# ASSORE

## SHORT FORM PROVISIONAL RESULTS FOR THE YEAR ENDED 30 JUNE 2019

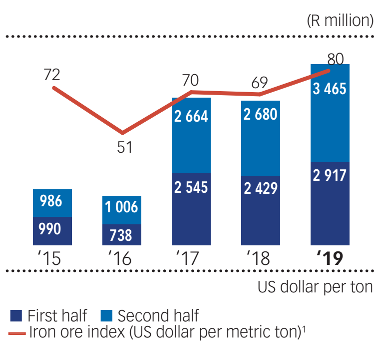
**Safety: three mines achieve consecutive fatality-free shift records**

**Record attributable earnings for the third consecutive year**

**Record dividend of R24,00 per share**

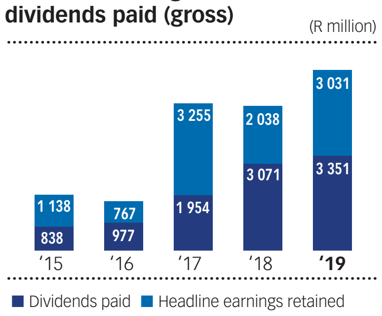
**Net cash of R9 billion**

**Headline earnings review**




[1]62% fines grade, delivered in China

**Headline earnings and dividends paid (gross)**




## Financial highlights

| R million (unless otherwise stated) | FY19 Reviewed | FY18 Audited | % increase/ (decrease) |
|---|---|---|---|
| Revenue | **8 140** | 7 805 | 4 |
| Profit after taxation, before joint venture and associates | **1 451** | 1 667 | (13) |
| Share of profit or loss from joint venture, after taxation | **4 536** | 3 524 | 29 |
| Profit for the year | **5 964** | 5 175 | 15 |
| Attributable earnings | **5 932** | 5 119 | 16 |
| Earnings per share (cents) | **5 751** | 4 963 | 16 |
| Headline earnings | **6 382** | 5 109 | 25 |
| Headline earnings per share (cents) | **6 187** | 4 953 | 25 |
| Dividends per share in respect of profit for the year (cents) | **2 400** | 2 200 | 9 |
| Net asset value | **29 802** | 26 050 | 14 |
| Capital expenditure – Assmang (100% basis), Dwarsrivier and other | **4 894** | 3 486 | 40 |

**Assore Limited**
Company registration number: 1950/037394/06
Share code: ASR ISIN: ZAE000146932 (Assore or group or company)

**Directors:**
**Executive**
Desmond Sacco (Chairman), CE Walters (Chief Executive Officer), RA Davies (Finance), PE Sacco (Deputy Chief Executive Officer and Marketing Director), BH van Aswegen (Operations)
**Non-executive**
EM Southey* (Deputy Chairman and Lead Independent Director), DN Aitken*, TN Mgoduso*, S Mhlarhi*, WF Urmson* *Independent

**Registered office:**
Assore House, 15 Fricker Road, Illovo Boulevard, Johannesburg, 2196

**Company Secretary:**
African Mining and Trust Company Limited Transfer office: Singular Systems Proprietary Limited, 28 Fort Street, Birnam, 2196

**Sponsor:**
The Standard Bank of South Africa Limited

Additional information available on **www.assore.com**

# Commentary

## Safety

Assore operations
Dwarsrivier Chrome Mine Proprietary Limited (Dwarsrivier) achieved improvement in its lost-time injury frequency rate (LTIFR) to 0,17 for the financial year ended 30 June 2019 (FY19 or the current year) from 0,19 for the financial year ended 30 June 2018 (FY18 or the prior year). Dwarsrivier's achievement of five million fatality-free shifts in March 2019 contributed significantly to an improvement of the LTIFR of the operations controlled by Assore to 0,22 for FY19 from 0,27 in FY18.

Assmang operations
The operations of Assmang Proprietary Limited (Assmang), which is jointly controlled by Assore and African Rainbow Minerals Limited (ARM), achieved a combined LTIFR of 0,19 for FY19, representing a deterioration from the level recorded in FY18 of 0,13. However, its operations continue to maintain and achieve exceptional safety records. Khumani Iron Ore Mine achieved the best LTIFR in its operational history of 0,08, while Beeshoek Iron Ore mine achieved four million fatality-free shifts in January 2019. In the Manganese division, the Black Rock Mines achieved seven million fatality-free shifts in February 2019, with the Cato Ridge smelters completing a second consecutive year without a lost-time injury.

