



**CONDENSED
CONSOLIDATED INTERIM
FINANCIAL STATEMENTS**
For the six months ended 30 June 2016

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2016

Merafe Resources Limited (incorporated in the Republic of South Africa) Company Registration Number: 1987/003452/06
Share code: MRF ISIN: ZAE000060000

KEY FEATURES

↑ 1%

Production

2016: 196kt

2015: 195kt

↑ 14%

Sales

2016: 218kt

2015: 191kt

↓ 4%

TRIFR

2016: 4.00

2015 Dec: 4.17

↓ 24%

EBITDA

2016: R257m

2015: R336m

↓ 54%

Headline earnings per share

2016: 2.3 cents

2015: 5.0 cents

↑ 49%

Cash from operating activities of

2016: R372m

2015: R249m

Interim
dividend of
R20m

Preparation of this report

The following individuals were responsible for the preparation of the condensed consolidated interim financial statements:

Kajal Bissessor CA (SA)
Financial Director

Zanele Matlala CA (SA)
Chief Executive Officer

These results were published on 1 August 2016

COMMENTARY

Introduction

The first six months of 2016 were characterised by low commodity prices and significant fluctuation in the Rand/US Dollar exchange rate. The global stainless steel and ferrochrome markets were not immune to these influences, and as a result experienced an extremely volatile first quarter of 2016. The Metal Bulletin charge chrome CIF Shanghai price index ("index") reduced to a low of 55US\$/lb in March 2016, recovering in the second quarter when the price increased to 74US\$/lb in June 2016.

Despite the above mentioned factors, Merafe Resources Limited ("Company" or "Merafe") remained profitable and cash generative for the six months ended 30 June 2016.

Review of results

The condensed consolidated interim financial statements of Merafe for the six months ended 30 June 2016 have been reviewed by the Company's external auditors, KPMG Inc. In their review report, dated 29 July 2016, which is available for inspection at the Company's Registered Office, KPMG Inc. state that their review was conducted in accordance with the International Standard on Review Engagements 2410: *Review of Interim Information Performed by the Independent Auditor of the Entity*. The auditors have expressed an unmodified conclusion on the condensed consolidated interim financial statements.

Merafe's revenue and operating income is primarily generated from the Glencore-Merafe Chrome Venture ("the Venture") which is one of the global market leaders in ferrochrome production, with a total installed capacity of 2.3m tonnes of ferrochrome per annum. Merafe shares in 20.5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Revenue increased by 9% period on period mainly due to a 14% increase in ferrochrome sales volumes to 218kt (2015: 191kt) and a 29% weaker average Rand/US Dollar exchange rate which was partially offset by a 23% decrease in net CIF ferrochrome prices. Chrome ore revenue as a percentage of total revenue is 11% in the first half of 2016 (2015: 11%). Average export USD CIF prices of chrome ore reduced by 23% period on period.

Merafe's portion of the Venture's EBITDA for the six months ended 30 June 2016 is R275.0m (2015: R355.3m). The EBITDA includes Merafe's attributable share of standing charges of R49.2m (2015: R30.1m) and a foreign exchange loss of R28.8m (2015: foreign exchange gain: R3.0m).

After accounting for corporate costs of R18.4m (2015: R19.4m) which includes a cash settled share based payment expense of R4.8m (2015: R2.7m), Merafe's EBITDA is R256.6m (2015: R335.9m). The cash settled share-based payment expense increased period on period primarily as a result of a significant increase in the share price at 30 June 2016 compared to 30 June 2015.

Profit for the six months is R57.3m (2015: R124.3m) after taking into account depreciation of R146.5m (2015: R120.5m), net financing costs of R31.6m (2015: R37.1m) and taxation expense of R21.1m (2015: R54.0m). The balance of unredeemed capital expenditure is estimated to be R101.0m as at 30 June 2016 (31 December 2015: R173.8m) which relates to the eastern taxation ring-fence. Depreciation increased period on period primarily as a result of the additional depreciation on Project Lion II as well as the accelerated depreciation arising from the re-assessment of useful lives and residual values in accordance with IAS 16: Property, plant and equipment. Net financing costs reduced as a result of the repayment of borrowings which was partially offset by the increase in the Johannesburg Interbank Agreed Rate (JIBAR) in South Africa. The effective tax rate reduced from 30.3% in the prior period to 26.9% in the current period primarily as a result of temporary differences on property, plant and equipment which were partially offset by non-deductible permanent differences arising from operating expenses relating to the Venture.

