Merafe Resources Limited

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

Reviewed interim results for the six months ended 30 June 2017 and cash dividend declaration

Sponsor:	One Capital Sponsor Services (Pty) Ltd
Executive Directors:	Z Matlala (Chief Executive Officer), K Bissessor (Financial Director)
Non-executive Directors:	CK Molefe (Chairman)*, NB Majova*, A Mngomezulu*, K Nondumo*, M Mosweu, S Blankfield
Company Secretary:	CorpStat Governance Services
Registered office:	Building B, 2nd Floor, Ballyoaks Office Park, 35 Ballyclare Drive, Bryanston, 2191
Transfer secretaries:	Link Market Services South Africa (Pty) Ltd
Investor relations:	Kajal Bissessor Tel: +27 11 783 4780/+27 83 784 6686 Email: kajal@meraferesources.co.za

**Independent*

Key features

- Overall **9% improvement in TRIFR** to 3.78 (December 2016: 4.15)
- Regrettably, **one fatality**
- Stronger financial position with **49% reduction in net debt** to R207.8 million (December 2016: R409.3 million)
- **Significant growth in interim dividend** of 277% to R75.3 million (June 2016: R20 million)
- **Strong cash generation** with 30% increase in cashflow from operating activities to R485 million (June 2016: R372 million)
- **10% increase in production,** reaching a record high of 216kt (June 2016: 196kt)
- **7% increase in revenue,** to R2 580 million (June 2016: R2 413 million)
- Total **costs well managed and controlled,** within a high mining inflation environment
- **237% increase in EBITDA,** to R865 million (June 2016: R257 million)
- **743% increase in HEPS** to 19.4 cents (June 2016: 2.3 cents)

Commentary

Overview

During the first six months of 2017, Merafe delivered a solid performance with significant increases in production, revenue and headline earnings per share ("HEPS") relative to the first half of 2016. Despite the secular trends for the industry such as Chinese demand for stainless steel remaining positive, short-term volatility across commodities remains, given the backdrop of an uncertain geopolitical environment. As such, Merafe has focused on building both operational flexibility and balance sheet strength to best position the Company to navigate the various cycles and maximise return to shareholders.

Safety

Safety remains the number one priority of Merafe and the Glencore Merafe Chrome Venture ("the Venture"), and despite a 9% improvement in our total recordable injury frequency rate ("TRIFR"), it is with deep regret that we report a fatality at our Lion Plant on 21 March 2017. Our condolences are extended to the family, friends and colleagues of Mr Tshepo Braine Makola who sustained fatal injuries.

Ensuring the safety of all our employees remains a critical focus area and all efforts continue to be made to ensure that the highest standards of safety remain in place at all the Venture's operations. Although the Venture's TRIFR improved from 4.15 for the year ended 31 December 2016 to 3.78 for the six months ended 30 June 2017, there remains further work to be done as we seek to embed a safety culture into our operations and achieve our goal of achieving zero harm, through further safety campaigns and programmes.

Review of results

Merafe's revenue and operating income is primarily generated from the Venture which is one of the global market leaders in ferrochrome production, with a total installed capacity of 2.3m tonnes of ferrochrome per annum. Merafe shares in 20.5% of the earnings before interest, taxation, depreciation and amortisation ("EBITDA") from the Venture. Merafe has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome and as a result no segment report has been presented.

Merafe's share of revenue from the Venture increased by 7% from the prior period to R2 580m. Ferrochrome revenue increased by 6% period on period to R2 282m primarily as a result of an increase in prices which was partially offset by a 28% decrease in ferrochrome sales volumes to 157kt (Jun'16: 218kt) and a 14.3% strengthening of the average Rand:Dollar exchange rate to R13.2 (Jun'16: R15.4).

Chrome ore revenue increased by 15% period on period to R298m, driven by an increase in prices, and an increase in volumes to 146kt (Jun'16:143kt) which was partially offset by the stronger Rand.

Merafe's portion of the Venture's EBITDA for the six months ended 30 June 2017 is R887.1m (Jun'16: R275.0m). The EBITDA includes Merafe's attributable share of standing charges of R32.7m (Jun'16: R49.2m) and a foreign exchange loss of R50.1m (Jun'16: R28.8m).

After accounting for corporate costs of R21.7m (Jun'16: R18.4m), which includes a cash settled share based payment expense of R2.8m (2016: R4.8m), Merafe's EBITDA reached R865.4m (Jun'16: R256.6m). Corporate costs increased period on period primarily as a result of inflation as well as Corporate Social Investment Costs of R3.4m (Jun'16: nil) following a contribution to the Adopt-a-School Project. This project relates to the renovations of science laboratories at two schools in the Rustenburg area.

