# Merafe Resources Limited

**Registration number** 1987/003452/06

**Audited Annual Financial Statements**

**for the year ended 31 December 2018**

The following individuals were responsible for the preparation of the annual financial statements:

***Masechaba Masemola CA(SA)***
Financial Manager

***Ditabe Chocho CA(SA)***
Financial Director

These annual financial statements were published on 11 March 2019.

# Merafe Resources Limited
(Reg. No. 1987/003452/06)

## Audited Annual Financial Statements
*for the year ended 31 December 2018*

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## Company secretary's certificate
*for the year ended 31 December 2018*

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of section 88(2)(e) of the Companies Act of South Africa, and that all such returns appear to be true, correct and up to date.

**CorpStat Governance Services**
William Somerville
Company Secretary
8 March 2019

# Merafe Resources Limited

## Report of the Audit and Risk Committee

*for the year ended 31 December 2018*

**Introduction**

The Audit and Risk Committee ("the Committee") presents its report for the financial year ended 31 December 2018. The Committee reports that it has adopted formal terms of reference as its Audit and Risk Committee Charter ("the Charter"), and that it has discharged all of its responsibilities for the current financial year, in compliance with the Charter.

**Objectives and scope**

The overall objectives of the Committee are:

- Assesss the adequacy of the internal control system, financial control systems and the accounting systems;
- Review of the Integrated Report, summarised financial statements, interim financial statements and annual financial statements;
- Nominate external auditors for appointment, approve external audit fees and set groups policy on non-audit services provided by external auditors;
- Monitor compliance with legal requirements;
- Assess the performance of financial management;
- Recommend budgets and plans; and
- Conduct periodic review and assessment of the business risks the group faces.

**Composition of the Committee**

The Committee currently consists of three independent non-executive directors, all of who have the necessary qualifications and experience to execute their responsibilities, with three members forming a quorum:

- Ms M Vuso (Chairman) Appointed 30 July 2018
- Ms K Nondumo (Chairman) Resigned 8 May 2018
- Ms B Majova
- Mr A Mngomezulu
- Ms HG Motau Appointed 1 January 2019

In addition, Ms Z Matlala, Mr D Chocho and Deloitte & Touche are also permanent invitees to the meetings. At the date of this report there has been no additional changes to the composition of the members of the committee were noted.

**Meetings**

The Committee held four meetings during the year and the quorum was met at all the meetings.

**2018 Overview**

The Committee is satisfied that adequate system of internal controls is in place to mitigate significant risks faced by Merafe Resources Limited and its subsidiaries to an acceptable level, and that these controls have been effective throughout the period under review. The system is designed to manage, rather than eliminate the risk of failure and to maximise opportunities to achieve business objectives. This can provide only reasonable, but not absolute assurance. In addition, the Committee reviewed the financial control systems, the accounting systems and is satisfied with the design and effectiveness of the systems.

As required by the JSE Limited Listings Requirements 3.84(g), the Audit and Risk Committee has satisfied itself that Mr D Chocho, the Financial Director during the current financial year has the appropriate experience and expertise to fulfil the responsibilities of the finance function.

# Merafe Resources Limited

## Report of the Audit and Risk Committee *(continued)*

*for the year ended 31 December 2018*

The Committee has considered the key audit matters set out in the independent auditor's report and is comfortable that they are correctly presented.

The review of the Integrated Annual Report together with the consolidated and separate financial statements are also the responsibility of the Committee. The Committee has evaluated the Integrated Annual Report and consolidated and separate financial statements of Merafe Resources Limited for the year ended 31 December 2018 and based on the information provided to the Committee, considers that it complies, in all material respects, with the requirements of the various acts and regulations governing disclosure and reporting.

The Committee considered the nature, risks and internal control environment at the Merafe head office and concluded that it was not necessary to have a dedicated internal audit function. Specific internal audit assignments are considered on a periodic basis and outsourced. The recommendations that resulted from the audit in 2017 have largely been addressed and were continuously monitored in the 2018 financial year.

The Committee is satisfied that it has discharged its dutites as set out in its terms of reference for the year under review.

**External audit**

The Committee, having considered all relevant matters, satisfied itself through enquiry that auditor independence, objectivity and effectiveness were maintained in 2018. The Committee is further satisfied that Mr Patrick Ndlovu complies with the relevant provisions of the Companies Act and the JSE Limited Listings Requirements.

Deloitte and Touche have served as the Company's external auditors since 4 May 2017. The performance of the external auditors is reviewed by the Committee annually. The Committee also considered and is satisfied with the quality of the audit for the year under review.

Having taken all of the above assessments into account, the Committee recommended the approval of the consolidated and separate financial statements as well as the Integrated Annual Report for the year ended 31 December 2018 by the board.

**Matsotso Vuso CA(SA)**
Chairman – Audit and Risk Committee
8 March 2019

# Merafe Resources Limited

## Directors' report

*for the year ended 31 December 2018*

### 1. Nature of business

The company, through its wholly-owned subsidiary, Merafe Chrome and Alloys (Pty) Ltd (Merafe Chrome), holds 100% share capital of its ultimate subsidiary, Merafe Ferrochrome and Mining (Pty) Ltd (Merafe Ferrochrome) which through a pooling and sharing venture with Glencore Operations South Africa Proprietary Limited (GOSA), participates in chrome mining and the beneficiation of chrome ore into ferrochrome. The Glencore-Merafe Chrome Venture (Venture) operates five ferrochrome smelters (including pelletising and sintering plants), twenty-two ferrochrome furnaces, five operating chrome ore mines and six UG2 plants, situated in the North-West, Limpopo and Mpumalanga Provinces of South Africa. The Venture is the largest ferrochrome producer in the world with an installed capacity of 2.3million tonnes per annum. Merafe Ferrochrome's share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) is 20.5%. The Venture comprises assets to which both Glencore and Merafe Ferrochrome have granted the right of use.

Listed below are the assets to which Merafe Ferrochrome has granted the right of use to the Venture:

| **Ferrochrome Smelters** | | **Chrome mines** | | **UG2 plants and pelletisers** | |
|---|---|---|---|---|---|
| ***Asset*** | ***Merafe Ferrochrome's interest*** | ***Asset*** | ***Merafe Ferrochrome's interest*** | ***Asset*** | ***Merafe Ferrochrome's interest*** |
| Wonderkop smelter (furnaces 5 and 6) | 50% | Boshoek mine | 100% | Impala Kanana UG2 plant | 100% |
| Boshoek smelter | 100% | Kroondal and Wonderkop mine | 20.5% | Lonmin UG2 plants | 20.5% |
| Lion I smelter | 20.5% | Helena mine | 20.5% | Mototolo UG2 plant [#] | 20.5% |
| Lion II smelter | 20.5% | Magareng mine | 20.5% | Bokamoso pelletising plant | 20.5% |
| | | | | Motswedi pelletising plant | 100% |
| | | | | Tswelopele pelletising plant | 20.5% |

[#] *The Mototolo UG2 plant was sold on 1 November 2018.*

### 2. Group financial results

The financial statements set out the financial results of the group and company and have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards and the requirements of the Companies Act of South Africa, supported by reasonable and prudent judgements where required.

Merafe Ferrochrome's share of EBITDA from the Venture is accounted for at 20.5%. In addition to Merafe Ferrochrome's share of EBITDA from the Venture, corporate expenses, interest on debt, depreciation and interest received are accounted for in order to determine earnings before taxation of the group. Refer to Note 1.3.2, Basis of consolidation – Transactions with the Venture, for further information regarding the accounting policy for Merafe Ferrochrome's interest in the Venture.

# Merafe Resources Limited

## Directors' report

*for the year ended 31 December 2018 (continued)*

### 3. Loans and borrowings

The group had a net cash balance of R281m[1] at 31 December 2018 (31 December 2017: net cash balance of R600m[1]). The unsecured three year Revolving Credit Facility (RCF) to the value of R200m remained unutilised for the year. Refer to note 21.2 for the disclosure on the groups facilities.

### 4. Going concern

Having considered the group's key risks, current financial position, assessment of solvency and liquidity, debt levels, facilities, impairment review as well as the group's financial budgets with their underlying business plans, the directors believe that the company and the group has sufficient resources and expected cash flows to be able to continue as a going concern for the year ahead.

### 5. Dividend policy

The company has a hybrid dividend policy that has features of a stable dividend policy and a residual dividend policy. The company intends to pay a dividend of at least 30% of headline earnings at least once a year taking into account the annual financial performance, expansionary projects and economic circumstances prevailing at the time. In addition, in any given year, the directors may consider an additional distribution in the form of special dividends and share buy-backs dependent on the company's financial position, future cash requirements, future earning prospects, availability of distributable reserves and other factors. Dividends are recognised when they are declared by the board of the company.

### 6. Ordinary dividends

An interim dividend of R200m (2017: R75m) was declared and paid in August 2018. A final dividend of R151m (2017: R226m) was declared by the board on 11 March 2019.

### 7. Share capital

The full details of the authorised and issued share capital of the company are set out in note 7 to the annual financial statements. Merafe did not issue any shares for cash or effect any share repurchases under a general or specific authority in the current year.

### 8. Directorate

The board comprised of the following directors at 11 March 2019:

Mr C Molefe (Chairperson), Ms B Majova, Mr A Mngomezulu, Ms M Mosweu, Mr S Blankfield, Ms M Vuso, Ms HG Motau, Ms Z Matlala and Mr D Chocho.

Ms K Nondumo resigned on the 8 May 2018, Ms M Vuso was appointed on the 30 July 2018 and Ms G Motau was appointed on 1 January 2019. Ms K Bissessor resigned as the Financial Director effective on the 31 August 2018 and was replaced by Mr D Chocho effective 1 August 2018.

*[1] Net cash/(debt) balance includes cash and cash equivalents, working capital loan and Merafe head-office debt.*

### 9. Major shareholders

The following shareholders were the registered holders of 5% or more of the issued ordinary shares in the company at 31 December 2018:

- Glencore Netherlands B.V. – 28.68%;
- Industrial Development Corporation of South Africa Limited– 21.78%; and
- PSG Konsult – 5.85%.

### 10. Directors' interests in Merafe Resources Limited

Refer to note 23.3 for the beneficial interests of directors in shares of the company as well as note 23.1 for transactions with key management personnel and non-executive directors.

### 11. Details of investments in subsidiaries and structured entities

Refer to note 3 for details of investments in subsidiaries and structured entities.

### 12. Property, plant and equipment

There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year. In the prior year, management reassessed the useful lives of the permanent structures and furnaces to zero. Depreciation has increased in the current year as a result of the reassesments of the useful lives of the permanent structures and furnaces. This has resulted in an acceleration of depreciation mainly due to the Lion smelter of R38m (2017: R30m) on those assets.

### 13. Events after the reporting date

A final dividend of R151m (2017: R226m) was declared on 11 March 2019. No other material facts or circumstances occurred after the reporting date that may require adjustment or disclosure in these annual financial statements.

### 14. Special resolutions

The following special resolutions were passed by the shareholders at the 2018 Annual General Meeting:

- Approval of non-executive directors' fees;
- Loans or other financial assistance to related or inter-related companies;
- General authority to repurchase company shares;
- Approval of amendments to MOI; and
- Authority to sign all documents required to give effect to all resolutions.

### 15. Environmental and decommissioning provision

New legislation and financial provisioning regulations relating to asset retirement obligations were enacted i.e. The National Environmental Management Act (NEMA). The legislation effective February 2019 will have an impact on the manner in which the environmental rehabilitation costs should be determined. Therefore, this has had a significant impact on the provision for the year.

Management had completed the assessments of closure costs for all mines in 2017 and has completed the assessment of closure costs for all smelters in 2018. The increase in the environmental and decommissioning provision of R53m was a result in the revision of the closure costs as well as the remaining life of mines and useful lives of the smelters**.**

### 16. Restatement of Financial Statements

Merafe received a letter from the JSE on the pro-active monitoring review of the Merafe Resources Limited 2017 consolidated and separate annual financial statements on the 3rd December 2018. The JSE had enquired about the disclosure of the working capital loan (liability) in the 2017 financial statements which was treated differently in the 2016 financial statements. In the 2017 financial year, Merafe had referred to the change of the working capital loan disclosure out of trade receivables to a liability as a reclassification instead of an error which is not in compliance with IAS 8 Accounting Policies, Changes in Accounting Estimates. The JSE thus raised a finding on the inadequate disclosure of the reclassification of the working capital loan.

In the 2018 financial statements, the 2017 financial year has been restated with the change in the working capital loan disclosure. Appropriate deficiency disclosure has been noted in Note 32.

### Approval of the consolidated and separate financial statements of Merafe Resources Limited

The consolidated and separate financial statements of Merafe Resources Limited were approved by the board on 8 March 2019 and signed by:

**Chris Molefe**
**Chairman**
8 March 2019

**Zanele Matlala**
**Chief Executive Officer**
8 March 2019

Deloitte.

Deloitte & Touche
Registered Auditors
Audit & Assurance - Gauteng

www.deloitte.com

Buildings 1 and 2
Deloitte Place
The Woodlands
Woodlands Drive
Woodmead Sandton
Private Bag X6
Gallo Manor 2052
South Africa
Docex 10 Johannesburg

Tel: +27 (0)11 806 5000
Fax: +27 (0)11 806 5111

Riverwalk Office Park,
Block B
41 Matroosberg Road
Ashlea Gardens X6
Pretoria, 0081
PO Box 11007
Hatfield 0028
South Africa
Docex 6 Pretoria

Tel: +27 (0)12 482 0000
Fax: +27 (0)12 460 3633

**INDEPENDENT AUDITOR'S REPORT**
**To the Shareholders of Merafe Resources Limited**

## Report on the Audit of the Consolidated and Separate Financial Statements

### Opinion

We have audited the consolidated and separate financial statements of Merafe Resources Limited (the Group) set out on pages 13 to 81, which comprise the statements of financial position as at 31 December 2018, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 December 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the Group in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional* Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. There were no key audit matters identified for the separate financial statements.

