MERAFE
RESOURCES

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2013

Merafe Resources Limited

Summarised consolidated financial statements

for the year ended 31 December 2013

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 the Group)

HIGHLIGHTS

32% increase in production tonnes to 319k

112% increase in HEPS to 10.8 cents

38% increase in revenue to R3.5bn

5% improvement in TRIFR to 3.84

Cash from operating activities of **R487m**

Hot commissioning of **Project Lion II** commenced

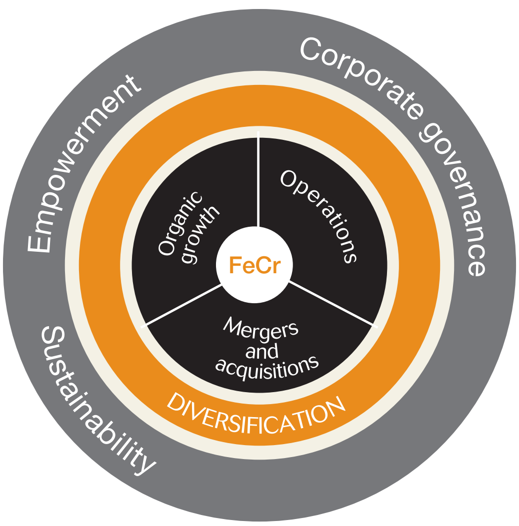
Preparation of this report

The following individuals were responsible for the preparation of this report:

Kajal Bissessor CA(SA)
Finance and Investor Relations Manager

Ditabe Chocho CA(SA)
Chief Financial Officer

OUR BUSINESS MODEL AND STRATEGY



Ferrochrome

The aim of our business model and strategy is to ensure our ferrochrome interests are profitable and sustainable and that they add value to all our shareholders. We achieve this by:

- extracting chrome ore from the Venture's mines and beneficiating it in its smelters in a safe and cost-efficient manner
- investing in projects that include the Bokamoso and Tswelopele pelletising and sintering plants and the Lion ferrochrome plant Phases I and II that improve the energy efficiency and cost effectiveness of its ferrochrome operations
- employing the Venture's proprietary Premus technology to ensure it is the lowest-cost producer of ferrochrome in South Africa and, despite rising energy costs in South Africa, remains in the lowest quartile of the global ferrochrome production cost curve
- using the flexibility provided by the Venture's variety of technologies to meet changing operating circumstances and customer requirements.

Diversification

Our medium-term objective is not only to grow and improve our ferrochrome operations but to grow through diversification.

COMMENTARY

Basis of preparation

On 6 March 2014, the board of directors (the board) of Merafe Resources Limited (the Company) approved the audited consolidated annual financial statements of the Merafe Group (Group) and the Company for the year ended 31 December 2013.

These summarised consolidated financial statements have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the requirements of the Companies Act 71 of 2008, as amended, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by Financial Reporting Standards Council and the presentation and disclosure requirements of IAS 34 *Interim Financial Reporting*.

The accounting policies applied in the preparation of the audited consolidated annual financial statements from which the summarised consolidated financial statements were derived are in terms of IFRS and are consistent with those accounting policies applied in the preparation of the previous audited consolidated annual financial statements, except as disclosed below:

New standards and amendments to published standards

The following standards and amendments to published standards which became effective for the year commencing on 1 January 2013 were adopted by the group:

IFRS 10 *Consolidated Financial Statements*

IAS 27 *Separate Financial Statements*

IFRS 11 *Joint Arrangements*

IAS 28 *Investments in Associates and Joint Ventures*

IFRS 12 *Disclosures of Interests in Other Entities*

In management's view, the Glencore-Merafe Chrome Venture (the Venture) is a joint arrangement which constitutes joint control, as defined in IFRS 11. The adoption of these standards have not resulted in any changes in the measurement and recognition of assets, liabilities or equity in the audited consolidated annual financial statements. Additional disclosures were included in the audited consolidated annual financial statements, as a result of adoption of these standards.

