



UNWIND OF EXXARO'S EXISTING BEE TRANSACTION, TERMS OF REPLACEMENT BEE TRANSACTION

Investor
presentation

24 November 2016

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Important notice

- All information in this presentation has been made public
- For more information, readers are referred to the SENS announcement released by Exxaro on 22 November 2016 titled, ***“UNWIND OF EXXARO’S EXISTING BEE TRANSACTION, TERMS OF REPLACEMENT BEE TRANSACTION AND CAUTIONARY ANNOUNCEMENT”***

Background and introduction

BACKGROUND

- Exxaro was established in 2006 with Main Street 333 (“MS333”) as its controlling shareholder and BEE partner ~ Currently owns 50.19%
- As part of the existing BEE transaction, MS333 is subject to certain restrictions (the “BEE Restrictions”):
 - MS333 is to own at least 50% plus one share in Exxaro up until 28 November 2016 (the “Final Date”)
 - MS333’s shareholders must each maintain its HDSA status ~ requires that each MS333 shareholder is majority HDSA owned and that the majority of its board of directors must be HDSAs
- On the Final Date, the BEE Restrictions fall away and MS333 and its shareholders are permitted to trade Exxaro shares in the market

INTRODUCTION

- The Exxaro board of directors has established an independent sub-committee to consider Exxaro’s BEE going forward, including managing the unwinding of MS333 (the “MS333 Unwind”) and a potential new empowerment transaction (the “Replacement BEE Transaction”)
- Exxaro and MS333 have signed an implementation agreement (the “Implementation Agreement”) and a share repurchase implementation agreement (the “Repurchase Implementation Agreement”) (together, the “Governing Agreements”)
- The Implementation Agreement governs the following:
 - The high-level terms of the Replacement BEE Transaction, for which detailed transaction agreements are still to be agreed
 - The undertaking to regulate the MS333 Unwind in a coordinated manner so as to limit the market impact on Exxaro
- The Repurchase Implementation Agreement governs the agreed detailed terms by which Exxaro proposes to repurchase Exxaro ordinary shares from MS333 as part of the Unwind (the “Specific Repurchase”)

PURPOSE OF THIS PRESENTATION

- To explain detailed terms of the Replacement BEE Transaction, the MS333 Unwind and the Specific Repurchase

Salient terms of the Governing Agreements

	Key element	Description
Implementation Agreement	<p>1</p> <p>Replacement BEE Transaction</p>	<ul style="list-style-type: none"> • 30% transaction at Exxaro group (listed) level • MS333 (direct- and indirect) shareholders will be given the opportunity to reinvest • 7 year term ~ with certain interim liquidity mechanisms which would not threaten Exxaro's empowerment credentials • Indicative Replacement BEE Transaction terms have been agreed • Intention to implement the Replacement BEE Transaction post the MS333 Unwind • Detailed transaction agreements still to be negotiated ~ before 30 April 2017
	<p>2</p> <p>Coordinated MS333 Unwind</p>	<ul style="list-style-type: none"> • A coordinated and orderly market placement(s) (as may be required) is governed by the Implementation Agreement • Exxaro shares (unencumbered) • The exact mechanics of the MS333 Unwind will be captured in an unwind implementation agreement, still to be agreed • Distribution pursuant to the MS333 Unwind will give MS333 indirect shareholders an election to receive their net value in: <ul style="list-style-type: none"> – Exxaro shares (to be reinvested or retained outside of the Replacement BEE Transaction) – Cash
Repurchase Implementation Agreement	<p>3</p> <p>Specific Repurchase</p>	<ul style="list-style-type: none"> • Exxaro will repurchase shares from MS333 for a cash consideration of ZAR3 525m, pursuant to a scheme of arrangement • Cash consideration to be equal to MS333's debt obligations as at 31 January 2017 • The proceeds will be utilised by MS333 to settle its debt obligations • Includes ZAR487m loan from Exxaro to MS333 being settled in cash • Net outflow (before considering the inflow from the Replacement BEE Transaction) is thus ZAR3038m