The group remains committed to pursuing sustainable improvement in its overall safety performance.

## Group financial performance

Headline earnings increased by 25% to a record high of R6,4 billion in FY19 compared to R5,1 billion in FY18. Assmang's headline earnings increased by 41% to R10,0 billion, with Assore's 50% share in Assmang contributing R5,0 billion towards Assore's headline earnings. In accordance with International Financial Reporting Standards (IFRS), Assmang is classified as a joint venture and accordingly, its financial results are equity accounted. The rest of the group's operations reported headline earnings that were 13% lower than FY18, at R1,4 billion (FY18:R1,6 billion). The contribution to the group's results from Dwarsrivier was R516 million (FY18: R875 million), while fees and interest earned made up most of the balance. Attributable earnings amounted to R5,9 billion, 16% higher than FY18, representing a third consecutive annual record.

The average SA rand/US dollar (ZAR/USD) exchange rate for FY19 was R14,12, 10% weaker than the level that prevailed during FY18. The weaker exchange rate, higher iron ore prices, elevated but steadily declining manganese ore prices and higher sales volumes of manganese ore, resulted in a notable increase in attributable earnings.

Production and sales volumes achieved by the group were as follows:

| Metric tons '000 | FY19 | FY18 | % (decrease)/ increase |
|---|---|---|---|
| **Production volumes** (100% basis) | | | |
| Iron ore | **17 786** | 18 578 | (4) |
| Manganese ore | **3 409** | 3 717 | (8) |
| Manganese alloys | **455** | 462 | (2) |
| Chrome ore | **1 551** | 1 619 | (4) |
| **Sales volumes** (100% basis) | | | |
| Iron ore* | **17 543** | 17 874 | (2) |
| Manganese ore* | **3 434** | 3 177 | 8 |
| Manganese alloys | **398** | 378 | 5 |
| Chrome ore | **1 556** | 1 557 | – |

** Excluding intra-group sales.*

Strong cash generation in the group resulted in group net cash increasing by 14% to R9,0 billion (FY18: R7,9 billion). A final dividend of R14,00 per share has been declared, bringing the total dividend for FY19 to R24,00 (FY18: R22,00) per share.

## Market conditions

World crude steel production grew by 4,5% in the 2018 calendar year (CY18), while Chinese demand for crude steel remained firm due to continued economic stimulus. Production in China is expected to grow by 5,7% in the 2019 calendar year (CY19). China produces more than half of the world's supply of crude steel, and continues to report high levels of crude steel production. The circumstances above maintained strong levels of demand for ores, with increased prices for iron ore and stable prices for manganese ore. Sustained, tight environmental controls continue to drive demand for the group's high-grade raw materials.

The trade conflict between the USA and China had a negative impact on consumer confidence and resulted in a lower than expected demand for stainless steel. As a result, prices for stainless steel and subsequently chrome ore prices weakened throughout FY19. This occurred despite an increase in world production of stainless steel for CY18, which increased by 5,4% from the 2017 calendar year (CY17) and which continued at similar levels in the first half of CY19.

## Assmang (iron ore and manganese)

Assmang's attributable earnings increased by 29% over FY18 to R9,1 billion (100% basis), driven mostly by increased sales revenue, which was 29% up on FY18 to R35,6 billion. Iron ore delivered earnings of R6,8 billion (FY18: R3,3 billion), an increase of 106%, while those of the manganese division decreased by 39% to R2,3 billion (FY18: R3,8 billion). This was brought about by impairment charges amounting to R1,0 billion relating to the investment in Sakura Ferroalloys (Sakura).

Iron ore
The increase in attributable profit for FY19 is due to the increase in prices and the weaker ZAR/USD exchange rate over the financial year. The average market price for iron ore increased over FY19 from USD69 per ton (62% iron content, "fines" grade, delivered in China) to USD80 per ton. A tragic tailings dam failure in Brazil, as well as weather disruptions in northern Brazil and Western Australia, resulted in reduced seaborne supply of iron ore. Furthermore, improved levels of demand for steel in China, mainly as a result of economic stimulus measures, changed what was anticipated to be an oversupplied market into an undersupplied market. The strong demand for the group's product, together with an increase of approximately 60% in the average level of the "lumpy" premium, to USD21 for FY19 (FY18: USD13) per ton, contributed to the increase in revenue of 39%.

