



Underground dump truck at Nchwaning Manganese Mine



In this section:

**Strategy and risk**

Strategic objectives	12
Business model	13
Risks and opportunities	14
Financial highlights	17
Future performance objectives	18
Remuneration	19

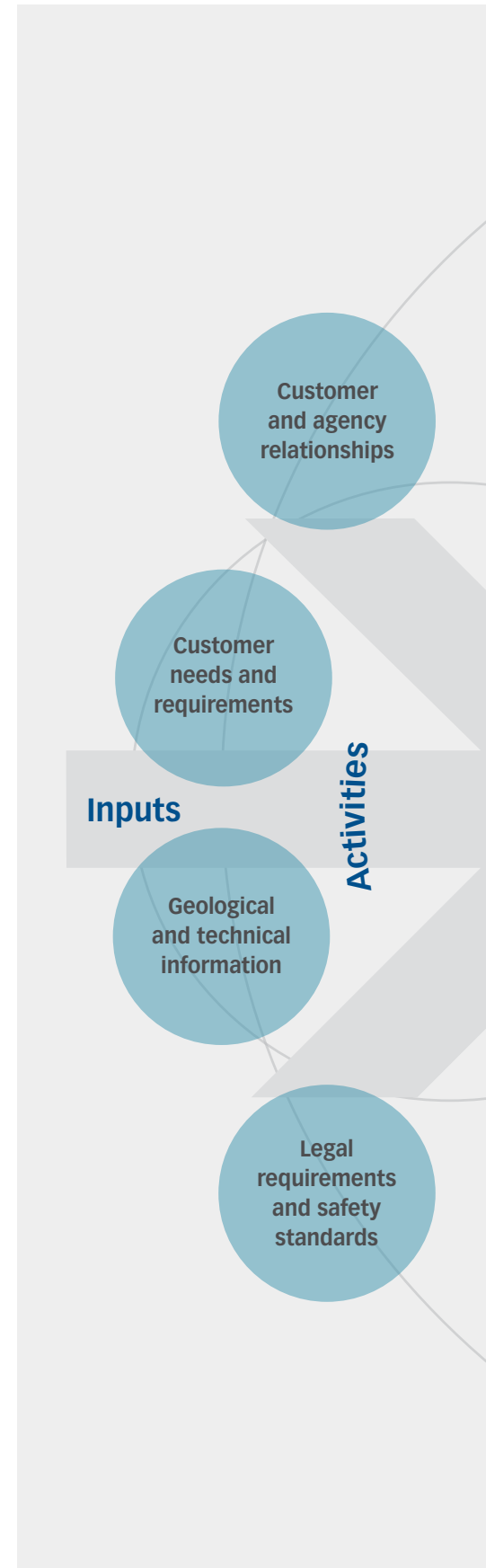
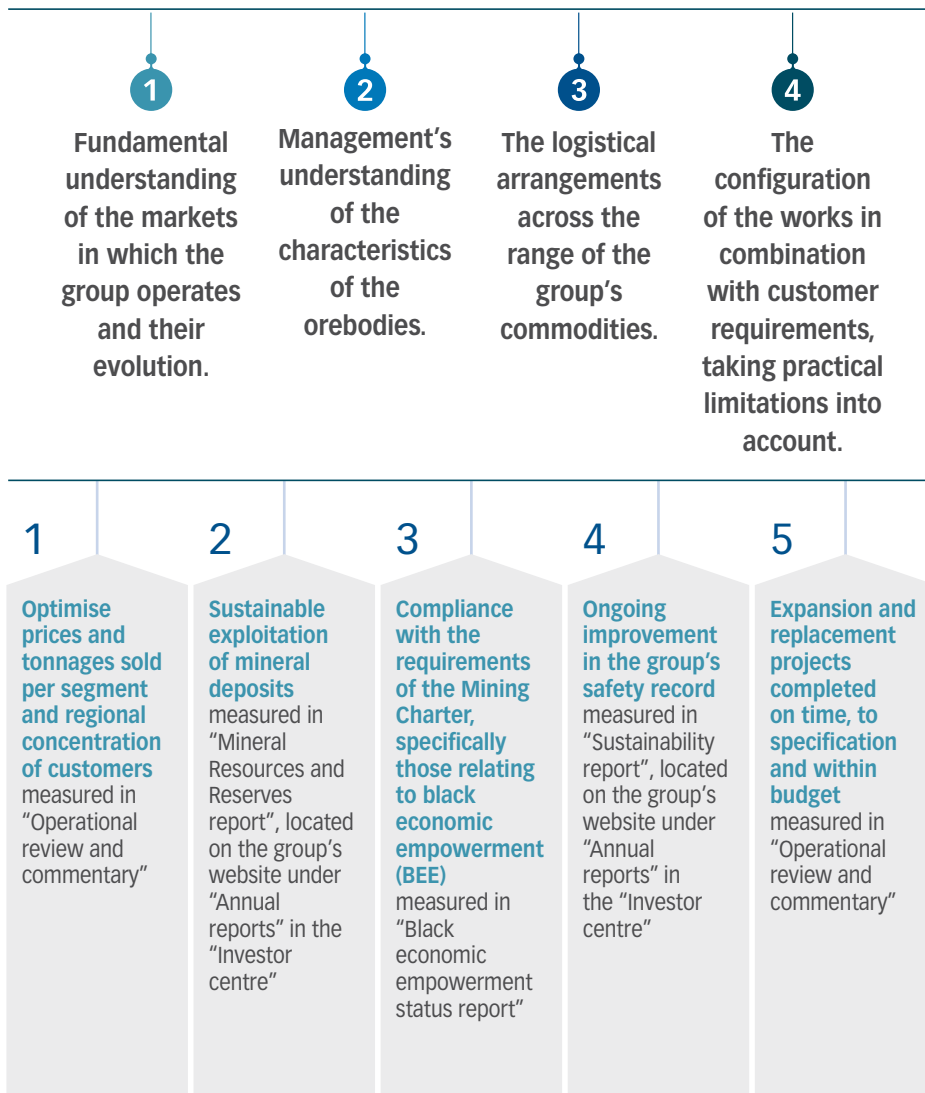
## Strategic objectives