1 Overview of the Replacement BEE Transaction

Rationale for the Replacement BEE Transaction

- Exxaro is one of the largest BEE controlled companies in the SA mining sector
- Cognisant of the regulatory uncertainty regarding “once empowered, always empowered”
- Empowerment is a significant part of Exxaro’s strategy
- Exxaro considers empowerment holistically:
 - HDSA strategic investors
 - Exxaro HDSA employees
 - Communities

1

Offers the potential of strategic opportunities in terms of investments and preferential contracts

2

Ensures ongoing compliance with specific customer requirements

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*Replacement
BEE
Transaction*

3

Maintains sustainable relationships with critical stakeholders

4

Maintains flexibility w.r.t. regulatory compliance

5

Furthers the imperative for transformation in South Africa

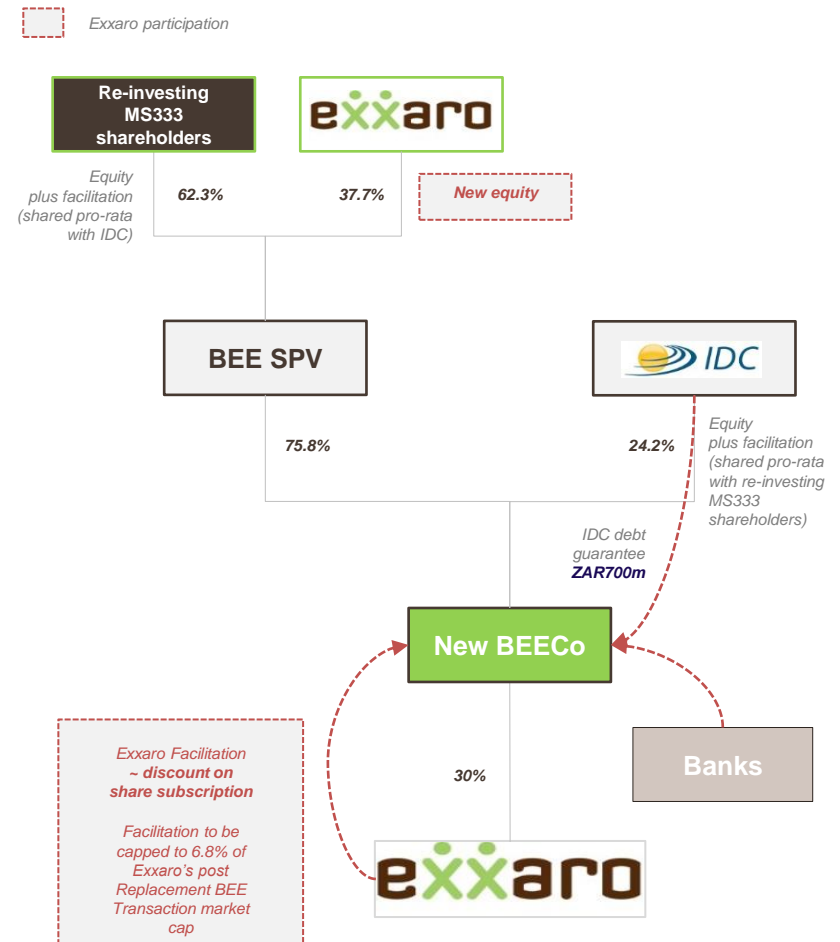
1 Overview of the Replacement BEE Transaction (Cont'd)

