 366	1 449
Interest-bearing borrowings	500	74
Current tax payable	440	137
Current provisions	21	27
	<b>3 327</b>	<b>1 687</b>
<b>Non-current liabilities classified as held for sale</b>	<b>50</b>	
<b>Total equity and liabilities</b>	<b>23 185</b>	<b>15 175</b>
<b>Net debt (note 10)</b>	<b>2 381</b>	<b>483</b>
Net asset value per share (cents)	3 697	2 783
<b>Capital expenditure</b>		
– incurred	1 617	1 296
– contracted	889	450
– authorised but not contracted	2 711	1 278
Capital expenditure contracted relating to captive mines, Tshikondeni, Arnot and Matla, which will be financed by ArcelorMittal SA Limited and Eskom respectively	70	72
Commitment relating to the acquisition of Namakwa Sands and a 26% interest in Black Mountain Mining (Pty) Limited from Anglo Operations Limited, subject to price adjustments		2 353
Contingent liabilities (note 11)	587	201
Contingent assets (note 12)	192	
Operating lease commitments	77	126
Operating sublease rentals receivable		1

## RECONCILIATION OF HEADLINE EARNINGS

	Gross Rm	Tax Rm	Net Rm
<b>for year ended 31 December 2008</b>			
Profit for the year attributable to owners of the parent			3 405
Adjusted for:			
– IAS 16 – <i>Impairment of property, plant and equipment</i>	21		21
– IAS 16 – <i>Gains or losses on disposal of property, plant and equipment</i>	66	(20)	46
– IAS 16 – <i>Reversal of impairment of property, plant and equipment</i>	(1)		(1)
– IAS 27 – <i>Gains on disposal of subsidiary</i>	(7)		(7)
– IAS 28 – <i>Share of associates' IAS 16 – Gains or losses on disposal of property, plant and equipment</i>	2	(1)	1
– IAS 28 – <i>Share of associates' IAS 39 – Recycling of remeasurements from equity to the income statement, including a hedge of net investment in a foreign entity but excluding cash flow hedges</i>	4		4
– IAS 28 <i>Share of associates' IAS 16 – Impairment of property, plant and equipment</i>	161		161
<b>Headline earnings</b>	<b>246</b>	<b>(21)</b>	<b>3 630</b>
<b>For the year ended 31 December 2007</b>			
Profit for the year attributable to equity holders of the parent			1 427
Adjusted for:			
– IAS 16 – <i>Impairment of Property, plant and equipment</i>	23		23
– IAS 16 – <i>Gains or losses on disposal of property, plant and equipment</i>	17	(5)	12
– IAS 28 – <i>Share of associates' IAS 16 – Gains or losses on disposal of property, plant and equipment</i>	(3)	1	(2)
– IAS 28 – <i>Share of associates' IAS 39 – Recycling of remeasurements from equity to the income statement, including a hedge of net investment in a foreign entity but excluding cash flow hedges</i>	(7)	1	(6)
– IAS 36 – <i>Reversal of investment impairment</i>	(6)		(6)
<b>Headline earnings</b>	<b>24</b>	<b>(3)</b>	<b>1 448</b>
		<b>2008</b>	2007
Year ended 31 December		<b>Audited</b>	Audited
		<b>Rm</b>	Rm
Headline earnings per share (cents)			
– basic		<b>1 058</b>	425
– diluted		<b>1 006</b>	408

## CONDENSED GROUP STATEMENT OF CASH FLOWS

Year ended 31 December	2008 Audited Rm	2007 Audited Rm
Cash retained from operations	3 574	2 308
– net financing costs	(193)	(116)
– tax paid	(487)	(462)
– dividends paid (note 7)	(984)	(223)
<b>Cash used in investing activities</b>		
– capital expenditure	(1 617)	(1 296)
– proceeds from disposal of property, plant and equipment	29	50
– dividends from investments and equity-accounted investments	1 044	379
– investments acquired	(179)	(249)
– associate acquired (note 8)	(221)	
– acquisition of subsidiaries and other business operations (note 9)	(2 757)	(8)
– other	(55)	5
Net cash (outflow)/inflow	(1 846)	388
– cash flows from issue of shares	31	114
– borrowings raised/(repaid)	2 734	(567)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>919</b>	<b>(65)</b>
<b>Special purpose entities consolidated</b>		9
<b>Cash and cash equivalents at beginning of year</b>	<b>850</b>	<b>906</b>
<b>Cash and cash equivalents end of year</b>	<b>1 769</b>	<b>850</b>
<b>Calculation of movement in net debt:</b>		
Net cash (outflow)/inflow	(1 846)	388
– shares issued	31	114
– loans from minority shareholders	1	
– increase in net debt on acquisition of subsidiary		(25)
– special purpose entities consolidated		9
– non-cash flow movements in net debt applicable to currency translation differences of transactions denominated in foreign currency	(352)	59
– non-cash flow movements in net debt applicable to currency translation differences of net debt items of foreign entities	282	(107)
– hedging of share-based payment exposure	(14)	
<b>(Increase)/decrease in net debt</b>	<b>(1 898)</b>	<b>438</b>