National Executive: *LL Bam Chief Executive Officer *TMM Jordan Deputy Chief Executive Officer; Clients & Industries *MJ Jarvis Chief Operating Officer *AF Mackie Audit & Assurance *N Sing Risk Advisory DP Ndlovu Tax & Legal TP Pillay Consulting *JK Mazzocco Talent & Transformation MG Dicks Risk Independence & Legal *KL Hodson Financial Advisory *TJ Brown Chairman of the Board

A full list of partners and directors is available on request * Partner and Registered Auditor

**B-BBEE rating: Level 1 contribution in terms of the DTI Generic Scorecard as per the amended Codes of Good Practice**

Associate of Deloitte Africa, a Member of Deloitte Touche Tohmatsu Limited

**Key Audit Matters (continued)**

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Impairment assessment of the Merafe Resources Limited Group net assets value (Consolidated financial statements)** | |
| As disclosed in note 31 of the financial statements, the Merafe Resources Limited market capitalisation value is R3.6 billion which is less than its net asset value of R4.9 billion. This is an indicator that the Group net asset value may be impaired. The directors' performed an impairment assessment using the value in use method, where the Group net asset carrying value was compared to the recoverable amount (value in use). The Glencore-Merafe chrome venture (Venture) is the only cash-generating unit of the Group.<br><br>The directors have determined the value in use amount based on the cash flow forecasts of the Venture and the weighted average cost of capital of Merafe Resources Limited.<br><br>The valuation is dependent on macro-economic factors, which include foreign currency exchange rates and commodity price forecasts as well as internal assumptions and estimates related to production levels and operating costs. The valuation model is highly sensitive to foreign currency exchange rates and commodity price movements.<br><br>The assumptions with the most significant impact to the cash flow forecasts used in determining value in use amount are:<br>• Forecasted ferrochrome production levels and customer demand;<br>• Forecasted ferrochrome commodity prices;<br>• Forecasted ZAR /US Dollar exchange rates;<br>• Forecasted Earnings Before Interest Tax Depreciation and Amortisations (EBITDA) of the Venture; and<br>• The discount rate used to discount the future cash flows.<br>The impairment assessment of the Group was identified as a key audit matter due to the significance of the directors' judgement involved in determining its cash flow forecast and the weighted average cost of capital (WACC). | In evaluating the impairment assessment of Merafe Resources Limited Groups net assets value, we reviewed the value in use calculations prepared by directors', with a particular focus on the cash flow forecasts and the discount rate applied. We performed various procedures, including the following:<br>• Assessing the design and implementation of the entity's key controls relating to the determination of the cash flow forecasts;<br>• Assessing and evaluating inputs used into the cash flow forecast against strategic plans;<br>• Comparing the forecasted commodity prices to reports compiled by the directors' independent expert;<br>• Comparing the forecasted exchange rates to forecasts prepared by a variety of reputable finance institutions;<br>• Involving Deloitte's internal specialists to assist with assessing the reasonability of production input factors and discount rate (WACC) used;<br>• Re-computation of the value in use amount based on inputs and assumptions adopted by management; and<br>• Performing sensitivity analyses on the growth rates and discount rates to evaluate the extent of impact on the value in use and the appropriateness of the directors' disclosures.<br><br>The cash flow forecasts and discount rate used appear to be reasonable. We considered the disclosures relating to impairment assessment to be appropriate. |

**Key Audit Matters (continued)**

| Key Audit Matter | How the matter was addressed in the audit |
|---|---|
| **Provision for closure and restoration costs (Consolidated financial statements)** | |
| As disclosed in note 10 of the financial statements, the Group raises a provision for closure and restoration costs in terms of the environmental laws. This provision is raised with regards to the land involved in mining, prospecting and processing of Chrome Ore into Ferrochrome (smelters).<br>The provision is based on the forecast costs of closure and restoration, the period outstanding (i.e. life of mines), and the discount rate. As the Group's accounting policy dictates, in the current year the Venture performed a detailed study taking into account revised environmental plans and the anticipated changes to the National Environmental Management Act (NEMA).<br><br>The revised assessment of the costs to rehabilitate the land relating to Chrome mines was performed and completed in the prior year. The assessment of the costs to rehabilitate land relating to smelters was undertaken in the current year.<br><br>As a result, the forecasted costs of closure and restoration of mines increased significantly compared to prior year.<br><br>The provision for closure and restoration costs was identified as a key audit matter due to the significance of the directors' judgement involved in the determination of forecasted closure and restoration costs, life of mines and discount rate. | In evaluating the reasonability of provisions for closure and restoration costs, we performed detailed assessment of the directors' assumptions. Our audit procedures included the following:<br>• Assessing the design and implementation of key controls to address the risk of material misstatement relating to closure and restoration provision;<br>• Engaging Deloitte's internal specialists to assess compliance with environmental requirements and the impact of anticipated changes to the NEMA regulations;<br>• Engaged Deloitte's internal specialists to review the assumptions underlying the forecast costs and life of mines; and<br>• Tested the reasonability of the discount rate and reviewed the provision calculation.<br><br>The forecasted closure and restoration costs, life of mines and discount rate used appear to be reasonable. We considered the disclosures relating to the provision for closure and restoration costs to be appropriate. |

**Other Information**

The directors are responsible for the other information. The other information comprises the Company Secretary's Certificate, the Report of the Audit and Risk Committee and the Directors' Report as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Integrated Annual Report, which is expected to be made available to us after that date. The other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

**Other Information (continued)**

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of the Directors for the Consolidated and Separate Financial Statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and / or the Company or to cease operations, or have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and / or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

**Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements (continued)**

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Deloitte & Touche has been the auditor of Merafe Resources Limited for 2 years.

**Deloitte & Touche**
Registered Auditor
Per: Patrick Ndlovu
Partner
8 March 2019

# Merafe Resources Limited

## Statements of financial position

as at 31 December 2018

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | *Note* | **R'000** | R'000 Restated | **R'000** | R'000 |
| **Assets** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | *2* | **3 277 588** | 3 271 155 | **275** | 354 |
| Investments in subsidiaries/loan to subsidiary | *3* | **-** | - | **1 759 108** | 1 533 128 |
| Long term receivable | | **12 995** | 13 864 | **-** | - |
| Deferred tax asset | *11* | **17 945** | 17 726 | **17 945** | 17 726 |
| **Total non-current assets** | | **3 308 528** | 3 302 745 | **1 777 328** | 1 551 208 |
| **Current assets** | | | | | |
| Inventories | *4* | **2 042 621** | 1 497 798 | **-** | - |
| Current tax assets | *12* | **26 368** | - | **-** | - |
| Trade and other receivables[1] | *5* | **920 231** | 883 249 | **5 464** | 890 |
| Cash and cash equivalents | *20.1* | **282 037** | 671 655 | **4 888** | 18 539 |
| **Total current assets** | | **3 271 257** | 3 052 702 | **10 352** | 19 429 |
| **Total assets** | | **6 579 785** | 6 355 447 | **1 787 680** | 1 570 637 |
| **Equity and liabilities** | | | | | |
| **Equity** | | | | | |
| Share capital | *6* | **25 107** | 25 107 | **25 107** | 25 107 |
| Share premium | *7* | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |
| Retained earnings | | **3 598 296** | 3 340 843 | **14 627** | 27 136 |
| **Total equity attributable to owners of the company** | | **4 892 978** | 4 635 525 | **1 309 309** | 1 321 818 |
| **Non-current liabilities** | | | | | |
| Loans and borrowings | *9* | **9 879** | 11 094 | **-** | - |
| Share-based payment liability | *8* | **3 518** | 5 379 | **3 518** | 5 379 |
| Provisions | *10* | **371 904** | 287 518 | **-** | - |
| Deferred tax liability | *11* | **751 103** | 780 485 | **-** | - |
| **Total non-current liabilities** | | **1 136 404** | 1 084 476 | **3 518** | 5 379 |
| **Current liabilities** | | | | | |
| Loans and borrowings | *9* | **1 233** | 1 044 | **-** | - |
| Trade and other payables | *14* | **544 731** | 550 556 | **471 596** | 240 064 |
| Working capital loan[1] | *27* | **-** | 72 272 | | - |
| Share-based payment liability | *8* | **3 257** | 3 376 | **3 257** | 3 376 |
| Bank overdraft | *13* | **1 182** | - | **-** | - |
| Current tax liability | *12* | **-** | 8 198 | | - |
| **Total current liabilities** | | **550 403** | 635 446 | **474 853** | 243 440 |
| **Total liabilities** | | **1 686 807** | 1 719 922 | **478 371** | 248 819 |
| **Total equity and liabilities** | | **6 579 785** | 6 355 447 | **1 787 680** | 1 570 637 |

[1] *Working capital loan has been restated due to a prior period error in the 2017 financial year. Refer to note 32 for diclosure relating to the restatement.*

# Merafe Resources Limited

## Statements of comprehensive income

*for the year ended 31 December 2018*

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| Revenue | *15* | **5 606 324** | 5 888 945 | **433 920** | 186 823 |
| Foreign exchange gains/(losses) | | **141 491** | (73 354) | **-** | - |
| Operating and other expenses | | **(4 401 875)** | (4 150 332) | **(20 984)** | (22 566) |
| Earnings before interest, taxation, depreciation and impairment | | **1 345 940** | 1 665 259 | **412 936** | 164 257 |
| Depreciation | | **(405 548)** | (368 212) | **(165)** | (149) |
| Results from operating activities | *16* | **940 392** | 1 297 047 | **412 771** | 164 108 |
| Finance expense | *17* | **(14 512)** | (27 958) | **(85)** | -* |
| Finance income | *17* | **18 595** | 8 633 | **549** | 2 911 |
| Profit before income tax | | **944 475** | 1 277 722 | **413 235** | 167 019 |
| Income tax (expense)/credit | *18* | **(261 059)** | (363 604) | **219** | (1 614) |
| Profit for the year | | **683 416** | 914 118 | **413 454** | 165 405 |
| Total comprehensive income for the year | | **683 416** | 914 118 | **413 454** | 165 405 |
| Profit and total comprehensive income for the year attributable to: | | | | | |
| Owners of the company | | **683 416** | 914 118 | **413 454** | 165 405 |
| *Earnings per share* | | | | | |
| Basic earnings per share (cents) | *19.1* | **27.2** | 36.4 | | |
| Diluted earnings per share (cents) | *19.4* | **27.2** | 36.4 | | |

* *Less than one thousand.*

# Merafe Resources Limited

## Statements of changes in equity

*for the year ended 31 December 2018*

**Group**

| | Issued share capital R'000 | Share Premium R'000 | Retained Earnings R'000 | Total R'000 |
|---|---|---|---|---|
| **Balance at 1 January 2017** | **25 107** | **1 269 575** | **2 602 474** | **3 897 156** |
| Total comprehensive income for the year | - | - | 914 118 | 914 118 |
| Dividends paid | - | - | (175 749) | (175 749) |
| **Balance at 31 December 2017** | **25 107** | **1 269 575** | **3 340 843** | **4 635 525** |
| **Total comprehensive income for the year** | **-** | **-** | **683 416** | **683 416** |
| **Dividends paid** | **-** | **-** | **(425 963)** | **(425 963)** |
| **Balance at 31 December 2018** | **25 107** | **1 269 575** | **3 598 296** | **4 892 978** |

**Company**

| | Issued share capital R'000 | Share Premium R'000 | Retained Earnings R'000 | Total R'000 |
|---|---|---|---|---|
| **Balance at 1 January 2017** | **25 107** | **1 269 575** | **37 480** | **1 332 162** |
| Total comprehensive income for the year | - | - | 165 405 | 165 405 |
| Dividends paid | - | - | (175 749) | (175 749) |
| **Balance at 31 December 2017** | **25 107** | **1 269 575** | **27 136** | **1 321 818** |
| **Total comprehensive income for the year** | **-** | **-** | **413 454** | **413 454** |
| **Dividends paid** | **-** | **-** | **(425 963)** | **(425 963)** |
| **Balance at 31 December 2018** | **25 107** | **1 269 575** | **14 627** | **1 309 309** |

# Merafe Resources Limited

## Statements of cash flows

*for the year ended 31 December 2018*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | *Note* | **R'000** | R'000 | **R'000** | R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operating activities | *20* | **787 627** | 1 778 926 | **637 914** | 310 995 |
| Interest paid | | **(968)** | (21 125) | **(85)** | -* |
| Interest received | | **17 253** | 8 514 | **549** | 2 911 |
| Taxation paid | *12* | **(325 417)** | (366 441) | **-** | - |
| **Net cash generated from operating activities** | | **478 495** | 1 399 874 | **638 378** | 313 906 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment | | | | | |
| - sustaining[a] | | **(412 074)** | (402 973) | **(86)** | (294) |
| - expansionary[a] | | **(190)** | (823) | **-** | - |
| **Net cash utilised in investing activities** | | **(412 264)** | (403 796) | **(86)** | (294) |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | **(425 963)** | (175 749) | **(425 963)** | (175 749) |
| Loans repaid | | **(1 026)** | (364 803) | **-** | - |
| Increase loans to subsidiaries | | **-** | **-** | **(225 980)** | (175 649) |
| **Net cash utilised in financing activities** | | **(426 989)** | (540 552) | **(651 943)** | (351 398) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(360 758)** | 455 526 | **(13 651)** | (37 786) |
| Cash and cash equivalents at 1 January | | **671 655** | 263 304 | **18 539** | 56 325 |
| Effect of foreign exchange rate changes | | **(30 042)** | (47 175) | **-** | - |
| **Cash and cash equivalents at 31 December[1]** | *20.1* | **280 855** | 671 655 | **4 888** | 18 539 |

[a] *Relates to 20.5% of the Venture's total cash outflow. Note 2 details the property, plant and equipment owned by Merafe Ferrochrome.*

** Less than one thousand rand.*

[1] *Includes Bank overdraft*

# Merafe Resources Limited

## Significant accounting policies

*for the year ended 31 December 2018*

### 1. Accounting policies

### 1.1 Reporting entity

Merafe Resources Limited (company) is domiciled in the Republic of South Africa. The address of the company's registered office is Building B, Second Floor, Ballyoaks Office Park, 35 Ballyclare Drive, Bryanston, 2191. The consolidated financial statements as at and for the year ended 31 December 2018 comprise the company and its subsidiaries (together referred to as the group and individually as group entities). The group is primarily involved in the mining and beneficiation of chrome ore into ferrochrome. Where reference is made to "group", this should be interpreted as "consolidated". Further, where reference is made to the "group" and "consolidated" in the accounting policies, it should be interpreted as also referring to the "company" where the context requires, unless otherwise indicated.

### 1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRSs), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa. The consolidated and separate financial statements were authorised for issue by the board on 8 March 2019.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position which are measured at their fair values:

- Derivative financial instruments (refer to note 1.18.2); and
- Cash-settled share-based payments (refer to 1.10.3).

1.2.3 Functional and presentation currency

The consolidated and separate financial statements are presented in South African Rand, which is the company's functional currency.

All financial information presented in South African Rand has been rounded to the nearest thousand, unless otherwise indicated.

1.2.4 Critical accounting judgements and key sources of estimation uncertainty

The preparation of the consolidated and separate financial statements in conformity with IFRS 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.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.4 Critical accounting judgements and key sources of estimation uncertainty *(continued)*

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 financial statements are described in the following notes:

Note 1.5.3, 1.20.2 and 2.1: Measurement of depreciation and impairment, useful lives and residual values of property, plant and equipment;
Note 1.10.3 and 9: Inputs used in the determination of the fair value of the share-based payment transactions;
Note 1.5.3.5, 2 and 10.1: Lease classification between operating and finance lease and depreciation of finance lease assets;
Note 1.8 and 11: 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;
Note 1.14 and 12: Recognition of deferred tax asset and projection of future taxable income to recover the deferred tax asset;
Note 1.3: Consolidation: control assessment; and
Note 1.18.2: Fair value measurement of embedded derivative.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements and have been applied consistently by group entities.

1.2.5 Standards and interpretations issued and not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 and have not been applied in preparing these consolidated and separate financial statements. The standards which may be relevant to the group are set out below. The group does not plan to adopt these standards early. These standards will be adopted in the period that they become effective.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

**IFRS 16 *Leases***

IFRS 16 was published in January 2017. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the statement of financial position. No significant changes have been included for lessors.

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted. The transitional requirements of IFRS 16's standards and interpretations issued are not yet effective for the lessees and lessors. Based on the initial review by management of the terms and conditions of the various operating leases, IFRS 16 is not expected to have a material impact on the group. These operating leases are not material to the group.

**IFRS 17 *Insurance contracts***

IFRS 17 requires insurance liabilities to be measured at the current fulfilment value and provides more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance contracts as of 1 January 2021. The amendment was issued on 18 May 2018 and is applicable for annual reporting periods beginning on or after January 2021.

The requirement is not expected to have a material impact on the group.

**IAS 28 *Investments in associates and joint ventures***

Amendments regarding long-term interests in associates and joint ventures.

Paragraph 14A has been added to clarify that an entity applies IFRS 9 including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Paragraph 41 has been deleted because the IASB felt that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests. Change is effective for annual periods beginning on or after 1 January 2019.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

**IFRIC 23*: Uncertainty over Income Tax Treatments***

The interpretation is to be applied to the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12 Income taxes.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted.

***Annual Improvements to IFRS Standards 2015-2017 Cycle***

The IASB has issued 'Annual Improvements to IFRS Standards 2015–2017 Cycle'. The pronouncement contains amendments to four International Financial Reporting Standards (IFRSs) as result of the IASB's annual improvements project. These amendments are effective for annual periods beginning on or after 1 January 2019. The amendments made during the 2015–2017 cycle are below.

The amendments clarify that:

*IFRS 3 Business Combinations*
A company remeasures its previously held interest in a joint operation when it obtains control of the business.

*IFRS 11 Joint Arrangements*
A company does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

*IAS 12 Income Taxes*

A company accounts for all income tax consequences of dividend payments in the same way.