In 2013 the Group did not early adopt any new, revised or amended accounting standards or interpretations. The accounting standards, amendments to issued accounting standards and interpretations which are relevant to the Group but not yet effective at 31 December 2013 are being evaluated for the impact of these pronouncements.

Auditors report

The Group annual financial statements from which the summarised consolidated financial statements were derived have been audited by the Group's auditors, KPMG Inc. The auditors have expressed an unqualified audit opinion. The audit report is available for inspection at the Company's registered office.

The summarised consolidated financial statements is extracted from the audited consolidated annual financial statements, but is not itself audited. The board takes full responsibility for the preparation of the summarised consolidated financial statements and the financial information has been correctly extracted from the underlying audited consolidated annual financial statements, which is available at the Company's registered office on request.

Review of results

Merafe's revenue and operating income is primarily generated from the Venture, previously known as the Xstrata-Merafe Chrome Venture, which is one of the global market leaders in ferrochrome production, with a total installed capacity of 1.98m tonnes of ferrochrome per annum. Merafe shares in 20.5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Merafe's revenue from the Venture increased by 38% from the prior year primarily as a result of a 23% increase in ferrochrome sales to 314kt (2012: 255kt) and a 17% weaker Rand/Dollar exchange rate which were partially offset by a 4% decrease in the average European benchmark ferrochrome price to 116USc/lb (2012: 121USc/lb). Chrome ore revenue as a percentage of total revenue increased from 13% in 2012 to 14% in 2013.

Merafe's share of EBITDA from the Venture for the 2013 year was R583.5m which was 67% higher than the R349,4m EBITDA from the 2012 comparative year. The EBITDA for 2013 includes a foreign exchange loss of R21.3m (2012: R3.9m), which increased from the comparative year primarily as a result of the utilisation of the Venture's US Dollar overdraft and short-term inventory facility as well as the realised losses on the Venture's foreign exchange contract hedge that was entered into in the first half of 2013.

The EBITDA also includes Merafe's attributable share of standing charges of R63.9m (2012: R151.8m). After accounting for corporate costs of R19.7m (2012: R33.6m) and a share-based payment expense of R6.2m (2012: R2.1m), Merafe's EBITDA was R557.6m (2012: R313.7m). Corporate costs decreased year-on-year primarily as a result of a write-back of a R22.0m provision for VAT.

The profit and total comprehensive income for the year was R210.6m (2012: R48.9m) after taking into account depreciation of R179.0m (2012: R140.1m), an impairment loss of R74.0m (2012: R77.5m), net financing costs of R17.3m (2012: R19.7m), current tax expense of R18.7m (2012: R0.3m), deferred tax expense of R59.7m (2012: R60.2m) and a R1.7m (2012: R33.0m) write-back arising from prior years' overprovision of current tax. The balance of unredeemed capital expenditure is estimated to be R553m at 31 December 2013 (2012: R446m). The decrease in the effective rate of tax arose from the SARS assessment of our returns during 2013 which resulted in a prior years' overprovision. Depreciation increased year-on-year as a result of the re-assessment of useful lives and residual values in accordance with IAS16 *Property, Plant and Equipment* and the accelerated depreciation recognised on assets scrapped during the year. An impairment loss was recognised on the Horizon mine which was placed on care and maintenance during 2013 as the production from this mine is not viable in the current economic climate. Whilst efforts to sell the Horizon mine are continuing, the requirements were not met to present the mine as held for sale at 31 December 2013 in accordance with IFRS 5 *Non-current Assets Held-for-sale*.

Property, plant and equipment increased from 31 December 2012 as a result of capital expenditure of which R208m was sustaining and R397m was expansionary. Expansionary capital comprised expenditure primarily on the Venture's flagship expansion, Project Lion II. Borrowing costs of R23.3m (2012: R8.2m) were capitalised during 2013 and included in expansionary capital expenditure.

