INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 AND CASH DIVIDEND DECLARATION

MERAFE
RESOURCES

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

Key features

5.5% increase in total revenue to R2.721bn (June 2017: R2.580bn)

2.4% improvement in TRIFR[1] to 3.65 (December 2017: 3.74)

Production costs per tonne managed to a 4.8% increase from December 2017

12.9% decrease in HEPS to 16.9 cents (June 2017: 19.4 cents)

Net cash decreased to R331m[2] (December 2017: R600m[2])

165.5% increase in interim dividend to R200m (June 2017: R75m)

1 Total recordable injury frequency rate
2 Net cash includes cash and cash equivalents, bank overdraft and working capital loan.

Commentary

Review of results

Merafe's revenue and operating income are primarily generated from the Glencore-Merafe Chrome Venture ("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. Merafe has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome and as a result no segment report has been presented.

Total revenue increased by 5.5% to R2.721bn (June 2017: R2.580bn).

Ferrochrome revenue increased by 2.6% period on period to R2.342bn (June 2017: R2.282bn) mainly due to higher sales volumes of 181kt (June 2017: 157kt) partly off set by the stronger average Rand/US Dollar exchange rate of R12.31 (June 2017: R13.21) and lower net CIF prices.

Chrome ore revenue increased by 27.1% period on period to R378.5m (June 2017: R297.8m) mainly due to higher realised chrome ore sales prices partly set off by lower sales volumes of 132kt (June 2017: 146kt) and a stronger average Rand/US Dollar exchange rate. The higher chrome ore realised prices were impacted by lower local sales volumes period on period.

Merafe's portion of the Venture's EBITDA for the six months ended 30 June 2018 is R814.4m (June 2017: R887.1m). The EBITDA includes Merafe's attributable share of standing charges of R38.2m (June 2017: R32.7m) and a foreign exchange gain of R102.6m (June 2017: R50.1m foreign exchange loss).

After accounting for corporate costs of R18.1m (June 2017: R21.7m), which includes a cash settled share-based payment expense of R1.4m (June 2017: R2.8m), Merafe's EBITDA reached R796.3m (June 2017: R865.4m).

Profit for the six months ended 30 June 2018 amounted to R425.1m (June 2017: R486.5m), after taking into account depreciation of R203.6m (June 2017: R164.9m), net financing costs of R2.8m (June 2017: R23.8m) and an income tax expense of R164.7m (June 2017: R190.2m). The taxation expense includes deferred tax income of R19.2m (June 2017: R91.5m) which arose as a result of temporary and timing differences on property, plant and equipment, the embedded derivative and provisions. There is no unredeemed capital expenditure balance at 30 June 2018 given the taxable profits exceeded capital expenditure.

Depreciation increased to R203.6m (June 2017: R164.9m) for the six months ended 30 June 2018 as a result of the accelerated depreciation arising from the scrapping of assets and the reassessment of residual values to zero in the second half of 2017. Net financing costs include R13.2m (June 2017: R11.9m) relating to the unwinding of discount on the provision for rehabilitation. The significant reduction in net financing costs is as a result of the reduction in borrowings and higher finance income which is a function of higher average bank balances.

Sustaining capital expenditure incurred for the period was R174.0m (June 2017: R141.3m) and expansionary capital expenditure incurred for the period was R0.2m (June 2017: R0.8m).

At 30 June 2018, Merafe had cash and cash equivalents of R331.0m[3] (Dec 2017: R671.7m)[3] which comprised of cash held by Merafe of R255.5m (Dec 2017: R464.0m) and R75.5m (Dec 2017: R207.7m) being Merafe's share of the cash balance in the Venture. At 30 June 2018, the net cash balance, which includes cash and cash equivalents, bank overdraft and working capital loan was R331.0m (Dec 2017: R600.0m).

The group has a R200m three-year revolving credit facility which was secured during 2017 as previously reported. At the reporting date, this facility was unutilised.

Inventories increased to R1.881bn (Dec 2017: R1.498bn) as a result of higher finished goods on hand at period end, which amounts to approximately four to five months of sales. The increase is a function of higher production volumes compared to sales volumes as well as higher production costs.

A reassessment of the closure and restoration costs of all smelters was performed during the period. As a result of this reassessment, the provision for closure and restoration was increased to R185.8m (Dec 2017: R157.1m).

