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

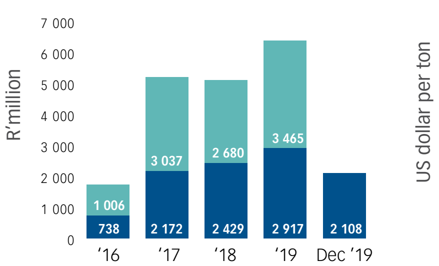
Results for the half-year ended **31 December 2019**

Dwarsrivier recognised for safety performance

Interim dividend of R7,00 per share

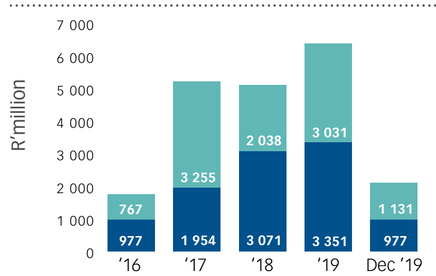
Net cash of R8,1 billion

Headline earnings review



[1] 62% fines grade, delivered in China

Headline earnings and dividends paid (gross)



FINANCIAL HIGHLIGHTS

R'million (unless otherwise stated)	**Half-year ended 31 December 2019 Reviewed**	Half-year ended 31 December 2018 Reviewed	% (decrease)/ increase	Year ended 30 June 2019 Audited
Revenue	**3 468**	3 948	(12)	8 140
Profit after taxation, before joint venture and associates	**252**	813	(69)	1 451
Share of profit or loss from joint venture and associates, after taxation	**1 844**	2 119	(13)	4 513
Profit for the year	**2 096**	2 932	(29)	5 964
Attributable earnings	**2 078**	2 916	(29)	5 932
Headline earnings	**2 108**	2 917	(28)	6 382
Earnings per share (cents)	**2 014**	2 827	(29)	5 751
Headline earnings per share (cents)	**2 043**	2 828	(28)	6 187
Dividend per share in respect of profit for the year (cents)	**700**	1 000	(30)	2 400
Net asset value	**30 384**	27 782	9	29 802
Capital expenditure – Assmang (100% basis), Dwarsrivier and other	**2 302**	2 191	5	4 894

Safety

Assore operations

Dwarsrivier Chrome Mine Proprietary Limited (Dwarsrivier) reported a deterioration in its lost-time injury frequency rate (LTIFR) to 0,22 for the six months to 31 December 2019 (the current period, or H1 FY20) from 0,18 for the six months to 31 December 2018 (the previous period, or H1 FY19). However, Dwarsrivier was recognised for the best improved safety performance and best safety performance in its class at the South Africa Chrome Industry Awards Dinner held on 5 September 2019. Performance improvements within Assore's other operations resulted in an overall improvement in the combined LTIFR for Assore from 0,29 to 0,24 over the same period.

Assmang operations

The combined LTIFR of the Assmang Proprietary Limited (Assmang) operations, which is jointly controlled by Assore and African Rainbow Minerals Limited (ARM), deteriorated to a level of 0,24 for the current period, compared to 0,13 for the previous period.

The group remains committed to the pursuit of continued, sustainable improvement in our overall safety performance.

Group financial performance

Headline earnings for H1 FY20 decreased by 28% to R2,1 billion, compared to R2,9 billion for the H1 FY19. Assmang, in which Assore has a 50% interest, recorded headline earnings of R3,7 billion (H1 FY19: R4,3 billion), a decrease of 14%, on a 100% basis. This contributed R1,85 billion towards the group'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 68% lower than the previous period, at R0,2 billion, of which Dwarsrivier contributed a profit of R31 million (H1 FY19: profit R327 million), with commissions and interest earned making up most of the balance. Attributable earnings amounted to R2,1 billion, 29% lower than H1 FY19.

The average SA rand/US dollar (USD) exchange rate for the current period was R14,69, 4% weaker than the level that prevailed during H1 FY19. The index price for iron ore (62% iron content, fines grade, delivered in China) was USD95 per ton (38% higher than H1 FY19), while the manganese ore price for both quoted grades (44% and 37% manganese content) as well as the chrome ore prices were lower compared to H1 FY19. Sales volumes of iron ore were lower than in the previous corresponding period due mostly to the timing of shipments. However, manganese ore sales volumes increased by 11% in line with the increased production volumes.