## GROUP STATEMENT OF CHANGES IN EQUITY

	Share capital Rm	Share premium Rm
<b>Balance at 1 January 2007</b>	4	5 135
Total comprehensive income		
Issue of share capital <sup>1</sup>		23
Share placement <sup>2</sup>		91
– issue		640
– repurchase		(460)
– expenses		(89)
Transfer to retained income		
Minority share buy-out		
Special purpose entities now consolidated		
Dividends paid <sup>3</sup>		
Prior year dividend in specie reclassification		(3 186)
<b>Balance at 31 December 2007</b>	<b>4</b>	<b>2 063</b>
Total comprehensive income		
Issue of share capital <sup>1</sup>		31
Minority share additional contributions		
Liquidation dividend from subsidiary		
Net profit on dilution of interest in a subsidiary		
Dividends paid <sup>3</sup>		
<b>Balance at 31 December 2008</b>	<b>4</b>	<b>2 094</b>
Dividend paid per share (cents) in respect of the 2007 financial year		160
Dividend paid per share (cents) in respect of the 2008 interim period		175
Final dividend declared per share (cents) in respect of 2008 financial year		200

<sup>1</sup> Issued to the Kumba Resources Management Share Trust due to options exercised.

<sup>2</sup> Repurchase of 10 million shares from Anglo South Africa (Pty) Limited on 13 April 2007 at R45,99 per share and the subsequent re-issue of 10 million new Exxaro shares at R64 per share. STC on the share repurchase of R57,5 million is included in net profit.

<sup>3</sup> The STC on these dividends will amount to Rnil million after taking into account STC credits.

Other components of equity						
Foreign currency transla- tion Rm	Financial instru- ments revalua- tion Rm	Equity- settled reserve Rm	Retained income Rm	Attribut- able to owners of the parent Rm	Minority interest Rm	Total equity Rm
379	24	802	1 798	8 142	27	8 169
148	(17)	182	1 436	1 749	16	1 765
				23		23
				91		91
				640		640
				(460)		(460)
				(89)		(89)
		(16)	16			
					(13)	(13)
			7	7		7
			(208)	(208)	(11)	(219)
			3 186			
527	7	968	6 235	9 804	19	9 823
437	138	113	3 429	4 117	141	4 258
				31		31
					2	2
			1	1		1
					(7)	(7)
			(957)	(957)	(27)	(984)
964	145	1 081	8 708	12 996	128	13 124

## NOTES TO THE GROUP FINANCIAL STATEMENT

### 1. Basis of preparation

The format of the condensed report has been revised to bring it in line with the amendments to International Accounting Standard 34, *Interim Financial Reporting*. IAS 34 has been amended following the revision of IAS 1, *Presentation of Financial Statements* and IFRS 8, *Operating Segments*. These amendments have been early adopted.

This condensed report complies with International Accounting Standard 34, *Interim Financial Reporting*, and Schedule 4 part iv of the South African Companies Act. The financial statements from which these group financial results have been derived are prepared on the historical basis excluding financial instruments and biological assets, which are fair valued, and conform to International Financial Reporting Standards. The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31 December 2007, except for the early adoption of IFRS 8, *Operating Segments* and IAS 1, *Presentation of Financial Statements*. The implementation of IFRS 8 has led to differences in the basis of segmentation compared to previous periods. As a result, new operating segments have been identified. IAS 1 and IFRS 8 are disclosure standards and have no other impact on the measurement or recognition of items included in the condensed report and accordingly the adoption thereof has had no effect on the profit or equity for the year.

Year ended 31 December	2008 Audited Rm	2007 Audited Rm
<b>2. Profit before taxation is arrived at after</b>		
Depreciation and amortisation of intangible assets	(898)	(763)
Financing costs	(394)	(311)
Interest received	153	96
Net realised foreign currency exchange gains/(losses)	476	(42)
Net unrealised foreign currency exchange gains/(losses)	39	(32)
Derivative instruments held for trading (losses)/gains	(69)	61
Fair value adjustments on financial instruments	(26)	51
Impairment charges and reversals (note 3)	(20)	(17)
Net profit on disposal of investments	7	
Net deficit on disposal of property, plant and equipment	(66)	(17)
<b>3. Impairment charges and reversals</b>		
Impairment of property, plant and equipment	(21)	(23)
Reversal of impairment of property, plant and equipment	1	
Reversal of impairment of investments		6
Total impairments and reversals before and after tax	(20)	(17)
<b>4. Net financing cost</b>		
Interest expense and loan costs	283	153
Finance leases	63	59
Interest income	(153)	(96)
Net interest expense	193	116
Interest adjustment on non-current provisions	48	99
Net financing cost as per income statement	241	215

Year ended 31 December	2008 Audited %	2007 Audited %
<b>5. Tax rate reconciliation</b>		
Taxation as a percentage of profit before taxation	13,1	26,1
Taxation effect of		
– assessed losses (not provided for)	(0,3)	(0,2)
– capital profits	0,2	0,5
– disallowable expenditure	(0,7)	(2,1)
– reclassification of previously disallowable expenditure	1,1	
– exempt income	1,0	0,3
– special tax allowances		0,2
– share of associates' and joint ventures'	11,9	10,8
– tax rate differences	0,4	(2,1)
– Secondary Tax on Companies (STC)	(0,1)	(2,9)
– withholding tax	(0,4)	(0,5)
– Controlled Foreign Company profits (CFC)	(0,1)	(0,3)
– foreign exchange differences	(0,1)	(0,1)
– prior year adjustment	1,7	(0,7)
– rate change on deferred tax balance	0,3	
	28,0	29,0

Year ended 31 December	2008 Audited Rm	2007 Audited Rm
<b>6. Investments</b>		
Unlisted investments in associates		
– directors' valuation	13 162	9 110
Unlisted investments included in other financial assets		
– directors' valuation	387	328
<b>7. Dividends paid</b>		
Cash dividends	957	211
Cash dividends paid to minorities	27	12
Total dividends paid	984	223

#### 8. Acquisition of associate

On 1 November 2008, the group acquired 26% of the issued share capital of Black Mountain Mining (Pty) Limited, which is included in the other base metals segment results, for R221 million.

