MERAFE
RESOURCES

Merafe Resources Limited
(Incorporated in the Republic of South Africa)
Registration number: 1987/003452/06
("Merafe" or "the Company")
Share code: MRF ISIN: ZAE 000060000

Unaudited results for the six months ended 30 June 2006

GROUP ABRIDGED INCOME STATEMENT

	6 months ended 30 June 2006 Unaudited R'000	6 months ended 30 June 2005 Unaudited R'000
Revenue	**330,293**	296,068
EBITDA	**4,008**	67,304
Depreciation	**(10,851)**	(4,177)
Net finance costs	**(18,991)**	(29,536)
(Loss) / profit before taxation	**(25,834)**	33,591
Secondary tax on companies	**(1,970)**	(1,215)
(Loss) / profit for the period	**(27,804)**	32,376
(Loss) / earnings per share (cents)	**(1.23)**	2.62
Diluted (loss) / earnings per share (cents)	**(1.23)**	2.56
Ordinary shares in issue	**2,339,241,009**	1,237,917,518
Weighted average number of shares for the period	**2,251,861,364**	1,237,917,518

GROUP ABRIDGED BALANCE SHEET

	As at 30 June 2006 Unaudited R'000	As at 31 December 2005 Audited R'000
Assets		
Non-current assets	**1,410,684**	1,330,840
Options for mineral rights	**258**	258
Property, plant and equipment	**1,410,080**	1,330,236
Investments	**346**	346
Current assets	**621,898**	692,500
Inventories	**331,842**	324,309
Trade and other receivables	**270,283**	281,449
Bank and cash	**19,773**	86,742
Total assets	**2,032,582**	**2,023,340**
Equity and liabilities		
Capital and reserves	**928,722**	904,868
Issued share capital	**23,393**	22,475
Share premium	**1,142,001**	1,091,743
Equity-settled share-based payment	**2,992**	2,510
Accumulated loss	**(239,664)**	(211,860)
Non-current liabilities	**606,149**	232,425
Non-current borrowings	**598,522**	224,833
Provision for close-down and restoration	**7,627**	7,592
Current liabilities	**497,711**	886,047
Trade and other payables	**253,740**	585,828
Other provisions	**24,009**	26,003
Current portion of non-current borrowings	**55,516**	100,047
Bank overdraft	**164,446**	174,169
Total equity and liabilities	**2,032,582**	**2,023,340**

STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 June 2006 Unaudited R'000	6 months ended 30 June 2005 Unaudited R'000
Issued share capital	**23,393**	12,379
Balance at beginning of the period	**22,475**	12,379
New shares issued during the period	**918**	-
Share premium	**1,142,001**	557,035
Balance at the beginning of the period	**1,091,743**	557,035
Premium on new shares issued during the period	**50,258**	-
Equity-settled share-based payment	**2,992**	2,003
Balance at the beginning of the period	**2,510**	1,545
Share-based payment	**482**	458
Accumulated loss	**(239,664)**	(227,217)
Balance at beginning of the period	**(211,860)**	(259,593)
Net (loss) / profit for the period	**(27,804)**	32,376
Fair value reserve	**-**	1,637
Total equity and reserves	**928,722**	**345,837**

GROUP ABRIDGED CASH FLOW STATEMENT

	6 months ended 30 June 2006 Unaudited R'000	6 months ended 30 June 2005 Unaudited R'000
Cash generated by operations	**(327,929)**	42,389
Interest cost	**(19,543)**	(20,853)
Interest received	**552**	991
	(346,920)	22,527
Cash flows from investing activities	**(90,695)**	(9,449)
Cash flows from financing activities	**380,369**	(72,622)
Net decrease in cash and cash equivalents	**(57,246)**	(59,544)
Cash and cash equivalents at beginning of period	**(87,427)**	28,187
Cash and cash equivalents at end of period	**(144,673)**	(31,357)

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) for the six months ended 30 June 2006. The accounting policies adopted are consistant with those applied in the annual financial statements for the year ended 31 December 2005. These financial statements have not been audited.

Review of results

Merafe's current source of income is generated from its chrome venture with Xstrata SA (Pty) Ltd ("the Chrome Venture"). Merafe shared in 17% of the earnings before interest, tax, depreciation and amortisation ("EBITDA") from the Chrome Venture for the six months ended 30 June 2006. The share of EBITDA from the Chrome Venture increased to 20.5% on 1 July 2006. Headline loss for the six months to 30 June 2006 amounted to 1.23 cents per share (30 June 2005: headline earnings per share 2.62).

Merafe's attributable saleable production of ferrochrome from the Chrome Venture during the six month period was 84,474 tonnes. The EBITDA includes Merafe's attributable share of standing charges from the temporary closure of furnaces of R17.9 million, Merafe's attributable share of the foreign exchange loss of R14.6 million, corporate expenses of R12.7 million and share-based payments under IFRS 2 of R482,000.