Trade and other receivables increased by 32.2% to R1.167bn (Dec 2017: R0.883bn) mainly due to a weaker closing Rand/US Dollar of R13.71 (Dec 2017: R12.39) as well as earlier than expected receipts from debtors in December 2017 compared to June 2018.

The Board of directors of Merafe ("Board") declared an interim cash dividend of R200.0m.

Review of Operations and Safety

Review of operations

Merafe's attributable ferrochrome production from the Venture for the first six months of 2018 decreased by 2.3% to 211kt (June 2017: 216kt). The production for the period is equivalent to an installed capacity utilisation of 88% (June 2017: 90%).

Total production costs per tonne of ferrochrome increased by 4.8% compared to 31 December 2017, mainly as a result of an increase in electricity prices of 5.3% effective 1 April 2018 as well as an increase in reductant costs, arising from a change in mix due to availability.

The Venture's operations were not significantly impacted by electricity supply constraints in the first half of 2018.

Wage settlements have been concluded and implemented at the Venture's eastern operations whilst wage negotiations are currently ongoing at its western operations.

Safety

Safety remains a priority and a critical focus area of the Venture. Our TRIFR reduced by 2.4% to 3.65 compared to 31 December 2017. All efforts continue to be made to ensure that the highest standards of safety remain in place at our operations.

[3]Includes cash and cash equivalents and bank overdraft.

Mineral Reserves, Mineral Resources and Mining Rights

There were no material changes to mineral reserves, mineral resources and mining rights of the participants in the Venture from those reported in the Integrated Annual Report for the year ended 31 December 2017.

Market Review (source: CRU)

Global stainless steel production increased by 10% period on period. For the first time in years, Chinese output was not the leading factor behind this rise. Although China's stainless steel production rose by 7% period on period, the ex-China market, notably Indonesia, increased its stainless steel output by 13%, period on period. European and North American stainless steel production increased by 2.5% and 1% period on period, respectively.

Due to strong growth in Indonesia, where stainless steel production is almost entirely dependent on primary chrome units, global demand for ferrochrome increased by 11%, period on period. Growth in ferrochrome supply has not matched the rise in demand so far this year with global ferrochrome production rising by 8%, period on period. Chinese ferrochrome smelters made the largest contribution to this increase, their output rose by more than 11% period on period to about 2.4m tonnes. More modest supply increases took place in South Africa and India.

The Chinese market has been periodically in slight deficit in recent months, particularly when environmental inspections forced the closure of furnace capacity.

Movements in the European benchmark ferrochrome price have largely mirrored the relative balance of the Chinese market this year. Following a period of tightness in the Chinese market in the first quarter of 2018, the benchmark rose 20% to reach $1.42/lb for deliveries in the second quarter. Supply disruptions in China, coincided with the settlement period for deliveries in the third quarter, with the result that the benchmark dropped by 4USc/lb to $1.38/lb.

A 13% period on period increase in China's chrome ore imports between January and May helped to maintain UG2 concentrate transaction levels within a range between $170-$250/t CIF China, with continuing volatility, albeit a narrower range than that recorded for the same period last year.

At 30 June 2018, chrome ore stocks in Chinese ports rose to 3.2m tonnes (source: ICDA) or about 15 weeks of consumption over the period.

Outlook

Total 2018 stainless steel production is currently forecast to be 50.8m tonnes (CRU), an increase of 4.9% over 2017. Price and exchange rate volatility are expected to continue, especially given uncertainties driven by trade wars and the global economic environment.

In accordance with our strategy, we remain committed to maximising return to our shareholders in the near term in the form of dividends and will continue to assess opportunities to deliver shareholder value.

Chris Molefe	**Zanele Matlala**
Independent Non-executive Chairman	Chief Executive Officer