*IAS 23 Borrowing Costs*
A company treats as part of general borrowings any borrowing originally made to develop an asset when the asset is ready for its intended use or sale.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

***Amendments to IAS 19: Employee benefits (Plan Amendment, Curtailment or Settlement)***

On 7 February 2018, the IASB published Plan Amendment, Curtailment or Settlement (Amendments to IAS 19) to harmonise accounting practices and to provide more relevant information for decision-making. An entity applies the amendments to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019.

***Amendments to IFRS 9: Financial Instruments (Prepayment features)***

On 12 October 2017, the IASB published Prepayment Features with Negative Compensation (Amendments to IFRS 9) to address the concerns about how IFRS 9 Financial Instruments classifies particular pre-payable financial assets. In addition, the IASB clarified an aspect of the accounting for financial liabilities following a modification.

These amendments are:

*Changes regarding symmetric prepayment options:* Prepayment Features with Negative Compensation amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments. Under the amendments, the sign of the prepayment amount is not relevant, i. e. depending on the interest rate prevailing at the time of termination, a payment may also be made in favour of the contracting party effecting the early repayment. The calculation of this compensation payment must be the same for both the case of an early repayment penalty and the case of an early repayment gain.

*Clarification regarding the modification of financial liabilities*: It clarifies that an entity recognises any adjustment to the amortised cost of the financial liability arising from a modification or exchange in profit or loss at the date of the modification or exchange. A retrospective change of the accounting treatment may therefore become necessary if in the past the effective interest rate was adjusted and not the amortised cost amount.

The amendments are to be applied retrospectively for financial years beginning on or after 1 January 2019.

The requirement is not expected to have a material impact to the group.

**1. Accounting policies** *(continued)*

**1.3. Basis of consolidation**

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The results of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.3.2 Transactions with the Venture

Glencore Operations South Africa (Pty) Ltd (Glencore) and Merafe Ferrochrome pooled and shared their ferrochrome assets on 1 July 2004 to form the Venture. The Venture's primary business is the production and sale of ferrochrome to the stainless steel industry. The Venture is the only operating asset of the group and is strategic to the group's activities. While Merafe Ferrochrome's assets form part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Venture's Executive Committee, Joint board and sub-Committees. Merafe Ferrochrome receives 20.5% of the Venture's earnings before interest, taxation, depreciation and amortisation (EBITDA) and owns 20.5% of the working capital.

In management's view, the Venture is a joint arrangement as defined in IFRS 11 as Merafe Ferrochrome and Glencore are bound by a contractual arrangement which constitutes joint control. The following significant judgements and assumptions were relevant in the joint control assessment:

a) The ultimate operational decision making responsibility in the Venture resides with the Joint board. The Chairman of the board, who is appointed by Glencore, has a casting vote at the Joint board level on all decisions except for decisions relating to reserved matters. The reserved matters include, inter-alia, the managing of input costs relating to chrome production, operation of the various chrome producing assets, disposal of assets forming part of the pooled operations, increasing the operational capacity of chrome producing assets and acquiring or constructing new chrome producing assets. These reserved matters, in management's view, are likely to have the most significant impact on returns of the Venture and therefore would constitute its "relevant activities" as defined in IFRS 10. Contractually, decisions over the reserved matters require the unanimous consent of Merafe Ferrochrome and Glencore as those decisions cannot be made unilaterally.

b) There is a significant disparity in holdings between Merafe Ferrochrome's interest in the Venture at 20.5% and Glencore's interest in the Venture at 79.5%. However, this does not influence the joint control conclusion as the benefits each party stands to gain from the arrangement was the determining factor in the joint control arrangement rather than other forms of arrangements. Furthermore, any dispute relating to the interpretation of the Pooling and Sharing Agreement (the Venture agreement) is to be settled by an arbitrator appointed by the Arbitration Foundation of South Africa (AFSA) and in management's view the AFSA provides for a neutral dispute resolution process and would not favour either Glencore or Merafe Ferrochrome.

**1. Accounting policies** *(continued)*

**1.3. Basis of consolidation** *(continued)*

1.3.2 Transactions with the Venture *(continued)*

c) The lack of legal form of the Venture results in Merafe Ferrochrome and Glencore having rights to the assets and obligations for the liabilities held in the Venture. This lack of legal separation between the Venture, Glencore and Merafe Ferrochrome is further supported by the fact that the South African Revenue Services assesses the Venture and directly taxes Merafe Ferrochrome and Glencore respectively for the income generated from the Venture.

d) In terms of the Venture agreement, Merafe Ferrochrome and Glencore maintain legal ownership of their respective assets contributed to the Venture and upon winding up of the Venture. Glencore and Merafe Ferrochrome will also receive a portion of any new assets acquired by the parties post 1 July 2004 and to the extent that an asset relates to their existing assets, be required to acquire the other party's portion at fair value which indicates that the parties have rights to the assets of the Venture. The lack of legal form of the Venture results in Glencore and Merafe Ferrochrome having rights to the assets and obligations for the liabilities held in the Venture and consequently joint operations classification in terms of IFRS 11.

Accounting for joint operations results in Merafe Ferrochrome recognising its assets that were contributed to the Venture and its portion of the assets held jointly in the Venture. Similarly Merafe Ferrochrome recognises its liabilities, including its share of any liabilities incurred jointly. Merafe Ferrochrome recognises its revenue and share of the revenue from the Venture as well as its expenses and share of expenses relating to the Venture. The accounting that was adopted by Merafe since the formation of the Venture is consistent with the accounting for joint operations as required by IFRS 11.

Refer to Related Parties note 23.4 for the items that represent the group's share of the working capital and EBITDA of the Venture.

1.3.3 Structured entities

The group has established structured entities (SEs). The related parties Note 23 includes the identity and relationship of the SEs to the group. The group does not have any direct or indirect shareholding in these entities. A SE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SE's risks and rewards, the group concludes that it controls the SE. SEs controlled by the group were established under terms that impose strict limitations on the decision making powers of the SE's management and that result in the group receiving the majority of the benefits related to the SE's activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

**1. Accounting policies** *(continued)*

### 1.4 Foreign currency

Transactions in foreign currencies are translated to the functional currency of the group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African Rand (Rand) at the foreign exchange rate ruling at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to Rand at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss in the period in which they arise. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

### 1.5 Property, plant and equipment

1.5.1 Recognition and measurement

*1.5.1.1 Mining assets including mine development costs*

Mining assets, including mine development costs and mine plant facilities, are stated at cost less accumulated depreciation and accumulated impairment. Costs include pre-production expenditure incurred in the development of the mine and the present value of future decommissioning costs. Development costs incurred to develop new ore bodies, to define mineralisation in existing ore bodies and to establish or expand productive capacity are capitalised. Mine development costs in the ordinary course of maintaining production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalised until the ore body achieves commercial levels of production, at which time the asset is deemed to be available for use and is amortised as set out below.

*1.5.1.2 Mineral and surface rights*

Mineral and surface rights are stated at cost less accumulated amortisation and accumulated impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights has diminished below cost, an impairment loss is recognised in profit or loss in the period that such determination is made.

*1.5.1.3 Land, non-mining assets and corporate assets*

Land is stated at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items, restoring the site on which they are located and any other costs directly attributable to bringing the assets to a working condition for their intended use.

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.1 Recognition and measurement *(continued)*

*1.5.1.3 Land, non-mining assets and corporate assets (continued)*

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

*1.5.1.4 Exploration and evaluation expenditure*

Exploration and evaluation expenditure relates to costs incurred during the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than acquired from the purchase of another mining company, is recognised as an asset provided that one of the following conditions are met:

- Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future. Purchased exploration and evaluation assets are recognised as assets at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indications that the carrying amounts of the assets may exceed their recoverable amounts. To the extent that this occurs, an impairment loss is recognised in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met. Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development received appropriate approvals.

1.5.2 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will Recognition and measurement flow to the group and its cost can be measured reliably. The carrying amount of the part replaced is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.3 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation methods, estimated useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Useful lives are assessed using internal experts. Residual values are assessed using market information on similar sales transactions.

*1.5.3.1 Mineral and surface rights*

Mineral rights that are being depleted are amortised over their estimated useful lives using the units of production method, based on proven and probable ore reserves. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

*1.5.3.2 Mining assets including mine development costs*

Mining equipment, structures and plant and equipment are amortised using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years, depending on the nature of the asset.

*1.5.3.3 Capital work in progress*

Capital work in progress is not depreciated. The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, an impairment loss is recognised in the financial year in which this is determined.

*1.5.3.4 Land, non-mining assets and corporate assets*

Non-mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years depending upon the nature of the asset. Land is not depreciated.

*1.5.3.5 Leased assets*

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy Note 1.12. Leased assets are depreciated over the shorter of the lease term and their useful lives. The useful life of leased assets is on average twenty years.

Other leases are operating leases and are not capitalised.

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.4 Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the group from their use. Gains or losses on derecognition of an item of property, plant and equipment are determined by the comparing of the proceeds from disposal, if applicable, with the carrying amount of the item and are recognised directly in profit or loss.

**1.6 Financial instruments**

1.6.1 Non-derivative financial assets

The group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. On derecognition, the variance that arises between the carrying value of the financial asset and its proceeds, is recognised in profit and loss. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, the group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies non-derivative financial assets into the following categories:

*Loans and receivables*
Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise of trade and other receivables and intercompany loans.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

**1. Accounting policies** *(continued)*

**1.6 Financial instruments** *(continued)*

1.6.2 Non-derivative financial liabilities

The group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire. On derecognition, the variance that arises between the carrying value of the financial liability and its proceeds, is recognised in profit and loss.

The group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

1.6.3 Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if:
- the economic characteristics and risk of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted as described below.

*Separable embedded derivatives*
Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

**1.7 Share capital**

*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**1. Accounting policies** *(continued)*

### 1.8 Provisions

A provision is recognised when the group has a present legal or constructive obligation as a result of a past event, an amount that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

*Provision for closure and restoration costs*
Long-term environmental obligations are based on the group's environmental management plan, in compliance with current environmental and regulatory requirements.

A full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The related costs are capitalised to mining assets and are amortised over the useful lives of the related assets. Annual movements in the provision relating to the change in the net present value of the provision due to changes in estimated cash flows or discount rates are adjusted against the costs capitalised to mining assets. Ongoing rehabilitation costs are expensed in profit or loss.

Annual movements in the provision relating to passage of time, i.e. unwinding of discount, are expensed as incurred.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure.

Guarantees have been provided by the Venture to the Department of Mineral Resources in respect of the liability for closure and restoration costs. These guarantees are in the name of Glencore and relate to the Venture, and are disclosed in note 21.2. The guarantees are not recognised as liabilities in the financial statements.

*Provision for uncertain tax positions*
In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### 1.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**1. Accounting policies** *(continued)*

**1.9 Inventories** *(continued)*

Cost is determined on the following basis:

- Finished goods on hand are valued using the weighted average cost. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost includes an appropriate share of production overheads based on normal operating capacity and directly attributable administration costs.
- Consumable stores and raw materials are valued at weighted average cost and include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

**1.10 Employee benefits**

1.10.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans and accumulated leave if the group has a present legal or constructive obligation to pay as a result of past services provided by the employee and the obligation can be estimated reliably.

1.10.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

Defined contribution plans are funded through monthly contributions to the provident fund, which is governed by the Pension Fund Act of 1956. All employees of the group belong to the provident fund. The group's liability is limited to its annually determined contributions.

The group and company provide medical cover to current employees through various funds. The medical plans are funded through monthly contributions to the medical aid fund. The group's and company's liability is limited to its annually determined contributions.

1.10.3 Share-based payment transactions

The share incentive scheme allows qualifying directors and employees to be granted share grants. Share grants may be granted to all employees of the company and any of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share grant scheme. The fair value of share grants are measured at grant date and spread over the period during which the employees become unconditionally entitled to the share grants. The fair value of the share grants are measured using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the share grants were granted.

**1. Accounting policies** *(continued)*

**1.10 Employee benefits** *(continued)*

1.10.3 Share-based payment transactions *(continued)*

Share-based payment arrangements in which the group received goods or services as consideration of its own equity instruments were accounted for as equity-settled share-based payment transactions up until 29 June 2015. On 30 June 2015, the company changed its intention with regard to the settlement of all share-based payment transactions from equity to cash.

The fair value of the amount payable to employees in respect of cash settled share-based payment arrangements is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at fair value at each reporting date and at settlement date. Any changes in the fair value of the liability is recognised in profit or loss.

**1.11 Revenue**

1.11.1 Sale of goods

Revenue comprises sales of ferrochrome and chrome ore at invoiced value, net of value added tax, trade discounts and intra-group sales. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognised when the following five-step model framework conditions are met:
(a) The group has identified the contract with the customer;
(b) The group has identified all performance obligations associated with the contract;
(c) The transaction price can be reliably determined;
(d) The transaction price of the contract can be allocated to the performance obligations; and
(e) The group will recognise revenue when it is able to satisfy the performance obligations.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Determining whether the group is acting as an agent or principal is based on an evaluation of the risks and responsibilities taken by the group, including inventory risk and responsibility for the delivery of goods or services.

*Ferrochrome and chrome ore marketing arrangement with Glencore International AG*
Glencore is acting as agent and the group is acting as principal for ferrochrome and chrome ore sales.

*Distribution arrangements with Glencore Limited, Glencore Canada Inc and Mitsui and Co Europe Plc (the distribution agents)*

The group is acting as principal for the ferrochrome sales to the distribution agents as the risks and rewards of ownership pass from the group to the distribution agents.

The distribution agents are acting as principal for subsequent sales to stainless steel customers.

**1. Accounting policies** *(continued)*

**1.11 Revenue** *(continued)*

1.11.1 Sale of goods *(continued)*

The agreements contain a price adjustment feature whereby the ferrochrome is provisionally invoiced to the distribution agents at a price that is linked to the ruling benchmark price when the risks and rewards pass to the distribution agents. The agreements provide for the final price to be determined based on the price the distributing agent receives for the ferrochrome via the ultimate sale to the stainless steel customer.

The price adjustment feature is recognised as an embedded derivative as it is a component of a hybrid contract that also includes a non-derivative sales host contract with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative. The embedded derivative causes the cash flows that would be required by the contract to be modified according to the ferrochrome price.

The embedded derivative is recognised at fair value in "trade and other receivables" and is included in the statement of financial position.

1.11.2 Management fees

Revenue from management fees is recognised at the fair value of the consideration received or receivable. Revenue is recognised in the accounting periods in which the services are rendered.

Management fees recognised in the company relate to a recovery of costs from the subsidiary, Merafe Ferrochrome, and are recognised when the costs are recovered net of value added taxation.

Management fees recognised in Merafe Ferrochrome relate to employee services rendered to the Venture and are recognised when the services are rendered net of value added taxation.

1.11.3 Dividends

Dividends received by the company are recognised at the fair value of the consideration received or receivable.

**1.12 Leases**

1.12.1 Operating lease payments

Operating leases comprise of leases which do not transfer substantially all of the risks and rewards incidental to ownership of the leased asset. Rentals payable under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease except where another more systematic basis is more representative of the time pattern in which economic benefits from the lease assets are consumed.

**1. Accounting policies** *(continued)*

**1.12 Leases** *(continued)*

1.12.2 Finance lease payments

Finance leases comprise leases which transfer substantially all of the risks and rewards incidental to ownership of the leased asset to the lessee. Minimum finance lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a consistent periodic rate of interest in the remaining balance of the liability.

**1.13 Finance income and expenses**

1.13.1 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.13.2 Finance expenses

Finance expenses comprise interest expense on borrowings, interest on tax related items, unwinding of the discount on the rehabilitation provision. Finance expenses for the company include the fair value adjustment on the intercompany loan as per note 3 and note 17.

Borrowing costs directly related to the financing of a qualifying capital project under construction are capitalised to the project cost during construction, until such time as the related asset is substantially ready for its intended use, i.e. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term from money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the group during the period.

**1.14 Income Tax**

Tax expense comprises current tax and deferred tax. Tax expenses are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current tax rate is 28%.

