

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

KEY FEATURES

↑ **13% increase**
in production to 377kt

↑ **23% increase**
in revenue to R4.4 billion

↑ **65% increase**
in HEPS to 13.9 cents

↑ **212% increase**
in cash from operating activities to R956 million

↑ **Improved** TRIFR of **4.17**

↑ Project Lion II in
full production

↑ Final **dividend**
of **R30 million**

Preparation of this report

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

Kajal Bissessor CA (SA)
Financial Director

Zanele Matlala CA (SA)
Chief Executive Officer

COMMENTARY

Basis of preparation

On 8 March 2016, 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 2015.

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 Board takes full responsibility for the preparation of the summarised consolidated annual financial statements, which is unaudited, and the financial information has been correctly extracted from the underlying audited consolidated annual financial statements.

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.

New Standards and amendments to published standards

In 2015 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 2015 are being evaluated by management for the impact to the Group.

Review of results

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

Merafe's revenue and operating income is primarily generated from the Glencore-Merafe Chrome Venture (the Venture) which is one of the 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's share of revenue from the Venture increased by 23% from the prior year primarily as a result of an 18% increase in ferrochrome sales volumes to 372kt (2014: 316kt) and the 17% weaker average Rand/ US Dollar exchange rate (2015: R12.8, 2014: R10.9) which was partially offset by a 12% decline in net ferrochrome prices. The average European benchmark ferrochrome price decreased from 118.5US\$/lb in 2014 to 107US\$/lb in 2015. Chrome ore revenue as a percentage of total revenue increased from 9% in 2014 to 11% in 2015.

Merafe's share of EBITDA from the Venture for the 2015 year was R851.9m (2014: R650.9m) which was 31% higher than the comparative year. The EBITDA for 2015 includes a foreign exchange gain of R83.4m (2014: R1.3m foreign exchange loss). The EBITDA includes Merafe's attributable share of standing charges of R92.4m (2014: R115.2m).

After accounting for corporate costs of R35.9m (2014: R61.6m), Merafe's EBITDA was R816.0m (2014: R589.3m). Corporate costs include share based payment expenses of R1.9m (2014: R11.2m) and corporate social investment costs of R4.0m (2014: R522k).

Corporate costs reduced significantly from the prior year as a result of the once off restructuring costs of R17m included in the prior year as well as the reduced headcount at Merafe head-office in 2015. The share-based payment expense reduced from the prior year primarily as a result of the Board's decision to cash settle share based payment transactions. A once off charge of R4.5m relating to retrenchment settlements at the Merafe head-office was included in the share based payment charge in the prior year.

Profit and total comprehensive income for the year was R343.4m (2014: R214.1m) after taking into account depreciation of R267.4m (2014: R237.3m), an impairment loss of R6.4m (2014: nil), net financing costs of R63.1m (2014: R51.3m), current tax expense of R63.7m (2014: R39.0m) and deferred tax expense of R72.0m (2014: R47.6m). The balance of unredeemed capital expenditure is estimated to be R173.8m at 31 December 2015 (2014: R488.8m).

Depreciation increased year-on-year 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 increased from the prior year as a result of increased interest rates and a reduction of borrowing costs capitalised as a result of the completion of Project Lion II. The increased interest rates arose as a result of an increase in the Johannesburg Interbank Agreed Rate (JIBAR) in South Africa as well as the refinancing of our debt at the Merafe head-office in the first quarter of 2015.

Property, plant and equipment increased from the prior year as a result of capital expenditure of which R259.2m (2014: R247.3m) was sustaining and R44.3m (2014: R195.9m) was expansionary. Nil borrowing costs were capitalised in 2015 (2014: R9m).

Trade and other receivables reduced mainly as a result of a change in sales mix, earlier than expected receipts from debtors and higher utilisation of the debtors financing facility. The utilisation of the debtors' financing facility increased to R411.4m at 31 December 2015 (2014: R282.6m).

Trade and other payables reduced from the prior year primarily as a result of the full repayment of the R189m short term stock facility.