Sandton
6 August 2018

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	As at	
	30 June 2018	31 December 2017
	Unaudited	Audited
	R'000	R'000
ASSETS		
Non-current assets		
Property, plant and equipment	**3 215 061**	3 271 155
Long term receivables	**10 494**	13 864
Deferred tax asset	**19 362**	17 726
Total non-current assets	**3 244 917**	3 302 745
Current assets		
Inventories	**1 881 387**	1 497 798
Trade and other receivables	**1 167 839**	883 249
Cash and cash equivalents	**341 232**	671 655
Total current assets	**3 390 458**	3 052 702
Total assets	**6 635 375**	6 355 447
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	**25 107**	25 107
Share premium	**1 269 575**	1 269 575
Retained earnings	**3 539 986**	3 340 843
Total equity attributable to equity holders	**4 834 668**	4 635 525
Liabilities		
Non-current liabilities		
Loans and borrowings	**10 506**	11 094
Share based payment liability	**2 646**	5 379
Provisions	**334 023**	287 518
Deferred tax	**762 546**	780 485
Total non-current liabilities	**1 109 721**	1 084 476
Current liabilities		
Loans and borrowings	**1 130**	1 044
Current tax liability	**77 011**	8 198
Trade and other payables	**600 181**	550 556
Working capital loan	**-**	72 272
Share based payment liability	**2 460**	3 376
Bank overdraft	**10 204**	-
Total current liabilities	**690 986**	635 446
Total liabilities	**1 800 707**	1 719 922
Total equity and liabilities	**6 635 375**	6 355 447

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June 2018	30 June 2017
	Unaudited	Reviewed
	R'000	R'000
Revenue	**2 720 702**	2 579 981
Earnings before interest, taxation, depreciation and amortisation	**796 251**	865 393
Depreciation and amortisation	**(203 629)**	(164 938)
Net financing costs	**(2 820)**	(23 781)
Profit before income tax	**589 802**	676 674
Income tax expense	**(164 696)**	(190 183)
Current tax	**(183 914)**	(281 682)
Deferred tax	**19 218**	91 499
Profit and total comprehensive income for the period	**425 106**	486 491
Basic earnings per share (cents)	**16.9**	19.4
Diluted earnings per share (cents)	**16.9**	19.4
Ordinary shares in issue	**2 510 704 248**	2 510 704 248
Weighted average number of shares for the period	**2 510 704 248**	2 510 704 248
Diluted weighted average number of shares for the period	**2 510 704 248**	2 510 704 248

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Six months ended	
	30 June 2018	30 June 2017
	Unaudited	Reviewed
	R'000	R'000
Share capital	**25 107**	25 107
Balance at beginning and end of the period	**25 107**	25 107
Share premium	**1 269 575**	1 269 575
Balance at beginning and end of the period	**1 269 575**	1 269 575
Retained earnings	**3 539 986**	2 988 537
Balance at beginning of the period	**3 340 843**	2 602 474
Profit and total comprehensive income for the period	**425 106**	486 491
Dividend paid	**(225 963)**	(100 428)
Total equity at end of period	**4 834 668**	4 283 219

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended	
	30 June 2018	30 June 2017
	Unaudited	Reviewed
	R'000	R'000
Profit before taxation	**589 802**	676 674
Finance expense	**13 850**	25 942
Finance income	**(11 030)**	(2 161)
Depreciation and amortisation	**203 629**	164 938
Movement in provisions	**21 119**	-
Embedded derivative (income)/expense	**(34 792)**	190 304
Vesting and payment of share grants	**(5 077)**	(11 057)
Adjusted for non-cash items	**1 428**	2 813
Adjusted for working capital changes	**(584 711)**	(469 375)
Cash flows from operations	**194 218**	578 078
Interest paid	**(311)**	(20 044)
Interest received	**9 575**	1 754
Tax paid	**(115 458)**	(75 177)
Cash flows from operating activities	**88 024**	484 611
Cash flows from investing activities	**(174 228)**	(142 052)
Acquisition of property, plant and equipment - expansionary	**(188)**	(785)
Acquisition of property, plant and equipment - sustaining	**(174 040)**	(141 267)
Cash flows from financing activities	**(226 465)**	(464 049)
Dividend paid	**(225 963)**	(100 428)
Repayment of borrowings	**(502)**	(363 621)
Net decrease in cash and cash equivalents	**(312 669)**	(121 490)
Cash and cash equivalents at the beginning of the period	**671 655**	263 305
Effect of exchange rate fluctuations on cash held	**(27 958)**	(19 431)
Cash and cash equivalents at the end of the period	**331 028**[4]	122 384

[4]Closing balance of cash and cash equivalents is net of bank overdraft of R10.2m.

Notes

1. Basis of preparation

Merafe prepared its interim results for the six months ended 30 June 2018 under the supervision of Kajal Bissessor CA(SA), Financial Director, in accordance with and containing the information required by IAS 34: *Interim Financial Reporting*, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Limited Listings Requirements.