Key transaction steps

- 1 Exxaro subscribes for 37.7% of the equity in BEE SPV for cash
- 2 The Reinvesting MS333 shareholders subscribe for 62.3% of the equity in BEE SPV in exchange for Exxaro shares received pursuant to the MS333 Unwind
- 3 BEE SPV will use the proceeds of the above subscriptions to subscribe for 75.8% of the equity in NewBEECo
- 4 IDC will subscribe for 24.2% of the equity in NewBEECo in exchange for Exxaro shares received pursuant to the MS333 Unwind
- 5 The Exxaro shares reinvested (by MS333 shareholders together with IDC) will be retained within New BEECo and will be subject to the terms of the Replacement BEE Transaction
- 6 NewBEECo will raise third party funding from banks
- 7 New BEECo will utilise cash raised (through the abovementioned equity subscriptions and third party funding raised) to subscribe for shares in Exxaro, subject to the Exxaro Facilitation, which will result in NewBEECo holding 30% of the issued shares in Exxaro

→ All the shareholding percentages are fixed in order to transfer the Exxaro Facilitation to Reinvesting MS333 shareholders and IDC

Replacement BEE Transaction shareholding (1)



(1) Shareholdings in BEE SPV and New BEECo will remain fixed

1 Overview of the Replacement BEE Transaction (Cont'd)

Funding capital structure

Funding source	Proportion of Replacement BEE Transaction
Exxaro Facilitation	22.6%
The MS333 Reinvestment	15.8%
The IDC Reinvestment	11.4%
The Exxaro Equity Investment	19.9%
New third party funding	30.3%
Total	100.0%



ZAR'm	% of transaction funding	Exxaro share price @ Implementation date				
		R80.00	R90.00	R100.00	R105.00 ⁽¹⁾	R110.00
Value of a 30% transaction	100%	8 452	9 633	10 815	11 406	13 179
Exxaro Facilitation	22.6%	1 910	2 177	2 444	2 578	2 978
Re-investment	27.2%	2 299	2 620	2 942	3 102	3 585
MS333 Reinvestment	15.8%	1 335	1 522	1 709	1 802	2 082
IDC Reinvestment	11.4%	963	1 098	1 233	1 300	1 502
New funding	50.2%	4 243	4 836	5 429	5 726	6 616
Exxaro Equity Investment	19.9%	1 682	1 917	2 152	2 270	2 623
Third party funding	30.3%	2 561	2 919	3 277	3 456	3 993
Total capital	100.0%	8 452	9 633	10 815	11 406	13 179

(1) Spot price as at 21 November 2016

2 Coordinated MS333 Unwind

Description of the MS333 Unwind

- MS333 will not be retained as the empowerment vehicle through which MS333 shareholders will reinvest in the Replacement BEE Transaction
- Intended to cater for the balance of the Exxaro shares owned by MS333 post the Specific Repurchase to be fully or partially:
 - Vested in the ultimate shareholders of MS333
 - Utilised to reinvest into the Replacement BEE Transaction
 - Realised for cash

Coordinated MS333 Unwind

- MS333 indirect shareholders will be entitled to elect whether to:
 - Reinvest in the Replacement BEE Transaction
 - Retain shares in Exxaro outside of the structure of the Replacement BEE Transaction
 - Receive cash
- The process to realise cash will be subject to a regulated placement process (as described below)

Regulated placement

- The Implementation Agreement governs the regulated sale of Exxaro shares by MS333 or any direct or indirect MS333 shareholder pursuant to the MS333 Unwind:
 - All sales of Exxaro shares by MS333 and its shareholders is governed by the Implementation Agreement
 - Exxaro and MS333 will establish a committee (the “Joint Advisory Committee”) ~ tasked with considering the most practical and efficient means of disposing of the Exxaro shares of shareholders who have elected to divest all or some of their Exxaro shares
 - The Joint Advisory Committee will act as agent of the relevant shareholders in relation to all decisions of these shareholders for the sale of Exxaro shares
 - The Joint Advisory Committee will consist of six members, nominated equally by Exxaro and MS333
 - All MS333 direct and indirect shareholders who elect to receive Exxaro shares and become direct holders of ordinary shares in Exxaro as a result of the implementation of the MS333 Unwind, will be restricted from disposing of their Exxaro shares for a period to be determined by the Joint Advisory Committee,
 - After the restricted period determined by the Joint Advisory Committee terminates, such shareholders will be free to deal with their shares in Exxaro as they see fit