Merafe closed the year with a net overdraft balance of R10.7m at 31 December 2013. This comprised of cash in Merafe's books of R24.9m and Merafe's share of the net overdraft in the Venture of R35.6m. At 31 December 2013, Merafe had total debt owing to ABSA Capital of R581m and approximately R219m unutilised ABSA long-term debt facilities.

Trade and other payables increased from the prior year primarily as a result of the R194m (2012: nil) utilisation of the short-term inventory facility at 31 December 2013. The provision for closure and restoration costs increased from the prior year primarily as a result of the following: (i) an increase in rehabilitation costs, based on more recent expert rehabilitation assessments, (ii) additional provisions arising from new mines and plants and (iii) the re-assessment of the Horizon mine's provision taking into consideration the decision to place the mine on care and maintenance. The income statement impact of the increase in the provision for closure and restoration costs was R38m (2012: R9m). Trade and other receivables increased from the prior year primarily as a result of the increase in the ferrochrome and chrome ore sales tonnes, the weaker Rand and the higher European benchmark ferrochrome price in the fourth quarter of 2013 compared to the previous period.

The Merafe board has not declared a dividend for the 2013 financial year.

Review of operations

During 2013, Merafe's share of ferrochrome production from the Venture was 319kt (2012: 242kt). This represents a 32% increase from the previous year's production and is primarily as a result of higher demand and improved efficiencies, resulting in increased operating capacity utilisation of 87% (2012: 66%). During 2013 the Venture participated in Eskom's power buy-back programme at levels similar to those in the comparative year.

In spite of higher electricity tariff increases this year, production cost increases were contained below inflation in the ferrochrome sector of South Africa.

The energy use per tonne of ferrochrome produced by the Venture reduced by 7% to 13.49Gj (2012: 14.50Gj) and the carbon dioxide emissions per tonne of ferrochrome produced by the Venture reduced by 3% from 5.10 in 2012 to 4.95 in 2013.

The Venture's wage negotiations at its smelters and mines were successfully concluded and no industrial action arose as a result of these negotiations. Unfortunately, the Venture's eastern and western mining operations were affected by industrial action, which was not wage related. The unprotected strike in the eastern mining operations resulted in the dismissal of more than 1 200 employees. The eastern mining operations were resumed in the second half of the year and the smelters that were supplied by these mines were not significantly impacted due to sufficient stock piles of chrome ore.

Safety and environment

As reported in our interim report, we were saddened by two fatalities during 2013. There were no fatalities in 2012. The safety of our employees remains a priority as evidenced by the Venture's total recordable injury frequency rate (TRIFR) of 3.84 (2012: 4.05) for 2013 which decreased by 5%. There were no significant adverse environmental incidents in the Venture during the reporting period.

Mineral reserves, mineral resources and mining rights

During 2013, there were no material changes to the mineral reserves, mineral resources and mining rights of the Venture.

Market review

Global stainless steel production reached a record 38.5m* tonnes in 2013, which was 8%* higher than in 2012. Global demand for ferrochrome reached 10.3m* tonnes, driven by stronger stainless steel production as a result of a general improvement in the global economic environment. Globally, stainless steel production growth was driven largely by China and India, which had 17%* and 6%* year-on-year growth rates respectively. European mills' stainless output declined by 5%* year-on-year, with North America showing a strong performance at 4%* year-on-year growth.

Global ferrochrome production was 10.2m* tonnes in 2013, 8%* higher than 2012's levels. China continued to dominate global production levels, with its ferrochrome production growing by 13%* year-on-year to 3.8m* tonnes. In 2013, it is estimated that China produced 50%* of the world's stainless steel and 37%* of the world's ferrochrome, cementing its position as the world's leading producer of both stainless steel and ferrochrome. Despite South African ferrochrome producers participating in Eskom's buyback scheme in the first half of 2013, their ferrochrome output grew by 2%* to 3.2m* tonnes in 2013. South Africa's market share of ferrochrome production, however, decreased to 32%* from 34%* in 2012. Chrome ore imports into China increased by 30%* year-on-year to 12.1mt*, of which 6.7mt* (2012: 4.5mt*) was from a South African source.