1.1. Going concern

In determining the appropriate bases of preparation of the interim results, the directors are required to consider whether the group can continue to be in operational existence for the foreseeable future. The financial performance of the group is dependent upon the wider economic environment in which the group operates.

These interim results are prepared on a going concern basis. The Board is satisfied that the group is sufficiently liquid and solvent to be able to support the operations for the next twelve months.

1.2. Accounting policies

The accounting policies applied in the preparation of these interim results 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 2017.

No new standards or amendments to the published standards or interpretations which became effective for the year commencing on 1 January 2018 had an effect on the reported results or the group accounting policies. The group did not early adopt any new, revised or amended accounting standards or interpretations. The most prominent was IFRS: *15 Revenue from Contracts with Customers* and the following assessment was performed to conclude that the standard does not have an impact on the company:

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five step analysis of transactions to determine whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations and is effective for annual periods beginning on or after 1 January 2018.

The Venture has done an assessment to determine whether the the five-step model will have an impact on the existing revenue recognition principles. The assessment involved a review of the various types of sales contracts and to identify and consider each component of the five-step model. The conclusion of the assessment is that IFRS 15 does not have a significant impact on the company.

1.3. Use of estimates and judgements

The preparation of the interim results requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the interim results are as follows:

- Measurement of depreciation, useful lives and residual values of property, plant and equipment;
- Inputs used in the determination of the fair value of the share-based payment transactions;
- Lease classification between operating and finance lease and depreciation of finance lease assets;
- Assumptions used in calculation of the life of the mines/smelters, estimation of the closure and restoration costs and inputs used in the calculation of the present value of the provision for closure and restoration costs;
- Recognition of deferred tax asset and projection of future taxable income to recover the deferred tax asset;
- Consolidation: control assessment; and
- Fair value measurement of embedded derivative.

2. Determination of fair values

A number of the accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods as indicated below.

2.1. Embedded derivative

The embedded derivative is included in trade and other receivables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate. The embedded derivative at 30 June 2018 was R14.4m debit (Dec 2017: R35.5m credit) and is based on level 2 hierarchy per IFRS 13: *Fair value measurement*. The valuation is based on observable market inputs including prices and exchange rates.

2.2. Share based payment transactions

The fair value of employee share options and share grants is measured using the Black-Scholes Merton model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government bonds). The total balance of the share-based payment liability at 30 June 2018 was R5.1m (Dec 2017: R8.8m).

	Six months ended	
	30 June 2018 Unaudited R'000	30 June 2017 Reviewed R'000
3. Earnings per share		
Headline earnings per share (cents)	**16.9**	19.4
Diluted headline earnings per share (cents)	**16.9**	19.4
Profit, total comprehensive income for the period and headline earnings	**425 106**	486 491
4. Capital commitments	**348 822**	314 558
Contracted for but not provided for	**138 725**	112 938
Authorised but not contracted for	**210 097**	201 620

5. Related parties

5.1. Related party transactions

The Company, in the ordinary course of its business, enters into various transactions with related parties as defined in IAS 24, Related Party Disclosures.

Related party transactions were concluded on an arms-length basis and relate to Merafe's attributable 20.5% interest in the Venture.

Name of related party	Description of relationship	Transactions and balance
Glencore Limited (Stamford) (GLS)	Glencore Limited acts as the Venture's exclusive marketing agent to sell ferrochrome on its behalf and act as distributor in the USA and Canada.	Sale of ferrochrome including derivative (R237m) (2017: (R379m)) Commission expense R5m (2017: R13m) Interest expense R3m (2017: R2m). Receivable at the end of the period (R208m) (Dec 2017: (R205m)) which is reduced as and when GLS receives funds from customers.
Glencore International AG	Glencore International AG acts as the Venture's exclusive marketing agent to sell ferrochrome and chrome ore on its behalf. The Venture purchases various raw materials from Glencore International AG on an ongoing basis.	Commission expense on the sale of ferrochrome and chrome ore R104m (2017: R102m) Marketing expense R1m (2017: R1m) Interest income (R1m) (2017: (R2m)) Purchase of raw material R180m (2017: R80m). Balance owing at the end of the period R60m (Dec 2017: R36m) payable on confirmation of final sales.