Sustaining capital expenditure incurred for the six months ended 30 June 2016 is R118.0m (2015: R103.9m) and expansionary capital expenditure incurred for the six months ended 30 June 2016 is R6.8m (2015: R22.9m). As at 30 June 2016, Merafe's capital commitments were R227.7m (2015: R213.0m) of which R70.1m was contracted for but not provided for and R157.6m was authorised but not contracted for.

As at 30 June 2016, Merafe had a net cash balance of R412.2m (2015: R309.6m) which comprised cash held by Merafe of R97.5m and R314.7m being Merafe's share of the cash balance in the Venture.

Merafe had total debt owing to ABSA and Standard Bank of R479.5m at 30 June 2016 which reduced by R80m from 31 December 2015. This was as a result of a R50m mandatory repayment of the term facility on 4 January 2016 and a R30m voluntary pre-payment of the revolving credit facility on 1 April 2016. Post the reporting period, a R70m repayment was made which comprised of a R50m mandatory repayment of the term facility and a R20m voluntary pre-payment of the revolving credit facility. This reduced the debt balance to R409.5m, resulting in unutilised debt facilities of R240.5m.

Trade and other receivables increased from 31 December 2015 primarily as a result of a 62% increase in sales volumes in the second quarter of 2016 compared to the last quarter of 2015 as well as the impact of the higher than expected receipts from customers in December 2015, as previously reported. Utilisation of the debtors financing facility increased from R411.4m at 31 December 2015 to R543.5m at 30 June 2016. Trade and other payables increased from 31 December 2015 as a result of the increase in selling expenses and commission arising from the increase in sales volumes in the second quarter of 2016 and the increase in production cost in the second quarter of 2016. The carrying amount of financial instruments are a reasonable approximation of fair value.

Finished goods on hand reduced to 99kt at 30 June 2016 which is approximately ten to twelve weeks of sales.

The Board declared an interim dividend of R20m.

Review of operations and safety

Merafe's attributable ferrochrome production from the Venture for the six months ended 30 June 2016 increased marginally compared to the prior comparative period. Production volumes were managed across the first half of the year through timeous furnace refurbishments in order to optimise stock levels.

Production costs were contained through various cost-saving initiatives. This was achieved in spite of increases in both electricity and labour costs, which were well above inflation. The National Energy Regulator announced an electricity price increase of 9.4% which became effective on 1 April 2016. The Venture's operations were not significantly impacted by electricity supply constraints in the first half of 2016.

Safety remains a critical focus area and all efforts continue to be made to ensure that the highest standards of safety remain in place at all the Venture's operations. The Venture's total recordable injury frequency rate (TRIFR) improved slightly from 4.17 at the end of 2015 to 4.00 at the end of June 2016 as a result of ongoing safety campaigns and programs at its operations.

Mineral Reserves, Mineral Resources and Mining Rights

During the first half of 2016, there were no material changes to the mineral reserves, mineral resources and mining rights of the participants in the Venture.

Market review

Global stainless steel production

Estimated global stainless steel production for the first half of 2016 totalled 21.8mt¹, which increased 2.5%¹ period on period. This increase was primarily driven by China as a result of the introduction of newly built capacity into the market.

Global ferrochrome production and demand

Global ferrochrome production for the first half of 2016 totalled 5.2mt¹, a reduction of 4%¹ period on period. The most significant decline was seen in China, where output was reduced by 17%¹ period on period. This resulted in South Africa reclaiming its position as the largest ferrochrome producer in the world. Estimated global ferrochrome apparent demand reduced by 8%¹ to 5.1mt¹ for the first half of 2016, however the rising stainless steel production created a higher real demand. This shortfall was serviced from ferrochrome stocks.

1. Heinz Pariser, July 2016 Report

COMMENTARY (CONTINUED)

Ferrocchrome pricing dropped to the lowest levels since 2009 when the 2016 second quarter European ferrocchrome benchmark price reduced to 82USc/lb. The lower price was mainly driven by a destocking of chrome ore, ferrocchrome and stainless steel. Market sentiment improved during the second quarter of 2016 when increased demand for ferrocchrome, coupled with shortages of supply, led to significant price increases. Post the reporting period, the European ferrocchrome benchmark price for the third quarter of 2016 was settled at 98USc/lb which represented an increase of 19.5% compared to the second quarter of 2016.