### Strategy

The strategy of the Assore group is to anticipate and react to changes in the markets in which it operates, to align existing and available minerals and production with international market expectations and to optimise logistical capacities, both local and globally, in a manner that is consistent with production by group operations, and to do so on a sustainable basis. Key performance indicators (KPIs) for the group include the following elements, as more fully set out and measured below:

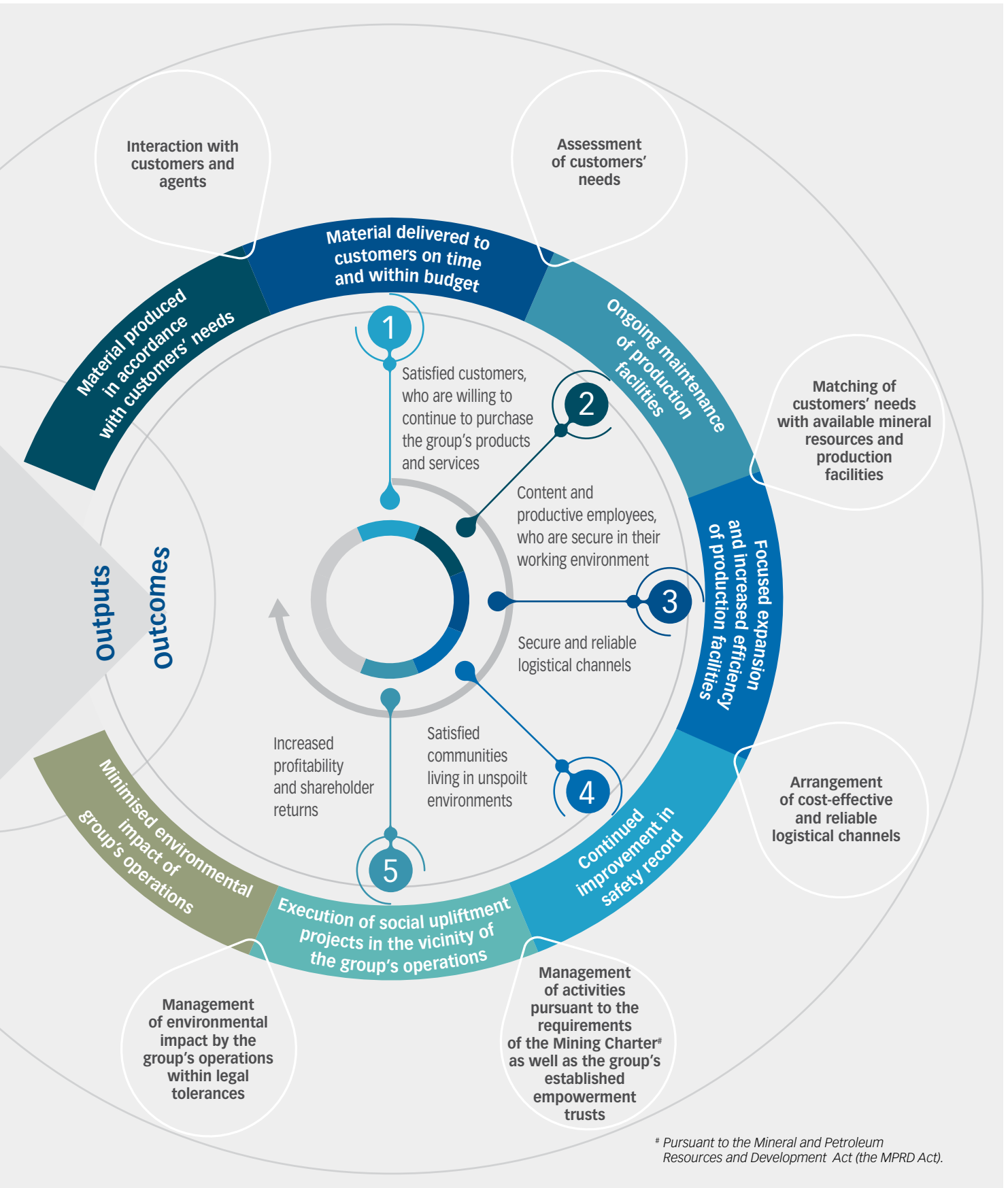
### Key performance indicators

In order to achieve the KPIs, the following requirements are essential to optimise the group's performance and results:





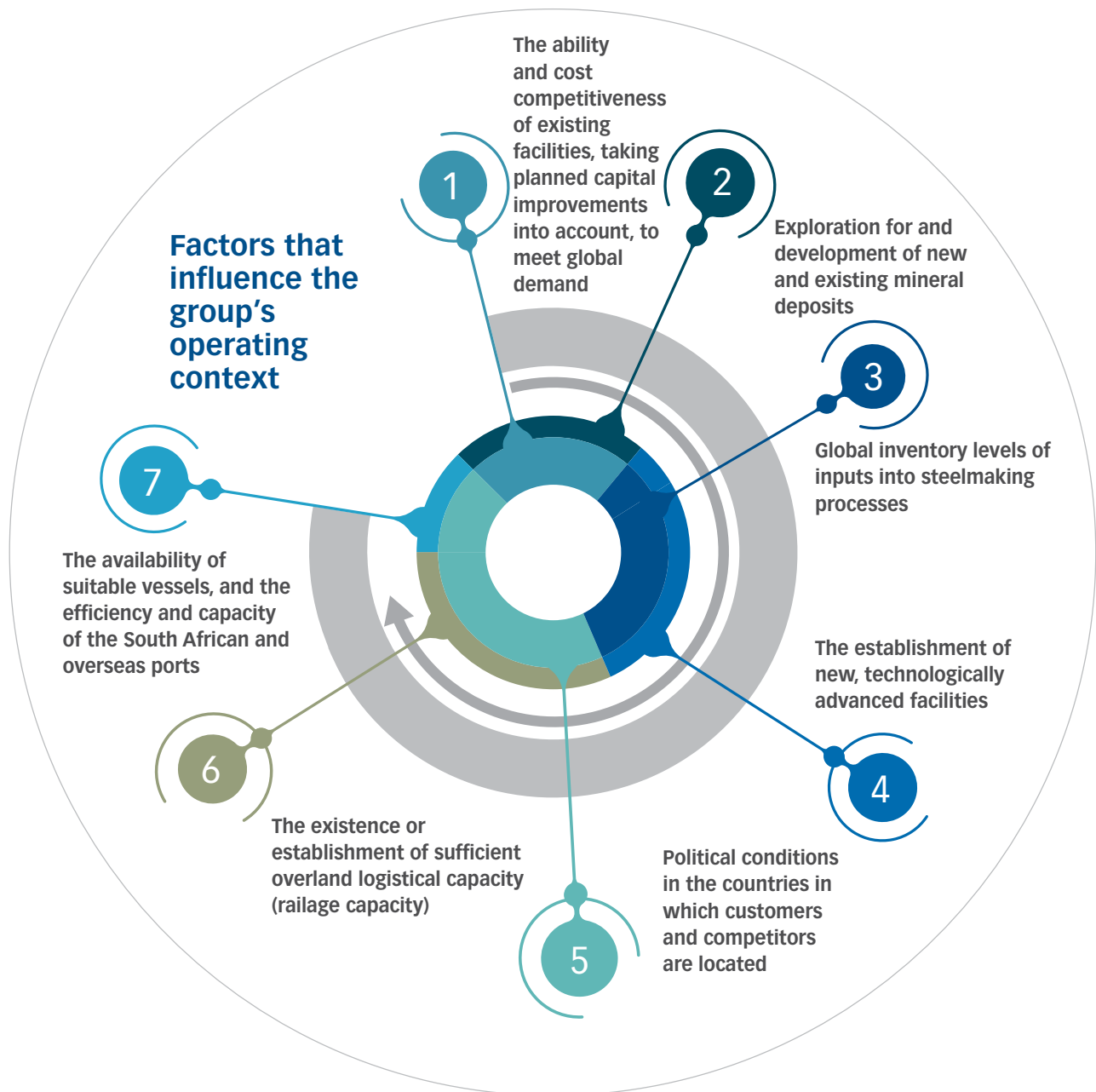
# Business model



## Risks and opportunities

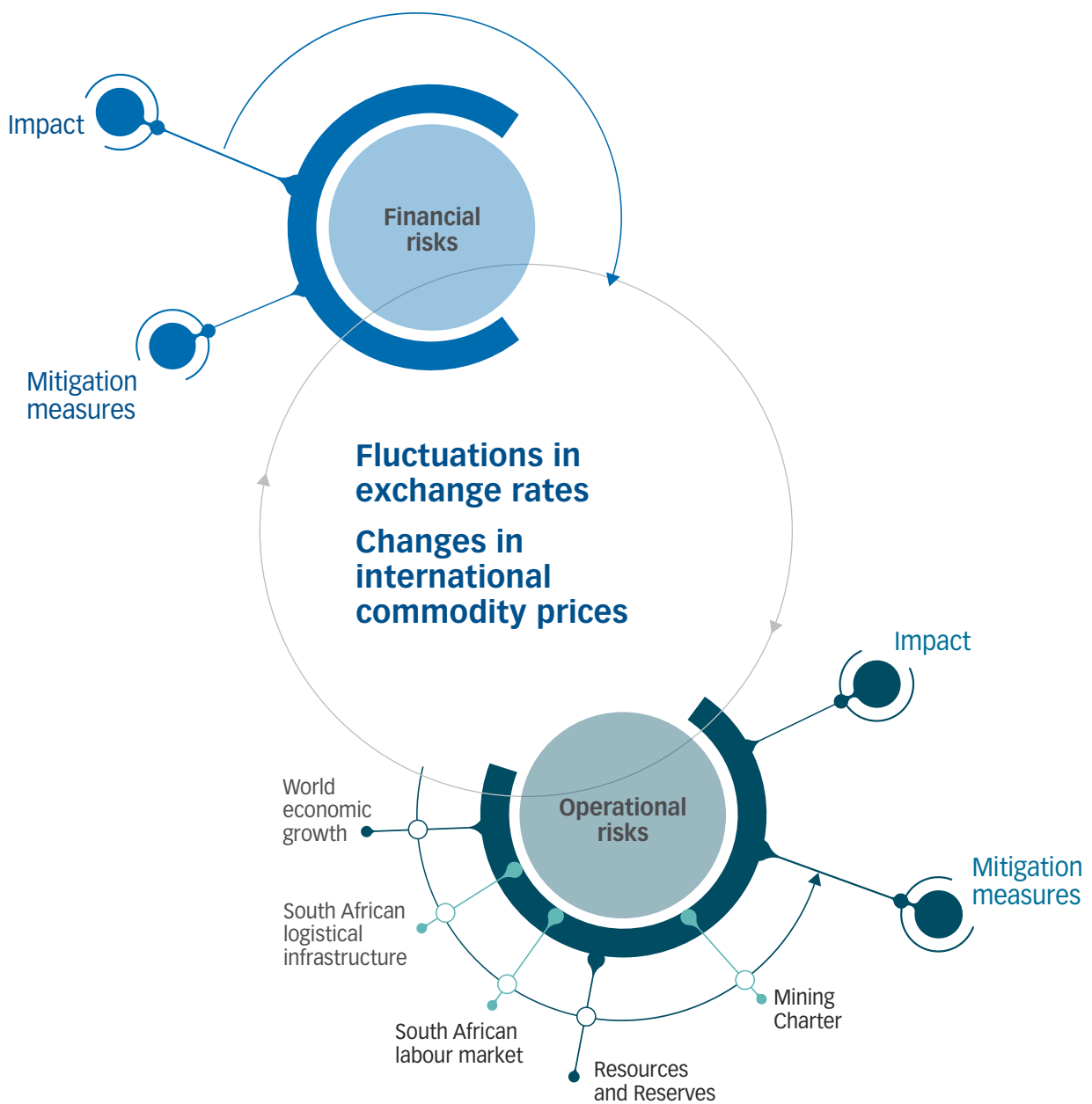
### Operating context

The performance of the Assore group is largely dependent on the level of global economic growth, as almost all its commodities are used in the production of crude and stainless steel, the consumption of which is intimately related to the incidence of global capital spend. Global economic growth, in turn, together with demand and supply dynamics, drives, *inter alia*, US dollar prices for commodities, while the level of exchange rates, combined with these prices, has a direct bearing on the group's financial performance. In assessing the group's risks and analysing its performance, it is essential to understand that by its nature, mining is a long-term business and these analyses should be conducted bearing this in mind.



While ensuring that every reasonable opportunity is pursued to add value to shareholders' returns, management is aware of the impact of the group's activities on other stakeholders as well as on the environment. The manner in which the group interacts with its stakeholders and its impact on the environment is addressed in the "Sustainability report", located on the group's website under "Annual reports" in the "Investor centre".

The table on page 16 sets out the most significant material risks to which the group is exposed and describes the mitigation measures adopted.