3 Specific Repurchase

Rationale for the Specific Repurchase

1

Reduces Replacement BEE Transaction execution risk

Reduced execution risk as MS333 is more sustainably geared

2

Eliminates market overhang

Reduces market placement quantum and potential negative impact on the Exxaro share price

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Anti-dilutive effect

New shares will be issued for the Replacement BEE Transaction ~ Specific Repurchase is thus an anti-dilutive measure

Specific Repurchase

4

Reduced management commitment

Placement size is reduced with Specific Repurchase ~ significantly reduces management bandwidth required

5

Accretive to Exxaro minority shareholders

Specific Repurchase occurs at a discount and will accrete minority shareholders' interest in Exxaro

Key terms of the Specific Repurchase

1

Quantum

- Repurchase quantum of ZAR3 525m
- Exxaro loan to be immediately settled post Specific Repurchase ~ thus a net cash outflow of ZAR3 038m

2

Pricing

- Reference price: 20 day VWAP as at the last trading day preceding the Exxaro general shareholder meeting
- Specific Repurchase to be implemented at an 8% discount to the reference price

3

Funding

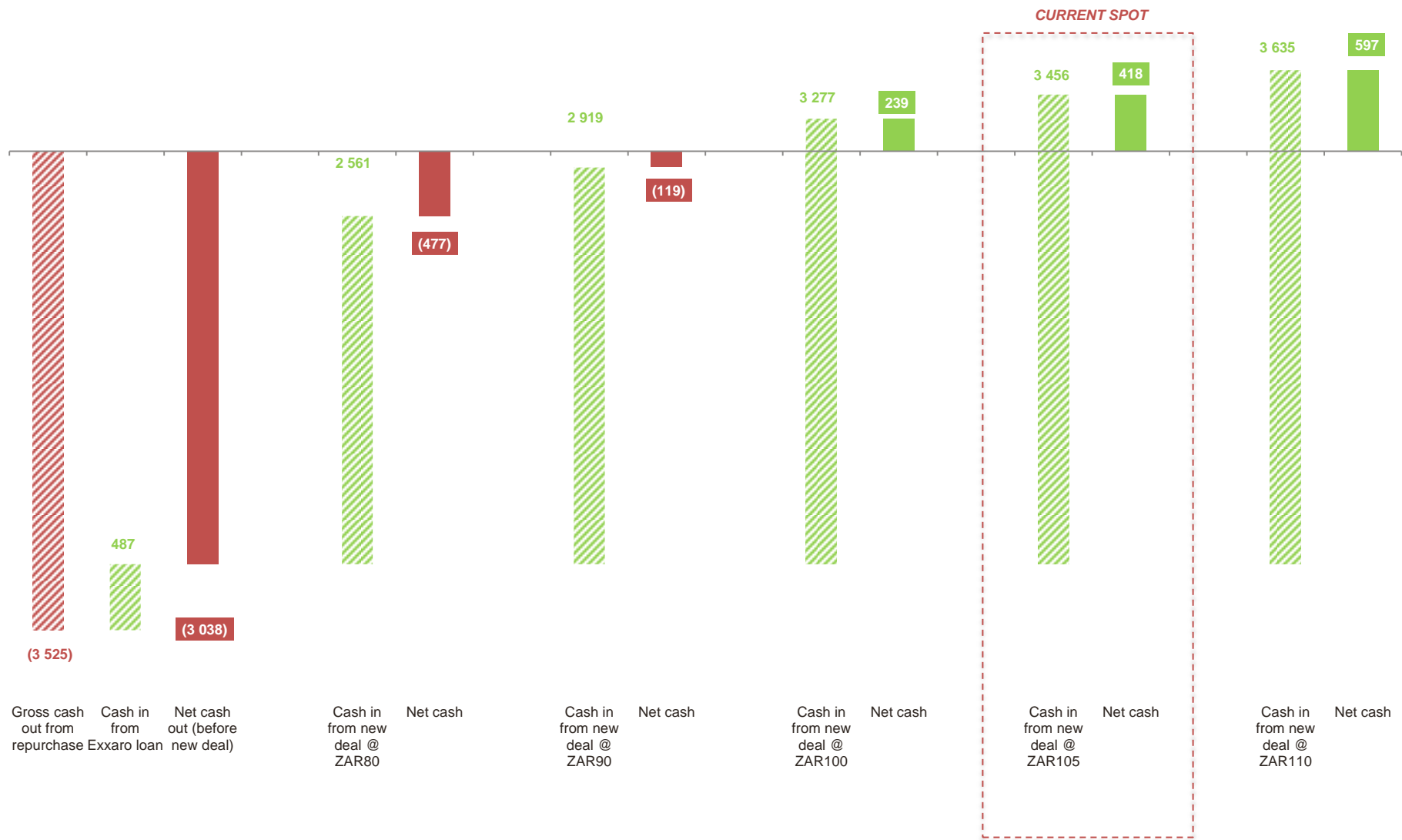
- Considering Exxaro's current cash flow generation, gearing and capex requirements, it is comfortably able to accommodate the Specific Repurchase
- Funded through a combination of Exxaro's cash reserves and contributed tax capital

