

FINANCE DIRECTOR'S 1H ending 30 June 2016 Pre-close message



This update covers the expected operational performance of the Exxaro group for the six-month period ending 30 June 2016 (1H16). All movements are compared to 1H15, unless otherwise specified. While we acknowledge and recognise the diverse stakeholders for our group, this message is targeted primarily at the financial and investor community with a distinct focus on financial and operational matters, as well as progress on some of our strategic initiatives, without undermining the importance of other sustainability matters.

Dear stakeholder,

Below is an update on the group's operational performance as we approach the end of the six-month period ending 30 June 2016.

A significant milestone in the period was achieving the lowest lost-time injury frequency rate ("LTIFR") of 0,08 year to date, which is a 53% improvement on the LTIFR reported for FY15 of 0,17 and a new record for Exxaro. This complements our fatality-free performance for the past 23 months and has ensured safety stability in our operations.

Persistent low commodity prices and high input costs continue to test the resilience of our coal business. However, we are pleased that our operational excellence programme is delivering efficiency improvements and sustainable cost reductions at our operations. We remain on track to achieve:

- Productivity improvement; and
- Cash conservation – we continue to exercise discipline regarding free cash flow by restricting coal capital expenditure to R2,8 billion for FY16, in line with the guidance given in March 2016, without compromising operational flexibility and safety and continuing our overall cost-saving initiatives.

Our continuing and disciplined capital management and operational efficiencies programmes have ensured our balance sheet remains robust, with a low net debt position as previously guided. We expect to maintain our dividend policy between 2,5 to 3,5 times core attributable earnings cover in FY16, subject to the standard board approval process.

We are in the process of refinancing our R8 billion facility at competitive rates. The current level of interest from financial institutions is testimony to Exxaro's robust business under difficult market conditions.

We expect the global economy to remain subdued as emerging markets battle with low economic growth rates and commodity markets face oversupply, particularly in the iron ore and metallurgical coal sectors. Commodity prices also continue to be impacted by interest rate hikes in the United States ("US"), a volatile oil price and other global geopolitical events. Despite this, we remain focused on our strategic priorities, amongst others, geographic coal market diversification and sustaining the black ownership of the company as outlined in this note.

We will provide a detailed account of 1H16 financial and operational performances when we announce our financial results on 18 August 2016.

I would like to take this opportunity to express my deepest gratitude for your unwavering support during my tenure. I have had the privilege to serve Exxaro on various fronts and even more fortunate to work with talented, passionate and committed people. As I handover the reins to Riaan Koppeschaar, I wish him all the best and I am confident that he will continue to build on the legacy of the strong finance team which is an integral part of Exxaro's fortune and prosperity.

I trust our paths shall cross again.

Yours sincerely
Wim de Klerk
Finance director



TABLE 1: COAL PRODUCTION AND SALES VOLUMES ('000 tonnes)

	Production					Sales				
	6 months ended 30 Jun			6 months ended 31 Dec	12 months ended 31 Dec	6 months ended 30 Jun			6 months ended 31 Dec	12 months ended 31 Dec
	2016 Forecast ¹	2015 Actual	% Δ	2015 Actual	2015 Actual	2016 Forecast ¹	2015 Actual	% Δ	2015 Actual	2015 Actual
Thermal	19 645	18 097	9	21 856	39 953	20 852	19 193	9	22 546	41 739
• Tied ²	4 009	4 181	(4)	5 079	9 260	3 999	4 181	(4)	5 089	9 270
• Commercial	15 636	13 916	12	16 777	30 693	16 853	15 012	12	17 457	32 469
- Domestic	15 636	13 916	12	16 777	30 693	12 983	12 770	2	13 924	26 694
- Export						3 870	2 242	73	3 533	5 775
Metallurgical	993	923	8	933	1 856	1 168	843	39	905	1 748
• Tied ²										
• Commercial	993	923	8	933	1 856	1 168	843	39	905	1 748
- Domestic	993	923	8	933	1 856	718	697	3	644	1 341
- Export						450	146	208	261	407
Total coal	20 638	19 020	9	22 789	41 809	22 020	20 036	10	23 451	43 487
Semi-coke	6	35	(83)	13	48	10	35	(71)	14	49
Total (excluding buy-ins)	20 644	19 055	8	22 802	41 857	22 030	20 071	10	23 465	43 536
Thermal coal buy-ins	1 251	1 041	20	1 328	2 369					
Total (including buy-ins)	21 895	20 096	9	24 130	44 226	22 030	20 071	10	23 465	43 536