The acquired business contributed an equity accounted loss of R189 million to the group for the period from 1 November 2008 to 31 December 2008.

#### 9. Business combinations

On 11 April 2008, the group acquired 76% of the issued share capital of Exxaro Madencilik Sanayi Ve Ticaret A.S., Turkey (Madencilik), which is included in the other segment results. The acquired business contributed nil revenue and R7 million operating loss to the group for the period from 11 April 2008 to 31 December 2008.

On 1 July 2008, the group acquired 100% of the issued share capital of Skyprops 112 (Pty) Limited, which is included in the other segment results. The acquired business contributed neither revenue nor operating profit to the group for the period from 1 July 2008 to 31 December 2008.

On 1 October 2008, the group acquired the assets and liabilities of the operations of Namakwa Sands which is included in the Mineral Sands segment results. The acquired business contributed R491 million revenue and R155 million operating profits to the group for the period from 1 October 2008 to 31 December 2008.

NOTES TO THE GROUP FINANCIAL STATEMENT continued

Details of assets acquired are as follow:

	Madencilik Rm	Skyprops Rm	Namakwa Sands Rm	Total Rm
- cash paid on acquisition	(30)	(65)	(2 662)	(2 757)
- purchase consideration outstanding			(121)	(121)
- fair value of assets acquired	30	65	2 783	2 878
<b>Goodwill</b>				
Fair value of assets acquired				
- property, plant and equipment		65	2 207	2 272
- intangible assets	30			30
- financial assets			16	16
- inventories			399	399
- trade and other receivables			371	371
- trade and other payables			(148)	(148)
- non-current provisions			(62)	(62)
Fair value of net assets	30	65	2 783	2 878
Total purchase consideration	(30)	(65)	(2 783)	(2 878)
Purchase consideration outstanding			121	121
Cash outflow on acquisition of subsidiaries and other business operations				
	(30)	(65)	(2 662)	(2 757)

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**10. Net debt**

Net debt is calculated as being interest-bearing borrowings less cash and cash equivalents.

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**11. Contingent liabilities**

Includes guarantees in the normal course of business from which it is anticipated that no material liabilities will arise. This includes guarantees to banks and other institutions. The increase in 2008 is mainly attributable to guarantees to the Department of Minerals and Energy in respect of environmental liabilities on immediate closure of mining operations.

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**12. Contingent assets**

An outstanding insurance claim of R135 million for the Furnace 2 incident at Exxaro TSA Sands (Pty) Limited for which it is probable that settlement will be received in the second half of 2009.

A surrender fee of R57 million in exchange for the exclusive right to prospect, explore, investigate and mine for coal within a designated area in central Queensland and Moranbah, conditional on the grant of a mining lease.

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**13. Related-party transactions**

During the period the company and its subsidiaries, in the ordinary course of business, entered into various sale and purchase transactions with associates and joint ventures.

These transactions were subject to terms that are no less favourable than those arranged with third parties.

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**14. Post-balance sheet event**

The directors are not aware of any matter or circumstance arising after the balance sheet date up to the date of this report, not otherwise dealt with in this report.

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**15. JSE Limited Listings Requirements**

The announcement has been prepared in accordance with the listings requirements of JSE Limited Listings Requirements.

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**16. Corporate governance**

The group complies in all material respects with the Code of Corporate Practice and Conduct published in the King II Report on Corporate Governance.

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**17. Audit opinion**

The auditors, Deloitte & Touche, have issued their opinion on the group's financial statements for the year ended 31 December 2008. The audit was conducted in accordance with International Standards on Auditing. They have issued an unmodified audit opinion. A copy of their audit report is available for inspection at the company's registered office. These summarised financial results have been derived from the group financial statements and are consistent in all material respects with the group annual financial statements.

## REPORTED ACTUAL SEGMENT RESULTS

	2008 Audited Rm	2007 Audited Rm
12 months ended 31 December		
<b>REVENUE</b>		
<b>Coal</b>	9 040	5 087
Tied operations	2 492	1 768
Commercial operations	6 548	3 319
<b>Mineral Sands</b>	2 776	2 172
KZN Sands	974	984
Australia Sands	1 311	1 188
Namakwa Sands <sup>1</sup>	491	
<b>Base Metals</b>	1 829	2 732
Rosh Pinah	436	941
Zincor	1 733	2 558
Inter-segmental	(340)	(767)
<b>Other</b>	198	166
<b>Total – external revenue</b>	<b>13 843</b>	<b>10 157</b>
<b>NET OPERATING PROFIT</b>		
<b>Coal</b>	2 654	885
Tied operations	83	88
Commercial operations	2 571	797
<b>Mineral Sands</b>	104	(97)
KZN Sands	31	(157)
Australia Sands	(82)	60
Namakwa Sands <sup>1</sup>	155	
<b>Base Metals</b>	(172)	688
Rosh Pinah	(14)	457
Zincor	(95)	298
Other	(63)	(67)
<b>Other</b>	(119)	(32)
<b>Total</b>	<b>2 467</b>	<b>1 444</b>

<sup>1</sup> Revenue and net operating profit included from effective date of acquisition of 1 October 2008.