4

Timing

- The aim is to take advantage of the higher Exxaro share price which currently prevails to limit the overhang impact of the Unwind:
 - Posting of circular to shareholders ~ **29 Nov 2016**
 - Shareholder meeting ~ **30 Dec 2017**

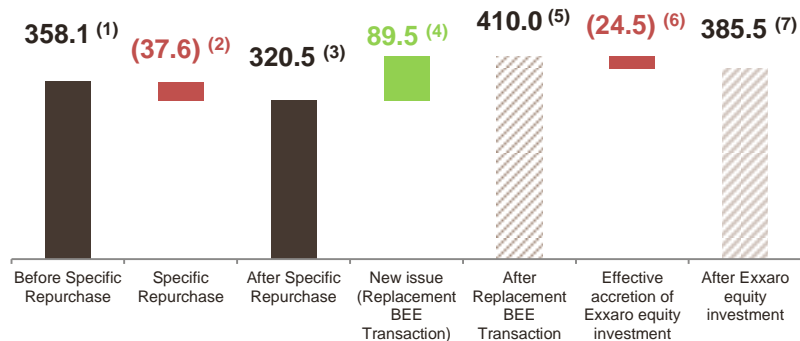
Cash flow impact on Exxaro (1)



(1) Cash in from new deal equates to new cash funding from third party funders (30.3% of Replacement BEE Transaction)

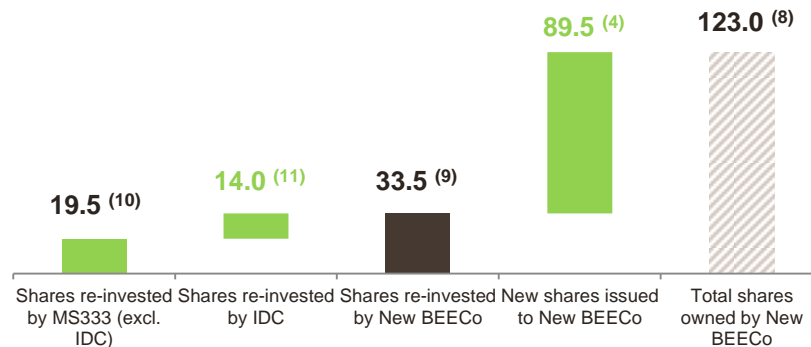
Earnings impact on Exxaro

Impact on Exxaro's shares in issue ('m)