Deferred tax is not recognised for the following temporary differences:
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

**1. Accounting policies** *(continued)*

**1.14 Income Tax** *(continued)*

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets, including deferred tax assets relating to the carry forward of unutilised tax losses and/or unutilised capital allowances are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Dividend withholding tax*
Dividend withholding tax is payable at a rate of 20% on dividends paid to shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the South African Revenue Services on behalf of the shareholder.

*Tax exposures*
In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities. Such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**1.15 Segment reporting**

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incur expenses. The group has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome. Internal management accounts are prepared monthly on the basis of one reportable segment which is reviewed monthly by the Financial Director and Chief Executive Officer (Chief Operating Decision Maker).

Ferrochrome and chrome ore are the products produced by the Venture. Most of the products produced are used in the manufacturing of stainless steel. Refer to Note 15 for geographical areas of ferrochrome and chrome ore sales and information on customers that individually comprise more than 10% of total ferrochrome and chrome ore sales.

**1. Accounting policies** *(continued)*

### 1.16 Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and share grants granted to employees and a future equity-settled share-based payment set out in Note 19.4. Headline EPS is calculated by adjusting the earnings attributable to the ordinary shareholders of Merafe Resources for all separately identifiable remeasurements as per SAICA circular 2/2015. The result is then divided by the weighted average number of ordinary shares in issue/outstanding during the period. Diluted headline EPS is calculated by dividing headline earnings by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares which comprise grants granted to employees and future cash-settled share-based payments set out in note 19.5.

### 1.17 Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the consolidated and separate financial statements in the period in which the dividends are approved by the board of directors. Dividends declared after the reporting period are disclosed in the notes to the financial statements and are not recognised in the current financial statements. The cash flows for dividends are included in financing activities. Dividend witholding tax is levied on dividend recipients and has no impact on the group taxation charge as reflected in the statement of comprehensive income.

### 1.18 Determination of fair values

A number of the group 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. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The carrying values of financial assets and liabilities as reflected in the statement of financial position are a reasonable approximation of their fair values, unless otherwise stated in the respective note. To maintain consistency and comparability in fair value measurements and related disclosures, a fair value hierarchy that categorises the inputs to the valuation techniques used to measure fair value is categorised into three levels. Level one inputs are defined as inputs that are quoted prices (unadjusted) in active markets for identical assets or liabilities that the group can access at the measurement date. Level two inputs are inputs other than quoted prices included within Level one that are observable for the asset or liability, either directly or indirectly. Lastly, level three inputs are unobservable inputs for the asset or liability.

1.18.1 *Net trade receivables*

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

**1. Accounting policies** *(continued)*

**1.18 Determination of fair values** *(continued)*

1.18.2 *Embedded derivatives*

The embedded derivative is included in trade and other recevables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate.

1.18.3 *Non-derivative financial liabilities*

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

1.18.4 *Share-based payment transactions*

The fair value of employee 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). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Refer to note 8 for details regarding the assumptions used in the valuation model.

1.18.5 *Investment in subsidiaries and intercompany loans*

Investment in subsidiaries are measured at cost. Intercompany loans are initially measured at fair value and subsequently at amortised cost. The fair value is determined based on the present value of cash flows, discounted at the group interest rate for debt over the period based on the resources and reserves of the group.

**1.19 Mining royalty**

The mining royalty was effective from 1 March 2010 and requires the payment of a royalty for the benefit of the National Revenue Fund, in respect of the transfer of mineral resources. The mining royalty is payable on chrome ore in lumps, chips and fines as listed in schedule 2 of the Mineral and Petroleum Resources Royalty Act (the Act).

Chrome ore in lumps, chips and fines is an unrefined mineral resource and therefore the mining royalty is payable on “gross sales” as defined and is calculated in accordance with the unrefined mineral resource formula as detailed in the Act.

Gross sales is calculated using third party sales prices.

The mining royalty is recognised in the statement of profit or loss and is included in operating and other expenses.

**1. Accounting policies** *(continued)*

**1.20 Impairments**

1.20.1 *Financial assets*

A financial asset not classified at fair value through profit or los is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about loss events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest date. Impairment losses are recognised in profit or loss.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial asset are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

1.20.2 *Non-financial assets*

The carrying amount of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

Recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. The group reviews and tests the carrying value of asset when events or changes in circumstances suggest that the carrying amount may not be recoverable by comparing the recoverable amounts to these carrying values. If there are indications that impairment may have occurred, estimates are prepared of recoverable amounts. The recoverable amount of the cash generating unit (CGU) is considered to be the value in use (VIU). The VIU is determined based on expected future cash flows of property, plant and equipment which are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as the ferrochrome prices, discount rates and foreign currency exchange rates.

**1. Accounting policies** *(continued)*

**1.20 Impairments** *(continued)*

1.20.2 *Non-financial assets (continued)*

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.
Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and the reversal is recognised in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised. The impairment loss that is reversed is recognised in profit or loss.

### 2. Property, plant and equipment

| | At the beginning of year - 2018 | | | Movements during the year | | | | | At the end of year - 2018 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation and | Carrying value | Additions | Disposals - cost | Disposals - accumulated depreciation | Depreciation | Movement in CWIP | Cost | Accumulated depreciation and | Carrying value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Group 2018** | | | | | | | | | | | |
| Land, mineral and surface rights | **124 002** | **(68 069)** | **55 933** | **-** | **-** | **-** | **(4 557)** | **-** | **124 002** | **(72 626)** | **51 376** |
| Boschoek smelter | **1 294 430** | **(265 616)** | **1 028 814** | **169 781** | **(115 849)** | **106 369** | **(116 131)** | **-** | **1 348 362** | **(275 378)** | **1 072 984** |
| Wonderkop smelter | **349 807** | **(147 066)** | **202 741** | **33 017** | **(19 044)** | **19 044** | **(35 178)** | **-** | **363 780** | **(163 200)** | **200 580** |
| Lion smelter | **1 484 891** | **(449 542)** | **1 035 349** | **80 746** | **(106 159)** | **101 018** | **(153 420)** | **-** | **1 459 478** | **(501 944)** | **957 534** |
| Tswelopele pelletising | **170 557** | **(37 565)** | **132 992** | **3 461** | **(3 543)** | **2 969** | **(12 717)** | **-** | **170 475** | **(47 313)** | **123 162** |
| Bokamoso pelletising | **208 519** | **(67 278)** | **141 241** | **16 374** | **(9 335)** | **9 024** | **(17 685)** | **-** | **215 558** | **(75 939)** | **139 619** |
| Western mines | **239 061** | **(95 565)** | **143 496** | **36 491** | **(11 980)** | **11 980** | **(31 714)** | **-** | **263 572** | **(115 299)** | **148 273** |
| Eastern mines | **555 240** | **(195 127)** | **360 113** | **23 665** | **(7 294)** | **6 311** | **(48 052)** | **-** | **571 611** | **(236 868)** | **334 743** |
| Corporate assets | **3 549** | **(2 703)** | **846** | **936** | **(127)** | **127** | **(606)** | **-** | **4 358** | **(3 182)** | **1 176** |
| Capital work in progress (CWIP) | **169 630** | **-** | **169 630** | **-** | **-** | **-** | **-** | **78 511** | **248 141** | **-** | **248 141** |
| **Total** | **4 599 686** | **(1 328 531)** | **3 271 155** | **364 471** | **(273 331)** | **256 842** | **(420 060)*** | **78 511** | **4 769 337** | **(1 491 749)** | **3 277 588** |
| **Company 2018** | | | | | | | | | | | |
| Corporate assets | **1 562** | **(1 208)** | **354** | **86** | **(127)** | **127** | **(165)** | **-** | **1 521** | **(1 246)** | **275** |
| **Total** | **1 562** | **(1 208)** | **354** | **86** | **(127)** | **127** | **(165)** | **-** | **1 521** | **(1 246)** | **275** |

**Change in accounting estimate**

In the prior year, management reassessed the useful lives of the permanenet sturctures and furnaces to zero. Depreciation has increased in the current year as a result of the reassesments done. This has resulted in an acceleration of depreciation. The impact on depreciation was an increase of R38m in the current year.

**Impairment assessment**

As a result of an impairment indicator arising from Merafe's market capitalisation being lower than the net asset value at 31 December 2018, management performed an impairment assessment on the basis set out in note 1.20.2 and note 31. The recoverable amount was determined by using the value-in-use calculation via a discounted cash flow model. Based on the model the recoverable amount was higher than the carrying value therefore no impairment was necessary.

**Depreciation**

* R405m depreciation is recognised in the statement of comprehensive income. R14.5m relates to depreciation capitalised to inventory.

### 2. Property, plant and equipment *(continued)*

| | At the beginning of the year - 2017 | | | Movements during the year - 2017 | | | | | At the end of the year - 2017 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation and impairment | Carrying value | Additions | Disposals – Cost | Disposals – Accumulated Depreciation | Depreciation | Movement in CWIP | Cost | Accumulated depreciation and impairment | Carrying value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| Group 2017 | | | | | | | | | | | |
| Land, mineral and surface rights | 118 341 | (64 105) | 54 236 | 7 463 | (1 802) | 959 | (4 923) | - | 124 002 | (68 069) | 55 933 |
| Boshoek smelter | 1 238 583 | (218 617) | 1 019 966 | 129 029 | (73 182) | 73 182 | (120 181) | - | 1 294 430 | (265 616) | 1 028 814 |
| Wonderkop smelter | 309 005 | (128 789) | 180 216 | 53 595 | (12 793) | 12 793 | (31 070) | - | 349 807 | (147 066) | 202 741 |
| Lion smelter | 1 416 545 | (334 564) | 1 081 981 | 69 445 | (1 099) | 1 099 | (116 077) | - | 1 484 891 | (449 542) | 1 035 349 |
| Tswelopele pelletising plant | 170 898 | (28 759) | 142 139 | 3 983 | (4 324) | 4 324 | (13 130) | - | 170 557 | (37 565) | 132 992 |
| Bokamoso pelletising plant | 209 229 | (61 235) | 147 994 | 14 100 | (14 810) | 14 810 | (20 853) | - | 208 519 | (67 278) | 141 241 |
| Western mines | 207 307 | (70 745) | 136 562 | 34 334 | (2 580) | 2 580 | (27 400) | - | 239 061 | (95 565) | 143 496 |
| Eastern mines | 462 391 | (153 948) | 308 443 | 93 103 | (254) | 254 | (41 433) | - | 555 240 | (195 127) | 360 113 |
| Corporate assets | 3 297 | (2 226) | 1 071 | 294 | (42) | 42 | (519) | - | 3 549 | (2 703) | 846 |
| Capital work in progress (CWIP) | 162 596 | - | 162 596 | - | - | - | - | 7 034 | 169 630 | - | 169 630 |
| Total | 4 298 192 | (1 062 988) | 3 235 204 | 405 346 | (110 886) | 110 043 | (375 586)* | 7 034 | 4 599 686 | (1 328 531) | 3 271 155 |
| Company 2017 | | | | | | | | | | | |
| Corporate assets | 1 310 | (1 101) | 209 | 294 | (42) | 42 | (149) | - | 1 562 | (1 208) | 354 |
| Total | 1 310 | (1 101) | 209 | 294 | (42) | 42 | (149) | - | 1 562 | (1 208) | 354 |

**Change in accounting estimate**

Residual values of assets are assessed annually. During the 2017 year, management assessed the residual values of all permanent structures as nil and therefore depreciation was calculated on this basis. The impact on depreciation was an increase of R30m for the year. At 31 December 2017, the carrying value of these assets is R958m.

**Impairment assessment**

As a result of an impairment indicator arising from Merafe's market capitalisation being lower than the net asset value at 31 December 2017, management performed an impairment assessment on the basis set out in note 1.20.2 and note 31. The recoverable amount was determined by using the value-in-use calculation via a discounted cash flow model. Based on the model the recoverable amount was higher than the carrying value therefore no impairment was necessary.

**Depreciation**

* R368.2m depreciation is recognised in the statement of comprehensive income. R7.4m relates to depreciation capitalised to inventory

### 3. Investment in subsidiaries and loans to subsidiaries

| **2018** | **Issued share capital** | **Percentage holding** | **Investment cost** | **Loans to subsidiaries** | **Total** |
|---|---|---|---|---|---|
| **Investments in subsidiaries** | **Number of shares** | **%** | **R** | **R'000** | **R'000** |
| ***Directly held*** | | | | | |
| **Merafe Chrome** | **200** | **100** | **-*** | **1 759 108** | **1 759 108** |
| ***Indirectly held*** | | | | | |
| **Merafe Ferrochrome** | **400** | **100** | **-*** | **-** | **-** |
| 2017 | | | | | |
| Investments in subsidiaries | | | | | |
| *Directly held* | | | | | |
| Merafe Chrome | 200 | 100 | -* | 1 533 128 | 1 533 128 |
| *Indirectly held* | | | | | |
| Merafe Ferrochrome | 400 | 100 | -* | - | - |

The above loans are unsecured, interest free, have no fixed terms of repayment and are long-term in nature. The wholly owned subsidiaries are incorporated in the Republic of South Africa. The assumptions used in the valuation of this loan are as follows:

- Method of valuation: Effective interest rate method
- Term: 55 years (based on the reserves and resources of the Merafe Resources Limited group)
- Interest rate: Current cost of debt interest rate for the group which takes into consideration the risk profile of the group

The company's share in the profits of subsidiaries for the year ended 31 December 2018 amounted to R270m (2017: R749m).

**Structured entities**

The following entities are consolidated as they are subsidiaries of the Merafe Resources Limited group:

- Merafe Kroondal Rehabilitation Trust
- Merafe Resources Limited Share Incentive Scheme Trust

Refer to the related parties note 23 for further details on investments in subsidiaries and structured entities. There has been no significant changes in the nature and risks associated with these structured entities.

There are no contractual arrangements that require the company to provide financial support to any of the above entities nor are there any events or circumstances that could expose the company to a loss.

**Less than one thousand.*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **4.** | **Inventories** | | | | |
| | Consumables stores | **89 061** | 77 390 | - | - |
| | Raw materials | **731 209** | 613 728 | - | - |
| | Work in progress | **29 241** | 43 239 | - | - |
| | Finished goods | **1 193 110** | 763 441 | - | - |
| | | **2 042 621** | 1 497 798 | - | - |

The cost of inventories recognised as an expense and included in cost of sales amounted to R4.6bn (2017: R3.1bn). No inventories were encumbered during the year. Inventory of R8.3m (2017: nil) was written down for the year ended 31 December 2018.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 Restated* | **R'000** | R'000 |
| **5.** | **Trade and other receivables** | | | | |
| | Trade receivables | **817 598** | 781 766 | **-** | - |
| | Pre-payments | **12 500** | 12 240 | **17** | 38 |
| | Embedded derivative recognised on sales contracts[3] | **(48 767)** | (35 175) | **-** | - |
| | GOSA receivable[1] | **37 708** | 29 947 | **-** | - |
| | Other receivables[2] | **101 192** | 94 471 | **5 447** | 852 |
| | | **920 231** | 883 249 | **5 464** | 890 |

[1] *Related party balance*
[2] *This total consists mainly of VAT receivable*
[3] *Level 2 hierarchy per IFRS 13. The embedded derivative is included in trade and other payables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate*
* Refer to note 32 for disclosure on restatement

The group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 21. Trade receivables relating to local sales have an average payment term of 60 days and are non-interest bearing. Trade receivables relating to foreign sales have an average payment term of 90 days.