The Horizon mine which was fully written off in prior years was sold during 2015 for R1. The purchaser assumed the related rehabilitation liability.

Merafe closed the year with a net cash balance of R309.6m at 31 December 2015 (2014: R162.5m net overdraft). Cash in Merafe's accounts was R108.7m (2014: R14.6m) and Merafe's share of the cash balance in the Venture was R200.9m (2014: R177.1m overdraft). At 31 December 2015, Merafe had total debt owing to Absa and Standard Bank of R559.5m and R190.5m unutilised debt facilities. On 4 January 2016, R50m of the R559.5m debt was repaid.

Merafe's portion of ferrochrome stock as at 31 December 2015 was 120.7kt (2014: 115.8kt) which is approximately four months of sales.

The interim dividend that was paid in August 2015 amounted to R25m (2014: R27.9m) and a final dividend of R30m was declared by the Board on 7 March 2016 (2015: R20m).

Review of operations, projects and safety

Merafe's attributable ferrochrome production from the Venture for 2015 was 13% higher than the prior year mainly due to the additional production from the Lion II smelter which ramped up to full production in mid-2015.

The National Energy Regulator announced an increase of 9.4% on 1 March 2016 which is effective from 1 April 2016. Electricity supply constraints during 2015 had an adverse impact on production volumes.

Saleable chrome ore production was 10% lower than the previous year due to less run of mine (ROM) material available due to community unrest, power interruptions and Section 54 stoppages. As per previous SENS announcements, UG2 production in 2014 was significantly impacted by strike action in the Platinum industry. These strikes were non-recurring in 2015.

The safety of the Venture's employees continues to be our priority. Our total recordable injury frequency rate (TRIFR) improved from 4.63 for the year ended 31 December 2014 to 4.17 for the year ended 31 December 2015. There were no fatalities during the year under review.

Wage negotiations at the Venture's Eastern smelters and Western smelters were settled for a three year period. As previously stated, three year agreements were reached with the union for the Western mines in 2014.

Mineral reserves, mineral resources and mining rights

During 2015, there were no material changes to the mineral reserves, mineral resources and mining rights of the Venture.

Market review

Global stainless steel production totalled 41.6m* tonnes in 2015, a 0.5%* year-on-year decrease. Of the major producing regions, China registered the largest absolute reduction in output of 306 000* tonnes, equivalent to a 1.4%* decline. A significant decline was also recorded in Japan, while the introduction of import tariffs on Asian stainless steel offered support to European producers. India increased output by 7%* year-on-year.

Global demand for ferrochrome decreased 2.2%* year-on-year, whilst Chinese ferrochrome consumption increased 2.1%*. Declines were recorded in the USA, Japan and EU. China's imports of South African ferrochrome continued to increase reaching a yearly total of 2.6m* tonnes, a 24%* increase year-on-year. Global ferrochrome production decreased by 4.6%* to 10.7m* tonnes in 2015. The majority of this decrease came from China, which reduced output by 9%* to 3.7m* tonnes. Comparatively, South Africa saw a marginal year-on-year decrease in ferrochrome production from 3.75m* tonnes in 2014 to 3.71m* tonnes in 2015.

Chinese chrome ore imports were 10.4m* tonnes in 2015, a 10.9%* increase compared to the previous year. Exports of chrome ore from South Africa rose by 31.8%* year-on-year, with the proportion of South African chrome ore imported into China increasing from 61%* in 2014 to 73%* in 2015. This increase in South African chrome ore exports was due in part to the end of the Platinum strikes, whilst the depreciation of the Rand offered support to South African chrome ore producers throughout 2015, offsetting the recent fall in US Dollar prices.

Change to board of directors

Independent non-executive director, Zed van der Walt (Zed) resigned with effect from 7 March 2016. Zed has also stepped down as chairperson of the Remuneration and Nominations Committee and as a member of the Audit and Risk Committee effective 7 March 2016. Zed was previously an executive director of Merafe for 7 years before he retired in February 2008. He re-joined Merafe as independent non-executive director in July 2011. The Board thanks Zed for his valuable contributions to Merafe and wishes him well in his retirement.