Chrome ore

Chrome ore imports into China for the first six months of 2016 amounted to 4.6mt² down 6%² period on period. Chrome ore prices reduced significantly, with the weighted average price of South African material reducing to around 105USD/t¹ in May 2016, down 66%¹ in comparison to 2011 prices.

In the first six months of 2016, South African chrome ore accounted for 78%² of imports into China which was up from 73%² in the same period in 2015. This is representative of China's increased reliance on South African exports for chrome ore.

Chrome ore stocks at Chinese ports at the end of June 2016 were approximately 1.3mt³, 7.8%³ lower compared to the beginning of January 2016.

Outlook

Global stainless steel production is expected to grow by 2.8%¹ in 2016 and by 3.1%¹ in 2017, indicating increased demand prospects for ferrocchrome.

With only four out of seven ferrocchrome producers currently in production in South Africa, together with the Venture's position as one of the lowest cost ferrocchrome producers in the world, the Venture remains well positioned to take full advantage of this renewed positive demand outlook and market sentiment.

We remain on track to achieving our strategy of reducing Merafe debt and paying stable to increasing dividends in the short term.

With no major expansionary projects in the pipeline, it is expected that from 2018 onwards free cash flow will be applied mainly to returning cash to shareholders in the form of dividends and/or share buy backs.

Change to Directorate

As previously announced, independent non-executive director, Zed van der Walt resigned with effect from 7 March 2016.

Chris Molefe

Independent Non-executive Chairman

Zanele Matlala

Chief Executive Officer

Sandton

1 August 2016

1. *Heinz Pariser, July 2016 Report*

2. *Chinese Customs*

3. *FERROALLOYNET*

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Condensed consolidated statement of comprehensive income

	For the six months ended	
	30 June 2016 Reviewed R'000	30 June 2015 Reviewed R'000
Revenue	2 412 883	2 222 885
Earnings before interest, taxation, depreciation and impairment	256 569	335 890
Depreciation and impairment	(146 509)	(120 538)
Net financing costs	(31 615)	(37 081)
Profit before taxation	78 445	178 271
Taxation	(21 127)	(54 021)
Current tax	(2 464)	(38 349)
Deferred tax	(18 663)	(15 672)
Profit and total comprehensive income for the period	57 318	124 250
Basic earnings per share (cents)	2.3	5.0
Diluted earnings per share (cents)	2.3	4.9
Ordinary shares in issue	2 510 704 248	2 510 704 248
Weighted average number of shares for the period	2 510 704 248	2 508 635 044
Diluted weighted average number of shares for the period	2 510 704 248	2 518 604 858
Headline earnings per share (cents)	2.3	5.0
Diluted headline earnings per share (cents)	2.3	4.9
Profit, total comprehensive income for the period and headline earnings	57 318	124 250

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Condensed consolidated statement of financial position

	As at	
	30 June 2016 Reviewed R'000	31 December 2015 Audited R'000
Assets		
Property, plant and equipment	3 220 116	3 240 370
Deferred tax asset	19 552	17 995
Total non-current assets	3 239 668	3 258 365
Inventories	1 222 397	1 445 887
Current tax asset	22 857	10 773
Trade and other receivables	530 996	317 454
Cash and cash equivalents	412 246	325 126
Total current assets	2 188 496	2 099 240
Total assets	5 428 164	5 357 605
Equity		
Share capital	25 107	25 107
Share premium	1 269 575	1 269 575
Retained earnings	2 147 448	2 120 007
Total equity attributable to equity holders	3 442 130	3 414 689
Liabilities		
Loans and borrowings	392 246	472 755
Share based payment liability	4 121	3 147
Provision for close down and restoration costs	146 757	139 351
Deferred tax	783 942	763 724
Total non-current liabilities	1 327 066	1 378 977
Loans and borrowings	101 462	101 176
Trade and other payables	554 899	444 314
Share based payment liability	2 578	2 893
Bank overdraft	29	15 556
Total current liabilities	658 968	563 939
Total liabilities	1 986 034	1 942 916
Total equity and liabilities	5 428 164	5 357 605

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Condensed consolidated statement of cash flows