The European benchmark ferrochrome price for the first quarter of 2014 was settled at 118USc/lb, which was 5% higher than the price in the fourth quarter of 2013. This was as a result of improved demand outlook from the European, Japanese and US stainless steel markets.

Project Lion II update

We are pleased to report that commissioning of the Venture's Lion II smelter commenced in the last quarter of 2013 and will continue into the first half of 2014. This R5bn project involves the construction of a 350 000 tonne per annum capacity smelter. First production of ferrochrome has been slightly delayed mainly due to limited availability of contractors over the December holiday period as well as heavy rainfall and windy conditions in the last quarter of 2013. The overall project remains within budget and was estimated to be 87% complete at 31 December 2013. It is envisaged that the smelter will be fully operational by middle of 2014. The project has a very good safety record with more than 7 million man hours worked without any lost time injury.

The Lion I ferrochrome plant produced excellent volumes during 2013 with its average production volume during the second half of the year exceeding its design capacity by 8%. The cost performance of this plant was 16% below the average of the Venture's other plants during the same period. Its performance highlights the advantages of the energy efficient Premus technology installed at this plant. We look forward to Lion II's performance further reducing the Venture's total ferrochrome cost per tonne.

Outlook

The Venture has performed well through the combination of being the lowest cost producer in South Africa and its ability to negotiate favourable pricing through its partnership with Glencore. While the South African ferrochrome industry faces a number of challenges, including its market share dropping from 51%* in 2003 to 32%* in 2013, demand fundamentals for ferrochrome remain strong. The stainless steel industry is set to maintain a growth rate of more than 4%* per annum and to meet this demand, approximately 2.5Mt** of additional ferrochrome will be required by 2017. The Venture's investments in energy efficient technology will continue to provide it with a significant advantage in the ferrochrome market. The additional high quality and low cost production the Venture will gain from Lion II will allow it to maintain its position as the lowest cost ferrochrome producer in South Africa and to aggressively target new customers.

Diversification remains a key part of our strategy and with no immediate major expansionary capital investment planned, we look forward to repaying our debt, paying dividends and pursuing value enhancing opportunities for our shareholders.

* *Source: Heinz Pariser/January 2014.*
** *Calculated taking into consideration the average trend in the last five years.*

Changes to directorate

Mr Ditabe Chocho was appointed CFO with effect from 2 January 2013.

Our goals remain focused...

To ensure our interests in the ferrochrome industry are profitable and sustainable.

To continue with organic growth of our ferrochrome business and to grow through diversification.

Chris Molefe
Non-executive Chairman

Zanele Matlala
Chief Executive Officer

Sandton

11 March 2014

SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2013

	Year ended 31 December 2013 Audited R'000	Year ended 31 December 2012 Audited R'000
Revenue	3 496 983	2 541 984
EBITDA	557 650	313 650
Depreciation and impairment	(252 990)	(217 641)
Net financing costs	(17 281)	(19 660)
Profit before taxation	287 379	76 349
Taxation	(76 763)	(27 476)
Current tax	(18 688)	(306)
Deferred tax	(59 740)	(60 155)
Prior years' over provision	1 665	32 985
Profit and total comprehensive income for the year	210 616	48 873
Basic earnings per share (cents)	8.4	2.0
Diluted earnings per share (cents)	8.4	2.0
Headline earnings per share (cents)#	10.8	5.1
Diluted headline earnings per share (cents)#	10.8	5.1
Ordinary shares in issue	2 494 171 394	2 493 221 394
Weighted average number of shares for the year	2 493 679 476	2 493 221 394
Diluted weighted average number of shares for the year	2 504 389 482	2 500 172 742
# *Headline earnings reconciliation*		
Profit and total comprehensive income for the year	*210 616*	*48 873*
*Impairments**	*58 842*	*77 497*
*Profit on sale of assets***	*(28)*	*–*
Headline earnings	*269 430*	*126 370*