Manganese ore and alloys
Despite growth in steel production, the manganese ore market was characterised by significant changes in the Chinese ferroalloy industry which saw silico-manganese production increase by 30% in CY18. This was driven by an increase in the unit consumption of silico-manganese due to changes in the Chinese rebar quality steel standards implemented in early 2018. The market continued to witness the decline in Chinese domestic manganese ore production.

Demand for manganese ores remained firm throughout FY19, resulting in stable index prices, despite some weakness in Chinese ferroalloy prices towards the end of FY19. The FY19 average index price for the high-grade "lumpy" ore (44% manganese content) was USD6,68 per dry metric ton unit (dmtu), delivered (CIF) in China (FY18: USD6,88 per dmtu), while the average medium-grade "lumpy" ore price index (37% manganese content) for FY19 was USD5,55 per dmtu, free on board (FOB) from South Africa (FY18: USD5,59 per dmtu). The stable prices together with the 8% increase in sales volumes and the weak ZAR/USD exchange rate resulted in the increased earnings from manganese ore. Production volumes decreased by 8% due to the shut at the Gloria Mine for its modernisation and optimisation initiative.

Despite the strong steel production and demand in the United States, due to the tariffs levied on imported steel, the manganese alloy market has remained oversupplied. This resulted in continued price weakness and poor profitability for ferroalloy producers, with pressure on non-integrated producers being exacerbated.

## Dwarsrivier (chrome ore)

The attributable profit for FY19 decreased by 41% to R516 million (FY18: R875 million), due to lower prices for chrome ore and increased operating costs. The reduced profit was compounded by a labour strike suffered by the mine in March 2019, which accounted for the decrease of 4% in production volumes. The cost management performance was disappointing, with unit costs increasing by 14% over FY18. The oversupply of ferrochrome in the group's main market resulted in a decrease in demand for chrome ore, which saw the average index market price decreasing to USD187 per ton from USD224 in FY18 (44% chrome content material, delivered in China). The weaker ZAR/USD exchange rate and sales volumes of 1,6 million tons (similar to FY18) partially negated the decrease in prices, with revenue decreasing by 4% to R3,6 billion. Capital expenditure amounted to R480 million (FY18: R300 million), mostly on ongoing projects aimed at increasing plant efficiency.

## Outlook

Global growth is expected to slow in the period ahead. The pace of expansion in the global economy witnessed in the past few years has now been affected by geopolitical risks that are weighing on the global commodity markets.

Any abrupt tightening of global financial conditions will reduce expenditure on steel for development needs across the world and hence a decline in demand for steel overall.

China has, in response to the trade tariffs imposed by the United States, ramped up its fiscal and monetary stimulus, embarked on a new round of major infrastructure projects and announced various tax cuts. China's economy expanded by 6,3% in the first half of CY19, and although this was marginally below market forecasts, it is expected to remain at this level for the remainder of the year. This continued growth in China should support prices for the group's products in the near term.

The mining industry in South Africa continues to face a high level of regulatory uncertainty and increased expectations from its various stakeholders. Further to the factors noted above, the results of the group remain significantly exposed to underlying commodity prices for steel-making ingredients and fluctuations in exchange rates.

This outlook and any forward looking statements have not been reviewed and reported on by the group's external auditors.

Short-form announcement
This short-form announcement is the responsibility of the board of directors of Assore Limited and is a summarised version of the group's full announcement and as such, it does not contain full or complete details pertaining to its results. Any investment decisions by investors and/or shareholders should be made after taking into consideration the full announcement, which has been released on the JSE Stock Exchange News Service (SENS) at https://senspdf.jse.co.za/documents/2019/JSE/ISSE/ASR/AssoreFY19.pdf and on the group's website at https://www.assore.com/interim-and-final-results/. The full announcement is available for inspection, at no charge, at the registered office of Assore Limited, (15 Fricker Road, Illovo Boulevard, Johannesburg, 2196) from 09:00 to 16:00 on business days. Copies of the full announcement can be requested from the registered office by contacting the Company Secretary on +27 11 770 6800.

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