Profit for the six months ended 30 June 2017 amounted to R486.5m (Jun'16: R57.3m), after taking into account depreciation of R164.9m (Jun'16: R146.5m), net financing costs of R23.8m (Jun'16: R31.6m) and taxation expense of R190.2m (Jun'16: R21.1m). The taxation expense includes deferred tax income of R91.5m (Jun'16: deferred tax expense of R18.7m) which arose as a result of temporary differences on Property, Plant and Equipment, timing differences relating to provisions and accruals and the embedded derivative as per note 2.1. There is no unredeemed capital balance at 30 June 2017 given the taxable profits exceeded capital expenditure.

Depreciation increased to R164.9m (Jun'16: R146.5m) for the six months ended 30 June 2017 as a result of the accelerated depreciation arising from the scrapping of assets due to the reassessment of useful lives. Net financing costs reduced as a result of the reduction in borrowings.

Sustaining capital expenditure incurred for the period was R141.3m (Jun'16: R118.0m) and expansionary capital expenditure incurred for the period was R0.8m (Jun'16: R6.8m).

During the reporting period, Merafe continued to reduce its total net debt to R207.8m[1] (2016: R409.3m[1]) which was primarily as a result of repaying the majority of its head-office debt owing to ABSA and Standard Bank. At period end, a balance of R0.4m was owing to ABSA and Standard Bank with unutilised debt facilities of R299.6m.

Management are currently negotiating new debt facilities with ABSA which comprises a R200m unsecured, three-year revolving credit facility, which will replace the existing facility and will be utilised for general head-office costs. The previous R800m facility was utilised primarily to finance Project Lion II which has since been completed.

At 30 June 2017, Merafe had a cash balance of R122.4m (Dec'16: R263.3m) which comprised of cash held by Merafe of R37m (Dec'16: R208.7m) and R85.4m (Dec'16: R54.6m) being Merafe's share of the cash balance in the Venture.

Inventories increased as a result of higher finished goods on hand at period end which is approximately four to five months of sales. The increase is a function of higher production volumes compared to sales volumes.

The working capital loan at 30 June 2017 of R329.8m (Dec'16: R309.1m) was reclassified as a current liability to more accurately reflect the nature of this item. The balance at 31 December 2016 was reclassified as it was previously recognised as a reduction in trade and other receivables and is now recognised as a current liability.

The board of directors of Merafe ("Board") declared an interim dividend of R75.3m.

Review of Operations

Merafe's attributable ferrochrome production from the Venture for the six months ended 30 June 2017 increased by 10% to 216kt (Jun'16: 196kt) compared to the prior period. Installed capacity utilisation improved to 90% (Jun'16: 82%) for the six months ended 30 June 2017. The increase in production is primarily attributable to more furnaces that were operational period on period coupled with pleasing furnace performances, where two record months were achieved. This performance evidences the Venture's ongoing efforts to improve efficiencies which has also resulted in more stability in the operations, improved mechanical availabilities and improved consumption efficiencies.

The increase in total cost per tonne of ferrochrome sold was primarily as a result of:

- Increase in reductant prices;
- Increase in UG2 input prices;
- Increase in labour costs, effective 1 July 2016;
- Increases in electricity prices of 9.4%, effective 1 April 2016;
- Higher royalty taxes, arising from higher chrome ore prices;
- Higher foreign exchange losses, arising from the strengthening of the Rand against the US Dollar; and
- Higher commissions as a result of higher sales prices.

The National Energy Regulator announced an electricity price increase of 2.2% which became effective on 1 April 2017. The Venture's operations were not significantly impacted by electricity supply constraints in the first half of 2017.

Mineral Reserves, Mineral Resources and Mining Rights

There were no material changes to the mineral reserves, mineral resources and mining rights of the participants in the Venture from those reported in the Integrated Annual Report for the year ended 31 December 2016.

Market Review

Global stainless steel production in the first half of 2017 was 23.3m tonnes[2], marking a 4.4%[2] increase on the same period last year, while growth in China was measured at 4.2%[2]. Chinese producers continue to be the major drivers for stainless steel production, having produced 51.9%[2] of the world's material in the first half of 2017. Outside of China, favourable trade conditions in the USA, European Union, South Korea, Japan and India resulted in increases in those regions.

Global ferrochrome demand increased by 5.0%[2] to 5.8m[2] tonnes, period on period. China accounted for 60.7%[2] of the global ferrochrome demand.