## COMPARABLE UNAUDITED SUPPLEMENTARY RESULTS

12 months ended 31 December	2008 Rm	2007 Rm
<b>REVENUE</b>		
<b>Coal</b>	9 040	5 087
Tied operations	2 492	1 768
Commercial operations	6 548	3 319
<b>Mineral Sands</b>	4 142	3 464
KZN Sands	974	984
Australia Sands	1 311	1 188
Namakwa Sands <sup>1</sup>	1 857	1 292
<b>Base Metals</b>	1 829	2 732
Rosh Pinah	436	941
Zincor	1 733	2 558
Inter-segmental	(340)	(767)
<b>Other</b>	198	166
<b>Total comparable revenue</b>	<b>15 209</b>	<b>11 449</b>
<b>NET OPERATING PROFIT</b>		
<b>Coal</b>	2 654	885
Tied operations	83	88
Commercial operations	2 571	797
<b>Mineral Sands</b>	448	99
KZN Sands	31	(157)
Australia Sands	(82)	60
Namakwa Sands <sup>1</sup>	499	196
<b>Base Metals</b>	(172)	688
Rosh Pinah	(14)	457
Zincor	(95)	298
Other	(63)	(67)
<b>Other</b>	(119)	(32)
<b>Total comparable net operating profit</b>	<b>2 811</b>	<b>1 640</b>
Net financing costs <sup>1</sup>	(457)	(453)
Income from investments	2	2
Equity accounted income <sup>2</sup>	1 601	683
Taxation <sup>1</sup>	(546)	(500)
Minority interest	24	(20)
<b>Comparable attributable earnings</b>	<b>3 435</b>	<b>1 352</b>
Post tax adjustments	228	22
<b>Comparable headline earnings</b>	<b>3 663</b>	<b>1 374</b>
<b>Comparable attributable earnings per share (cents)</b>	<b>1 002</b>	<b>396</b>
<b>Comparable headline earnings per share (cents)</b>	<b>1 068</b>	<b>403</b>

<sup>1</sup> Takes into account Namakwa Sands from 1 January 2007, for comparable purposes.

<sup>2</sup> Includes 26% of Black Mountain's post tax earnings from 1 January 2007, for comparable purposes.

UNAUDITED PHYSICAL INFORMATION ('000 TONNES)

	12 months ended 31 December		6 months ended 31 December	
	2008	2007	2008	2007
<b>Coal</b>				
Production				
– Power station	36 700	34 246	18 118	16 830
* Tied operations <sup>1</sup>	18 095	16 732	8 962	8 353
* Commercial operations	18 605	17 514	9 156	8 477
– Coking	2 560	2 962	1 370	1 479
* Tied operations <sup>1</sup>	327	463	171	242
* Commercial operations	2 233	2 499	1 199	1 237
– Other	5 574	4 112	2 427	2 016
<b>Total</b>	<b>44 834</b>	<b>41 320</b>	<b>21 915</b>	<b>20 325</b>
Sales				
– Eskom	36 255	34 226	17 880	16 604
* Tied operations <sup>1</sup>	18 054	16 699	8 942	8 337
* Commercial operations	18 201	17 527	8 938	8 267
– Other domestic	5 481	5 237	2 607	2 572
* Tied operations <sup>1</sup>	352	449	200	214
* Commercial operations	5 129	4 788	2 407	2 358
– Export <sup>2</sup>	3 276	1 821	1 284	813
<b>Total</b>	<b>45 012</b>	<b>41 284</b>	<b>21 771</b>	<b>19 989</b>
<b>KZN Sands</b>				
Production				
– Ilmenite	229	367	133	187
– Zircon	34	34	16	19
– Rutile	19	17	7	9
– Pig iron	50	90	29	48
– Scrap pig iron	16	20	8	9
– Chloride slag	95	150	56	77
– Sulphate slag	18	26	10	14
Sales				
– Ilmenite	40	50	20	30
– Zircon	36	27	22	14
– Rutile	14	18	7	9
– Pig iron	64	91	39	45
– Scrap pig iron	7	8	6	4
– Chloride slag	101	163	49	81
– Sulphate slag	17	29	6	8
<b>Namakwa Sands<sup>3</sup></b>				
Production				
– Ilmenite	315	300	159	140
– Zircon	130	115	65	48
– Rutile	27	24	13	10
– Pig iron	103	91	52	44
– Scrap pig iron	6	11	2	6
– Chloride slag	135	126	64	63
– Sulphide slag	24	27	14	12
Sales				
– Zircon	135	115	64	55
– Rutile	27	26	14	13
– Pig iron	82	86	58	37
– Scrap pig iron	1	1		1
– Chloride slag	145	124	77	51
– Sulphate slag	26	30	5	11

	12 months ended 31 December		6 months ended 31 December	
	2008	2007	2008	2007
<b>Australia Sands<sup>4</sup></b>				
Production				
– Ilmenite	174	216	85	111
– Zircon	29	36	13	19
– Rutile	13	17	6	8
– Synthetic rutile	113	100	56	48
– Leucoxene	16	16	6	8
– Pigment	43	54	22	26
Sales				
– Zircon	35	29	14	16
– Rutile	14	16	5	2
– Synthetic rutile	62	57	27	21
– Leucoxene	17	17	8	7
<b>Base Metals</b>				
Production				
– Zinc concentrate	109	110	51	61
* Rosh Pinah	94	95	47	53
* Black Mountain <sup>5</sup>	15	15	4	8
– Zinc metal	110	124	60	61
* Zincor	87	101	47	51
* Chifeng <sup>6</sup>	23	23	13	10
– Lead concentrate	37	37	18	19
* Rosh Pinah	20	22	12	11
* Black Mountain <sup>5</sup>	17	15	6	8
– Zinc metal sales	126	122	66	57
* Domestic	93	93	51	45
* Export	33	29	15	12
Lead concentrate sales				
– Export	22	19	7	7

<sup>1</sup> Tied operations refer to mines that supply their entire production to either Eskom or ArcelorMittal SA Limited in terms of contractual agreements.