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

Metric tons '000	**Six months to 31 December 2019**	Six months to 31 December 2018	% increase/ (decrease)
Production volumes (100%)			
Iron ore	**9 345**	8 742	7
Manganese ore	**2 034**	1 737	17
Manganese alloys	**239**	194	23
Chrome ore	**769**	765	–
Sales volumes (100%)			
Iron ore*	**7 750**	8 752	(11)
Manganese ore*	**1 782**	1 605	11
Manganese alloys*	**171**	164	4
Chrome ore	**735**	757	(3)

* *Excluding intragroup sales*

Working capital increased by R1,4 billion, due to the timing of cash payments to Assmang. As a result, the group's net cash position decreased by 10% to R8,1 billion (June 2019: R9,0 billion). The board has declared an interim dividend of 700 cents (H1 FY19: 1 000 cents) per share, which will be paid to shareholders on Monday, 16 March 2020.

Market conditions

Demand for steel in China is estimated to have grown by 7,8% in the 2019 calendar year (CY19). However, for the rest of the world, growth was limited. China produced 54% of the world's crude steel in CY19 with a reported production increase of 8,3% over this period. The robust demand for crude steel, as well as continued supply disruptions of iron ore, assisted in maintaining strong iron ore prices through this period. However, the good demand for steel did not manage to hold prices of manganese ore during H1 FY20.

World stainless steel production, excluding Chinese production, declined in CY19 on the back of a weaker world economic environment. However, Chinese production, which amounts to 56% of the world's total, recorded year-on-year growth of 8,8%. These higher production levels resulted in increased demand for ferrochrome as well as chrome ore, although both commodities attracted lower prices due to over-supply.

Assmang (iron ore and manganese)

Attributable earnings decreased by 14% over the previous period to R3,7 billion (100% basis, H1 FY19: R4,3 billion). Iron ore delivered R2,8 billion (H1 FY19: R2,5 billion), an increase of 12% from the previous period, while manganese ore and alloys contributed only R0,9 billion (H1 FY19: R1,9 billion) to attributable earnings. The change in the mix of earnings was driven by firm iron ore prices and notably lower prices for manganese ores and manganese alloys.

Capital expenditure in Assmang was at similar levels to the previous period, and amounted to R2,1 billion for the period (H1 FY19: R1,98 billion). The Iron Ore division spent R0,9 billion relating mostly to waste stripping and replacement capital. Expenditure in the Manganese division amounted to R1,2 billion, mostly relating to the Black Rock Expansion Project (R335 million) and the Gloria Mine modernisation and optimisation (R443 million).

At the end of H1 FY20, approximately 96% of the approved and revised capital expenditure of R6,966 billion on the Black Rock Expansion Project was committed or spent and approximately 66% of the approved capital of R2,7 billion for the Gloria Mine modernisation and optimisation project was committed or spent.

Iron ore

Higher crude steel production levels in China maintained the demand for iron ore. Imports of iron ore into China increased marginally in CY19. Supply disruptions from Brazil and Australia, combined with limited supply expansion across the industry saw prices rise in the period. The average index price for H1 FY20 was USD95 per ton compared to the H1 FY19 level of USD69 per ton. The "lumpy" premium weakened to USD6 per ton during H1 FY20 but recovered at the end of the period to USD15 per ton as steel mills margins improved and restrictions on sintering plants in China supported demand for lumpy material.

Despite the high demand for iron ore, sales volumes decreased by 11% compared to H1 FY19. This was due to logistical and operational constraints, predominantly at Saldanha Bay port. The high iron ore prices and weaker SA rand/USD exchange rate helped increase the iron ore division's attributable profit for H1 FY20 by 12% over the previous period.

Manganese ore and alloys

Manganese ore prices for H1 FY20 were weaker in comparison to H1 FY19, due to a combination of over-supply and weakened demand. Demand in China softened while local supply and imports reached a peak. This resulted in high port stock levels and lower ore prices for the current period.

