

# COMMENTARY

Headline earnings for the six months to 31 December 2008 have increased by 357% to R2 976,7 million due to the significant increase in the earnings of Assmang Limited (Assmang), and the increased commissions earned on the higher sales of group products. Assore holds a 50% interest in Assmang, which is proportionately consolidated in accordance with International Financial Reporting Standards (IFRS).

Assmang's headline earnings increased by 391% to R5 628 million compared to the same period of the previous year, despite lower sales volumes for all products, except for iron ore. The significant increase in earnings was attributable to substantially higher US Dollar prices for all products and a weakening of the SA Rand against the US Dollar, particularly in the second fiscal quarter. Markets for all products were strong in the first fiscal quarter with prices and volumes driven by increased production of carbon and stainless steels worldwide, particularly in China. The second quarter saw a dramatic deterioration in market conditions on the back of the current world economic turmoil, which has resulted in decreased demand for all group products, except for iron ore, where export volumes are largely unaffected, but prices have declined.

## SALES VOLUMES

Assmang's turnover for the period under review reached a record level of R10,9 billion (2007: R4,4 billion), however, with the exception of iron ore, sales volumes for all products were lower compared to the same period for the previous fiscal year, as shown in the table below:

	2008	2007	
	M tons 000	M tons '000	% change
Iron ore	3 455	3 286	5
Manganese ore*	1 291	1 434	(10)
Manganese alloys*	70	122	(43)
Charge chrome	65	115	(43)
Chrome ore*	80	116	(31)

\* Excluding intra-group sales

## CAPITAL EXPENDITURE

The bulk of the group's capital expenditure occurs in Assmang and is summarised by division for the period under review as follows:

	2008	2007
	Rm	Rm
Iron ore division	875	1 366
Manganese division	409	163
Chrome division	219	55
Total - Assmang	1 503	1 584

The major capital expenditure occurred in the iron ore and manganese divisions. A total of R664 million was spent on infrastructural items at the new Khumani Iron Ore Mine, with a further R126 million spent on housing in the iron ore division. An amount of R140 million has been approved to rebuild furnace 6 at Cato Ridge, of which R87 million has been spent to date. This furnace was damaged in the unfortunate explosion that happened at the Works on 24 February 2008, but was recommissioned during October 2008.

It is expected that the feasibility study to expand Khumani's annual capacity to 16 million tons will be complete by May 2009, while negotiations are being finalised with Transnet to increase Assmang's annual export allocation on the Sishen/Saldanha line to 14 million tons per annum.

## OUTLOOK

Despite the increase in earnings compared to the same period in the previous fiscal year, trading conditions have changed radically since the world economic turmoil set in at the beginning of October 2008. Since the end of the period under review these conditions have deteriorated further making it impossible to determine the outlook for the second half with any certainty or to provide any comment with regard to market recovery. Results of the group continue to be significantly exposed to fluctuations in exchange rates and the bulk of the group's sales remain in the export market.

## DIVIDENDS

The results in the announcement include the final dividend relating to the previous financial year of 1 000 cents (2007: 200 cents) per share, which was declared on 27 August 2008 and paid to shareholders on 22 September 2008. Based on the increased earnings for the current period the board has declared an interim dividend of 1 000 cents (2007: 250 cents) per share, which will be paid to shareholders on or about 16 March 2009. In accordance with Generally Accepted Accounting Practice, this interim dividend is not included in the results for the period under review as it was declared after 31 December 2008.

## ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial results for the period under review have been prepared on the historical cost basis, except for financial instruments that are fairly valued, in accordance with IAS 34 - Interim Reporting, issued by the International Accounting Standards Board. The accounting policies applied are consistent with those adopted in the financial year ended 30 June 2008, with the exception of the adoption of the following policies in response to changes in IFRS:

- IAS 39 and IFRS 7 - Reclassification of Financial Assets - Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures
- IFRIC 12 - Service Concession Agreements
- IFRIC 13 - Customer Loyalty Programmes
- IFRIC 14 and IAS 19 - The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these amendments to standards and interpretations has had no effect on the financial statements of the group except for the disclosure of additional information.