<sup>2</sup> Includes steam coal exports from Exxaro's 50% share of the Mafube expansion project.

<sup>3</sup> Namakwa Sands has been included from 1 January 2007 for comparable purposes.

<sup>4</sup> Exxaro Sands Australia's 50% interest in its Tiwest joint venture is disclosed.

<sup>5</sup> Exxaro's 26% interest in Black Mountain has been disclosed from 1 January 2007, for comparable purposes.

<sup>6</sup> Exxaro's effective interest in the Chifeng refinery is disclosed.

## COMMENTS

**REPORTED RESULTS NOT COMPARABLE** The group's audited financial results and actual physical information for the 12-month periods ended 31 December 2008 and 2007 are not comparable as a result of the acquisition of Namakwa Sands and a 26% interest in Black Mountain Mining (Pty) Limited (Black Mountain) effective from 1 October and 1 November 2008 respectively.

The audited financial results for the 12-month period ended 31 December 2008 include Namakwa Sands fully consolidated for the last three months with Black Mountain equity accounted for the final two months of the period.

**COMPARABLE SUPPLEMENTARY RESULTS** Comparable unaudited supplementary financial results together with physical information are provided for information purposes only, on the assumption that both the acquisition of Namakwa Sands and the 26% interest in Black Mountain took place on 1 January 2007.

Comments are for comparable purposes based on an analysis of the unaudited comparable supplementary financial results and physical information compiled for the 12-month periods to 31 December 2008 and 2007 respectively.

**COMPARABLE OPERATING RESULTS** The coal business reported record revenue and net operating profit as strong demand resulted in increased sales at higher prices despite a significant softening in international prices in the last quarter of 2008 following the global economic meltdown. The sands business reported a higher consolidated net operating profit compared to 2007 as a profit contribution from KZN Sands and a substantially higher profit from Namakwa Sands more than offset a loss in the Australian operation. Significantly lower average zinc prices and an increased environmental provision resulted in the base metals business recording a net operating loss.

Group consolidated revenue increased by 33% to R15,2 billion with net operating profit R1,2 billion higher at R2,8 billion.

An average exchange rate of R8,10 to the US dollar was realised compared to R7,26 for the corresponding period in 2007. The consistent strength of the Australian dollar at 0,84 US cents to AU\$1 realised in 2008, continued to impact negatively on the financial results of the mineral sands operations in Australia, despite the weakening of the Australian dollar in the last quarter of 2008.

**COMPARABLE EARNINGS** Attributable earnings for the period are R3 435 million or 1 002 cents per share representing a 154% increase on the comparable 2007 attributable earnings of R1 352 million or 396 cents per share. This includes Exxaro's 20% share of the after-tax profits of Sishen Iron Ore Company (Pty) Limited (SIOC) amounting to R1 856 million, a negative contribution of R4 million from the effective 22% interest in the Chifeng zinc refinery and an equity accounted loss of R251 million from the 26% interest in Black Mountain.

Headline earnings which exclude the impact of the impairment of the carrying value of assets in the earnings of Black Mountain, are R3 663 million or 1 068 cents per share, this is 167% higher than R1 374 million or 403 cents per share in the previous corresponding period.

**CASH FLOW** Cash retained from operations was R3 574 million. This was primarily used to fund taxation payments of R487 million, dividend payments of R984 million and capital expenditure of R1 617 million of which R470 million was invested in new capacity and R1 147 million applied to sustaining and environmental capital. After the payments of R2 662 and R221 million respectively for the acquisition of Namakwa Sands and a 26% interest in Black Mountain, the group had a net cash outflow of R1 846 million for the financial year. The final dividend for payment in March 2009 will amount to a further cash outflow of R710 million offset by the dividend inflow from SIOC of R1 123 million.

Net debt of R483 million at 31 December 2007 accordingly increased to R2 381 million at a net debt to equity ratio of 18% at 31 December 2008.

**SAFETY, HEALTH AND ENVIRONMENT** The group remains committed to achieving a working environment that is fatality and injury free. Despite excellent safety achievements at several business units, regrettably five employees lost their lives in 2008 compared to a similar number reported in 2007. The lost time inquiry frequency rate (LTIFR) per 200 000 man-hours worked in 2008 was 0,39 against a target of 0,21 and compared to 0,36 in 2007.

In a further measure to strengthen its safety awareness and preventative programmes, various safety improvement interventions focusing on pre-work Hazard Identification Risk Analysis and intensive training on Exxaro's *Care Risk Controls*, Vehicle Safety and Visible Felt Leadership, have been implemented.

Exxaro has reviewed its HIV/Aids strategy with the objective of improving employee understanding of preventive behaviour to the contracting and spread of HIV/Aids and increasing the number of employees who test and enrol for treatment. At the end of 2008, the cumulative voluntary counselling and testing enrolment improved to 50% from 30% at the end of 2007.