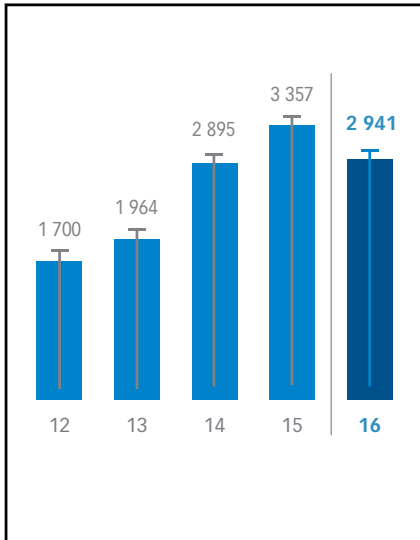
## Risks and opportunities continued

Risk description	Impact	Mitigation measures
<b>Financial risks</b>		
<b>Fluctuations in exchange rates</b>	Since most sales are denominated in foreign currency, fluctuations in exchange rates (the level of the rand against the US dollar and the euro) can have a significant impact on the group's earnings	Assore has an established Treasury Committee, the purpose of which is to limit exposure to exchange rate fluctuations. A limited degree of natural hedging occurs, given that some capital expenditure occurs in foreign currency as well
<b>Changes in international commodity prices</b>	Most iron ore sales are priced on a quarterly basis retrospectively while manganese ore is priced quarterly in advance or on a shipment-by-shipment basis. Most other commodities are priced quarterly in advance. Fluctuations in these prices can have a significant impact on the profitability of the group	Market prices of commodities are continually monitored by Ore & Metal, and the diversified portfolio of commodities provides a degree of hedging against variable commodity prices
<b>Operational risks</b>		
<b>World economic growth</b>	Since most of the group's commodities are used as inputs in the steel industry, the group's ability to continue to distribute and sell its commodities is largely dependent on the level of demand for steel, which in turn is linked to economic growth	Management continually monitors market conditions and developments in the steel industry, and ensures that ore reserves are exploited in a manner that ensures suitable sustainable supply of material to our customers
<b>South African logistical infrastructure</b>	The available channels for the export of commodities from the mines to the ports, and the facilities in South Africa's ports, are both dependent on the level of infrastructural investment by the state through Portnet and Transnet. The level of maintenance and quality of management of the logistical facilities have a direct bearing on the group's sales volumes	Assmang management and representatives of Ore & Metal meet regularly with all levels of Transnet's port and rail management to ensure optimum use of the existing channels and to explore expansion and optimal maintenance of these channels
<b>South African labour market</b>	The labour market in South Africa has become increasingly volatile, with prolonged strikes in certain sectors, which usually carry unrealistic demands from trade unions on employers, resulting in protracted negotiations with negative effects on productivity	Management attempts as far as is practical to commence wage negotiations at an early stage, and in an attempt to gain certainty on operating costs; these usually encompass negotiations towards agreements that cover more than one year
<b>Resources and reserves</b>	By nature, the metal content of orebodies can vary over the course of the life of the mine and, depending on commodity prices, their lives can either increase or decrease, given that mining deeper becomes increasingly more costly. Customer choices and preferences, therefore, have a direct bearing on the economic lives of the deposits	Orebodies are continually monitored, using modelling techniques, and are exploited in conjunction with market demand. Customer relationships are carefully managed in order to ensure that customer requirements are met within physical, chemical and economic constraints. For a detailed analysis of the group's orebodies, refer to the "Mineral Resources and Reserves report", located on the group's website under "Annual reports" in the "Investor centre"
<b>Mining Charter</b>	The Mining Charter places onerous requirements on the operations in order to meet its requirements	Management of the compliance aspects of the Charter is undertaken at all operations and every attempt is made to ensure compliance, both at the operations and at a corporate level (refer "Black economic empowerment status report" on pages 38 to 40)