**5. Trade and other receivables** *(continued)*

| | Group | |
|---|---|---|
| | **2018** | 2017 |
| | **R'000** | R'000 |
| | | Restated* |
| Trade receivables per sales region | | |
| Africa | **33 822** | 92 003 |
| Asia | **533 641** | 393 192 |
| America | **130 530** | 199 395 |
| Europe | **119 605** | 97 176 |
| | **817 598** | 781 766 |

* Refer to note 32 for disclosure on restatement

The carrying value of trade and other receivables approximates its fair value.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **6. Share capital** | | | | |
| *Authorised* – 3 500 000 000 shares of 1 cent each | **35 000** | 35 000 | **35 000** | 35 000 |
| *Issued* – 2 510 704 248 ordinary shares of 1 cent each | | | | |
| Issued share capital at beginning of year | **25 107** | 25 107 | **25 107** | 25 107 |
| Issued share capital at end of year | **25 107** | 25 107 | **25 107** | 25 107 |

All ordinary shares have equal voting rights. There are no restrictions on the distribution of dividends or repayment of capital in terms of the Memorandum of Incorporation of the company.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **7. Share premium** | | | | |
| Balance at beginning of year | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |
| Balance at end of year | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |

### 8. Cash-settled share-based payment arrangements

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Cash-settled share-based payment liability** | | | | |
| Balance at beginning of year | **8 755** | 14 220 | **8 755** | 14 220 |
| Share-based payment expense* | **5 902** | 5 588 | **5 902** | 5 588 |
| Share grants vested | **(5 077)** | (11 053) | **(5 077)** | (11 053) |
| Share grants forfeited* | **(2 805)** | - | **(2 805)** | - |
| Balance at the end of year | **6 775** | 8 755 | **6 775** | 8 755 |
| Current | **3 257** | 3 376 | **3 257** | 3 376 |
| Non-current | **3 518** | 5 379 | **3 518** | 5 379 |

* = *the net Statement of Comprensive Income expense is R3.097 million (2017: R5.588 million).*

Share option/grant schemes

On 14 December 1999 a share incentive scheme was approved by the shareholders as an incentive to employees (including executive directors) of the company and its subsidiaries to identify themselves more closely with the activities of the company and to promote its continued growth by giving them an opportunity of acquiring shares therein. Management has applied the provisions of IFRS 2: Share-based payment in accounting for and disclosing all share options granted, except for share options granted before 7 November 2002, or share options granted after this date, but which had vested prior to 1 January 2005.

On 13 April 2010, a new incentive scheme was approved by the shareholders. Share grants were issued under the new incentive scheme. Refer to note 8.2 for details regarding the share grants.

From inception of the new incentive scheme up until 29 June 2015, the company's intention was to equity settle. The board took a decision to cash settle, effective 29 June 2015, to avoid dilution of equity, subject to certain conditions.

8.1 Share options

Share options that had been granted to employees and senior management in prior years which had to be exercised within 10 years of grant date either lapsed or were exercised. The share options that were exercised were settled by cash.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.1 Share option/grant schemes *(continued)*

The number and weighted average exercise price of share options are as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Weighted average exercise price in cents per share** | **Number of options '000** | Weighted average exercise price in cents per share | Number of options '000 |
| Outstanding balance at beginning of year | **-** | **-** | 139 | 10 908 |
| Options exercised during the year | | | 172 | (8 310) |
| Options forfeited during the year | **-** | **-** | 227 | (2 598) |
| Outstanding balance at end of year | **-** | **-** | - | - |
| Exercisable at end of year | **-** | **-** | - | - |

There were no share options outstanding at the end of the year (2017: nil).

8.2 Share grants

The new share incentive scheme was approved by shareholders on 13 April 2010. During 2010 to 2018, various share grants and share options were issued to directors and employees of the company.

The purpose of the share incentive scheme is to serve as an incentive and reward to employees (including executive directors) of the company and its subsidiaries for services rendered and to be rendered, aimed at promoting the continued growth of the company by giving employees an opportunity to acquire shares in the company and to serve as a retention mechanism for employees whose services are regarded by the company to be crucial to the future growth and sustainability of the company's business. Share options and share grants are granted by the board of directors of the company on the recommendation of the Remuneration Committee.

The Black-Scholes Merton option pricing model was used to determine the fair value of the share grants. This valuation methodology is consistent with previous valuation calculations.

The share grants are split between portions being subject to performance conditions and portions with no performance conditions. For share grants issued prior to 2013, 50% of the share grants to directors are subject to performance conditions and 50% are not subject to performance conditions. 20% of the share grants to employees are subject to performance conditions and 80% are not subject to performance conditions for share grants issued prior to 2013.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

The following market and non-market conditions relate to the share grants granted to directors and employees prior to 2013:

| Vesting condition | Type | Weighting | Three-year option | Four-year option | Five-year option |
|---|---|---|---|---|---|
| | | % | % | % | % |
| Capacity growth* | Non-market | 25 | 100 | 100 | 100 |
| Assets under management** | Non-market | 25 | 100 | 100 | 100 |
| JSE SRI Index*** | Non-market | 25 | 100 | 100 | 100 |
| JSE Small Capitalisation Index and Mining Index | Market | 25 | - | - | - |

* *The target is to grow ferrochrome capacity cumulatively by 3% (first hurdle), 6% (second hurdle) or 9% (third hurdle)*

** *The target is to grow total assets under management cumulatively by 6% (first hurdle), 12% (second hurdle), or 18% (third hurdle)*

*** *There are no hurdles. The index must be maintained for full incentives or if lost then there is no incentive on this measure. The areas measured under this index relate to environmental sustainability, economic sustainability, social sustainability and corporate governance.*

**Note**: The capacity growth and assets under management target have three hurdles at which different amounts of the share grants are earned. If the first hurdle is met then 50% of the share grants are earned. If the second hurdle is met then 75% of the share grants are earned and if the third hurdle is met then 100% of the share grants are earned.

The performance conditions include 75% of non-market conditions and 25% of market conditions. The probabilities relating to non-market conditions are estimated by management and will be adjusted each year. Market conditions of outperformance of either the mining index or the JSE small capitalisation index are incorporated using the probability of 62,5% into the initial valuation and are not subsequently adjusted for.

The Remuneration Committee introduced a new performance condition for the share grants granted from 2013 onwards. The performance condition is based on a single performance metric which is Merafe's total shareholder return ("TSR") over a three year period compared to the TSR of a selection of JSE Listed small capitalisation mining and resource companies.

If Merafe's TSR over the three year period places it in one of the top three positions, then the full number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant. If Merafe's TSR over the three year period places it in 6th position, then one third of the number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant. If Merafe's performance over the three year period lies between any of the above points, then a prorated number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

The percentage subject to performance conditions and not subject to performance conditions are as follows for each level of staff:

| | Not subject to performance conditions | Subject to performance conditions |
|---|---|---|
| CEO | 30% | 70% |
| Executive Directors | 40% | 60% |
| Senior Managers | 50% | 50% |
| Other employees | 100% | 0% |

From inception of the new incentive scheme up until 29 June 2015, the company's intention was to equity settle. The board took a decision to cash settle, effective 29 June 2015, to avoid dilution of equity.

The following assumptions were used in the valuation model:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 2015 - 2018 share grants | 2013 - 2014 share grants | 2015 - 2017 share grants | 2013 - 2014 share grants |
| Risk free rate | 8.68% | 8.68% | 7.14% | 7.14% |
| Expected volatility* | 45% | 45% | 47% | 47% |
| Expected dividend yield | 8.32% | 8.32% | 5.48% | 5.48% |
| Expected life (years) | 0.2 – 4.7 | 0.25 | 0.25 – 4.25 | 0.18 – 1.25 |
| Vesting periods (years) | 3 - 5 | 5 | 3,4 and 5 | 3,4 and 5 |
| Weighted average exercise price (Rands) | 0 | 0 | 0 | 0 |
| Weighted average grant price (Rands) | 0.77 – 1.67 | 1.08 | 0.77 – 1.67 | 0.82 – 1.08 |
| Weighted average option value (Rands) | 0.96 – 1.39 | 1.39 | 0.81 – 1.47 | 0.79 – 1.48 |
| Performance conditions | Yes | Yes | Yes | Yes |
| Intrinsic value of shares | R12 815 920 | R992 715 | R15 497 983 | R4 409 023 |

* *The expected volatility of 45% (2017: 48%) is based on historic volatility of the Merafe share price over the past five years.*

The following share grants relating to employees and executive directors were outstanding at 31 December 2018:

| Vesting date | Total | Share grant date |
|---|---|---|
| 01 April 2019 | 649 799 | 01 April 2014 |
| 01 April 2019 | 881 825 | 01 April 2015 |
| 01 April 2020 | 881 825 | 01 April 2015 |

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

| | | |
|---|---|---|
| 01 April 2019 | 977 675 | 01 April 2016 |
| 01 April 2020 | 977 675 | 01 April 2016 |
| 01 April 2021 | 977 675 | 01 April 2016 |
| | | |
| 01 April 2020 | 478 343 | 01 April 2017 |
| 01 April 2021 | 478 343 | 01 April 2017 |
| 01 April 2022 | 478 343 | 01 April 2017 |
| | | |
| 01 April 2021 | 665 776 | 01 April 2018 |
| 01 April 2022 | 665 776 | 01 April 2018 |
| 01 April 2023 | 665 776 | 01 April 2018 |
| | | |
| 06 August 2021 | 213 154 | 06 August 2018 |
| 06 August 2022 | 213 154 | 06 August 2018 |
| 06 August 2023 | 213 154 | 06 August 2018 |
| | | |
| 10 September 2021 | 85 600 | 10 September 2018 |
| 10 September 2022 | 85 600 | 10 September 2018 |
| 10 September 2023 | 85 600 | 10 September 2018 |
| | | |
| Total | 9 675 093 | |

The following share grants relating to executive directors were outstanding at 31 December 2018:

| **Vesting date** | **Ms ZJ Matlala** | **Mr SD Chocho** |
|---|---|---|
| 1 April 2019 | 626 752 | - |
| | | |
| 1 April 2019 | 850 548 | - |
| 1 April 2020 | 850 548 | - |
| | | |
| 1 April 2019 | 941 409 | - |
| 1 April 2020 | 941 409 | - |
| 1 April 2021 | 941 409 | - |
| | | |
| 1 April 2020 | 460 433 | - |
| 1 April 2021 | 460 433 | - |
| 1 April 2022 | 460 433 | - |
| | | |
| 1 April 2021 | 576 692 | - |
| 1 April 2022 | 576 692 | - |
| 1 April 2023 | 576 692 | - |
| | | |
| 6 August 2021 | - | 208 333 |
| 6 August 2022 | - | 208 333 |

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

| | | |
|---|---|---|
| 6 August 2023 | - | 208 333 |
| Total | 8 263 450 | 624 999 |

The movement in the number of share grants can be summarised as follows:

| | **2018 R'000** | 2017 R'000 |
|---|---|---|
| Opening balance | **13 676 380** | 15 391 374 |
| Granted during the year | **3 376 548** | 2 200 513 |
| Vested during the year | **(3 378 190)** | (3 915 507) |
| Forfeited during the year | **(3 999 645)** | - |
| Closing balance | **9 675 093** | 13 676 380 |

| | | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **9.** | **Loans and borrowings** | | | | |
| 9.1 | Finance leases – property, plant and equipment | **11 112** | 12 138 | **-** | - |
| | Total loans and borrowings | **11 112** | 12 138 | **-** | - |
| | Current portion of loans and borrowings | **(1 233)** | (1 044) | **-** | - |
| | – Finance leases – property, plant and equipment | **(1 216)** | (1 044) | **-** | - |
| | – ABSA/Standard Bank | **(17)** | - | | |
| | **Non-current portion of loans and borrowings** | **9 879** | 11 094 | **-** | - |

9.1 Finance leases – property, plant and equipment

These loans are secured by finance leases over plant and equipment which is included in note 2. The loans are repayable in monthly installments averaging R215k (2017: R267k) on all finance leases. Interest is payable at an average of 13.3% (2017: 11.75%) per annum. Contingent rent, special renewal terms and specific escalation clauses are not applicable to the leases. There are no restrictions that are imposed by the current lease arrangements.

In accordance with the agreement with the Venture, Merafe Ferrochrome receives 20.5% of the Venture's EBITDA whilst retaining ownership of its assets. The finance lease obligations in the group's statement of financial position and the finance lease repayments represent 20.5% of the Venture's total obligations whereas the carrying values of assets that secure the finance leases, relate to the assets that are controlled by the group and are reflected in the group statement of financial position.

**9. Loans and borrowings** *(continued)*

9.2 Facility – ABSA

An unsecured revolving credit facility agreement was entered into with ABSA during the last quarter of 2017. Interest on the facility is calculatd at 3 months JIBAR plus a margin of 255 basis points. At 31 December 2018 the facility was not utilised resulting in a loan balance of zero. A commitment fee of 0.65% per annum is payable on the unused portion of the facility which is payable quarterly in arrears.

Finance lease liabilities:

| | **Minimum lease payments** | | **Present value of minimum lease payments** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Not later than one year | **2 631** | 2586 | **1 233** | 1 044 |
| Later than one year but not later than five years | **9 142** | 10 070 | **5 278** | 5 542 |
| Later than five years | **7 470** | 9 142 | **4 601** | 5 552 |
| | **19 243** | 21 798 | **11 112** | 12 138 |
| Less future finance charges | **(8 131)** | (9 660) | **-** | - |
| Present value of minimum future lease payments | **11 112** | 12 138 | **11 112** | 12 138 |

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **10. Provisions** | | | | |
| Balance at beginning of year | **287 518** | 151 747 | **-** | - |
| Increase in other provisions | **31 385** | 130 413 | **-** | - |
| Provisions/(Reversals) made during the year | **39 844** | (6 508) | **-** | - |
| Unwinding of discount | **13 157** | 11 866 | **-** | - |
| Balance at end of year | **371 904** | 287 518 | **-** | - |

The carrying value of provisions at the end of the year includes the following:

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| Provision for closure and restoration costs | **210 457** | 157 105 | - | - |
| Provision for uncertain tax position | **161 447** | 130 413 | - | - |
| | **371 904** | 287 518 | - | - |

**10. Provisions** *(continued)*

The provision is for a liability for the rehabilitation of land involved in any prospecting or mining operations of the group and to discharge any liability which may arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation that may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture.

The estimated cost of rehabilitation are based on environmental plans in accordance with current technology, environmental and regulatory requirements and the measurements of an independent professional surveyor.

For purposes of calculating the provision, management have assumed a long-term inflation rate of 6% (2017: 6%) and a discount rate of 8.59% (2017: 8.59%). The timing of the outflows relating to the provision are uncertain but the expected timing of outflows ranges between five and thirty years.

The Venture engages an expert to estimate the cost of rehabilitation every three to five years. The last expert assessment for the mines was conducted during 2017 and the smelters in 2013.

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **11. Deferred tax (liabilities)/assets** | | | | |
| Recognised deferred tax (liabilities)/assets: | | | | |
| Property, plant and equipment | **(902 944)** | (899 850) | **4** | 4 |
| Trade and other receivables | **(661)** | (960) | **-** | - |
| Provisions and accruals | **151 707** | 119 880 | **2 313** | 2 958 |
| Finance lease obligations | **3 112** | 3 399 | - | **-** |
| Tax losses | **15 628** | 14 772 | **15 628** | 14 772 |
| | **(733 158)** | (762 759) | **17 945** | 17 726 |
| Deferred tax assets | **17 945** | 17 726 | **17 945** | 17 726 |
| Deferred tax liabilities | **(751 103)** | (780 485) | **-** | - |
| **Net balance** | **(733 158)** | (762 759) | **17 945** | 17 726 |

Management are of the view that the deferred tax asset recognised in the company will be recoverable using the estimated future taxable income based on the latest budget and forecast.

**11. Deferred tax (liabilities)/assets** *(continued)*

**Movement in temporary differences during the year**

**Group**

| | Balance 1 January 2017 R'000 | Recognised in profit or loss in 2017 R'000 | Balance 31 December 2017 R'000 | **Recognised in profit or loss in 2018 R'000** | **Balance 31 December 2018 R'000** |
|---|---|---|---|---|---|
| Property, plant and equipment | (890 305) | (9 545) | (899 850) | **(3 093)** | **(902 944)** |
| Trade and other receivables | - | (960) | (960) | **299** | **(661)** |
| Provisions and accruals | 61 372 | 58 508 | 119 880 | **31 826** | **151 707** |
| Finance leases | 3 771 | (372) | 3 399 | **(287)** | **3 112** |
| Tax losses | 14 974 | (202) | 14 772 | **856** | **15 628** |
| | (810 188) | 47 429 | (762 759) | **29 601** | **(733 158)** |

The company had a tax loss of R53m at 31 December 2018 (2017: R53m). The tax loss does not have an expiry date.