The environmental programme for 2008 focused on ensuring that all its mining operations have fully compliant Environmental Management Programmes required under the Mineral and Petroleum Resources Development Act as well as the National Environmental

Management Act. Exxaro is reviewing its processes to determine the impact of its activities on natural resources.

Nine business units are certified under both the international health and safety (OHSAS 18001) and environmental (ISO 14001) standards. The remaining six business units have implemented certification programmes with the target to have all operations fully compliant in 2009.

## **OPERATIONS**

### **Coal**

Production volumes for the coal commodity business overall were 9% higher than the previous year.

Power station coal production at the Eskom tied mines was significantly higher due to a good turnaround at Arnot mine after successful implementation of improvement initiatives. The commercial mines, most notably North Block Complex (NBC) and Inyanda, increased production to supply higher demand from Eskom. NBC started mining new reserves and increased overall capacity.

Coking coal production, however, decreased by 402kt in 2008 due to challenging geological and mining conditions at Tshikondeni. In addition, Grootegeluk mine used its no 6 plant tipping capacity to channel run of mine tonnages to the production of additional power station coal from the no 2 washing plant, thereby contributing to the reduction in coking coal production.

Steam coal production was significantly higher than the previous year mainly due to Inyanda ramping up during 2008, good production levels at Leeuwpan resulting from additional overburden removal in 2007, as well as increased production at NBC.

Sales of power station coal to Eskom increased by 2Mt to 36,3Mt as a result of improved production performance at the tied operations and demand from the electricity utility to increase stock levels at various power stations.

Other domestic sales were negatively affected by the lower production at Tshikondeni as well as a 13% decrease in sales to ArcelorMittal SA Limited in line with reduced demand in the steel and ferroalloy industry in the last quarter of 2008. The coal business was able to fully offset these lower sales volumes through additional sales from Leeuwpan and NBC to the domestic market.

Export volumes increased from 1,8Mt in 2007 to 3,3Mt in 2008 as a result of increased export allocation at the Richards Bay Coal Terminal (RBCT) and production volumes from the new mines, Mafube and Inyanda.

Revenue increased by 78% to more than R9 billion due to significantly higher average international coal prices linked to global oil and energy price increases, and stronger demand. Domestic prices followed this upward trend with international prices, however, declining in the last quarter of 2008 following the global economic crisis.

The commodity business reported an annual record net operating income of R2 654 million, an increase of 200% compared to 2007 despite inflationary pressures, especially in respect of labour and diesel costs, exploration costs for Moranbah South in Australia and higher expenditure on projects in the Waterberg and Mpumalanga province.

## **MINERAL SANDS**

### **KZN Sands**

KZN Sands reported lower production volumes as a result of the Furnace 2 water ingress incident at the end of February 2008 with only Furnace 1 being operational for the remainder of the year. Titanium slag produced was 63kt lower at 113kt than for the comparable period in 2007. Furnace 1 performed well by producing more than 95kt of slag equivalent to 87% of cold feed capacity. Low manganese pig iron production was in line with the decreased slag throughput while ilmenite production was aligned with the lower smelter feed requirements at 138kt lower than the corresponding period in 2007.

Revenue was R10 million lower but net operating profit increased by R188 million compared to the corresponding period in 2007 due to improved prices, a weaker local currency and cost savings.

Continued improvement initiatives are impacting positively on production with the Furnace 2 start-up in early December 2008, ramping up according to plan.

### **Australia Sands**

Record synthetic rutile production was achieved during 2008 resulting from more stable operating conditions following the kiln shut in 2007. Although mineral production was lower as a result of the dredging operations moving through lower ore grade areas, successful business improvement initiatives to increase yield and recoveries partly offset the negative variance. The 2009 mine plan indicates a higher grade than 2008 which should positively impact on mineral production in 2009.

Pigment production was substantially lower than the comparative period in 2007 as a result of maintenance-related issues, an emergency shut at one of the critical raw material suppliers, the rebuild of all four chlorinators and interruptions in gas supply during the first quarter of 2008 as previously reported. Several initiatives have been

## COMMENTS continued

implemented to improve the performance of the pigment plant and in December 2008 pigment production improved to pre-2008 levels. A stronger pigment production performance is expected in 2009.

The lower production, increased maintenance cost at the pigment plant and a rapid escalation in process chemical costs and energy consumables, combined with the strong Australian dollar in the first half of 2008, led to a R142 million decrease in net operating profit compared to the previous year. The decline in operating profit was partially offset by stronger pigment prices and the weakening of the Australian dollar during the last quarter of 2008.

The Australian dollar weakened from an average of 0,87 US cents to the Australian dollar for the six months ended 31 December 2007 to an average rate for the six months ended 31 December 2008 of 0,77 US cents. The improved mineral production and weaker Australian dollar in the second half of 2008 led to a net operating profit of R57 million, compared to a loss of R139 million in the first half of 2008.

At 31 December 2008, currency hedging of AU\$51 million was in place at an average rate of 0,76 US cents to the Australian dollar.

### Namakwa Sands

Exxaro acquired effective ownership of Namakwa Sands on 1 October 2008 for an adjusted consideration of R2 783 million, consisting of the cash price of R2 015 million, a working capital adjustment of R199 million, capital expenditure on the mineral separation project (MSP Project 1000) of R448 million and R121 million to compensate Anglo Operations Limited for its taxation recoupment. The capitalised price adjustments result in either a subsequent cash inflow or additional future deduction from taxable income for Exxaro KZN Sands.

