REVIEWED INTERIM RESULTS

for the six months ended 30 June 2010

MERAFE
RESOURCES

- ↑ Basic EPS of 8 cents – an outstanding turnaround equating to profit of R189 million
- ↑ Ferrochrome prices
- ↑ Sales and production volumes
- ↓ Reduction in LTIFR

MERAFE RESOURCES LIMITED (Incorporated in the Republic of South Africa) (Registration number 1987/003452/06)
Share code: MRF ISIN: ZAE000060000 (Merafe or the Company or the Group)

COMMENTARY

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe Resources Limited Group (Merafe) prepared its interim financial report for the six months ended 30 June 2010 in accordance with and containing the information required by *IAS 34: Interim Financial Reporting,* the AC 500 standards issued by the Accounting Practices Board or its successor and Schedule 4 Part IV of the Companies Act of South Africa. The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31 December 2009 and are in terms of International Financial Reporting Standards.

Review of results

The historical interim financial information of Merafe was reviewed by the Group's auditors, KPMG Inc. Their unqualified review report is available for inspection at the Company's registered address.

Merafe's income is generated from the Xstrata-Merafe Chrome Venture (the Venture), the market leader in ferrochrome, with a total managed capacity of 1,98 million tonnes of ferrochrome production per annum. Merafe shares in 20,5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Merafe's earnings from the Venture increased significantly from the six month comparative period, primarily as a result of an increase of 60% in the average European benchmark ferrochrome price from 74USc/lb to 118,5USc/lb period on period and an increase of 16% in Merafe's share of saleable ferrochrome production from 128 100 tonnes in the first half of 2009 to 148 400 tonnes in the first half of 2010.

Merafe's share of EBITDA from the Venture for the six months ended 30 June 2010 was R331,2 million. The EBITDA includes Merafe's attributable share of standing charges of R30,3 million and a foreign exchange gain of R20,3 million. After accounting for corporate costs of R10,4 million and share-based income of R1,6 million, Merafe's EBITDA was R322,4 million.

The profit and total comprehensive income for the period is R188,7 million after taking into account depreciation of R46 million, net financing costs of R12,7 million, deferred tax expense of R70,9 million and secondary tax on companies of R4,1 million. The deferred tax expense relates to R28 million recognised on the utilisation of the assessable loss and R43 million recognised on current temporary differences, primarily relating to property, plant and equipment. The balance of unredeemed capital expenditure is estimated to be R181 million at 30 June 2010.

Trade and other receivables have increased significantly primarily as a result of an increase in the European benchmark ferrochrome price. Property, plant and equipment increased from the prior period as a result of sustaining capex of R75 million and R37 million of expansionary capex relating to Project Tswelopele, the new planned 600 000 tonnes per annum pelletising and sintering plant, that will be constructed at the Rustenburg smelter (see recent developments below).

Merafe started the year with a cash balance of R463 million, generated R75 million in cashflows, paid a dividend and secondary tax on companies of R53 million, repaid R50 million of long-term debt and invested R112 million in expansionary and sustaining capex, closing with a healthy cash balance of R323 million. Cash in Merafe is R153 million and Merafe's share of cash in the Venture is R170 million. Merafe has long-term debt of R300 million due to be repaid in one instalment on 31 December 2012.

Review of operations

During the first half of 2010, in response to a strong market, the Venture operated at an average ferrochrome production capacity of 85% from January to May, and thereafter decreased capacity during June for routine maintenance, thereby planning to operate at an average of 65% over the winter months. In the comparative 2009 period, the Venture operated at 30% average ferrochrome production capacity.

Despite a difficult operating cost environment, which included a 25% increase in electricity costs, Merafe achieved cost savings of 12,7% as a result of savings from a number of initiatives, including the increased use of the lower cost UG2 in the ore mix and the optimisation of the reductant mix to limit the impact of high metallurgical coke prices.

There have been no material changes to Mineral Resources and Mineral Reserves for this period.

Safety

The Venture had a very good safety performance with no fatalities for the period. The lost time injury frequency rate (LTIFR) reduced by 43% compared to the year ended 31 December 2009.

Market review

As stainless steel melt production increased, restocking of stainless steel commenced in the first half of the year, leading to a recovery in demand for ferrochrome. 15,6 million tonnes of stainless steel melt was produced in the first half of 2010, 38% higher than in the comparable period and 11% higher than the second half of 2009. China continued to be the dominant stainless steel melt producer, producing 5,3 million tonnes, followed by 3,9 million tonnes of European production.

In response to increasing demand, South African ferrochrome producers returned to about 85% capacity utilisation at the beginning of 2010. Chinese and Indian domestic ferrochrome production also increased in the first quarter of the year as furnaces returned to profitability.