1. Includes cash and cash equivalents, working capital loan and loans and borrowings excluding finance leases.
2. CRU International Limited
3. Chinese Customs

Commentary (CONTINUED)

China remained the world's largest ferrochrome-producing nation with an output of 2.2m[2] tonnes in the first half of 2017, an increase of 15.2%[2] on the same period of the prior year. South Africa was the second largest producer with an output of 2.0m[2] tonnes. Increased market pricing for chrome products compared to the first half of 2016 also led to the restart of multiple smelters across South Africa, which added back capacity to the market.

After rising to multi-year highs towards the end of 2016, the first quarter European Benchmark ferrochrome price was settled at 165 USc/lb. The lowered demand for ferrochrome in the first quarter led to the slightly weakened conditions at the beginning of the second quarter. This resulted in the European Benchmark price decreasing to 154 USc/lb.

Chinese imports of South African chrome ore amounted to 4.5m[3] tonnes in the first half of 2017, representing a 27.1%[3] increase compared to the prior year. However, due to large increases in chrome ore imports of Turkish, Albanian and Zimbabwean origin, the overall share of South African material was reduced from 76.6%[3] to 68.6%[3] period on period.

Overall, the second quarter of 2017 has seen a marked pull back in the market following the exceptional heights reached during the recovery in the second half of 2016. The volatility witnessed is symptomatic of the current need for a flexible approach with a focus on operational efficiency and strict cost discipline.

Outlook

The global chrome market continued to be oversupplied throughout the second quarter of 2017, which led to significant downward pressure on pricing into the third quarter and resulted in the third quarter of 2017 European Benchmark settling at 110 USc/lb. Stainless steel production is expected to reach 46.3m[2] tonnes in 2017, representing a 1.6%[2] increase year on year. Annual growth rates from 2017 to 2021 are expected to average 4.3%[2], indicating strong demand prospects for chrome.

As a lower-quartile cost producer, the Venture remains well positioned to withstand depressed market conditions and benefit from any future price increases.

In accordance with our strategy, we remain committed to maximising return to our shareholders in the near term in the form of dividends and will continue to assess opportunities to deliver shareholder value.

Chris Molefe	Zanele Matlala
Independent Non-executive Chairman	Chief Executive Officer

Sandton

7 August 2017

2. CRU International Limited
3. Chinese Customs

Condensed consolidated statement of comprehensive income

	For the six months ended 30 June 2017 Reviewed R'000	For the six months ended 30 June 2016 Reviewed R'000
Revenue	2 579 981	2 412 883
Earnings before interest, taxation, depreciation and amortisation	865 393	256 569
Depreciation	(164 938)	(146 509)
Net financing costs	(23 781)	(31 615)
Profit before taxation	676 674	78 445
Taxation	(190 183)	(21 127)
Current tax	(281 682)	(2 464)
Deferred tax	91 499	(18 663)
Profit and total comprehensive income for the year	486 491	57 318
Basic earnings per share (cents)	19.4	2.3
Diluted earnings per share (cents)	19.4	2.3

Ordinary shares in issue	2 510 704 248	2 510 704 248
Weighted average number of shares for the period	2 510 704 248	2 510 704 248
Diluted weighted average number of shares for the period	2 510 704 248	2 510 704 248

Condensed consolidated statement of financial position

	As at 30 June 2017 Reviewed R'000	As at 31 December 2016 Audited R'000
ASSETS		
Property, plant and equipment	3 208 474	3 235 204
Deferred tax asset	19 948	19 340
Total non-current assets	3 228 422	3 254 544
Inventories	1 657 033	1 105 437
Current tax assets	–	36 395
Trade and other receivables	1 378 710	1 587 280
Cash and cash equivalents	122 573	287 880
Total current assets	3 158 316	3 016 992
Total assets	6 386 738	6 271 536
EQUITY		
Share capital	25 107	25 107
Share premium	1 269 575	1 269 575
Retained earnings	2 988 537	2 602 474
Total equity attributable to equity holders	4 283 219	3 897 156
LIABILITIES		
Loans and borrowings	11 754	189 102
Share-based payment liability	3 394	5 012
Provision for close down and restoration costs	163 613	151 747
Deferred tax	738 637	829 528
Total non-current liabilities	917 398	1 175 389
Loans and borrowings	1 566	187 839
Current tax liability	170 109	–
Trade and other payables	681 856	668 235
Working capital loan	329 818	309 133
Share-based payment liability	2 583	9 208
Bank overdraft	189	24 576
Total current liabilities	1 186 121	1 198 991
Total liabilities	2 103 519	2 374 380
Total equity and liabilities	6 386 738	6 271 536