Annual records were achieved for zircon, titanium slag and pig iron production. The record zircon production was attributable to higher grades and improved plant efficiencies. The record smelter production resulted from Furnace 2 operating on full power of 35MW following the de-bottlenecking of process difficulties which increased slag and iron tapped despite the power cutbacks in the first quarter of 2008.

Efficiency improvements at the smelter operations include annual records reported for the chlorinatable (CP) slag ratio at 84,5% compared to a previous best 82,5%, and iron recovery at 91,3% compared to the previous record of 90,3%.

The 44% increase in revenue is due to record product sales of 416kt at stronger zircon and average pig iron prices and a weaker local currency. A record net operating profit of R499 million was recorded for the year at an operating margin of 27%.

### Base Metals

Production of zinc metal at the Zincor refinery of 87kt was 14% lower than the corresponding period in 2007. This was due to limited power supply and a total plant black-out following a transformer failure causing major delays and instability throughout the plant during the second half of 2008, as well as the extended shut and rebuild of two roasters and the acid plant.

Zinc metal sales, however, remained in line with the corresponding period in 2007 despite a drastic reduction in the second half as a result of the global economic crisis causing a sharp decline in the local market.

Production of zinc concentrate at the Rosh Pinah mine of 94kt is in line with 2007 although lower metal content grades were experienced. This was caused by plant stoppages and instability from equipment failures at the crushing and flotation circuits of the plant and failures due to unstable electricity supply. A capital replacement programme of the flotation circuit is planned for the second half of 2009 while the crushing circuit was fully refurbished during the second half of 2008.

Zinc concentrate railed from Rosh Pinah was 11% lower as problems experienced with the availability of railway wagons led to lower imports of cement into Namibia and subsequent backhaul of concentrate. Lead sales were higher than in 2007 due to rescheduled shipments.

Revenue for the year decreased by 33% to R1 829 million mainly as a result of lower zinc prices and marginally lower sales. The average zinc price for the year of US\$1 874 per tonne was 42% lower than the equivalent average of US\$3 231 in 2007.

Net operating profit declined substantially from a profit of R688 million in 2007 to a loss of R172 million due to lower revenue coupled with increased operating costs resulting from higher than inflation increases in electricity, diesel and labour, high maintenance expenses and an increase in the provision for environmental rehabilitation at Zincor of R87 million.

The divestment of a 43% interest in Rosh Pinah Zinc Corporation (Pty) Limited to Namibian shareholder groupings, effectively reducing Exxaro shareholding to 50,04%, became effective on 1 July 2008. Exxaro retains operational control of the mine.

At 31 December 2008 a total of 18kt representing 60% of Rosh Pinah's projected lead sales were hedged forward until 2011 at an average price per tonne of R16 089 and 78kt representing 60% of Rosh Pinah's projected zinc sales at an average price of R19 619.

Production at the Chifeng refinery was 101ktpa for the year compared to a design capacity of 110ktpa. An equity-accounted loss of R4 million was incurred compared to a loss of R18 million for the corresponding period in 2007.

### **Industrial minerals**

The group is currently evaluating the proposed divestment of its interest in the Glen Douglas dolomite mine.

### **CAPITAL EXPENDITURE AND PROJECT PIPELINE**

Following the credit crisis and global economic meltdown in the second half of 2008, Exxaro is reviewing its capital expenditure programmes, including sustaining capital, as well as its project pipeline. The group will focus on the successful implementation of committed expansions while re-prioritising other identified growth opportunities.

#### **Coal**

Subsequent to Exxaro board approval in August 2008 for the coal supply agreement and the implementation of the project to expand the Grootegeluk mine at a capital cost of R9 billion, Exxaro and Eskom concluded an agreement in September 2008 for the supply of 14,6Mtpa of power station coal, for 40 years, from Grootegeluk mine to Eskom's adjacent Medupi power station which is currently under construction. The first coal is anticipated to be supplied during the last quarter of 2011 with full production from 2014 onwards.

The development of the Diepspruit reserve at New Clydesdale is planned to produce its first coal in the second quarter of 2009. At full production, the R136 million project will produce 1,3Mt run of mine coal for beneficiation at NCC for supply to the export steam coal market.

The commissioning and start of ramp-up of the Sintel char plant at Grootegeluk mine for the production of reductants for the ferroalloy industry has been delayed to February 2009 after the failure of the refractory lining of the four retorts during the heating process. The revised plan is to commission all four retorts by the end of June 2009 with full production of 160ktpa estimated to be reached by end of 2009.

Commissioning and ramp-up to full capacity of the Mafube expansion project at a capital cost of R1,9 billion has been completed. The mine will produce 3Mtpa of export steam coal and 2Mtpa of power station coal. Exxaro's 50% joint venture participation with Anglo Coal, although still awaiting fulfilment of all the conditions precedent, added 733kt to the overall export volumes allowing the group to take advantage of the higher average export prices experienced during the year.

Exploration of the hard coking coal resource on the adjacent properties of Moranbah South and Grosvenor South in Queensland, Australia continues to progress according to schedule. Exploration is focused on geological work to delineate long-wall mining resources. The potential for bord and-pillar mining operations will also be explored. Moranbah South has the potential to produce premium quality hard coking coal.

A pre-feasibility study and geological exploration work on a potential greenfields mine adjacent to the Grootegeluk mine with the capability of supplying the market with power station and metallurgical coal, is being progressed.

