Reviewed Interim Results

For the six months ended 30 June 2012

MERAFE RESOURCES

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 the Group)

The following individuals were responsible for the preparation of the reviewed interim report:
Kajal Bissessor CA(SA) Financial Manager **Zanele Matlala CA(SA)** Chief Executive Officer

"I am delighted that in my first report as Chief Executive Officer I am able to advise you that despite the challenges in the first half of 2012, we achieved a 57% increase in our basic earnings per share, period on period. Production costs were contained at an overall increase of 4.5%, period on period, despite high mining inflation levels. We closed the period with a cash balance of R80m and have undrawn debt facilities with ABSA of approximately R500m. I am also pleased to report that project Tswelopele, our new pelletiser at the Rustenburg plant is on track and on budget and will be commissioned in the second half of this year. Our flagship project, Lion II, is also within budget and on track to be completed in the second half of 2013." *Zanele Matlala, CEO*

KEY FEATURES

– 7% decrease in revenue

\+ Profit of R138m, increase of 57% in basic EPS

\+ Cash flows from operations of R134m

\+ Total recordable injury frequency rate improved by 7%

Commentary

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe Resources Limited prepared its interim financial report for the six months ended 30 June 2012 in accordance with International Financial Reporting Standards (IFRS), and containing information required by IAS 34 Interim Financial Reporting, and the AC 500 standards issued by the Accounting Practices Board or its successor. The accounting policies adopted are in line with IFRS and are consistent with those applied in the annual financial statements for the year ended 31 December 2011.

Review of results

The condensed consolidated interim financial results of Merafe and its subsidiaries for the six months ended 30 June 2012 have been reviewed by the Company's auditor, KPMG Inc. In their review report dated 7 August 2012, which is available for inspection at the Company's registered office, KPMG Inc state that their review was conducted in accordance with the International Standard on Review Engagements 2410, Review of Interim Information Performed by the Independent Auditor of the Entity, and have expressed an unmodified conclusion on the condensed consolidated interim financial results.

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

Merafe's earnings from the Venture increased from the six-month comparative period primarily as a result of a weakening of the Rand against the US Dollar and the compensation received from Eskom relating to the power buy-back arrangement, which was offset by the decrease in ferrochrome sales tonnes and a decrease in the average European benchmark ferrochrome price. The average Rand US Dollar exchange rate was R7,90 in the first half of 2012, compared to R6,90 for the 2011 comparative period. The average European benchmark ferrochrome price decreased from 130USc/lb to 125USc/lb period on period and Merafe's share of ferrochrome sales tonnes decreased from 146 100 tonnes in the first half of 2011 to 123 900 tonnes in the first half of 2012. Chrome ore revenue as a percentage of total revenue increased from 11% in the first half of 2011 to 14% in the first half of 2012 of which 65% related to chrome ore exported to Asia during the first half of 2012.

Merafe's share of EBITDA from the Venture for the six months ended 30 June 2012 was R279,3m. The EBITDA includes Merafe's attributable share of standing charges of R77,6m and a foreign exchange gain of R3,6m. After accounting for corporate costs of R17,2m and share-based payment income of R0,8m, Merafe's EBITDA was R262,9m. Corporate costs of R17,2m decreased period on period primarily as a result of transaction costs and expenses associated with indirect tax liabilities that were incurred in the first half of 2011.

The profit and total comprehensive income for the period is R138,1m after taking into account depreciation of R67,8m, net financing costs of R10,4m, current tax expense of R0,5m, deferred tax expense of R79,1m and a R33,0m write-back arising from prior years overprovision of current tax. Depreciation increased period on period as a result of the re-assessment of useful lives and residual values in accordance with IAS16, Property, Plant and Equipment as well as the accelerated depreciation recognised on assets scrapped during the year. Net financing costs decreased period on period as a result of the recognition of R8,1m of interest associated with indirect tax liabilities recognised in the prior year. The R33,0m write-back of current tax arose as a result of the completion of income tax returns and assessments received from the South African Revenue Services (SARS) during the first half of 2012. The balance of unredeemed capital expenditure is estimated to be R145m at 30 June 2012.