Name of related party	Description of relationship	Transactions and balance
African Carbon Manufacturers (Pty) Ltd	African Carbon Manufacturers (Pty) Ltd sells raw materials to the Venture.	Purchase of raw materials R10m (2017: R11m) Balance owing at the end of the period R1m (Dec 2017: R2m) payable 30 days from statement date.
African Fine Carbon (Pty) Ltd	African Fine Carbon (Pty) Ltd sells raw materials to the Venture.	Purchase of raw materials R16m (2017: R12m) Balance owing at the end of the period R4m (Dec 2017: R3m) payable 30 days from statement date.
Chartech Technology (Pty) Ltd	Chartech Technology (Pty) Ltd sells raw materials to the Venture.	Purchase of raw materials R16m (2017: R16m). Balance owing at the end of the period R3m (Dec 2017: R2m) payable 30 days from statement date.
Glencore Property Management Company (Pty) Ltd	Glencore Property Management Company (Pty) Ltd owns and manages employee housing at the Lion operation.	Lion housing expense Rnil (2017: R2m) Balance owing at the end of the period Rnil (Dec 2017: Rnil).
Glencore Operations South Africa (Pty) Ltd	Glencore Operations South Africa (Pty) Ltd is Merafe Ferrochrome and Mining (Pty) Ltd's partner in the Venture.	Raw material expense R4m (2017: Rnil) Employee costs R56m (2017: R49m) Head-office costs R9m (2017: R9m) Lion housing expense R7m (2017: R4m) Training and Human Resource Development expenses R3m (2017: R3m) Shared service center expenses R4m (2017: R4m). Balance owing at the end of the period R24m (Dec 2017: R2m) payable 10 days after month end.
Access World (South Africa) (Pty) Ltd	Access World (South Africa) (Pty) Ltd is a warehousing company that provides storage facilities of ferrochrome and chrome ore to the Venture.	Storage expenses R6m (2017: R5m). Balance owing at the end of the period R1m (Dec 2017: R3m) payable 30 days after statement date.

6. Taxation

The group's effective tax rate for the six months ended 30 June 2018 is 28% (June 2017: 28%).

7. Events after reporting period

An interim cash dividend of R200.0m (2017: R75.3m) was declared on 6 August 2018. No other material events occurred between the reporting date of 30 June 2018 and the date of issue of these condensed consolidated interim financial statements.

8. Contingent liabilities

There were no contingent liabilities at 30 June 2018.

9. Directors

Ms Karabo Nondumo resigned as an independent non-executive director of Merafe on 8 May 2018. Ms Kajal Bissessor has resigned in her capacity as Financial Director effective 31 August 2018. Mr Ditabe Chocho has been appointed as the Financial Director for the group effective 1 August 2018. Ms Matsotso Vuso has been appointed as an independent non-executive director of Merafe effective 30 July 2018. There were no other changes to the Board.

10. Review by independent auditors

These condensed consolidated interim financial statements of Merafe Resources Limited for the six months ended 30 June 2018 have not been reviewed by the independent auditor, Deloitte & Touche.

11. Declaration of an ordinary cash dividend for the interim period ended 30 June 2018

Notice is hereby given that a gross interim local ordinary cash dividend of R200.0m (7.96589 cents per share) has been declared payable, by the Board, to holders of ordinary shares. The dividend will be paid out of income reserves.

The ordinary dividend will be subject to a local dividend tax rate of 20%. The net local ordinary cash dividend, to those shareholders who are not exempt from paying dividend tax, is therefore 6.37271 cents per share. Merafe'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:

Declaration date:	Monday, 6 August 2018
Last day for ordinary shares to trade *cum* ordinary dividend:	Tuesday, 28 August 2018
Ordinary shares commence trading *ex*-ordinary dividend:	Wednesday, 29 August 2018
Record date:	Friday, 31 August 2018
Payment date:	Monday, 3 September 2018

Shares may not be dematerialised/rematerialised between Wednesday 29 August 2018 and Friday, 31 August 2018, 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, 3 September 2018.

Sponsor:	One Capital Sponsor Services (Pty) Ltd
Executive Directors:	Z Matlala (Chief Executive Officer), K Bissessor, D Chocho
Non-executive Directors:	CK Molefe (Chairman)*, NB Majova*, A Mngomezulu*, M Vuso*, 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 (Pty) Ltd
Investor relations:	Kajal Bissessor/Ditabe Chocho Tel: +27 11 783 4780
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* independent.

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