The Board has appointed independent non-executive director, Abiel Mngomezulu, as chairperson and member of the Remuneration and Nominations Committee.

As per previous SENS announcements, the following changes to directorate occurred during 2015:

- B McBride, S Phiri and M Mamathuba resigned effective 2 March 2015
- B Harvey was appointed effective 2 March 2015 and resigned effective 28 April 2015
- S Blankfield was appointed effective 13 May 2015 and K Bissessor was appointed effective 1 January 2015

Outlook

We expect the short term to be challenging with weaker commodity prices and concerns about Chinese economic growth levels. Despite these global challenges, the Venture is well positioned to withstand current and even lower prices. The Venture's position as the lowest cost ferrochrome producer in South Africa and one of the lowest cost producers in the world enables it to navigate the headwinds at a time when other global ferrochrome producers have been forced to cut production or close down.

In the medium to long-term, global stainless steel production is expected to recover to growth rates of between 3.0% to 3.5%* per year which is anticipated to increase the demand for ferrochrome. Merafe's partnership with Glencore will continue to cement its place in the global market as a strong and reliable supplier of chrome products.

Consistent with our renewed strategy announced in 2014, we remain committed to reducing Merafe debt and continuing with stable to increasing dividends in the short to medium term.

From 2018 onwards, no major expansionary projects are planned and as a result free cash flow will be applied to returning cash to shareholders.

Declaration of ordinary dividend for the year ended 31 December 2015

The Board declared a final dividend of R30m on 7 March 2016. Notice is hereby given that a gross final ordinary dividend in the amount of 1.19 cent per ordinary share has been declared by the Board, payable to holders of ordinary shares. The dividend will be paid out of distributable reserves.

The ordinary dividend will be subject to a dividend withholding tax rate of 15%. The net ordinary dividend to those shareholders who are not exempt from paying dividend withholding tax is therefore 1.0115 cent per ordinary share. The number of ordinary shares in issue at the date of the declaration is 2 510 704 248. Merafe Resources Limited's income tax reference number is 9550 008 602.

The important dates pertaining to the dividend are as follows:

2016	
Declaration date:	Monday, 7 March
Last day for ordinary shares respectively to trade cum ordinary dividend:	Wednesday, 23 March
Ordinary shares commence trading ex-ordinary dividend:	Thursday, 24 March
Record date:	Friday, 1 April
Payment date:	Monday, 4 April

Share certificates may not be dematerialised/rematerialised between Thursday, 24 March 2016 and Friday, 1 April 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 Central Securities Depository Participant (CSDP) or broker credited on Monday, 4 April 2016.

Chris Molefe

Independent Non-executive Chairman

Sandton
8 March 2016

Reference: * Heinz H. Pariser / February 2016

Zanele Matlala

Chief Executive Officer

SUMMARISED CONSOLIDATED STATEMENTS

Summarised consolidated statement of comprehensive income

	For the year ended	
	31 December 2015 Audited R'000	31 December 2014 Audited R'000
Revenue	4 428 075	3 609 066
EBITDA	815 992	589 265
Depreciation and impairment	(273 753)	(237 335)
Net financing costs	(63 065)	(51 295)
Profit before taxation	479 174	300 635
Taxation	(135 717)	(86 538)
Profit and total comprehensive income for the period	343 457	214 097
Basic earnings per share (cents)	13.7	8.6
Diluted earnings per share (cents)	13.7	8.5
Headline earnings per share (cents)#	13.9	8.4
Diluted headline earnings per share (cents)#	13.9	8.3
Ordinary shares in issue	2 510 704 248	2 505 353 877
Weighted average number of shares for the year	2 509 634 174	2 496 949 439
Diluted weighted average number of shares for the year	2 509 634 174	2 515 772 683
# Headline earnings reconciliation		
	348 031	209 553
Profit and total comprehensive income for the year	343 457	214 097
Impairments*	4 609	–
Profit on sale of asset**	(35)	(4 544)

* Net of taxation of R2m (2014: NIL)