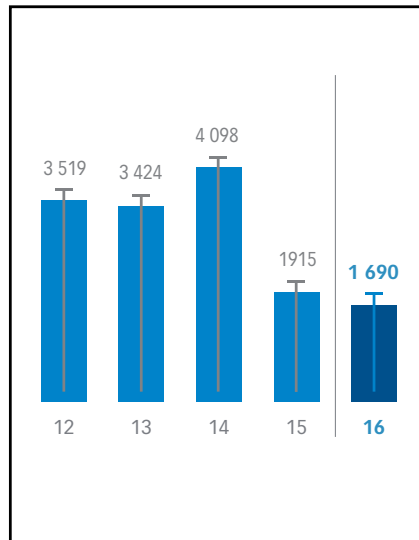
## Financial highlights

### Group highlights

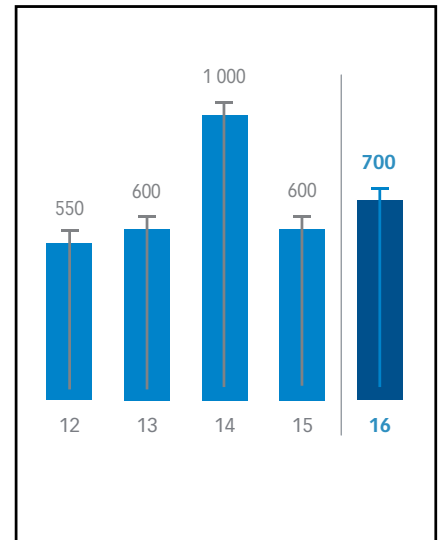
Revenue – R million



Headline earnings per share – cents

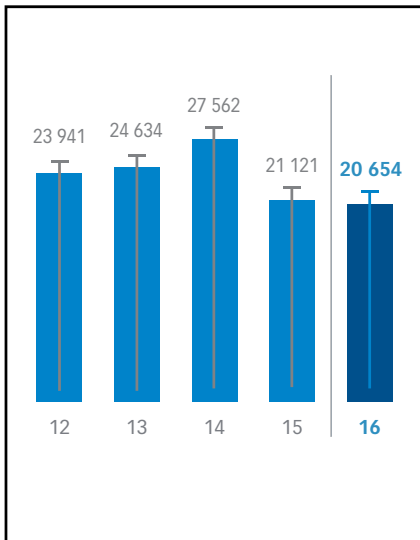


Dividends per share – cents

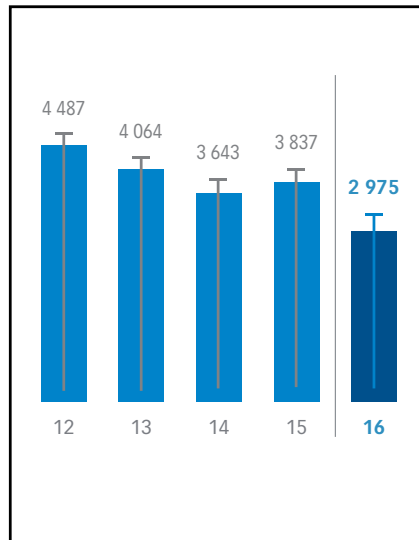


### Assmang highlights

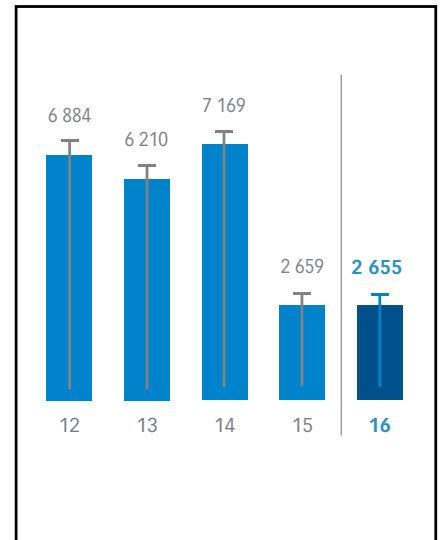
Turnover – R million



Capital expenditure – R million



Earnings – R million



The highlights included in these graphs give effect to the requirement of IFRS to apply the equity accounting basis in the group's results, for its 50% share in the results of Assmang, which are reflected at 100% above. Therefore, "Group highlights" does not include its proportion of Assmang's turnover in its revenue. "Assmang highlights" include continuing and discontinued operations (refer notes 1, 8 and 36 to the consolidated financial statements).



## Future performance objectives

Taking into account management's assessment of the risks and opportunities identified under "Risks and opportunities", and its responsibilities and involvement relating to Assmang and other group entities, the specific key performance indicators (KPIs) for the short and medium term include:

### Assmang

- maintaining steady-state production performance from Khumani Iron Ore Mine, by optimising the off-grade washing plant and modification of the Wet High Intensity Magnetic Separation (WHIMS) plant, to ensure realisation of planned life of mine;
- the substitution of ore from other pits at Beeshoek Iron Ore Mine with the ore from the Village Pit, which is now in operation;
- the execution of the sustainability and expansion project at Black Rock Manganese Mines to increase and sustain production from the various

shafts at higher volumes, achieving sustainable production of 4 million tonnes per annum of manganese ore in the long term;

- continuing to develop the group's market for the material produced from the upper seam at Nchwaning Manganese Mine;