As per the SENS announcement dated 6 March 2012, it was reported that SARS issued an assessment letter to the value of R112m relating to the disallowance of input VAT claimed on Project Bokamoso and Project Lion I. The assessment letter of R112m was withdrawn by SARS during March 2012 and was replaced with an audit letter of findings with a revised value of R26m. Management are of the view that there are sufficient and valid grounds to object to the audit letter of findings, have responded as such and are in discussions with SARS on this matter. As previously reported, the process of engaging with SARS head-office on other areas whereby the structure of the Venture creates anomalies with regard to VAT interpretation is ongoing.

Property, plant and equipment increased from 31 December 2011 as a result of R242m of capital expenditure of which R164m is expansionary and R78m is sustaining. Expansionary capital comprises expenditure on Project Tswelopele, Project Lion II, which includes the Magareng mine, and the development of the Horizon mine.

Merafe started the year with a cash balance of R221m, generated R101m in cashflows and invested R242m in expansionary and sustaining capex, closing with a cash balance of R80m at 30 June 2012. Cash in Merafe is R72m and Merafe's share of cash in the Venture is R8m. At 30 June 2012, Merafe had long-term debt of R300m and approximately R500m unutilised ABSA debt facility.

Review of operations

Ferrochrome production volume in the first half of 2012 was 21% lower than the comparative period in 2011, mainly due to the re-scheduling of maintenance programmes and power buy-back deals with Eskom, the South African national electricity supplier, in a rather soft market. As per the SENS announcement dated 30 March 2012, a total of seven furnaces were impacted by Eskom's requirements for consumption reductions to support their maintenance programmes.

Production costs per tonne increased by 4.5% compared to the previous period. Despite the significant mining inflation, the increase in variable costs was restricted to only 4.3% through cost saving and efficiency initiatives and the operation of more efficient furnaces.

Safety, health and environment

The Venture improved its total recordable injury frequency rate (TRIFR) by 7% in the first half of 2012, compared to the year ended 31 December 2011 and there were no fatalities during this period. We are also pleased to report that there were no cases of occupational diseases resulting from current working conditions in the Venture and no material adverse environmental impacts in the Venture during the reporting period.

Mineral reserves, resources and mining rights

In the first half of 2012, there were no material changes to the mineral reserves, mineral resources and mining rights of the Venture as fully reported on in the 2011 Integrated Annual Report.

Financial Mail empowerment survey

We are pleased to report that in a Financial Mail empowerment survey of JSE Listed Companies published in April 2012, Merafe was named number one in the resources sector.

Market review

Global stainless steel production was 17.6m[a] tonnes in the first half of 2012 which was 1%[a] higher than the 2011 comparative period. Global consumption of ferrochrome reached 5.0m[a] tonnes in the first half of 2012, driven by strong stainless steel production. Despite a strong start to the year, stainless steel production growth slowed towards the end of the first half of 2012. This was as a result of renewed concerns over European sovereign debt, lower growth rates in China, arising from softening global demand for goods, combined with domestic counter-inflationary policies and general weakness across the global economy.

Global ferrochrome production was 4.8m[a] tonnes in first half of 2012 which was 2%[a] higher than the comparative 2011 period. China remains the determining factor in the industry producing more than 40%[a] of the world's stainless steel and accounting for 33%[a] of the world's total ferrochrome production in the first half of 2012. The continuous growth in Chinese ferrochrome production now positions China as the largest producer in the world, ahead of South Africa who produced 32%[a].

South African ferrochrome exports to China continue to be displaced by domestic Chinese ferrochrome production on the back of unbeneficiated chrome ore exports from South Africa. It is estimated that 2.1m tonnes of chrome ore was exported in the first six months of 2012 *(source: Chinese Customs/July 2012)*. The South African ferrochrome industry is advancing its engagement with the South African Government on a solution for the entire chrome value chain. In this regard, the industry is hopeful that a chrome ore export levy on unbeneficiated ores will be introduced as a proposed short term intervention, while a sustainable longer term intervention to regulate the supply of South African ore in line with demand is worked out between all stakeholders including the platinum industry.

As noted above, South African production was severely constrained as Eskom bought back electricity from South African producers in order to ensure the country's supply and demand of electricity was kept in balance. Despite Chinese producers increasing ferrochrome production in the first half of 2012, the availability of ferrochrome is expected to remain relatively tight as any material produced in South Africa should only filter through to the market at the end of the third quarter of 2012.