The foreign exchange loss in the Chrome Venture arose as a result of the weakening of the Rand against the US$ in the second quarter of 2006. This was due to the Chrome Venture's nett US$ payables exceeding its nett US$ receivables. Included in the nett US$ payables was a US$ facility. A portion of this facility has been converted into Rands which should ensure that the nett US$ receivables exceed the nett US$ payables going forward.

Non-current borrowings have increased due to the drawdown of the loan facility to fund Project Lion and the reclassification of funds owed to Xstrata previously reflected in trade payables.

Due to the tough trading conditions experienced in the last six months, Merafe raised an amount of R50 million in equity in June 2006 in order to meet its scheduled debt repayments.

The increase in the base price of ferrochrome from 63 US¢ per pound in the first quarter of 2006 to 75 US¢ per pound in the third quarter of 2006, the weakening of the Rand against the US$, Merafe's share of EBITDA increasing to 20.5% from 1 July 2006 and Project Lion coming on-stream, should result in Merafe posting meaningful profits for the remainder of the financial year.

Review of operations

During the first half of 2006, all major South African producers reduced production in an attempt to restore balance to the market. The available operating capacity of the Chrome Venture was reduced by some 15% compared to the same period last year through furnace closures, providing the opportunity for the refurbishment of plant and equipment. Improved market demand from the second quarter should facilitate a strong operating performance in the second half of the year. Three furnaces are expected to be returned to production at the end of winter.

Despite the absorption of higher fixed cost structures due to reduced operating capacity, cost performance was in line with the comparable period after adjusting for the impact of inflation. Reductant prices fell from the very high levels seen last year and improved quality of furnace feed stock assisted positively in metallurgical efficiencies.

Market review

Primary stainless steel melt production, which declined by around 1% in 2005, continued to be weak in the early part of the year. These weak conditions resulted in a further 5 US¢ drop in the base price for ferrochrome from 68 US¢ per pound at year-end, to 63 US¢ per pound in the first quarter of 2006. Weak stainless production combined with higher ferrochrome production in 2005 from mainly China, led to an increase in ferrochrome stocks towards the year-end. Due to the continued appreciation of the Rand, together with soft market conditions for ferrochrome, a number of South African producers announced production cutbacks in the second half of 2005. The temporary closure of capacity extended into 2006 with the prevailing weakness in the stainless melt sector in the first quarter.

The second quarter of the year has seen a turnaround for the ferrochrome business. Stainless production has increased sharply, as service centres and fabricators returned to the market to replenish inventories and meet growing demand, particularly in Europe. Supported by this significant increase in demand, the ferrochrome base price increased by 19% to 75 US¢ per pound in the third quarter of 2006.

Global stainless production is estimated to increase to 26.4 million tonnes in 2006, 8.6% higher than 2005 production levels. Production from western Europe is anticipated to grow by around 7%, with smaller increases in central and eastern Europe, and the Americas. China is forecast to become the leading stainless producer in 2006 with growth of 35%, taking annual production to approximately 4.5 million tonnes. Consequently, demand for ferrochrome is expected to show good growth of around 8% to over 6 million tonnes for the full year of 2006, resulting in improved ferrochrome production capacity utilisation and increased sales volumes in the second half.

Most major stainless producers report strong order books through the third quarter, with lead times increasing.

Project Lion

Project Lion is nearing completion and is on schedule for a phased commissioning in the second half of 2006. The chromite pre-reduction kilns will be commissioned, as planned, during August and September. This will reduce the risk to the ensuing furnace commissioning with the availability of hot feed stock from the kilns. Notwithstanding the significant time impact of several equipment quality and supply delays, the project team has managed to recover lost time and is on track to commission this 360 000 tonnes per annum facility in the second half of 2006 as planned. The development of the associated Helena mine has been completed with mine production ramped up to design capacity.

Project Lion is expected to deliver significant cost savings compared to current industry averages, arising from improved efficiencies in energy, ore and reductant consumption. Ramp-up to full production is expected in the first half of 2007 and overall the project remains on budget, despite significant cost inflation for key inputs.

Dividend

No ordinary dividend has been declared by the directors of Merafe for the six months ended 30 June 2006.

Future prospects

Merafe' share of the EBITDA increased to 20.5 % on 1 July 2006. This together with the increase in the base price of ferrochrome from 63 US¢ per pound in the first quarter of 2006 to 75 US¢ per pound in the third quarter of 2006, the weakening of the Rand against the US dollar and with Project Lion coming on-stream, should result in Merafe returning to profitability and posting meaningful profits for the remaining six months of 2006.

Management continues to focus cautiously on the achievement of its diversification strategy, whilst taking cognisance of the commodity cycle, returns to shareholders and the need to reduce the Company's gearing levels.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

Sandton
2 August 2006

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