- following the successful commissioning of both furnaces at Sakura Ferroalloys in Malaysia, to successfully ramp up these furnaces to full production, to be followed by converting Furnace 2 from the production of high-carbon ferromanganese to silico manganese in the first calendar quarter of 2017; and
- the continued optimisation of alloy production at the group's ferromanganese facilities in order to mitigate increases in the prices of electricity, which are expected to exceed inflation rates.

### Assore subsidiaries

- enhancing the group's position in South Africa's chrome ore market and to ensure a smooth transition of all of Dwarsrivier's operations into the group (refer "Operational review and commentary");
- continuing with the development of North Shaft at Dwarsrivier and proceed with beneficiation plant upgrades to process the run-of-mine (ROM) material from both shafts; and
- continuing to explore early-stage opportunities in iron ore (in Gabon) and other commodities, focused in Africa, through IronRidge.

## Remuneration

### Remuneration policy

The remuneration policy of the group aims to ensure that all staff are remunerated fairly and in accordance with the levels of responsibility they assume in performing their duties. In applying the policy the following factors are taken into account:

- Both mining and the marketing and selling of commodities, whether locally or internationally, are long-term businesses and certain essential skills are required to ensure the sustainability of the group's operations through the various international commodity and economic cycles to which the group is exposed.
- The sustainability of the group's business depends on it being able to attract and retain individuals with appropriate skills, knowledge and experience in all aspects of the group's activities, particularly where long-term contracts are involved.
- The group's products are sold locally and internationally and the customer base has to be managed carefully to ensure profitability and sustainability.