Condensed consolidated statement of changes in equity

	For the six months ended	
	30 June 2017 Reviewed R'000	30 June 2016 Reviewed R'000
Share capital	25 107	25 107
Balance at beginning and end of the period	25 107	25 107
Share premium	1 269 575	1 269 575
Balance at beginning and end of the period	1 269 575	1 269 575
Retained earnings	2 988 537	2 147 448
Balance at beginning of the period	2 602 474	2 120 007
Profit and total comprehensive income for the period	486 491	57 318
Dividend paid	(100 428)	(29 877)
Total equity at end of period	4 283 219	3 442 130

Condensed consolidated statement of cash flows

	For the six months ended	
	30 June 2017 Reviewed R'000	30 June 2016 Reviewed R'000
Profit before taxation	676 674	78 445
Finance expense	25 942	32 983
Finance income	(2 161)	(1 368)
Depreciation	164 938	146 509
Vesting and payment of share grants	(11 057)	(4 107)
Adjusted for non-cash items	2 813	4 766
Adjusted for working capital changes	(279 071)	154 593
Cash flows from operations	578 078	411 821
Interest paid	(20 044)	(26 186)
Interest received	1 754	1 183
Tax paid	(75 177)	(14 548)
Cash flows from operating activities	484 611	372 270
Cash flows from investing activities	(142 052)	(124 825)
Acquisition of property, plant and equipment – expansionary	(785)	(6 823)
Acquisition of property, plant and equipment – sustaining	(141 267)	(118 002)
Cash flows from financing activities	(464 049)	(110 386)
Dividends paid	(100 428)	(29 877)
Repayment of borrowings	(363 621)	(80 509)
Net (decrease)/increase in cash and cash equivalents	(121 490)	137 059
Cash and cash equivalents at the beginning of the period	263 305	309 570
Effect of exchange rate fluctuations on cash held	(19 431)	(34 412)
Cash and cash equivalents at the end of the period	122 384	412 217

Notes to the reviewed interim results

1. Basis of preparation

Merafe prepared its reviewed interim results for the six months ended 30 June 2017 under the supervision of Kajal Bissessor CA(SA), Financial Director, in accordance with and containing the information required by IAS 34: *Interim Financial Reporting*, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, the Financial Pronouncements as issued by Financial Reporting Standards Council, the requirements of the Companies Act of South Africa and the JSE Limited Listings Requirements.

1.1 Going concern

In determining the appropriate bases of preparation of the reviewed interim results, the directors are required to consider whether the group can continue to be in operational existence for the foreseeable future. The financial performance of the group is dependent upon the wider economic environment in which the group operates.

These reviewed interim results are prepared on a going concern basis. The Board is satisfied that the group is sufficiently liquid and solvent to be able to support the operations for the next 12 months.

1.2 Accounting policies

The accounting policies applied in the preparation of these reviewed interim results are in terms of International Financial Reporting Standards and are consistent with those applied in the annual financial statements for the year ended 31 December 2016.

No new standards, amendments to the published standards or interpretations which became effective for the year commencing on 1 January 2017 had an effect on the reported results or the group accounting policies. The group did not early adopt any new, revised or amended accounting standards or interpretations.

1.3 Use of estimates and judgements

The preparation of the reviewed interim results 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. 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 reviewed interim report are as follows:

- Measurement of depreciation, useful lives and residual values of property, plant and equipment
- Share-based payment transactions
- Lease classification
- Provision for closure and restoration costs
- Utilisation of tax losses
- Consolidation: control assessment
- Measurement of embedded derivative

2. Determination of fair values

A number of the 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.

2.1 Embedded derivative

The embedded derivative is included in trade and other receivables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate. The embedded derivative at 30 June 2017 was R118.6m credit (Dec'16: R116.7m debit) and is based on level 2 hierarchy per IFRS 13. The valuation is based on observable market inputs including prices and exchange rates.

2.2 Share-based payment transactions

The fair value of employee share options and 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).

Notes to the reviewed interim results (CONTINUED)

		For the six months ended	
		30 June 2017 Reviewed R'000	30 June 2016 Reviewed R'000
3.	**Headline earnings per share (cents)**	19.4	2.3
	Diluted headline earnings per share (cents)	19.4	2.3
	Profit, total comprehensive income for the period and headline earnings	486 491	57 318
4.	**Capital commitments**	314 558	227 700
	Contracted for but not provided for	112 938	70 100
	Authorised but not contracted for	201 620	157 600

5. Related parties

5.1 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 group ("Glencore") 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 Glencore are therefore disclosed together with the comparative figures.