The European benchmark ferrochrome price for the first quarter of 2012 was settled at 115USc/lb and increased to 135USc/lb in the second quarter of 2012. The third quarter European benchmark ferrochrome price was settled at 125USc/lb.

Developments

Project Lion II

The commissioning of Lion II is expected during the second half of 2013 and about 25% of the budgeted cost of R1bn was incurred to 30 June 2012. The construction of the Lion II smelter and the associated Magareng mine development has been impacted by labour unrest and severe summer rains in the first half of 2012, however, the expected completion date is still envisaged in the second half of 2013 and the project remains within budget. The Lion Premus proprietary technology consumes approximately 40% less electricity per tonne of ferrochrome than the weighted average consumption of relevant alternative technologies.

Project Tswelopele

The commissioning of Tswelopele is expected during the second half of 2012 and more than 80% of the budgeted cost of R190m was incurred to 30 June 2012. The project remains within schedule and budget. This plant will enable the increased use of UG2 ore and will improve the energy and ore consumption efficiencies of the Rustenburg and Wonderkop plants. Further cost savings are also expected with additional reductant mix optimisation.

Ferrochrome outlook

Despite the recent economic slowdown, stainless steel production is expected to increase by 4%[a] in 2012 to over 35m[a] tonnes which will lead to continued growth in demand for ferrochrome globally. The lower production in South Africa is expected to result in a drawdown of stocks and thus ferrochrome availability is expected to remain tight in the short term. Stainless steel production is expected to grow by 5%[a] in the long term which is expected to increase demand for ferrochrome. The Venture's suite of energy efficient technologies leaves it well positioned for the upturn in global demand.

[a] *source: Heinz Pariser/July 2012*

The way forward

Despite the challenges, we continue to remain optimistic about the future of our business. Going forward Merafe has the advantage of a strong balance sheet, low gearing, a healthy cashflow and partnering with Xstrata, one of the world's largest diversified mining companies with a reputation for running responsible and efficient operations.

The Venture has the advantage of being one of the lowest-cost and most energy efficient producers of ferrochrome. Our significant investment in improving the Venture's energy efficiency gives us a competitive advantage and contributes to its future sustainability.

The Merafe Board continues to recognise the importance of diversification and this will be a major focus for the management team.

Changes to Directorate

Mr Stuart Elliot resigned as Chief Executive Officer (CEO) with effect from 31 May 2012.

Ms Zanele Matlala, who was Chief Financial Officer (CFO) was appointed as CEO with effect from 1 June 2012. The Company has embarked on a recruitment exercise to find a suitable replacement for the CFO position by 31 October 2012. Until a suitable candidate has been appointed, Ms Zanele Matlala will also be fulfilling the CFO role in an acting capacity.

Chris Molefe
Non-executive Chairman

Zanele Matlala
Chief Executive Officer

Sandton 7 August 2012

Group condensed statement of comprehensive income

	Six months ended 30 June 2012 Reviewed R'000	Six months ended 30 June 2011 Reviewed R'000
Revenue	**1 229 840**	**1 319 278**
EBITDA	262 898	206 007
Depreciation	(67 832)	(44 906)
Net financing costs	**(10 426)**	**(16 120)**
Profit before taxation	184 640	144 981
Taxation	**(46 570)**	**(58 971)**
Current tax	(501)	(16 830)
Deferred tax	(79 054)	(37 474)
Prior years overprovision/(underprovision)	32 985	(157)
Secondary tax on companies	–	(4 510)
Profit and total comprehensive income for the period	**138 070**	**86 010**
Basic earnings per share (cents)	5,5	3,5
Diluted earnings per share (cents)	5,5	3,4
Headline earnings per share (cents)	5,5	3,5
Diluted headline earnings per share (cents)	5,5	3,4
Ordinary shares in issue	2 493 221 394	2 476 656 043
Weighted average number of shares for the period	2 493 221 394	2 476 656 043
Diluted weighted average number of shares for the period	2 499 047 985	2 495 990 715