### Determination of remuneration

The remuneration of the group executive directors is determined by the Remuneration Committee (refer below), applying the group's policy on remuneration. The executive directors in turn determine the remuneration of the group's employees in conjunction with the Human Resources department and the relevant departmental heads. Independent remuneration consultants are employed when considered necessary.

The levels of remuneration are benchmarked annually against remuneration paid to executives in other listed companies in the resources sector and, where appropriate, against levels of remuneration paid within the relevant professions of individual employees. The remuneration of directors and senior staff depends on the size and complexity of the operations of the group and the level of professional input required within the business environment concerned, and has due regard to the calibre, expertise and seniority of the person required for the position.

All employees are remunerated on the basis of a fixed salary and variable bonus awards. Bonus awards are made to all staff and are based on the performance of the group and the successful achievement of its long-term strategic objectives. Limited reliance is placed on the achievement of short-term performance indicators in determining group and individual levels of

remuneration, with emphasis being placed rather on contribution to group effort and achievement in the long term. Bonuses are determined on the basis of the results and performance of the group for the year in question, taking into account conditions applicable in the particular commodity cycle, and are reviewed and approved by the Remuneration Committee. The impact on earnings per share for the year of the bonuses after the tax effect paid to executive directors of Assore was 21 cents (2015: 29 cents), amounting to 1,41% (2015: 2,13%) of earnings per share. The group does not operate a share incentive scheme or share option scheme for executive directors or senior staff. However, these members of staff are the beneficiaries of certain performance bonus arrangements and incentive schemes.

In order to incentivise and create value for all the group's employees, the group operates a dividend and equity participation scheme through the Assore Employee Trust (refer "Black economic empowerment status report", page 39), whereby non-managerial staff who do not participate in pre-existing incentive schemes or performance bonus arrangements, participate in dividends declared by Assore as well as in the growth in Assore's share price over a predetermined vesting period. Directors and senior staff do not participate in this scheme.

### Remuneration Committee

Since salaries and bonuses are reviewed on an annual basis, the committee meets formally at least once a year, in addition to *ad hoc* meetings that may be necessary from time to time. The Chief Executive Officer attends meetings of the committee by invitation but is not entitled to vote. The committee met once in the year under review and attendance was as follows:

	Possible attendance	Attended
EM Southey (Chair)	1	1
Desmond Sacco	1	1
WF Urmson	1	1

The Remuneration Committee is chaired by the lead independent director and consists of a majority of independent non-executive directors. Group Chairman Desmond Sacco is appointed as a member of this committee, based on his interest as controlling shareholder of the company, which the board believes adds to the overall appropriateness of the decisions

and policies of the committee. Its terms of reference have been approved by the board and are reviewed annually by the board.

Recommendations on the broad framework and cost of executive remuneration are made annually to the committee for approval. To do so, the committee is required to determine:

- the group's general policy on executive remuneration;
- specific remuneration packages for executive directors;
- where necessary, criteria to assess the required performance of executive directors; and
- the necessity to take independent professional advice on remuneration issues.

Due to the sensitivity of individual remuneration levels, the remuneration of senior employees, other than directors, is not disclosed. However, the total cost of the remuneration of senior employees is disclosed in the consolidated financial statements (refer note 34.1), and directors' remuneration of the holding company directors for the current and previous financial year is set out on page 53.

### Service agreements

None of the executive directors has signed a service agreement with the group. Accordingly, there are no contractual or financial obligations on the group in the event of premature termination of employment.

### Non-executive directors

Non-executive directors are remunerated by means of annual fees, payable quarterly, which are not dependent on attendance at meetings. Fees for non-executive directors are reviewed regularly and are adjusted whenever necessary taking into account the remuneration of non-executive directors of companies with similar complexity profiles in the South African resources sector, and the degree of skill, time and experience required to discharge their duties.

### Shareholders' approval

The board acknowledges the requirements of King III for shareholders annually to pass a non-binding advisory vote on the company's remuneration policy. Directors' fees are approved by means of special resolution as required by section 66(9) of the Companies Act, No 71 of 2008, as amended (the Companies Act). Details of these procedures and relevant information are set out in the notice of Annual General Meeting (AGM).