* *Net of taxation of R15m (2012: nil).*

** *Net of taxation of R11k (2012: nil).*

SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2013

	Year ended 31 December 2013 Audited R'000	Year ended 31 December 2012 Audited R'000
ASSETS		
Property, plant and equipment	3 099 988	2 677 308
Total non-current assets	3 099 988	2 677 308
Inventories	1 132 986	1 088 885
Trade and other receivables	677 649	344 725
Current tax assets	7 440	26 424
Cash and cash equivalents	85 547	82 643
Assets held for sale	–	72 127
Total current assets	1 903 622	1 614 804
Total assets	5 003 610	4 292 112
EQUITY		
Share capital	24 942	24 932
Share premium	1 262 899	1 262 481
Equity-settled share-based payment reserve	39 011	33 847
Retained earnings	1 598 985	1 388 369
Total equity attributable to equity holders	2 925 837	2 709 629
LIABILITIES		
Loans and borrowings	576 311	523 872
Provision for close down and restoration costs	111 456	57 892
Deferred tax liabilities	626 099	551 165
Total non-current liabilities	1 313 866	1 132 929
Loans and borrowings	19 471	636
Trade and other payables*	648 143	430 368
Liabilities held for sale	–	18 550
Bank overdraft	96 293	–
Total current liabilities	763 907	449 554
Total liabilities	2 077 773	1 582 483
Total equity and liabilities	5 003 610	4 292 112

* *Includes R194 million (2012: nil) short-term inventory facility.*

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2013

	Year ended 31 December 2013 Audited R'000	Year ended 31 December 2012 Audited R'000
Issued share capital – ordinary shares	24 942	24 932
Balance at beginning of year	24 932	24 932
Share options exercised	10	–
Share premium – ordinary shares	1 262 899	1 262 481
Balance at beginning of year	1 262 481	1 262 481
Share premium arising from share options exercised	418	–
Equity-settled share-based payment reserve	39 011	33 847
Balance at beginning of year	33 847	31 759
Share-based payment	5 164	2 088
Retained earnings	1 598 985	1 388 369
Balance at beginning of year	1 388 369	1 339 496
Profit and total comprehensive income for the year	210 616	48 873
Total equity at end of year	2 925 837	2 709 629

SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 December 2013

	Year ended 31 December 2013 Audited R'000	Year ended 31 December 2012 Audited R'000
Profit before taxation	287 379	76 349
Interest paid	19 942	29 302
Interest received	(2 661)	(9 642)
Depreciation and impairment	252 990	217 641
Adjusted for non-cash items	6 124	2 088
Adjusted for working capital changes	(61 699)	(31 747)
Cash flows from operations	502 075	283 991
Interest paid	(19 942)	(29 302)
Interest received	2 512	9 642
Tax received (paid)	1 961	(7 285)
Cash flows from operating activities	486 606	257 046
Cash flows from investing activities	(605 178)	(603 210)
Proceeds on disposal of property, plant and equipment	113	16
Acquisition of property, plant and equipment – sustaining	(208 147)	(179 658)
Acquisition of property, plant and equipment – expansionary	(397 144)	(423 568)
Cash flows from financing activities	70 568	211 094
Vesting and payment of share grants	(999)	–
Proceeds from the issue of shares	428	–
Loans raised during the year	71 139	211 094
Net decrease in cash and cash equivalents	(48 004)	(135 070)
Cash and cash equivalents at the beginning of the year	82 643	220 459
Effect of exchange rate fluctuations on cash held	(45 385)	(2 746)
Cash and cash equivalents at the end of the year	(10 746)	82 643

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

Executive Directors: Z Matlala (Chief Executive Officer), D Chocho (Chief Financial Officer), B McBride
Non-executive Directors: CK Molefe (Chairman)*, NB Majova*, M Mamathuba, A Mngomezulu*,
K Nondumo*, M Salanje*, S Phiri, M Mosweu, Z van der Walt*
Company Secretary: A Mahendranath
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Transfer secretaries: Link Market Services South Africa Proprietary Limited
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