**Company**

| | Balance 1 January 2017 R'000 | Recognised in profit or loss in 2017 R'000 | Balance 31 December 2017 R'000 | **Recognised in profit or loss in 2018 R'000** | **Balance 31 December 2018 R'000** |
|---|---|---|---|---|---|
| Property, plant and equipment | (9) | 5 | (4) | **7** | **3** |
| Provisions and accruals | 4 375 | (1 417) | 2 958 | **(644)** | **2 314** |
| Finance leases | - | - | - | **-** | **-** |
| Tax losses | 14 974 | (202) | 14 772 | **856** | **15 628** |
| | 19 340 | (1 614) | 17 726 | **219** | **17 945** |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **12.** | **Current tax asset/(liability)** | | | | |
| | Balance at the beginning of the year | **(8 198)** | 36 395 | - | - |
| | Current tax expense | **(287 615)** | (413 974) | - | - |
| | Prior year overprovision | **(3 045)** | 2 941 | - | - |
| | Provisional tax payments | **325 417** | 406 051 | - | - |
| | Income tax adjustment | **(191)** | - | - | - |
| | Income tax refund | **-** | (39 610) | - | - |
| | Current tax asset/(liability) | **26 368** | (8 198) | - | - |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **13.** | **Bank Overdraft** | | | | |
| | Overdraft | **1 182** | - | **-** | - |
| | | **1 182** | - | **-** | - |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **14.** | **Trade and other payables** | | | | |
| | Trade payables | **303 054** | 323 415 | **328** | - |
| | Employee benefit accruals | **106 106** | 89 045 | **7 957** | 8 715 |
| | Other payables and accruals[1] | **135 571** | 138 096 | **3 864** | 4 822 |
| | Merafe Ferrochrome payable | **-** | - | **459 447** | 226 527 |
| | | **544 731** | 550 556 | **471 596** | 240 064 |

[1] *Includes VAT accruals.*

Trade payables are non–interest bearing and are normally settled on 30 to 45 day terms. Other payables are non–interest bearing and are normally settled on 30 day terms. The carrying value of the trade and other payables approximates its fair value.

An accrual is recognised for the employer's liability for annual leave and associated costs. The accrual for compensated absences is recognised when the employee renders the service and the accrual is updated on a monthly basis. Employee benefits include an accrual for bonuses in terms of the group's bonus scheme.

The group's exposure to currency, credit and liquidity risk related to trade and other payables is disclosed in note 21.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **15.** | **Revenue** | | | | |
| | Revenue from the sale of ferrochrome | **4 848 894** | 5 162 582 | - | - |
| | Revenue from the sale of chrome ore | **746 921** | 726 279 | - | - |
| | Dividends received | **-** | - | **425 963** | 175 652 |
| | Other income* | **8 694** | - | **94** | - |
| | Management fees/sundry income | **1 815** | 84 | **7 863** | 11 171 |
| | | **5 606 324** | 5 888 945 | **433 920** | 186 823 |

**Other income includes sundry income*

*Geographical areas of ferrochrome sales*

The majority of customers are stainless steel mills located at the following revenue destinations:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Revenue R'000** | **% of revenue in relation to total ferrochrome revenue** | Revenue R'000 | % of revenue in relation to total ferrochrome revenue |
| *Revenue destination* | | | | |
| Africa and Middle East* | **161 470** | **3** | 244 018 | 4 |
| America** | **503 865** | **10** | 827 464 | 16 |
| Asia*** | **3 371 177** | **70** | 3 079 860 | 60 |
| Europe**** | **812 382** | **17** | 1 011 240 | 20 |
| Total | **4 848 894** | **100** | 5 162 582 | 100 |

* *Includes South Africa and United Arab Emirates.*

** *Includes Brazil and USA.*

*** *Includes China, India, Japan, South Korea and Taiwan.*

**** *Includes Germany, Italy, Luxemburg, Malta, Spain, Switzerland.*

*Geographical areas of chrome ore sales*

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Revenue R'000** | **% of revenue in relation to total chrome revenue** | Revenue R'000 | % of revenue in relation to total chrome revenue |
| *Revenue destination* | | | | |
| South Africa | **159 220** | **21** | 155 063 | 21 |
| Asia, Australia, USA and Europe | **587 701** | **79** | 571 216 | 79 |
| Total | **746 921** | **100** | 726 279 | 100 |

**15. Revenue** *(continued)*

Sales to the following customers individually comprise more than 10% of total sales:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| **Ferrochrome** | **Revenue R'000** | **% of revenue in relation to total ferrochrome revenue** | Revenue R'000 | % of revenue in relation to total ferrochrome revenue |
| Customer A | **543 142** | **11** | 718 091 | 14 |
| Customer B | **976 699** | **20** | 605 523 | 12 |
| Customer C | - | **-**[1] | - | -[1] |
| Total | **1 519 841** | **31** | 1 323 614 | 26 |

| | **2018** | | 2017 | |
|---|---|---|---|---|
| **Chrome ore** | **Revenue R'000** | **% of revenue in relation to total chrome ore revenue** | Revenue R'000 | % of revenue in relation to total chrome ore revenue |
| Customer D | - | -[1] | - | -[1] |
| Customer E | - | -[1] | - | -[1] |
| Total | - | **-** | - | - |

*Note: The marketing agent, Glencore International AG, accepts 60% of the risk related to non–payment of credit sales of ferrochrome and 100% of the risk related to non–payment of credit sales of chrome ore.*
*[1] Less then 10% in 2018.*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **16.** | **Results from operating activities** | | | | |
| | *The following items have been taken into account in arriving at results from operating activities:* | | | | |
| | Corporate social investment | **(9 728)** | (7 587) | **(3 294)** | (3 521) |
| | Social and labour plans | **(899)** | (519) | **-** | - |
| | Enterprise development | **(1 715)** | (118) | **-** | - |
| | Audit Fees | **( 1 259)** | (929) | **-** | - |
| | Embedded derivative recognised on sales contracts – fair value adjustment | **(34 570)** | (155 852) | **-** | - |
| | Consulting fees | **(4 315)** | (4 176) | **(2 272)** | ( 2 458) |
| | Increase in provision for closure and restoration | **(53 352)** | (194) | **-** | - |
| | Increase in provision relating to tax position | **(31 034)** | (55 382) | **-** | - |
| | Operating lease expenses | **(2 968)** | (3 888) | **-** | - |
| | Personnel expenses* | **(844 990)** | (741 838) | **(7 638)** | (9 554) |
| | – Salaries and wages | **(669 229)** | (598 069) | **(2 785)** | (2 287) |
| | – Defined contribution expense – provident fund | **(72 959)** | (64 180) | **(363)** | (191) |
| | – Defined contribution expense – medical aid | **(64 231)** | (57 918) | **(58)** | (64) |
| | – Cash/equity-settled share-based payment expense | **(3 097)** | (5 588) | **(3 097)** | (5 588) |
| | – Increase in accrual for leave pay | **(2 261)** | (7 911) | **(28)** | (34) |
| | – Increase in accrual for bonuses | **(33 213)** | (8 172) | **(1 307)** | (1 390) |

* *Includes remuneration relating to key management personnel (see note 23.2)*

| | % of employees covered by the plan | |
|---|---|---|
| | **2018** | 2017 |
| The Company | **100** | 100 |
| The Venture | **100** | 100 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **17.** | **Net finance income/(expense) recognised in profit or loss** | | | | |
| | **Finance expense** | **(14 512)** | (27 958) | **(85)** | - |
| | Finance expense on financial liabilities measured at amortised cost | **(1 355)** | (16 091) | **(85)** | - |
| | Interest on loans and borrowings | **(1 355)** | (16 091) | **(85)** | - |
| | Unwinding of discount on rehabilitation provision | **(13 158)** | (11 867) | **-** | - |
| | **Finance income** | **18 595** | 8 633 | **549** | 2 911 |
| | Interest income on bank deposits | **18 595** | 7 496 | **549** | 2 911 |
| | SARS interest income | **-** | 1 137 | **-** | - |
| | Net finance income/(expense) | **4 082** | (19 325) | **464** | 2 911 |
| | **Net finance income per financial instrument category** | | | | |
| | **Loans and receivables** | **18 595** | 7 496 | **549** | 2 911 |
| | Interest income on bank deposits | **18 595** | 7 496 | **549** | 2 911 |
| | **Financial liabilities measured at amortised cost** | **(1 355)** | (16 091) | **(85)** | - |
| | Interest expense on loans and borrowings | **(1 355)** | (16 091) | **(85)** | - |
| | **Financial assets measured at fair value** | **(13 158)** | (11 867) | **-** | - |
| | Unwinding of discount on rehabilitation provision | **(13 158)** | (11 867) | **-** | - |
| | | **(4 082)** | (20 462) | **464** | 2 911 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **18. Income tax (expense)/credit** | | | | |
| **Normal taxation** | **(261 059)** | (363 604) | **219** | (1 614) |
| **Current tax** | **(290 660)** | (411 033) | **-** | - |
| – current year | **(287 615)** | (413 974) | **-** | - |
| – prior years' over provision | **(3 045)** | 2 941 | **-** | - |
| **Deferred tax** | **29 601** | 47 429 | **219** | (1 614) |
| Deferred taxation – current charge | **29 601** | 47 429 | **340** | (121) |
| Deferred taxation – prior year | **-** | - | **(121)** | (1 493) |
| Total taxation | **(261 059)** | (363 604) | **219** | (1 614) |

At 31 December 2018, the total estimated unredeemed capital expenditure in the group was nil (2017: nil).

| | | | | |
|---|---|---|---|---|
| Profit before income tax | **944 475** | 1 277 222 | **413 235** | 167 019 |
| Taxation on profit before taxation at standard rate | **28.0** | 28.0 | **28.0** | 28.0 |
| Taxation effect of non–deductible expenditure | **0.2**[1] | 0.3[1] | **2.4**[1] | 1.5[1] |
| Taxation effect of non–taxable income | **-** | - | **(29.4)**[2] | (29.4)[2] |
| Prior years' (over)/under overprovision | **0.2** | 0.2 | **-** | 0.9 |
| Deferred tax movememt | **(0.7)** | | | |
| Effective tax rate | **27.7** | 28.5 | **1.0** | 1.0 |

*[1] Includes cash-settled share-based payments, legal fees, consulting fees, other costs incurred to produce non-taxable income.*
*[2] Relates to inter-company income/dividends.*

| | | **2018 (cents)** | 2017 (cents) |
|---|---|---|---|
| **19.** | **Earnings per share** | | |
| 19.1 | Basic earnings per share | **27.2** | 36.4 |

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of R683m (2017: R914m) and a weighted average number of ordinary shares outstanding during the year of 2 510 704 248 (2017: 2 510 704 248).

19.2 Calculation of weighted average number of shares

| | **Number of shares** | |
|---|---|---|
| | **2018** | 2017 |
| Issued ordinary shares at 1 January | **2 510 704 248** | 2 510 704 248 |
| Weighted average number of shares at 31 December | **2 510 704 248** | 2 510 704 248 |

| | **2018 (cents)** | 2017 (cents) |
|---|---|---|
| 19.3 Headline earnings per share | **27.2** | 36.4 |

The calculation of headline earnings per share is based on profit attributable to ordinary shareholders of R683m (2017: R914m) and a weighted average number of shares outstanding during the year of 2 510 704 248 (31 December 2017: 2 510 704 248).

| | **2018 R'000** | 2017 R'000 |
|---|---|---|
| *Headline earnings is calculated as follows:* | | |
| Total comprehensive income for the year | **683 416** | 914 118 |
| Headline earnings | **683 416** | 914 118 |

**19. Earnings per share** *(continued)*

| | | **2018 (cents)** | 2017 (cents) |
|---|---|---|---|
| 19.4 | Diluted earnings per share | **27.2** | 36.4 |

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of R683m (2017: R914m) and a weighted average number of shares outstanding during the year of 2 510 704 208 (31 December 2017: 2 510 704 208).

| | Number of shares | |
|---|---|---|
| | **2018** | 2017 |
| Weighted average number of ordinary shares used in calculating basic earnings per share | **2 510 704 208** | 2 510 704 208 |

| | | **2018 (cents)** | 2017 (cents) |
|---|---|---|---|
| 19.5 | Diluted headline earnings per share | **27.2** | 36.4 |

The calculation of diluted headline earnings per share is based on profit attributable to ordinary shareholders of R683m (2017: R914m) and a weighted average number of shares outstanding during the year of 2 510 704 208 (31 December 2017: 2 510 704 208).

| | | | **Group** | | **Company** | |
|---|---|---|---|---|---|---|
| | | *Note* | **2018 R'000** | 2017 | **2018 R'000** | 2017 R'000 |
| **20.** | **Cash generated from operating activities** | | | | | |
| | **Profit before tax** | | **944 475** | 1 277 722 | **413 235** | 167 019 |
| | *Adjustments for:* | | | | | |
| | Depreciation | | **405 548** | 368 212 | **165** | 149 |
| | Finance income | *17* | **(18 595)** | (8 633) | **(549)** | (2 911) |
| | Finance expense | *17* | **14 512** | 27 958 | **85** | -* |
| | Share based payment expense | | **3 097** | 5 588 | **3 097** | 5 588 |
| | Share grants exercised | | **(5 077)** | (11 053) | **(5 077)** | (11 053) |
| | Embedded derivative – fair value adjustment | | **34 570** | 155 852 | **-** | - |
| | Increase in provisions | | **84 386** | 135 771 | **-** | - |
| | Effect of exchange rate fluctuations on cash held during the year | | **30 042** | 47 175 | **-** | - |
| | | | **1 492 958** | 1 998 592 | **410 956** | 158 792 |

** Less than one thousand.*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2018** | 2017 | **2018** | 2017 |
| | | **R'000** | | **R'000** | R'000 |
| **20.** | **Cash generated from operating activities** *(continued)* | | | | |
| | (Increase) in inventories | **(531 193)** | (387 719) | **-** | - |
| | (Increase)/decrease in trade and other receivables | **(96 040)** | 529 424 | **(4 574)** | 877 |
| | (Decrease)/increase in trade and other payables | **(78 098)** | (361 371) | **231 532** | 151 326 |
| | **Cash generated from operating activities** | **787 627** | 1 778 926 | **637 914** | 310 995 |
| 20.1 | Cash and cash equivalents | | | | |
| | **Positive cash balances** | **282 037** | 671 655 | **4 888** | 18 539 |
| | Bank balance | **22 158** | 192 208 | **1 143** | 626 |
| | Call deposits | **259 875** | 479 392 | **3 741** | 17 911 |
| | Cash on hand | **4** | 55 | **4** | 2 |
| | **Bank overdraft** | **(1 182)** | - | **-** | - |
| | **Net cash and cash equivalents in statements of cash flows** | **280 855** | 671 655 | **4 888** | 18 539 |
| | *Reconciliation of cash in the group* | | | | |
| | Cash in the Venture | **45 023** | 207 650 | **-** | - |
| | Cash in Merafe Resources | **4 888** | 18 539 | **4 888** | 18 539 |
| | Cash in Merafe Ferrochrome | **224 964** | 439 800 | **-** | **-** |
| | Cash in Kroondal Rehabilitation Trust | **5 931** | 5 666 | **-** | **-** |
| | Cash in Merafe Chrome & Alloys | **49** | **-** | **-** | **-** |
| | **Total** | **280 855** | 671 655 | **4 888** | 18 539 |

*Note: Cash at bank earns interest at a floating rate based on daily bank deposit rates. Call deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at the respective call deposit rates. The group's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in Note 22.*

### 21. Financial instruments

*Principles of risk management*

The group has exposure to the following risks from its use of financial instruments:
* Credit risk;
* Liquidity risk; and
* Market risk

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has established a group Audit and Risk Committee, which is responsible for monitoring the group's risk management policies. The Committee reports directly to the board of directors on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The group Audit and Risk Committee is assisted in the oversight role at operations level by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the group Audit and Risk Committee.