1 Based on latest internal management forecast assumptions and estimates

2 Mines managed on behalf of and supplying their entire production to Eskom (1H15: either Eskom or ArcelorMittal South Africa Limited "ArcelorMittal")





GLOBAL ECONOMY AND COMMODITY PRICES

Global economic activity remained fragile in 1H16, with negative economic data in the form of continued deflationary risk in developed economies. Growth forecasts are being revised lower as the slowdown and rebalancing of the Chinese economy, lower commodity prices and significant constraints in key emerging market economies remain growth inhibitors.

In 1Q16, certain emerging market economies, currencies and commodity prices temporarily regained some lost ground. However, in May 2016, most of these gains began to reverse on the back of continued positive economic data out of the US and comments from the US Federal Reserve Bank fuelling speculation on the likelihood of resuming slow interest-rate normalisation.

For Exxaro's key commodities, the API4 export index price is expected to average US\$53 per tonne for 1H16 (1H15: US\$56). 1H16 iron ore prices are expected to average US\$52 per tonne (1H15: US\$60). The titanium dioxide ("TiO₂") pigment price increase announced in 1H16 is expected to support improvements in net operating profit margins in this industry.

COAL COMMODITY UPDATE PRODUCTION AND SALES VOLUMES

Commercial mines

We expect metallurgical coal production volumes for 1H16 to be slightly higher than 1H15. Thermal coal production from commercial mines is expected to increase by 12% mainly due to the inclusion of Exxaro Coal Central Proprietary Limited ("ECC") and higher production at Grootegeluk and North Block Complex partly offset by lower production from Leeuwpan and the Inyanda mine closure.

Coal buy-ins are expected to increase by 20% due to a shortage of export coal after the closure of Inyanda and before Belfast starts production. Export sales volumes are expected to increase 81% mainly due to the inclusion of ECC. Sales to Eskom are expected to decrease 2% due to reduced off take from Leeuwpan mine.

Domestic thermal coal sales are expected to increase by 2%, mainly due to higher demand in the domestic market.

Tied mines

Thermal coal production from tied mines is expected to decrease by 4% due to the closure of the Arnot mine. Therefore, sales to Eskom are expected to decrease in line with production.



MAJOR CONTRACTS UPDATE: TIED MINES

The **Arnot** coal-supply agreement (“CSA”) with Eskom ended on 31 December 2015. A closure steering committee with representatives from Exxaro and Eskom has been instituted to deal with all related matters. To date, the following actions have taken place:

- All production has ceased and the mine equipment has been reclaimed from the underground sections;
- Consultation with employees, in terms of section 189 of the Labour Relations Act (“section 189”), is ongoing and is expected to conclude in 3Q16 with about 1 800 employees and contractors impacted;
- Continuing our discussions with Eskom to ensure full provision for the rehabilitation funds, mine closure costs and post mine closure costs in terms of the National Environmental Management Act (“NEMA”) regulations, as stipulated in the CSA.

Large capital projects at **Matla** remain unfunded by Eskom, with mine 1 on care-and-maintenance. In the meantime, the remaining mine shafts (mine 2 and mine 3) are expected to produce 8,5 million tonnes (“Mt”) for FY16 against contractual volumes of 10,1Mt. We continue to engage Eskom to provide the required capital funding and are considering available recourse in terms of the CSA.

EXXARO COAL CENTRAL

The ECC team is now based in Mpumalanga and is rolling out various optimisation initiatives that are showing results, with the business continuing to generate profits.

In the meantime, we continue to assess further improvement opportunities and markets to enhance the current outlook even further.

MARKETS

In relation to our market supply, we expect that 2H16 domestic thermal volumes will remain at current healthy levels. Volumes in the metals markets will reduce as ArcelorMittal ceased production at its market coke battery in Newcastle for emergency maintenance. This is expected to persist until 1Q17.

Export markets depend heavily on Indian demand for lower-quality coal products, while pricing is expected to remain flat. Further growth is expected in the African, Pakistani and South East-Asian markets and the group is well positioned with a strong product mix to supply these markets.

CAPEX AND PROJECTS

We expect total coal capex to be up 32% on 1H15 as optimisation remains a focus area. The expenditure for 1H16 is 12% lower than guided in March 2016, mainly as a result of timing.