In line with the recovery in the ferrochrome market, the European benchmark ferrochrome price increased by 35% from 101USc/lb in the first quarter of 2010 to 136USc/lb in the second quarter of 2010. The benchmark price for the third quarter of 2010 was settled at 130USc/lb, down 4% on the second quarter price.

Recent developments

Project Tswelopele

The Venture has approved the construction of a 600 000 tonnes per annum pelletising and sintering plant (Project Tswelopele – which means "Progress") at the Venture's Rustenburg smelter.

Merafe's participation in the new plant is 20,5%, which is its proportionate share in the Venture. Merafe's share is expected to cost R190 million and will be funded from the Venture's current and future cash flows.

This project was initiated after the success of a similar plant, Bokamoso, which the Venture commissioned adjacent to its Wonderkop smelter in 2007. Bokamoso is a large chrome ore pelletising and sintering plant that has an annual capacity of 1,2 million tonnes. By using the pellets produced in the Bokamoso plant, there have been significant improvements in furnace efficiencies, resulting in reduced production costs.

In line with the Venture's commitment to local beneficiation, chromite concentrate will be agglomerated within the planned 600 000 tonnes per annum pelletising and sintering plant, and then used for the production of ferrochrome at the Rustenburg smelter. This enhances the Venture's strategy of utilising additional UG2 ore in the ferrochrome production process.

It is anticipated that as a result of Project Tswelopele, the Venture will benefit from the following:

- an improvement in the overall energy efficiency of the operations;
- cost benefits per tonne of ferrochrome resulting from efficiency savings;
- more efficient use of reductants and a reduced ratio of chromite concentrate usage to ferrochrome produced;
- a more stable production environment;
- significant environmental improvements with less slag generation, less road transport and less fugitive emissions; and
- it will extend the life of existing mining operations.

This new plant will result in a complete solution of pelletising and sintering technologies across all five locations operated within the Venture and will contribute to sustainable job creation.

Subject to the normal environmental approvals, the new plant is planned to be fully operational by 2013 and the team that successfully implemented, commissioned and managed the Bokamoso project will be responsible for the delivery of this new facility.

Outlook

Demand for ferrochrome in the third quarter of 2010 has been impacted by lower nickel prices, the traditionally slow third quarter for stainless steel melt production, driven by seasonally weak demand in Europe and the US and exacerbated by the measures taken by the Chinese government to reduce growth to more sustainable levels. Despite the slowdown in demand currently being experienced, we believe this is of a short term nature. Ferrochrome inventory levels remain low at approximately 10 – 12 weeks as South African capacity has been reduced due to maintenance programmes being undertaken, in response to higher winter electricity tariffs.

Continued global economic growth coupled with the lack of any new ferrochrome capacity coming on stream in the immediate future should support a recovery in demand in the final quarter of 2010 and into 2011.

Changes to the Board of Directors during the period

Mr Steve Phiri resigned as Chief Executive Officer (CEO) with effect from 31 March 2010 and will be continuing as a non-executive director of the Company.

We are pleased to announce that Mr Stuart Elliot, the Company's Chief Financial Officer (CFO), was appointed the new CEO with effect from 1 April 2010 and will continue to act as CFO until the effective date of appointment of the new CFO on 1 October 2010.

We are pleased to announce that Ms Joyce Matlala, who was previously an independent non-executive director of the Board, has been appointed as CFO with effect from 1 October 2010.

Dr Con Fauconnier resigned as a non-executive director of the Company with effect from 5 May 2010.

On behalf of the Board

Chris Molefe
Non-Executive Chairman

Stuart Elliot
Chief Executive Officer

Sandton
3 August 2010

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2010 Reviewed R'000	Six months ended 30 June 2009 Reviewed R'000
Revenue	**1 191 272**	824 081
EBITDA	**322 379**	(74 737)
Depreciation	**(46 023)**	(50 507)
Net financing costs	**(12 727)**	(1 145)
Profit/(loss) before taxation	**263 629**	(126 389)
Taxation	**(74 890)**	42 203
Current tax	**–**	(1 898)
Deferred tax	**(70 845)**	44 101
Secondary tax on companies	**(4 045)†**	–
Profit/(loss) and total comprehensive income/(loss) for the period	**188 739**	(84 186)
Basic earnings/(loss) per share (cents)	**8**	(3)
Diluted earnings/(loss) per share (cents)	**8**	(3)
Headline earnings/(loss) per share (cents)	**7#**	(3)
Diluted headline earnings/(loss) per share (cents)	**7#**	(3)
Ordinary shares in issue	**2 460 508 860**	2 459 258 860
Weighted average number of shares for the period	**2 459 799 376**	2 459 258 860
Diluted weighted average number of shares for the period	**2 488 677 466**	2 479 639 408