The overall objective of the Venture's treasury department is to effectively manage credit risk, liquidity risk and market risks in accordance with the group's strategy. Other responsibilities of the Venture's treasury department include management of the group's cash resources, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the group.

The Venture's treasury department prepares monthly treasury reports which monitor all significant treasury activities undertaken by the Venture. The report also benchmarks significant treasury activities and monitors key banking risks to ensure continued effectiveness.

The group's significant financial instruments comprise loans and receivables, cash and cash equivalents and financial liabilities measured at amortised cost. The main purpose of these financial instruments is to finance the group's acquisitions and ongoing operations.

**21. Financial instruments** *(continued)*

21.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or counter-party to a financial instrument fails to meet its contractual obligation.

Exposure to credit risk arises as a result of transactions in the group's ordinary course of business and is applicable to all financial assets. Counter-parties are assessed both prior to, during and after conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

*Cash and cash equivalents*

The group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions. The group's cash balances are in the form of short-term deposits in both local and foreign currency.

*Trade and other receivables*

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which the customers operate, has less of an influence on credit risk. Management have considered recoverability of trade and other receivables and no significant impairment losses are expected. There are no impairment losses in the current year.

The group sells the majority of its ferrochrome to a broad range of international customers in terms of the Venture agreement.

The marketing agent, Glencore, accepts 60% of the risk related to non-payment of credit sales of ferrochrome and 100% of the risk of non-payment of credit sales of chrome ore. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the group to a wide variety of customers. These sales are governed by various sales, marketing and distribution agreements. As these agreements have been in place for a number of years and the group has not been exposed to significant unrecoverable amounts, the group does not believe that these arrangements expose it to unacceptable credit risks.

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery. The group does not have netting arrangements with any debtors.

*Investments*

The company has a loan receivable from Merafe Chrome, a wholly-owned subsidiary. The recoverability of the loan is assessed periodically.

***21. Financial instruments** (continued)*

21.1 Credit risk *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Exposure to credit risk** | | | | |
| The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was: (refer note 21.4) | | | | |
| Loans to subsidiaries | **-** | - | **1 759 108** | 1 532 928 |
| Trade and other receivables | **817 598** | 790 911 | **5 447** | 158 |
| Long term- receivable | **12 995** | 13 864 | **-** | - |
| Cash and cash equivalents | **248 797** | 671 655 | **4 888** | 18 539 |
| | **1 079 390** | 1 476 430 | **1 769 443** | 1 551 625 |
| Ageing of trade receivables: | | | | |
| Not past due | **805 453** | 747 262 | **5 447** | 158 |
| Past due 31 days to 60 but not impaired | **5 836** | 15 059 | **-** | - |
| Past due 61 to 90 days but not impaired | **6 309** | 15 357 | **-** | - |
| Past due 90 days but not impaired | **-** | 13 233 | **-** | - |
| | **817 598** | 790 911 | **5 447** | 158 |

21.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations on time. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Venture's treasury department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The group manages its liquidity risk on a concentrated basis, utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required. The operational, tax, capital and regulatory requirements and obligations of the group are considered in the management of liquidity risk. In addition, management utilises both short and long term cash flow forecasts and other consolidated financial information to manage liquidity risk.

The group uses activity-based costing to cost its products, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

**21. Financial instruments** *(continued)*

21.2 Liquidity risk *(continued)*

In addition, the group maintained the following facilities at 31 December 2018:

*The Company*

* ABSA: R1m credit card facilities. Interest is payable at ABSA's prime lending rate. At year end the prime lending rate was 10.25%; and
* ABSA: R0.3m guarantee facility.

*Merafe Ferrochrome*

* ABSA R200m revolving credit facility. Interest is charged at three months JIBAR plus 255 basis points. As at 31 December 2018 the 3 months JIBAR was at 7.8%.

*The Venture*

* US$120m (ABSA, Standard Bank, Investec): US$30m committed, US$90m uncommitted foreign currency overdraft account. Interest charged at an effective interest rate of 2.88%
* Standard Bank debtors factoring facility: US$100m uncommitted. Interest is charged at US$ LIBOR plus a margin of 1.6%.

The following guarantee facilities (Merafe's portion) are in place:

| | **ABSA R'000** | **Nedbank R'000** | **FNB R'000** | **Standard R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **31 December 2018** | | | | | |
| Facility available and utilised | **13 244** | **21 593** | **66 084** | **15 278** | **116 199** |
| Eskom | **11 514** | **-** | **41 980** | **-** | **53 494** |
| DMR | **82** | **21 593** | **24 104** | **7 906** | **53 685** |
| Customs and excise | **314** | **-** | **-** | **-** | **314** |
| Town councils and water boards | **1 334** | **-** | **-** | **7 372** | **8 707** |
| Percentage utilised | **100%** | **100%** | **100%** | **100%** | **100%** |

| | **ABSA R'000** | **Nedbank R'000** | **FNB R'000** | **Standard R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **31 December 2017** | | | | | |
| Facility available and utilised | 13 474 | 21 593 | 64 253 | 7 906 | 107 226 |
| Eskom | 11 514 | - | 41 980 | - | 53 494 |
| DMR | 312 | 21 593 | 22 273 | 7 906 | 52 084 |
| Customs and excise | 314 | - | - | - | 314 |
| Town councils and water boards | 1 334 | - | - | - | 1 334 |
| Percentage utilised | 100% | 100% | 100% | 100% | 100% |

*Note: All of the above guarantees are in the name of Glencore and relate to the Venture.*

***21.*** **Financial instruments** *(continued)*

21.2 Liquidity risk *(continued)*

**Company**

| | ABSA R'000 | FNB R'000 | Total R'000 |
|---|---|---|---|
| **31 December 2018** | | | |
| Facility available and utilised | **1 310** | **20** | **1 330** |
| DMR | **1 310** | **20** | **1 330** |
| Percentage utilised | **100%** | **100%** | **100%** |

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting arrangements.

| **Group 2018** | **Year ended 31 December 2019 R'000** | **Year ended 31 December 2020 R'000** | **Year ended 31 December 2021 R'000** | **Year ended 31 December 2022 onwards R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **Non derivative** | | | | | |
| Finance lease liabilities | **(2 613)** | **(2 642)** | **(2 573)** | **(11 397)** | **(19 225)** |
| Trade payables | **(303 054)** | **-** | **-** | **-** | **(303 054)** |
| Total | **(305 667)** | **(2 642)** | **(2 573)** | **(11 397)** | **(322 279)** |

| **Group 2017** | **Year ended 31 December 2017 R'000** | **Year ended 31 December 2018 R'000** | **Year ended 2019 R'000** | **Year ended 2020 and onwards R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **Non derivative** | | | | | |
| Finance lease liabilities | (2 585) | (2 613) | (2 643) | (13 957) | (21 798) |
| Trade payables | (323 416) | - | - | - | (323 416) |
| Total | (326 001) | (2 613) | (2 643) | (13 957) | (345 214) |

**Company 2018**
Trade and other payables mature during the year ending 31 December 2019.

**Company 2017**
Trade and other payables mature during the year ending 31 December 2018.

**21. Financial instruments** *(continued)*

21.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and ferrochrome prices, will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Currency risk

*Foreign currency*
In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US$). As a result, the group was subject to transaction and translation exposure from flutuations in foreign currency exchange rates.

| | **31 December 2018 US$ '000** | 31 December 2017 US$ '000 |
|---|---|---|
| **Exposure to currency risk** | | |
| The group's exposure to foreign currency risk is as follows: | | |
| Trade receivables | **56 300** | 62 538 |
| Trade receivables sold | **(20 507)** | (14 666) |
| CFC account | **82** | 2 733 |
| Net exposure | **35 875** | 50 605 |

| | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| The following exchange rates were applied during the year: | | | | |
| Rand: United States Dollar | **13.25** | 13.3 | **14.38** | 12.4 |

**Foreign currency sensitivity analysis**

A 10 percent (strengthening)/weakening of the Rand against the US$ at 31 December 2018 would have (decreased)/increased equity and profit before tax by R29m. A 10 percent (strengthening)/weakening of the rand at 31 December 2017 against the US$ would have (decreased)/increased equity and profit before taxation by R63m. This analysis assumes that all other variables, in particular interest rates, remain constant. This sensitivity does not represent the statement of comprehensive income impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

**21. Financial instruments** *(continued)*

21.3 Market Risk *(continued)*

*Interest rate risk*
*Profile*
At the reporting date, the interest rate profile of the group's interest-bearing financial instruments were:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Average interest rate %** | **Carrying amount R'000** | Average interest rate % | Carrying amount R'000 |
| **Variable rate instruments** | | | | |
| **Interest bearing borrowings** | | | | |
| – Finance leases – plant and equipment | **13.3** | **(11 112)** | 11.8 | (12 138) |
| **Cash and cash equivalents** | | | | |
| – local currency | **7.1*** | **281 995** | 5.0* | 637 797 |
| – foreign currency | **3.9** | **82** | 0.5 | 33 858 |
| | | **270 925** | | (659 517) |

* *Cash balances in local currency receive interest as follows:*
*a The Venture: prime less 5.76%*
*b The Company and Merafe Ferrochrome*
*Call deposits: daily call deposits rates. At year end the call deposit rate was 6.6%*
*Current account balances*
*– favourable: 1%*
*– unfavourable: prime (at year end prime was 10.25%)*
** Money market: The average rate was 7.6% (at year end was 7.8%).*

**Sensitivity Analysis for interest rate risk**

*Cash and cash equivalents*
A decrease of 50 basis points in interest rates will decrease equity and profit or loss by R1.1m (2017: R1.1m). An increase of 50 basis points would have the equal but opposite effect. This analysis assumes all other variables remain constant.

*Interest bearing borrowings*
A decrease of 50 basis points on the interest rates on the interest-bearing borrowings will increase equity and profit or loss by R1.2m (2017: R1.0m). An increase of 50 basis points would have the equal but opposite effect. This analysis assumes all other variables remain constant.

**21. Financial instruments** *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| 21.4 **Financial instruments carrying amounts** | | | | |
| **Loans and receivables** | **1 079 390** | 1 511 605 | **1 769 460** | 1 551 625 |
| Inter company loan | **-** | - | **1 759 108** | 1 532 928 |
| Trade and other receivables | **817 598** | 826 086 | **5 464** | 158 |
| Long term receivable | **12 995** | 13 864 | **-** | - |
| Cash and cash equivalents | **248 797** | 671 655 | **4 888** | 18 539 |
| **Financial assets/liabilities at fair value – embedded derivative** | **(48 767)** | (35 175) | - | - |
| **Financial liabilities measured at amortised cost** | **(315 348)** | (335 554) | **(471 367)** | (228 229) |
| Loans and borrowings – long-term | **(9 879)** | (11 094) | **-** | - |
| Loans and borrowings – short-term | **(1 233)** | (1 044) | **-** | - |
| Bank overdraft | **(1 182)** | - | **-** | - |
| Trade and other payables | **(303 054)** | (323 416) | **(471 367)** | (228 229) |

The carrying amount of financial assets and financial liabilities reflected in the statements of financial position approximate their fair values.

**22. Capital management**

The board's policy is to maintain a strong capital base in order to maintain investor, debt providers and the market confidence in the business.

The strong capital base should ensure that any organic or acquisitive growth in the business is sustainable and provides a cushion for the cyclical nature of the resources business.

The board has actively pursued a policy of debt reduction and its objective is to maintain its net gearing level to a maximum of 25% versus total assets. This ratio is calculated taking into account interest bearing debt excluding cash balances divided by total assets. At 31 December 2018 year end, the gearing level was 0.2% (31 December 2017: 0.2%).

As the required gearing level has been achieved, the board will focus on balancing the requirement to pay dividends, while at the same time ensuring that there is sufficient capital in the business to see the company through the continued global economic uncertainty, to fund working capital, to fund capital expenditure requirements and to fund other growth opportunities in the business.

When analysing growth opportunities, the board seeks to obtain a minimum internal rate of return of 20%.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

### 23. Related Parties

23.1 Related party transactions and balances

During the current financial year, management performed a re-assessment of its Related Party relationships in accordance with IAS 24, Related Party Disclosures. The Glencore Plc group was identified as a related party taking into consideration the shareholding and related significant influence coupled with the substance of the relationship. Significant transactions and balances with all entities within the Glencore Plc group are therefore disclosed together with the comparative figures.

All related party transactions were concluded on an arms-length basis and relate to Merafe's attributable 20.5% interest in the Venture. Income and receivable amounts are shown in brackets. There are no outstanding commitments at year end.

| Name of related party | Description of relationship | Transactions and balance |
|---|---|---|
| The Venture | In July 2004, Glencore and Merafe Ferrochrome pooled and shared ferrochrome assets to form the Venture | Refer note 23.4 for the amounts that are included in the consolidated financial statements of the group. |
| Merafe Chrome and Alloys Proprietary Limited | Merafe Chrome is a wholly owned subsidiary of Merafe Resources Limited (Merafe Resources) | Dividends were paid to Merafe Resources by Merafe Chrome of R425m (2017: R175m).<br><br>A loan account is recognised with Merafe Resources and Merafe Ferrochrome as per note 3. The balance owing to Merafe Resources is R1.75bn (2017: R1.5bn). The loan account is of a long-term nature, is interest free, unsecured and does not have fixed repayment terms. |
| Merafe Ferrochrome and Mining Proprietary Limited | Merafe Ferrochrome is a wholly–owned subsidiary of Merafe Chrome. | Merafe Resources charges Merafe Ferrochrome a management fee as per note 15. Dividends were paid to Merafe Chrome of R425m (2017: R175m).<br><br>At year end a loan of R459m (2017: R226m) is owing by Merafe Resources to Merafe Ferrochrome refer to note 14. The loan account is of a short-term nature, is interest free, unsecured and does not have fixed repayment terms. |

**23. Related parties** *(continued)*

23.1 Related party transaction and balances *(continued)*

| | | |
|---|---|---|
| Merafe Kroondal Rehabilitation Trust (SE) | The Trust, which was registered on 31 May 2006, was established to provide funds for the rehabilitation of land involved in any prospecting or mining operations of Merafe Ferrochrome of the Kroondal mine and to discharge any liability which might arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation as may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture. | A loan account is recognised with Merafe Resources of R108k (2017: R97k) which relates to the payment of audit fees.<br><br>The loan account is of a long-term nature, is interest free, unsecured and does not have fixed repayment terms. |
| Merafe Resources Limited Share Incentive Scheme | The Trust was established for the purpose of implementing the company's share incentive scheme in 1999. The trust operates and administers share options which the company may grant to participants. | No transactions occurred during the year. The trust is dormant. |
| Industrial Development Corporation of South Africa Limited (IDC) | The IDC holds 21.8% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of its shareholding. | The IDC received the non–executive directors' fees for Ms M Mosweu as disclosed in note 23.2. IDC received dividends declared by Merafe Resources.<br><br>At year end there are no amounts due to the IDC. |
| Glencore (Nederland) B.V. (GN) | GN holds 28.7% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of its shareholding. | No transactions occurred during the year. GN received dividends declared by Merafe Resources |
| PSG Konsult | PSG holds 5.8% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of its shareholding. | No transactions occurred during the year |