The average index price for H1 FY20 for high-grade lumpy ore (44% manganese content) was USD4,82 per dry metric ton unit (dmtu), delivered (CIF) in China (H1 FY19: USD7,02 per dmtu), while the average index price for medium-grade lumpy ore (37% manganese content) was USD3,69 per dmtu, delivered (CIF) in China (H1FY19: USD5,92 per dmtu).

Total sales volumes of manganese ore increased following the expansion at the Black Rock mines and were thus 11% higher than the previous period.

The increase in sales volumes and weak SA rand/USD exchange rate did not offset the effect of depressed prices resulting in a 44% decrease in earnings from manganese ore.

The alloy market continued to experience over-supply and weak demand. Despite industry-wide production cuts in H2 FY19, prices and profitability in the ferroalloy market weakened further in the current period. The underlying weakness has been caused by the downturn experienced in the auto sector as well as the sluggish manufacturing subsectors with all regions under significant margin squeeze.

Dwarsrivier (chrome ore)

The stainless steel, ferro chrome and chrome ore markets remained oversupplied during H1 FY20, resulting in weaker price levels for chrome ore. Ferrochrome prices in China also continued to weaken throughout the reporting period, exerting further pressure on chrome ore prices, which declined to USD130 per ton (CFR, China, 42% concentrate) at the end of the period, compared to a level of above USD150 per ton at the end of H1 FY19.

Chrome ore sales volumes were slightly lower (3%) compared to H1 FY19, due to lower sales concluded in order to replenish mine stockpiles. The lower prices and sales volumes resulted in a 17% decrease in revenue for H1 FY20 to R1,5 billion (H1 FY19: R1,8 billion) despite the weakening of the SA rand/USD exchange rate.

The cost management performance of the mine remains challenging, with unit costs increasing by 6% over H1 FY19. Capital expenditure amounted to R246 million (H1 FY19: R214 million), mostly on-mine development at its south shaft, plant upgrades to improve efficiency and flexibility and mining equipment replacements.

Due to the lower sales prices and the high operational costs the attributable profit for H1 FY20 decreased by 91% to R31 million compared to the previous reporting period (H1 FY19: R327 million).

Outlook

World economic growth in 2019 was hampered by the US/China trade war and the growth forecasts for 2020 are that GDP of the major economies will slow.

Growth in steel production is expected to slow in line with global growth. The extent of the impact on global commodity markets of the recent outbreak of the coronavirus in China, and its spread around the world, is not known at this stage. When considered together with unresolved trade issues in several regions of the world, the outlook has become more negative with the balance of risks pointing to the downside.

On the other hand, a potential investment stimulus response from China would help to offset the current weakness in the commodity markets. In addition, Chinese environmental policies are expected to continue to have a positive impact on the demand for high-quality iron ore and manganese ore. This will support the demand for the group's high quality products.

The potential increase in the supply of iron ore is likely to introduce some weakness in iron ore price levels. On the other hand, an improvement in manganese ore prices is anticipated, with Chinese demand recovering and improved demand expected from outside of China, after a relatively weak H1 FY20.

The surplus in supply of stainless steel, ferrochrome and chrome ore is predicted to persist for the remainder of FY20. As a result, limited potential exists for major price improvements for these commodities which will continue to suppress the financial performance in this segment.

The mining industry in South Africa continues to face a high level of regulatory uncertainty and increased expectations from its various stakeholders. 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/2020/JSE/ISSE/ASR/AssoreHY20.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.

Directors

Executive directors: Desmond Sacco (*Chairman*), CE Walters (*Chief Executive Officer*), PE Sacco (*Deputy Chief Executive Officer and Marketing Director*), RA Davies (*Chief Financial Officer*), BH van Aswegen (*Group Technical and Operations Director*)

Non-executive directors: EM Southey* (*Deputy Chairman and Lead Independent Director*), DN Aitken*,TN Mgoduso*, S Mhlarhi*, WF Urmson* **Independent*

Registered office

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Company Secretary

African Mining and Trust Company Limited

Transfer office

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Sponsor

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