 # Headline earnings

Total comprehensive income for the year *R189 million*

Profit on disposal of property, plant and equipment *(R10 million)*

R179 million

GROUP CONDENSED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2010 Reviewed R'000	As at 31 December 2009 Audited R'000
Assets		
Property, plant and equipment	**2 060 467**	1 949 464
Total non-current assets	**2 060 467**	1 949 464
Inventories	**837 316**	757 457
Trade and other receivables	**419 537**	234 346
Cash and cash equivalents	**323 095**	462 632
Total current assets	**1 579 948**	1 454 435
Total assets	**3 640 415**	3 403 899
Equity		
Share capital	**24 605**	24 593
Share premium	**1 244 872**	1 244 072
Equity-settled share-based payment reserve	**20 491**	22 109
Retained earnings	**1 182 314**	1 042 762
Total equity attributable to equity holders	**2 472 282**	2 333 536
Liabilities		
Loans and borrowings	**313 116**	363 626
Provision for close down and restoration costs	**36 768**	37 347
Deferred tax	**452 027**	381 180
Total non-current liabilities	**801 911**	782 153
Loans and borrowings	**971**	888
Financial liability	**10 430**	8 568
Trade and other payables	**354 802**	278 735
Current tax liability	**19**	19
Total current liabilities	**366 222**	288 210
Total liabilities	**1 168 133**	1 070 363
Total equity and liabilities	**3 640 415**	3 403 899

MERAFE RESOURCES

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June 2010 Reviewed R'000	Six months ended 30 June 2009 Reviewed R'000
Share capital	**24 605**	24 593
Balance at beginning of the period	**24 593**	24 593
Share options exercised	**12**	–
Share premium	**1 244 872**	1 244 072
Balance at beginning of the period	**1 244 072**	1 244 072
Share premium arising from share options exercised	**800**	–
Equity-settled share-based payment reserve	**20 491**	18 706
Balance at beginning of the period	**22 109**	15 586
Share-based payment	**(1 618)**	3 120
Retained earnings	**1 182 314**	1 110 901
Balance at beginning of the period	**1 042 762**	1 195 087
Profit/(loss) and total comprehensive income/(loss) for the period	**188 739**	(84 186)
Dividend	**(49 187)†**	–
Total equity at end of year	**2 472 282**	2 398 272

GROUP CONDENSED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2010 Reviewed R'000	Six months ended 30 June 2009 Reviewed R'000
Profit/(loss) before taxation	**263 629**	(126 389)
Interest paid	**18 268**	20 874
Interest received	**(5 541)**	(19 729)
Depreciation	**46 023**	50 507
Adjusted for non-cash items	**(1 411)**	376
Adjusted for working capital changes	**(236 655)**	218 695
Cash flows from operations	**84 313**	144 334
Interest paid	**(16 406)***	(20 874)
Interest received	**5 541**	19 342
Tax paid	**–**	(87 728)
Cash flows from operating activities	**73 448**	55 074
Cash flows from investing activities	**(112 057)**	(83 470)
Acquisition of property, plant and equipment – expansionary	**(36 817)**	(925)
Acquisition of property, plant and equipment – sustaining	**(75 240)**	(82 545)
Cash flows from financing activities	**(102 930)**	(735)
Dividends paid	**(49 187)†**	–
Secondary tax on companies paid	**(4 045)†**	–
Proceeds from issue of shares	**812**	–
Decrease in non-current borrowings	**(50 510)**	(735)
Net decrease in cash and cash equivalents	**(141 539)**	(29 131)
Cash and cash equivalents at the beginning of the period	**462 632**	539 741
Effect of exchange rate fluctuations on cash held	**2 002**	(44 270)
Cash and cash equivalents at the end of the period	**323 095**	466 340

* *Excludes R1,9 million relating to the fair value adjustment on the interest rate swap.*

† *Relates to the dividend declared by the Board on 26 February 2010 and paid on 29 March 2010.*

Sponsor

Deutsche Bank
Deutsche Securities (SA) (Proprietary) Limited
(A non-bank member of the Deutsche Bank Group)

Executive directors: S Elliot *(Chief Executive Officer)*, B McBride

Non-executive directors: CK Molefe *(Chairman)*, J Matlala, M Mthenjane, NB Majova, T Ramantsi, M Mamathuba, DS Phiri, A Mahendranath *(Company Secretary)*

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Transfer secretaries: Link Market Services South Africa (Pty) Limited

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