FY16 coal capex is expected to be in line with Exxaro’s March 2016 guidance of R2 848 million.

TABLE 2: CAPEX (R’million)

	1H16 Current Forecast ¹	FY16 Current Forecast ¹	FY16 Previous Forecast ¹	FY15 Actual	1H15 Actual
Sustaining	937	2 200	1 921	1 663	694
▪ Coal	922	2 143	1 864	1 597	658
- Waterberg	647	1 491	1 299	1 357	577
- Mpumalanga	275	652	565	240	81
▪ Other	15	57	57	66	36
Expansion	336	764	984	727	307
▪ Coal	336	764	984	716	298
- Waterberg	307	687	703	609	275
- Mpumalanga	29	77	281	107	23
▪ Other				11	9
Total	1 273	2 964	2 905	2 390	1 001

¹ Based on latest internal management forecast assumptions and estimates

Grootegeluk

1H16 Grootegeluk capex is expected to be 13% lower than that reported for 1H15.

No major changes are expected to the FY16 Grootegeluk capex, as reported in March 2016, although the timing of the truck replacement programme is being refined, which will affect future years.

All Medupi coal deliveries are in line with Addendum 9 to the CSA.

We continue to engage with Eskom on a possible Addendum 10 to the Medupi CSA. The discussions include consideration of the options to reduce future take-or-pay obligations through coal storage and/or possible movement of coal to the Mpumalanga region.

Thabametsi

The Thabametsi mining right has been awarded and the first run-of-mine coal to Grootegeluk’s beneficiation complex could be delivered by FY19 (subject to infrastructure development such as rail, water and roads in the Waterberg). The rate of production ramp-up will ultimately depend on the coal baseload independent power producer procurement programme (“CBIPPPP”).

Thabametsi IPP project

A bid was submitted by the Thabametsi independent power producer (“IPP”) in the first bid window under the Department of Energy’s (“DoE”) CBIPPPP on 2 November 2015. The preferred bidders are expected to be announced by the DoE in 3Q16.



Belfast

Detail engineering designs are complete and the tender process for the two major construction packages (bulk earthworks, civils and processing plant) has begun. We anticipate that the suspension of the water-use licence will be lifted and the rezoning licence authorised by 3Q16. Construction is now scheduled to commence in 2H16. Should an appeal be registered, a further delay in the start of construction can be expected.

Mafube Nooitgedacht

Work continues on completing the bankable feasibility study ("BFS") and an investment decision is expected in 2H16.

DISPOSALS AND MINES IN CLOSURE

Inyanda mine

Coal resources at Inyanda mine were depleted in September 2015. In December 2015 a sale and purchase agreement was concluded for the assets and liabilities (including the mining right, plant assets and a private rail siding). The sale is subject to conditions precedent ("CPs"), including the section 11 transfer of mining rights under the Mineral and Petroleum Resources Development Act ("MPRDA"). The CPs remain outstanding.

LOGISTICS AND INFRASTRUCTURE

Transnet Freight Rail ("TFR") railed 72,68Mt for its financial year ended 31 March 2016. Exxaro rail supply in the Waterberg has been disappointing, achieving an average of 3,5 of the required five trains per week since the beginning of 2016 mainly due to TFR operational issues. TFR indicated that the current performance will continue until the end of the coal line shut in July 2016 and then revert back to normal operating levels of five trains per week.

FERROUS COMMODITY UPDATE

MAYOKO PROJECT

The mining convention ratification remains outstanding.

SISHEN IRON ORE COMPANY PROPRIETARY LIMITED ("SIOC")

Guidance on SIOC's equity-accounted contribution will be provided when we have reasonable certainty on its 1H16 financial results.

TITANIUM DIOXIDE ("TiO₂") AND ALKALI CHEMICALS

Pigment prices have improved due to the successful implementation of a price increase in 2Q16. Feed-stock prices, on the other hand, remain sluggish for chloride grade ("CP") slag and zircon. The Alkali chemicals business continues to deliver stable margins and contribute to Tronox's bottom line.

We expect 1H16 TiO₂ price increases to boost our share of Tronox's financial results for 1H16. However, due to the weaker exchange rate against the US dollar, we expect the loss contribution to be in line with 1H15.