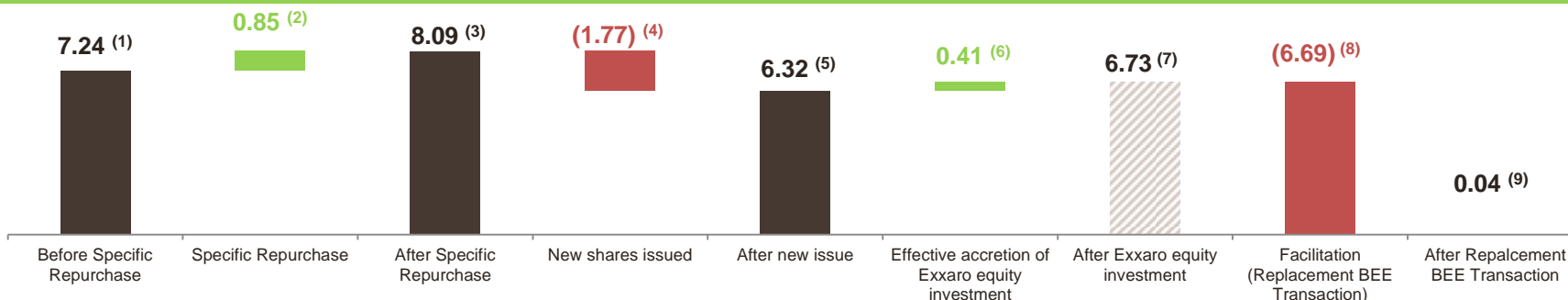
- (1) Current Exxaro issued shares
 (2) ZAR3 525m repurchase at ZAR93.60 (8% discount to 20 day VWAP as at 21 Nov 2016)
 (3) (1) - (2)
 (4) New shares issued for new 'funding' (i.e. not reinvestment) x deal size = 72.8% x 30% = 21.84% → 21.84% / (100% - 21.84%) x Exxaro shares post repurchase = 21.84 / 78.16 x 320.5
 (5) (3) + (4)

Exxaro shares to be owned by New BEECo ('m)



- (6) (5) x Exxaro's unencumbered effective interest in itself through its investment in BEE SPV → (410.0m x New BEECo unencumbered interest in Exxaro x Exxaro interest in New BEECo) → (410.0m x (30% x (1 - 30.3%) x (37.7% x 75.8%) → (410.0m x 20.91% x 28.58%)
 (7) (5) - (6)
 (8) (5) x deal size (30%)
 (9) (8) - (4)
 (10) (8) x portion of Replacement BEE Transaction funding = 123.0 x 15.8%
 (11) (8) x portion of Replacement BEE Transaction funding = 123.0 x 11.4%

Impact on Exxaro's EPS (ZAR)



- (1) Starting EPS assumed to be basic EPS as reported in FY2016 H1 results as reported, annualised → ZAR3.62 x 2 (total earnings of ZAR2 593m)
 (2) (3) - (1)
 (3) Earnings / Exxaro share after repurchase → ZAR2 593m / 320.5m
 (4) (5) - (3)
 (5) Earnings / Exxaro share after new issue → ZAR2 593m / 410.0m
 (6) (7) - (5)
 (7) Earnings / Exxaro share after new issue - no. of shares due to effective accretion due to Exxaro Equity Investment → ZAR2 593m / (410.0m - 24.5m)
 (8) (9) - (7)
 (9) (Earnings less Facilitation assuming day-1 expense at ZAR105.00 Exxaro share price) / Exxaro shares after new issue incorporating accretion due to Exxaro Equity Investment → (2 593m - 2 578m) / 385.5m

Facilitation cost and effective dilution

Impact on Exxaro's shares in issue ('m)