	For the six months ended	
	30 June 2016 Reviewed R'000	30 June 2015 Reviewed R'000
Profit before taxation	78 445	178 271
Finance expense	32 983	37 836
Finance income	(1 368)	(755)
Depreciation and impairment	146 509	120 538
Vesting and payment of share grants	(4 107)	(2 150)
Adjusted for non-cash items	4 766	2 685
Adjusted for working capital changes	154 593	(65 498)
Cash flows from operations	411 821	270 927
Interest paid	(26 186)	(13 301)
Interest received	1 183	548
Tax paid	(14 548)	(8 973)
Cash flows from operating activities	372 270	249 201
Cash flows from investing activities	(124 825)	(126 824)
Acquisition of property, plant and equipment - expansionary	(6 823)	(22 934)
Acquisition of property, plant and equipment - sustaining	(118 002)	(103 890)
Cash flows from financing activities	(110 386)	(28 036)
Dividends paid	(29 877)	(20 085)
Repayment of borrowings	(80 509)	(7 951)
Net increase in cash and cash equivalents	137 059	94 341
Cash and cash equivalents at the beginning of the period	309 570	(162 468)
Effect of exchange rate fluctuations on cash held	(34 412)	(1 726)
Cash and cash equivalents at the end of the period	412 217	(69 853)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

Condensed consolidated statement of changes in equity

	For the six months ended	
	30 June 2016 Reviewed R'000	30 June 2015 Reviewed R'000
Share capital	25 107	25 107
Balance at beginning of the period	25 107	25 053
Share grants vested	–	54
Share premium	1 269 575	1 269 575
Balance at beginning of the period	1 269 575	1 269 578
Share premium arising from share options exercised	–	(3)
Equity-settled share-based payment reserve	–	–
Balance at beginning of the period	–	24 651
Share grants vested	–	(2 205)
Transfer to retained earnings	–	(8 090)
Transfer to share based payment liability	–	(16 820)
Share-based payment expense	–	2 464
Retained earnings	2 147 448	1 916 475
Balance at beginning of the period	2 120 007	1 804 220
Profit and total comprehensive income for the period	57 318	124 250
Dividend paid	(29 877)	(20 085)
Transfer from share based payment reserve	–	8 090
Total equity at end of period	3 442 130	3 211 157

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

Merafe prepared its condensed consolidated interim financial statements for the six months ended 30 June 2016 in accordance with International Financial Reporting Standard, IAS 34: *Interim Financial Reporting*, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by Financial Reporting Standards Council and the requirements of the Companies Act of South Africa. The accounting policies applied in the preparation of these condensed consolidated interim financial statements are in terms of International Financial Reporting Standards and are consistent with those applied in the annual financial statements for the year ended 31 December 2015.

2. Declaration of an ordinary dividend for the interim period ended 30 June 2016

Notice is hereby given that a gross interim ordinary dividend of R20m (0.80 cent per share) has been declared payable, by the Board of Merafe, to holders of ordinary shares. The dividend will be paid out of reserves.

The ordinary dividend will be subject to a local dividend tax rate of 15%. The net ordinary dividend, to those shareholders who are not exempt from paying dividend tax, is therefore 0.68 cent per share. Merafe Resources Limited's income tax number is 9550 008 602. The number of ordinary shares issued at the date of the declaration is 2 510 704 248.

The important dates pertaining to the dividend are as follows:

	2016
Declaration date:	Monday, 1 August
Last day for ordinary shares respectively to trade cum ordinary dividend:	Tuesday, 23 August
Ordinary shares commence trading ex-ordinary dividend:	Wednesday, 24 August
Record date:	Friday, 26 August
Payment date:	Monday, 29 August

Share certificates may not be dematerialised/rematerialised between Wednesday 24 August 2016 and Friday 26 August 2016, both days inclusive. Where applicable, in terms of instructions received by the company from certificated shareholders, the payment of the dividend will be made electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, cheques will be posted to shareholders. Shareholders who have dematerialised their shares will have their accounts with their CSDP or broker credited on Monday, 29 August 2016.

3. Events after the reporting period

No material event or circumstance occurred between 30 June 2016 and 1 August 2016 that may require adjustment or disclosure in these condensed consolidated interim financial statements.

Sponsor: **Merrill Lynch South Africa Proprietary Limited**

Executive Directors: Z Matlala (Chief Executive Officer), K Bissessor (Financial Director),

Non-executive Directors: CK Molefe (Chairman)*, NB Majova*, A Mngomezulu*,
K Nondumo*, M Mosweu, S Blankfield

Company Secretary: CorpStat Governance Services

Registered office: Building B, 2nd Floor, Ballyoaks Office Park, 35 Ballyclare Drive, Bryanston, 2191

Transfer secretaries: Link Market Services South Africa Proprietary Limited

** independent*

Financial Director: Kajal Bissessor

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