Related party transactions were concluded on an arms-length basis and relate to Merafe's attributable 20.5% interest in the Venture.

			Value of Transactions (Expense)/Income		Intercompany balances (Payable)/Receivable	
Nature	Description	Terms	Six months ended 30 June 2017 R'000	Six months ended 30 June 2016 R'000	30 June 2017	31 December 2016
Glencore acts as the Venture's exclusive marketing agent to sell ferrochrome and chrome ore	Commission paid is based on a percentage of ferrochrome and chrome ore sales as per marketing and distribution agreements	The commission paid is market related	(114 935)	(98 374)	–	–
The Venture purchases reductants from Glencore on an ad hoc basis	Reductant purchases	The reductants purchased are based on market prices	(79 540)	(57 534)	–	–
Intercompany balances	Reductant purchases and commission	Intercompany balances bear interest at market-related rates	–	–	(35 415)	(61 711)
Glencore acts as the Venture's distributor to sell ferrochrome on its behalf in the USA and Canada	Sales of ferrochrome	Ferrochrome sales are based on market related prices Intercompany balances bear interest at market-related rates	501 768	306 471	451 950	196 308
Glencore effects payment of costs including employee costs and training, and recharges these costs to the Venture	Recharges for head-office costs	Recharges are based on costs incurred by Glencore Intercompany balances are non-interest bearing and are settled within 10 days post month end	(25 156)	(23 460)	(26 563)	(18 795)

6. Taxation

The group's effective tax rate was 28% (Jun'16: 27%) for the six months ended 30 June 2017.

7. Events after the reporting period

There have been no material events subsequent to 30 June 2017.

8. Contingent liabilities

No contingent liabilities as at 30 June 2017.

9. Directors

There were no changes in Directors during the six months ended 30 June 2017.

10. Mining Charter

Significant uncertainty remains around the Mining Charter III, released on 15 June 2017 ("2017 Reviewed Mining Charter"), which impacts future empowerment of mining companies and granting of new mining rights.

On 14 July 2017, the Chamber of Mines ("the Chamber") advised that the Minister of Mineral Resources ("the Minister") had given a written undertaking that the Minister and the Department of Mineral Resources, will not implement or apply the provisions of the 2017 Reviewed Mining Charter in any way, pending judgement in the urgent interdict application brought by the Chamber.

The Minister regrettably failed to withdraw the notice that appeared in the Government Gazette under his name on 19 July 2017. In the notice, he invited submissions on his intention to suspend the processing of new section 11, mining and prospecting rights applications or their renewal.

On 25 July 2017, the Chamber issued and served an urgent application with the Pretoria High Court to review and set aside the notice and to interdict the Minister from taking any decision or issuing any directive contemplated in the notice.

Merafe will continue to engage through the Chamber on this matter.

11. Independent auditor's review report

The auditors, Deloitte & Touche, have issued their unmodified review conclusion for the six months ended 30 June 2017. The review was conducted in accordance with ISRE 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity. The full auditor's report on the reviewed interim results is available for inspection at the Company's registered office.

The auditor's review report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the review engagement they should obtain a copy of the auditor's review report together with the accompanying financial information from the registered office of the Company.

Any reference to future financial performance included in this announcement has not been reviewed or reported on by the Company's auditors.

12. Declaration of an ordinary dividend for the interim period ended 30 June 2017

Notice is hereby given that a gross interim ordinary dividend of R75 321 127.44 (3 cents per share) has been declared payable, by the Board, to holders of ordinary shares. The dividend will be paid out of reserves.

The ordinary dividend will be subject to a local dividend tax rate of 20%. The net ordinary dividend, to those shareholders who are not exempt from paying dividend tax, is therefore 2.4 cents per share. Merafe's income tax number is 9550 008 602. The number of ordinary shares issued at the date of the declaration is 2 510 704 248.

The important dates pertaining to the dividend are as follows:

Declaration date:	Monday, 7 August 2017
Last day for ordinary shares to trade cum ordinary dividend:	Tuesday, 19 September 2017
Ordinary shares commence trading ex-ordinary dividend:	Wednesday, 20 September 2017
Record date:	Friday, 22 September 2017
Payment date:	Tuesday, 26 September 2017

Shares may not be dematerialised/rematerialised between Wednesday, 20 September 2017 and Friday, 22 September 2017, both days inclusive. Where applicable, in terms of instructions received by the Company from certificated shareholders, the payment of the dividend will be made electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, cheques will be posted to shareholders. Shareholders who have dematerialised their shares will have their accounts with their CSDP or broker credited on Tuesday, 26 September 2017.