** Net of taxation of R13k (2014: R1.8m)

Summarised consolidated statement of financial position

	As at	
	31 December 2015 Audited R'000	31 December 2014 Audited R'000
ASSETS		
Property, plant and equipment	3 240 370	3 239 162
Deferred tax asset	17 995	13 518
Total non-current assets	3 258 365	3 252 680
Inventories	1 445 887	1 435 799
Current tax assets	10 773	15 485
Trade and other receivables	317 454	652 642
Cash and cash equivalents	325 126	44 541
Total current assets	2 099 240	2 148 467
Total assets	5 357 605	5 401 147
EQUITY		
Share capital	25 107	25 053
Share premium	1 269 575	1 269 578
Equity-settled share-based payment reserve	–	24 651
Retained earnings	2 120 007	1 804 220
Total equity attributable to equity holders	3 414 689	3 123 502
LIABILITIES		
Loans and borrowings	472 755	549 909
Share-based payment liability	3 147	–
Provision for close down and restoration costs	139 351	129 029
Deferred tax liabilities	763 724	687 215
Total non-current liabilities	1 378 977	1 366 153
Loans and borrowings	101 176	80 778
Trade and other payables*	444 314	615 773
Provision for closure and restoration costs	–	7 932
Share-based payment liability	2 893	–
Bank overdraft	15 556	207 009
Total current liabilities	563 939	911 492
Total liabilities	1 942 916	2 277 645
Total equity and liabilities	5 357 605	5 401 147

* Includes NIL (2014:R189m) short term stock facility

Summarised statement of changes in equity

	For the year ended	
	31 December 2015 Audited R'000	31 December 2014 Audited R'000
Issued share capital – ordinary shares	25 107	25 053
Balance at beginning of year	25 053	24 942
Share options exercised	54	111
Share premium – ordinary shares	1 269 575	1 269 578
Balance at beginning of year	1 269 578	1 262 899
Share premium arising from share options exercised	(3)	6 679
Equity-settled share-based payment reserve	–	24 651
Balance at beginning of year	24 651	39 011
Shares vested during the year	(2 205)	(6 471)
Share-based payments expensed during the year	2 465	11 201
Transfer to retained earnings	(8 090)	(19 090)
Transfer to share-based payment liability	(16 821)	–
Retained earnings	2 120 007	1 804 220
Balance at beginning of year	1 804 220	1 598 985
Profit and total comprehensive income for the year	343 457	214 097
Dividends paid	(45 192)	(27 952)
Transfer from share-based payment reserve and share-based payment liability	17 522	19 090
Total equity at end of year	3 414 689	3 123 502

Summarised consolidated statement of cash flow

	For the year ended	
	31 December 2015 Audited R'000	31 December 2014 Audited R'000
Profit before taxation	479 174	300 635
Interest paid	65 008	52 372
Interest received	(1 943)	(1 077)
Depreciation and impairment	273 753	237 335
Adjusted for non-cash items	36 533	8 579
Adjusted for working capital changes	201 870	(201 926)
Cash flows from operations	1 054 395	395 918
Interest paid	(41 201)	(43 915)
Interest received	1 460	1 047
Tax paid	(58 972)	(46 985)
Cash flows from operating activities	955 682	306 065
Cash flows from investing activities	(303 457)	(437 001)
Proceeds on disposal of property, plant and equipment	48	6 311
Acquisition of property, plant and equipment – sustaining	(259 185)	(247 359)
Acquisition of property, plant and equipment – expansionary	(44 320)	(195 953)
Cash flows from financing activities	(105 234)	7 272
Share grants vested	(2 888)	(6 471)
Proceeds from issue of shares	–	6 790
Dividends paid	(45 192)	(27 952)
Loans (repaid)/raised during the year	(57 154)	34 905
Net increase/(decrease) in cash and cash equivalents	546 991	(123 664)
Cash and cash equivalents at the beginning of the year	(162 468)	(10 746)
Effect of exchange rate fluctuations on cash held	(74 953)	(28 058)
Cash and cash equivalents at the end of the year	309 570	(162 468)

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

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