	Exxaro no. of shares ('m)
No. of shares before	358.1
No. of shares repurchased	(37.6) ⁽¹⁾
No. of shares issued	89.5 ⁽²⁾
No. of shares after	410.0

- (1) ZAR3 525m repurchase at ZAR93.60 (8% discount to 20 day VWAP as at 21 Nov 2016)
 (2) New shares issued for new 'funding' (i.e. not reinvestment) x deal size = 72.8% x 30% = 21.84% → 21.84%/(100% - 21.84%) x Exxaro shares post repurchase = 21.84/78.16 x 320.5

Cost of facilitation relative to Exxaro market cap

	ZAR'm
Market cap before	37 602 ⁽¹⁾
Specific Repurchase (net of Exxaro loan settled)	(3 038) ⁽²⁾
New cash retained in Exxaro from new issue	3 456 ⁽³⁾
Market cap after	38 020
Facilitation	2 578 ⁽⁴⁾
Benefit of repurchase	(429) ⁽⁵⁾
Effective facilitation	2 149
Effective facilitation as a % of market cap	5.6% ⁽⁶⁾

- (1) Market cap as at 21 Nov 2016
 (2) Specific Repurchase quantum less Exxaro loan → (ZAR3 525m less ZAR487m)
 (3) Post transaction market cap x deal size x bank funding → 38 020m x 30% x 30.3%
 (4) Post transaction market cap x deal size x facilitation portion → 38 020m x 30% x 22.6%
 (5) (Exxaro spot share price – repurchase price) x shares repurchased → (ZAR105.00 – ZAR93.60) x 37.7m
 (6) Effective facilitation / post transaction market cap → 2 149m / 38 020m

Effective dilution

	BEFORE
Exxaro market cap	37 602m
No. of shares	358.1m
Share price before	ZAR105.00