The decline in the Tronox share price in 1H16, coupled with the weaker exchange rate against the dollar is expected to have an impact on our impairment indicator assessment at the end of the six-month period. The result of this assessment, along with further guidance on Tronox's equity-accounted contribution will be provided when we have reasonable certainty on Tronox's 1H16 financial results and share price as at 30 June 2016.

CENNERGI PROPRIETARY LIMITED ("CENNERGI")

The two wind-farm projects, Amakhala Emoyeni ("AE") and Tsitsikamma Community Wind Farm ("TCWF"), will deliver a total of 229MW to the grid by year-end, on time and within budget. TCWF and AE have been connected to the Eskom grid in April and June 2016, respectively. It is expected that both facilities will reach commercial operation during 2H16.

Guidance on Cennergi's equity-accounted contribution will be provided when we have reasonable certainty on its 1H16 financial results.

SALE OF NON-CORE ASSETS AND INVESTMENTS

The group's interests in Black Mountain Proprietary Limited and Chifeng Kumba Hongye Corporation Limited ("Chifeng") remain non-core and we intend to divest from these investments through a disposal process once the lock-in periods expire in 4Q16.

Following the impairment in FY14 of the underground coal gasification ("UCG") intellectual property licence of R202 million, we have taken the decision not to continue with the current UCG project. Alternate projects may be considered in future.

We are also reviewing our coal portfolio as part of our optimisation programme, with specific focus on closure and/or divesting from assets that do not meet our expectation of net present value, robustness of earnings and net operating profit margins that can withstand a low commodity price environment.

BLACK ECONOMIC EMPOWERMENT ("BEE") SHAREHOLDING FINANCIAL ASSISTANCE

There has been no further financial assistance to support Exxaro's controlling BEE shareholder, Main Street 333 Proprietary Limited (RF) ("Main Street 333").



PROGRESS ON UNWINDING MAIN STREET 333

To maintain our competitive advantage as a leading empowered mining company in South Africa, we are making progress on a replacement transaction. The replacement transaction needs to balance our requirement for continuous BEE shareholding and cost of implementation to minority shareholders. As a result, Exxaro is exploring various alternatives for the replacement transaction, including potentially implementing a transaction that will be less than 50% BEE. Discussions with Main Street 333 and our internal preparation work for the replacement transactions are progressing and we should be in a position to provide further guidance in due course.

ECC

Part of the coal portfolio optimisation includes reconfiguring the ECC asset base to ensure BEE partners are introduced to a sustainable business, aiming for the most appropriate mechanism to increase BEE participation.

OTHER CONSIDERATIONS NATIONAL ENVIRONMENTAL MANAGEMENT ACT (“NEMA”) 107 OF 1998

The ministers of Environmental Affairs, Water and Sanitation and Mineral Resources have determined that requirements for making financial provision to manage, rehabilitate and remediate environmental impacts from mining operations will be regulated under NEMA and no longer under the MPRDA. This agreement has been formalised by amending the relevant environmental, water and mining legislation.

The financial provisioning regulations were published on 20 November 2015 for implementation and contain more onerous and detailed requirements than previously required by the MPRDA.

For example:

- Financial provision must be made for annual rehabilitation, final rehabilitation, decommissioning and closure, as well as latent or residual impacts; and
- Provision must at any point be equal to the sum of actual costs of implementing annual rehabilitation, final rehabilitation and remediation costs for the succeeding period of 10 years.

We are assessing the full impact of these developments on our rehabilitation and decommissioning financial provisions.

PERFORMANCE AGAINST NEW BROAD-BASED BLACK ECONOMIC EMPOWERMENT (“BBBEE”) CODES AND MINING CHARTER

Exxaro has achieved a commendable level 4 BBBEE recognition level. This performance positions Exxaro amongst the forerunners in BEE within the mining industry.

We are proud that – for the first time – every business unit has achieved all mining charter targets for the year ended 31 December 2015, a milestone that we will continue to build on.

Exxaro, through the Chamber of Mines, is committed to constructive engagement with the DMR and other stakeholders on the recently published draft mining charter in pursuit of ongoing transformation in the industry. Further, we await the outcome of the High Court ruling on the interpretation of BEE ownership transactions carried out by the industry between 2004 and 2014, which we expect will be in 2H16. Clarity and certainty of the requirements of this legislation is critical to our imminent review of the black ownership status, our replacement BEE transaction and the ongoing investment and development of South Africa’s mining industry.