#### **Mineral Sands**

The feasibility study for the construction of the Fairbreeze mine south of the existing Hillendale mine, is being updated with start of construction targeted for the second half of 2009. Production is planned for the first half of 2011 after the mining of Braeburn and Braeburn extension in the next three years.

The feasibility study of the Port Durnford mine, located to the south-west of Hillendale mine is progressing. This mine could supply the KZN furnaces for longer than 20 years, if proven viable.

Implementation of the Tiwest Kwinana pigment expansion project for an additional 40ktpa production is on track with commissioning targeted for the first quarter of 2010. Exxaro is funding 100% of the AU\$100 million expansion project.

#### **Base Metals**

Exploration activities in Turkey for zinc, lead, copper and iron ore prospects are still in the early stages with further participation being critically reviewed in the current depressed economic environment. A total of R110 million was expensed for the year on acquisition and exploration costs.

Following Exxaro's decision in the first half of 2008 not to participate in the planned expansion of the Chifeng refinery by a further 100ktpa, the project has been indefinitely postponed in the light of the substantial decline in demand for zinc metal.

#### **POWER CONSTRAINTS**

Exxaro is in ongoing discussions with Eskom to agree on baseline consumption and continuous power supply while at the same time progressing groupwide initiatives to conserve electricity consumption at existing operations and feasibility studies to develop co- and on-site power generation projects.

## COMMENTS continued

### CONVERSION OF MINING RIGHTS

The group is in regular engagement with the Department of Minerals and Energy (DME) to process the registration of new order mining rights granted as well as the converted old order mining rights of the former Kumba Resources. The applications for approval of the conversion of the old order mining rights of the former Eyesizwe Coal submitted during 2008 are in process.

All applications for new order mining rights have been granted in the mineral sands and coal businesses except the Weltevreden deposit adjacent to the Leeuwpan coal mine which is under consideration by the DME.

### CHANGES TO THE BOARD

Mr DJ van Staden will retire as financial director on 28 February 2009. The board expresses its appreciation for his significant contribution to the group.

As announced, Mr WA de Klerk will succeed Mr van Staden as financial director on 1 March 2009.

### OUTLOOK

The group is expected to continue experiencing strong demand for local power station coal. However, coking coal sales are anticipated to be lower at reduced prices. Steam coal sales volumes should increase but at lower international prices.

Increased production volumes at all mineral sands operations and a full 12 months' contribution from Namakwa Sands together with the local and Australian currencies remaining at their present weaker levels, should benefit this business in 2009 if market demand and prices remain at current stable levels.

The base metals business is expected to remain under pressure in 2009 as a result of continued depressed market conditions and zinc prices.

The equity-accounted contribution from SIOC will be impacted by market demand and the level of iron ore price adjustments effective from 1 April 2009.

The group will have a strong focus on capital prioritisation and working capital management together with continual business improvement initiatives and cost control to offset lower demand and price challenges.

Overall, the group's consolidated results for 2009, will largely be driven by the extent to which global recessionary conditions impact on demand and prices for its commodities, as well as by the trading levels of the local and Australian currencies.

The uncertain market outlook remains a key factor to the group's results for 2009.

### FINAL DIVIDEND

The directors have declared a final dividend, dividend number 12 of 200 cents per share in respect of the 2008 financial year. The dividend has been declared in South African currency and is payable to shareholders recorded in the register of the company at close of business on Friday, 27 March 2009.

In compliance with the electronic statement system of JSE Limited, the following dates are applicable:

Last date to trade <i>cum</i> dividend	Friday, 20 March 2009
Shares trade <i>ex</i> dividend	Monday, 23 March 2009
Record date	Friday, 27 March 2009
Payment date	Monday, 30 March 2009

Share certificates may not be dematerialised or rematerialised between Monday, 23 March 2009 and Friday, 27 March 2009, both days inclusive.

On Monday, 30 March 2009 the final dividend will be electronically transferred to the bank accounts of all certified shareholders where this facility is available. Where electronic fund transfer is not available or desired, cheques dated 30 March 2009 will be posted on that date. Shareholders who have dematerialised their share certificates will have their accounts at their CSDP or broker credited on Monday, 30 March 2009.

On behalf of the board

SA Nkosi  
(Chief Executive Officer)

DJ van Staden  
(Financial Director)

23 February 2009

**Registered Office**

Exxaro Resources Limited  
Roger Dyason Road,  
Pretoria West, 0183

Tel no +27 12 307 5000

Fax no +27 12 307 4080

**Registration number:** 2000/011076/06

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**ADR code:** EXXAY

**Directors:** SA Nkosi\* (*Chief Executive Officer*),  
PM Baum, JJ Geldenhuys, U Khumalo,  
Dr D Konar, SEA Mngomezulu, VZ Mntambo,  
RP Mohring, NL Sowazi, J van Rooyen,  
DJ van Staden\*, D Zihlangu \*Executive

**Transfer Secretaries**

Computershare Investor Services (Pty) Limited  
Ground Floor, 70 Marshall Street,  
Johannesburg, 2001  
PO Box 61051, Marshalltown, 2107

**Sponsor:** Deutsche Securities (SA) (Proprietary) Limited  
(+27 11 775 7000)

**Company Secretary:** MS Viljoen

**Corporate affairs and strategy**

Trevor Arran (+27 12 307 3292)

If you have any queries regarding your shareholding in Exxaro Resources,  
please contact the Transfer Secretaries at +27 11 370 5000.



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