	AFTER
Exxaro market cap	38 020m
No. of shares	410.0m
Share price after	ZAR92.73

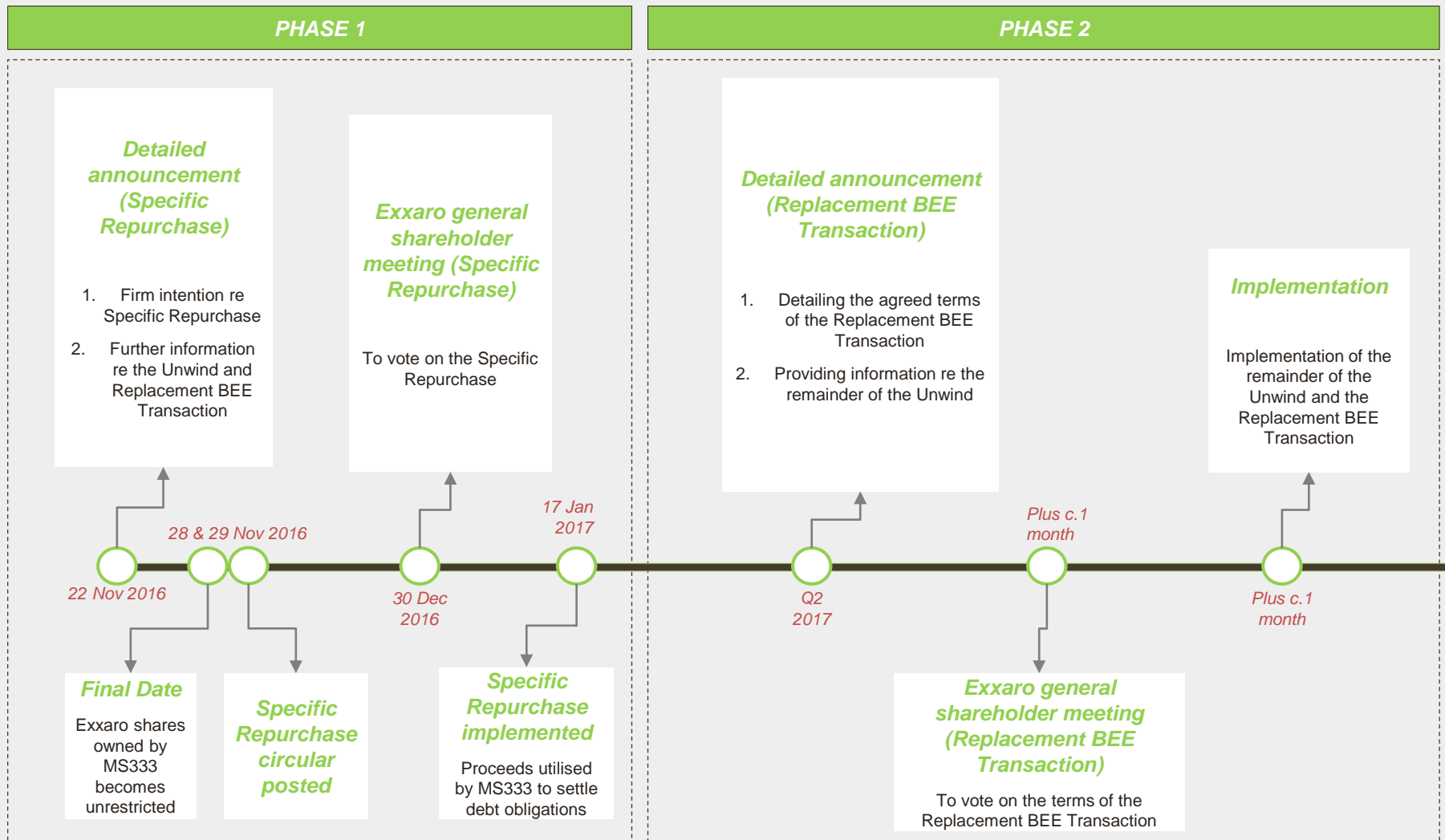
Dilution 11.7% ⁽¹⁾

	AFTER
Exxaro market cap	38 020m
No. of shares	385.5m ⁽²⁾
Share price after	ZAR98.63

Effective dilution 6.5% ⁽³⁾

- (1) ZAR105.00 / ZAR92.73 -1
 (2) No. of shares after less (No. of shares after x Exxaro's unencumbered effective interest in itself through its investment in BEE SPV) → (410.0m) – (410.0m x New BEECo unencumbered interest in Exxaro x Exxaro interest in New BEECo) → (410.0m) – (410.0m x (30% x (1 – 30.3%) x (37.7% x 75.8%)) → (410.0m) – (410.0m x 20.91% x 28.58%)
 (3) ZAR105.00 / ZAR100.66 -1

Proposed plan



Negotiate transaction agreements to agree:

- Replacement BEE Transaction
- Unwind

Way forward

2016 - 2017

Month	Nov 2016				Dec 2016				Jan 2017			
Week	7	14	21	28	5	12	19	26	2	9	16	23

Firm Intention Announcement re Specific Repurchase and further details on Replacement BEE Transaction

◆ 22 Nov

JSE circular approval process ~ First JSE submission has already been made

7 Nov  28 Nov

Posting of Specific Repurchase circular

◆ 29 Nov

General meeting notice period ~ Extended due to December holidays

29 Nov  29 Dec

Exxaro general meeting

◆ 30 Dec

General meeting results released

◆ 30 Dec

Finalisation announcement

◆ 17 Jan

Expected Specific Repurchase implementation date

◆ 17 Jan

Implementation of Unwind and Replacement BEE Transaction

Once all transaction agreements relating to the **Q2 2017**  Unwind and Replacement BEE Transaction have been negotiated

UNWIND OF EXXARO'S EXISTING BEE TRANSACTION, TERMS OF REPLACEMENT BEE TRANSACTION

Disclaimer

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