EXXARO IMPROVEMENT INITIATIVE (“EIP”)

Following the announcement of the section 189 relating to the EIP in April 2016, five consultation meetings have taken place to date, facilitated by the Commission for Conciliation, Mediation and Arbitration (“CCMA”). At this stage, it is not yet determinable what the financial impact of this process will be on business performance for the six-month period ending 30 June 2016.

We expect that the consultation process will conclude in 3Q16.

OUTLOOK FOR 2H16

We expect an improvement in the coal business’ operational and financial results for the remainder of 2016 compared to corresponding period in 2015 mainly due to:

- Stable trading conditions in domestic markets;
- The positive impact (volumes and net operating profit) resulting from the inclusion of ECC in the portfolio for the whole of FY16; and
- Increase in sales from Grootegeluk and Matla compensating for the cessation in coal supply from Arnot and Inyanda.

The performance of the investment portfolio (SIOC and Tronox) will be marginally influenced by the temporary rally in prices in the period as well as continued efforts to reposition these businesses (e.g. challenging cost management) in prevailing market conditions. This outlook for the non-controlled investments is dependent on global economic policy and market outlook.

Weak global economic growth, low commodity prices, constrained household finances, rising inflation and interest rates and a South African annual economic growth rate of less than 1% will continue to hamper economic activity for the remainder of 2016. Collective efforts by government, business and labour deferred



the sovereign rating downgrade, but the outlook remains negative. Exxaro's role and participation in this regard will be through ensuring our operations are efficient and further investment in mining and energy-related projects (including the Thabametsi and Belfast projects) as well as collaborating on specific initiatives to promote our country's economic performance.

GROUP FINANCIAL UPDATE

Consolidated earnings guidance will be provided when we have reasonable certainty on financial and operational performance results for the six-month period ending 30 June 2016, taking into account:

- Finalised June 2016 month results;
- Performance of equity-accounted investments; and
- Any adjustments required from the financial closure process.

REVIEW OF THE UPDATE

The information in this update is the responsibility of the directors of Exxaro and has not been reviewed or reported on by Exxaro's external auditors.



DIAL-IN TELECONFERENCE CALL DETAILS

A dial-in teleconference call on the details of this announcement will be held on Tuesday, 28 June 2016 at 13h00 (GMT+2:00).

Internet broadcast: www.exxaro.com

DIAL-IN TELECONFERENCE NUMBERS:

- Republic of South Africa toll-free: 0800 200 648
- Johannesburg: 011 535 3600 / 010 201 6800
- Cape Town: 021 819 0900
- UK toll-free: 0808 162 4061
- USA and Canada toll-free: 1 855 481 5362
- Conference ID: Exxaro FD's pre-close teleconference

PLAYBACK

A playback will be available until 5 July 2016. To access the playback, dial one of the following numbers using the playback code 50416#:

- South Africa: 011 305 2030
- UK toll-free: 0808 234 6771
- USA and Canada: 1 855 481 5363
- Australia toll-free: 1 800 091 250

EDITOR'S NOTE

Exxaro is one of the largest South Africa-based diversified resources companies, with interests in the coal, titanium dioxide, iron ore and energy commodities.

www.exxaro.com

ENQUIRIES

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SPONSOR

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LEGEND

1H15 – Six-months period ended 30 June 2015

1H16 – Six-months period ended 30 June 2016

2H15 – Six-months period ended 31 December 2015

2H16 – Six-months period ended 31 December 2016

1Q16 – First quarter of 2016

3Q16 – Third quarter of 2016

FY15 – Financial year ended 31 December 2015

FY16 – Financial year ended 31 December 2016

FY17 – Financial year ending 31 December 2017

FY18 – Financial year ending 31 December 2018

2Q16 – Second quarter of 2016

4Q16 – Fourth quarter of 2016

COMMODITY PRICES SOURCE

Coal – IHS Energy

Iron ore – MB Online

Mineral sands and pigments – TZMI

DISCLAIMER

The financial information on which any outlook statements are based have not been reviewed nor reported on by Exxaro's external auditors. These forward-looking statements are based on management's current beliefs and expectations and are subject to uncertainty and changes in circumstances. The forward-looking statements involve risks that may affect the group's operations, markets, products, services and prices. Exxaro undertakes no obligation to update or reverse the forward-looking statements, whether as a result of new information or future developments.