### 23. Related Parties *(continued)*

23.1 Related party transactions and balances *(continued)*

| Name of related party | Description of relationship | Transactions and balance |
|---|---|---|
| Mr C Molefe, Ms M Mosweu, Ms B Majova, Mr A Mngomezulu, Ms K Nondumo[1], Ms Z Matlala, Ms K Bissessor[2], Mr S Blankfield, Mr D Chocho[3], Ms M Vuso[4] | Directors of Merafe Resources Limited.<br>There were changes in directorate during 2018. | Refer to note 23.2 for transactions with directors. |
| Glencore Limited (Stamford) (GLS) | GLS acts as the Venture's exclusive marketing agent to sell ferrochrome on its behalf and acts as distributor in the USA and Canada. | Sale of ferrochrome R468m (2017: (R738m)<br>Commission expense R12m (2017: R21m)<br>Interest expense R5m (2017: R5m)<br>Receivable at the end of the year R131m (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.<br><br>The Venture purchases various raw materials from Glencore International AG on an ongoing basis.<br><br>The Venture sells chrome ore to Glencore International AG on an ad hoc basis | Commission expense on sale of ferrochrome and chrome ore R220m (2017: R229m)<br>Marketing fee expense R2m (2017: R2m)<br>Interest income R0.5m (2017: (R4m)<br>Purchase of raw materials R227m (2017: R227m)<br><br>Sale of chrome ore Rnil (2017: (Rnil))<br><br>Balance owing at the end of the year R42m (2017: R36m) payable on confirmation of final sales |
| African Carbon Manufacturers (Pty) Ltd | African Carbon Manufacturers (Pty) Ltd sells raw materials to the Venture | Purchase of raw materials R17m (2017: R18m)<br><br>Balance owing at the end of the year R2m (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 R37m (2017: R22m)<br><br>Balance owing at the end of the year R5m (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 R34m (2017: R28m)<br><br>Balance owing at the end of the year R4m (2017: R2m) payable 30 days from statement date |

**23. Related parties** *(continued)*

23.1 Related party transaction and balances *(continued)*

| | | |
|---|---|---|
| Glencore Property Management Company (Pty) Ltd | Glencore Property Management Company (Pty) Ltd owns and manages employee housing at the Lion operation. | Lion housing lease Rnil (2017: R6m)<br><br>Balance owing at the end of the year Rnil (2017: Rnil) |
| Glencore Operations South Africa (Pty) Ltd (GOSA) | GOSA is Merafe Ferrochrome and Mining (Pty) Ltd's partner in the Venture. | Employee costs R146m (2017: R32m)<br>Head-office costs R19m (2017: R23m)<br>Training costs R7m (2017: R4m)<br>Lion housing R14m (2017: R7m)<br><br>Balance owing at the end of the year R7m (2017: R2m) payable 10 days after month end.<br><br>GOSA received the non–executive directors' fees for Mr S Blankfield as disclosed in note 23.2. GOSA received dividends declared by Merafe Resources |
| 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 of ferrochrome and chrome ore R12m (2017: R12m)<br><br>Outstanding balance owing at the end of the year R1m (2017: R3m)<br>payable 30 days after statement date. |

*[1] Resigned on 8 May 2018*
*[2] Resigned on 31 August 2018*
*[3] Appointed 1 August 2018*
*[4] Appointed 30 July 2018*

23.2 Transactions with key management personnel and non-executive directors

| | Company | |
|---|---|---|
| | **2018** | 2017 |
| **Directors' fees - Non-executive directors** | **R'000** | R'000 |
| C Molefe[1] | **(838)** | (651) |
| A Mngomezulu | **(582)** | (467) |
| BN Majova | **(553)** | (442) |
| M Mosweu | **(303)** | (289) |
| K Nondumo[2] | **(224)** | (430) |
| S Blankfield[3] | **(386)** | (322) |
| M Vuso[4] | **(197)** | - |
| | **(3 083)** | (2 601) |

The above fees relate to services rendered as directors. No other services were rendered.
*[1] Includes cell phone allowance.*
*[2] Resigned effective 8 May 2018.*
*[3] Paid to GOSA*
*[4]Appointed 30 July 2018*

**23. Related parties** *(continued)*

*23.2* Transactions with key management personnel and non-executive directors

| | Company | |
|---|---|---|
| | **2018** | 2017 |
| | **R'000** | R'000 |
| **Executive directors and prescribed officers remuneration** | | |
| **Ms ZJ Matlala** | | |
| Salary | **(4 587)** | (4 310) |
| Bonus | **(3 910)** | (4 422) |
| Fringe benefits and leave pay | **(162)** | (133) |
| Provident fund contributions | **(350)** | (350) |
| Share grants vested | **(3 366)** | (4 574) |
| Options granted exercised | **-** | (1 911) |
| | **(12 375)** | (15 700) |
| Cost of share options exercised | **-** | 7 221 |
| Proceeds on disposal of share options exercised | **-** | (9 132) |

| | Company | |
|---|---|---|
| | **2018** | 2017 |
| | **R'000** | R'000 |
| **Mr SD Chocho**[#] | | |
| Salary | **(883)** | - |
| Bonus | **(750)** | - |
| Fringe benefits and leave pay | **(31)** | - |
| Provident fund contributions | **(163)** | - |
| | **(1 827)** | - |

[#] *Appointed effective 1 August 2018*

| | Company | |
|---|---|---|
| | **2018** | 2017 |
| | **R'000** | R'000 |
| **Ms K Bissessor**[*] | | |
| Salary | **(1 594)** | (1 927) |
| Bonus | **-** | (1 796) |
| Fringe benefits and leave pay | **(135)** | (143) |
| Provident fund contributions | **(220)** | (292) |
| Share grants vested | **(902)** | (650) |
| Options granted exercised | **-** | (3 090) |
| | **(2 851)** | (7 898) |

[*] *Resigned 31 August 2018*

**23. Related parties** *(continued)*

23.2 Transactions with key management personnel and non-executive directors *(continued)*

| | | |
|---|---|---|
| Total key management personnel remuneration | **(17 069)** | (23 598) |
| Short-term employee benefits | **(12 801)** | (13 373) |
| Share grants and options | **(4 268)** | (10 225) |

*Note: In accordance with the Remuneration Policy, the 2018 bonus will be paid during March 2019.*

*There are no fixed term director service contracts and there are no director service contracts with provisions for predetermined compensation on termination of the contracts in excess of one year's salary and benefits.*

23.3 Directors interests in Merafe Resources Limited

As at 31 December 2018, the directors of the company are beneficially interested (directly and indirectly) in 2 813 480 (31 December 2017: 2 774 915) shares in the company. During the financial year no material contracts were entered into in which directors and prescribed officers of the company had an interest and which significantly affected the group.

Executive directors of the company and their immediate families control 0.1% (31 December 2017: 0.1%) of the voting shares of the company. In addition to their salaries, the company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf. Executive directors also participate in the company's share incentive schemes (refer note 8).

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Direct** | **Indirect** | Direct | Indirect |
| | **Number of shares** | | Number of shares | |
| Ms K Bissessor | **-** | **-** | 700 000 | - |
| Ms Z Matlala | **2 492 305** | **-** | 2 012 305 | - |
| Ms B Majova | **-** | **62 610** | - | 62 610 |
| Mr D Chocho | **285 565** | **-** | - | |
| | **2 750 870** | **62 610** | 2 712 305 | 62 610 |

*No additional Directors interests have been noted post 31 December 2018 till the 11 March 2019.*

**23. Related parties** *(continued)*

23.4 Transactions with the Glencore–Merafe Chrome Venture

The Venture resulted in Glencore and Merafe Ferrochrome pooling and sharing their ferrochrome assets. The Venture's head-office is located at Portion 27, Farm Waterval 306 JQ, Rustenburg, 0302. While Merafe Ferrochrome's assets form part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Executive Committee, Joint board and sub–committees (Treasury, Transformation, Sustainable Development and Health and Safety) formed to oversee the combined operation of both companies. The group receives 20.5% of the Venture's earnings before interest, tax, depreciation and amortisation (EBITDA) and owns 20.5% of the Venture's working capital.

Included in the consolidated financial statements are the following items that represent the group's share of the working capital and EBITDA of the Venture.

| | **Year ended 31 December 2018 R'000** | Year ended 31 December 2017 R'000 |
|---|---|---|
| Inventories | **2 042 621** | 1 487 330 |
| Trade and other receivables | **963 307** | 884 373 |
| Net cash | **11 782** | 207 650 |
| Finance leases | **(11 112)** | (12 138) |
| Long-term provisions | **(145 123)** | (157 104) |
| Trade and other payables | **(578 582)** | (517 764) |
| Net working capital | **2 282 893** | 1 892 347 |
| | | |
| Revenue | **5 606 324** | 5 888 861 |
| Foreign exchange (losses)/gains | **141 491** | (73 354) |
| Operating expenses: the Venture | **(4 338 390)** | (4 110 034) |
| EBITDA | **1 409 425** | 1 705 473 |

**24. Contingencies**

To the best of our knowledge and belief, other than as set out elsewhere in this report, there are no contingencies in both the current and prior year which may materially affect the financial position of the group.

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **25. Operating leases** | | | | |
| Non–cancelable operating lease rentals are payable as follows: | | | | |
| Less than one year | **(1 101)** | (1 715) | - | - |
| Between one and five years | **(3 214)** | (1 038) | - | - |
| Greater than five years | **(257)** | (533) | - | - |
| | **(4 572)** | (3 286) | - | - |

### 25. Operating leases *(continued)*

The group leases various items of office equipment, mine properties and buildings. The lease payments escalate between 7% to 10% per annum for both the prior and current year.

### 26. Capital commitments

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| The group's capital commitments at year end in respect of the Venture were: | | | | |
| – contracted for but not provided for | 47 335 | 52 448 | - | – |
| – authorised but not contracted for | 131 622 | 131 641 | - | – |
| | **178 957** | 184 089 | - | – |

### 27. Working Capital Loan

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| Debtors factoring facility | **-** | 72 272 | **-** | - |
| | **-** | 72 272 | **-** | - |

This balance relates to a Standard Bank debtors factoring facility of US$120m and is uncommitted. Interest on this facility is charged at US$ LIBOR plus a margin of 1.6%. This has been restated in the 2017 year as a prior period error. Refer to note 32 for disclosure.

### 28. Events after the reporting date

A final dividend of R151m (2017 : R226m) was declared on 11 March 2019. No other material facts or circumstances occurred after reporting date that may require adjustment or disclosure in these annual financial statements.

### 29. Dividends

An interim dividend of R200m (2017: R75m) was declared on 6 August 2018. Refer to note 28 on final dividend.

### 30. Going Concern

Having considered the group's key risks, current financial position, assessment of solvency and liquidity, debt levels, facilities, impairment review as well as the group's financial budgets with their underlying business plans, the directors believe that the company and the group has sufficient resources and expected cash flows to continue as a going concern from year end.

### 31. Impairment assessment

As per IAS 36, an entity shall assess at the end of each reporting period whether there is an indication that an asset may be impaired. If such an indication exists, the entity shall estimate the recoverable amount of the asset.

At 31 December 2018, Merafe's share price closed at 142c per share. Based on this share price, the market capitalisation was R3.567bn, R1.326bn less than the net asset value of R4.893bn. As per IAS36.12(d), if the carrying amount of net assets of an entity is higher than its market capitalisation, this is an impairment indicator.

Since an impairment indicator was present at year end management estimated the recoverable amount of its assets. The value in use was used to calculate the recoverable amount. This calculation was based on the present future cash flows expected to be derived from the Venture. The following key assumptions were used in the calculation of the value in use model (30 years):

| Assumption | Unit of measure | Value |
|---|---|---|
| Average exchange rate – real | USD/ZAR | 14.03 |
| Weighted average cost of capital – real | % | 10% |
| Ferrochrome prices – real | $c/lb | 88.58 – 99.1d |
| Chrome ore prices (CIF) – real | $/ton | 210 |

Taking the above assumptions into account, the valuation of Merafe 20.5% of the Venture exceeds the net asset value. Management are therefore satisfied that the carrying value of Merafe's assets are recoverable therefore no impairment loss should be recognised.

### 32. Prior period error

The group has restated its previously reported financial statements as at 31 December 2017 and updated the relevant disclosures. In the prior year, the working capital loan was initially incorrectly disclosed as an asset and subsequently corrected to a liability. However, the correction was erroneously disclosed as a reclassification instead of a prior period error. The impact of the restatement was as an increase in assets and an increase in current liabilities by an amount of R72.2m.

| | Group | |
|---|---|---|
| | **Post restatement** | **Pre restatement** |
| | 2017<br>R'000 | 2017<br>R'000 |
| Trade and other receivables | 883 249 | 810 977 |
| Working capital loan liability | (72 272) | - |

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2018*

## Shareholder information

### 1. Distribution of ordinary shareholders

| | Number of shareholders | % of all members | Number of shares held | % of issued capital |
|---|---|---|---|---|
| Public shareholders | 5 773 | 99.84 | 1 240 935 346 | 49.42 |
| Non–public shareholders | 6 | 0.16 | 1 269 768 902 | 50.58 |
| Directors and their associates | 4 | 0.08 | 2 774 915 | 0.11 |
| Glencore Netherlands B.V. | 1 | 0.04 | 720 163 887 | 28.68 |
| Industrial Development Corporation of South Africa Limited | 1 | 0.04 | 546 830 100 | 21.78 |
| | 5 779 | 100 | 2 510 704 248 | 100 |

### 2. Holders holding 5% or more of shares in issue

| | Number of shares held | % issued share capital |
|---|---|---|
| Glencore Nederlands B.V. | 720 163 887 | 28.68 |
| Industrial Development Corporation of South Africa | 546 830 100 | 21.78 |
| PGS Konsult | 146 857 319 | 5.85 |

### 3. Shareholding spread

| | Number of shareholders | % of all shareholders | Number of shares held | % of share capital |
|---|---|---|---|---|
| 1 – 1000 shares | 1 388 | 22.24 | 579 854 | 0.02 |
| 1 001 – 10 000 shares | 2 217 | 26.40 | 10 816 962 | 0.43 |
| 10 001 – 100 000 shares | 1 679 | 14.23 | 57 910 175 | 2.31 |
| 100 001 – 1 00 000 shares | 433 | 30.24 | 130 865 968 | 5.21 |
| 1 000 001 shares | 112 | 6.89 | 2 310 531 289 | 92.03 |
| | 5 779 | 100 | 2 510 704 248 | 100 |

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2018*

### 4 Distribution of shareholders

| | Number of shareholders | % of all shareholders | Number of shares held | % of share capital |
|---|---|---|---|---|
| Banks/Brokers | 95 | 1.64 | 341 045 408 | 13.58 |
| Close Corporations | 71 | 1.23 | 9 822 783 | 0.39 |
| Endowment Funds | 6 | 0.10 | 2 260 352 | 0.09 |
| Government | 2 | 0.03 | 547 189 178 | 21.79 |
| Individuals | 5 085 | 87.99 | 162 907 489 | 6.49 |
| Insurance Companies | 10 | 0.17 | 5 879 565 | 0.23 |
| Medical Schemes | 1 | 0.02 | 1 926 068 | 0.08 |
| Mutual Funds | 73 | 1.26 | 548 792 534 | 21.86 |
| Nominees & Trusts | 236 | 4.08 | 19 360 427 | 0.77 |
| Other Corporations | 37 | 0.64 | 850 209 | 0.03 |
| Private Companies | 89 | 1.54 | 48 694 358 | 1.94 |
| Public Company | 3 | 0.05 | 406 829 | 0.02 |
| Retirement Funds | 70 | 1.21 | 101 405 161 | 4.04 |
| Strategic Investor | 1 | 0.02 | 720 163 887 | 28.68 |
| | 5 779 | 100 | 2 510 704 248 | 100 |

### 5. JSE share performance

| | **2018** | 2017 |
|---|---|---|
| Market capitalisation as at 31 December | **3 565 200 032** | 3 740 949 330 |
| **Share Price (cents)** | | |
| High | **174** | 201 |
| Low | **126** | 108 |
| Closing | **142** | 149 |
| | | |
| **Shares traded** | | |
| Volume of shares traded | **381 111 231** | 821 628 038 |
| Value of shares (ZAR) | **598 533 387** | 1 339 214 073 |
| Volume of shares traded as a percentage of weighted average of shares in issue | **15.18%** | 32.73% |
| | | |
| **Shares in issue as at 31 December** | **2 510 704 248** | 2 510 704 248 |

### 6. Distribution of local and foreign beneficial shareholding

| | % of issued capital |
|---|---|
| South African | 57.91 |
| Foreign | 42.09 |

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2018*

### SHAREHOLDERS' DIARY

#### Meetings

Annual General Meeting for the 2018 financial year will be held on 15 May 2019.

#### Reports

Interim reports for the six months to 30 June 2019 to be released on 5 August 2019.
Annual results for the twelve months to 31 December 2019 to be released and published in March 2020.