Group condensed statement of financial position

	As at 30 June 2012 Reviewed R'000	As at 31 Dec 2011 Audited R'000
ASSETS		
Property, plant and equipment	2 541 110	2 372 768
Total non-current assets	**2 541 110**	**2 372 768**
Inventories	1 090 031	1 065 932
Trade and other receivables	362 845	262 979
Current tax asset	26 102	–
Cash and cash equivalents	79 625	220 459
Total current assets	**1 558 603**	**1 549 370**
Total assets	**4 099 713**	**3 922 138**
EQUITY		
Share capital	24 932	24 932
Share premium	1 262 481	1 262 481
Equity-settled share-based payment reserve	30 925	31 759
Retained earnings	1 477 566	1 339 496
Total equity attributable to equity holders	**2 795 904**	**2 658 668**
LIABILITIES		
Loans and borrowings	312 477	312 778
Provision for close down and restoration costs	50 109	48 396
Deferred tax	585 258	506 204
Total non-current liabilities	**947 844**	**867 378**
Loans and borrowings	592	508
Financial liability	3 144	6 098
Trade and other payables	352 229	375 946
Current tax liability	–	13 540
Total current liabilities	**355 965**	**396 092**
Total liabilities	**1 303 809**	**1 263 470**
Total equity and liabilities	**4 099 713**	**3 922 138**

Group condensed statement of changes in equity

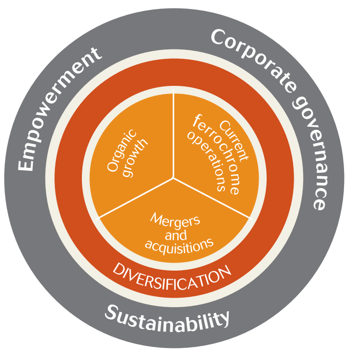
	Six months ended 30 June 2012 Reviewed R'000	Six months ended 30 June 2011 Reviewed R'000
Share capital	**24 932**	**24 767**
Balance at beginning of the period	24 932	24 767
Share options exercised	–	–
Share premium	**1 262 481**	**1 253 568**
Balance at beginning of the period	1 262 481	1 253 568
Share premium arising from share options exercised	–	–
Equity-settled share-based payment reserve	**30 925**	**28 112**
Balance at beginning of the period	31 759	24 391
Share-based payment	(834)	3 721
Retained earnings	**1 477 566**	**1 308 756**
Balance at beginning of the period	1 339 496	1 272 279
Profit and total comprehensive income for the period	138 070	86 010
Dividend	–	(49 533)#
Total equity at end of period	**2 795 904**	**2 615 203**

\# *relates to the dividend declared by the Board on 25 February 2011 and paid on 28 March 2011*

Group condensed statement of cash flows

	Six months ended 30 June 2012 Reviewed R'000	Six months ended 30 June 2011 Reviewed R'000
Profit before taxation	**184 640**	**144 981**
Interest paid	15 903	22 209
Interest received	(5 477)	(6 089)
Depreciation	67 832	44 906
Adjusted for non-cash items	(834)	3 721
Adjusted for working capital changes	(128 378)	28 851
Cash flows from operations	**133 686**	**238 579**
Interest paid	(15 903)	(14 103)
Interest received	2 305##	2 856#
Tax paid	(7 158)	–
Cash flows from operating activities	**112 930**	**227 332**
Cash flows from investing activities	**(241 699)**	**(125 870)**
Acquisition of property, plant and equipment – expansionary	(163 875)	(63 100)
Acquisition of property, plant and equipment – sustaining	(77 824)	(62 770)
Cash flows from financing activities	**(301)**	**(54 287)**
Dividends paid	–	(49 533)
Secondary tax on companies paid	–	(4 510)
Decrease in non-current borrowings	(301)	(244)
Net (decrease)/increase in cash and cash equivalents	(129 070)	47 175
Cash and cash equivalents at the beginning of the period	220 459	320 724
Effect of exchange rate fluctuations on cash held	(11 764)	(1 781)
Cash and cash equivalents at the end of the period	**79 625**	**366 118**

\# *excludes R3,2m income relating to the fair value adjustment on the interest rate swap.*
\## *excludes R2,9m income relating to the fair value adjustment on the interest rate swap and R0,2m interest accruals.*



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Our goals remain focused...

To ensure our interests in the ferrochrome industry are profitable and sustainable.

To continue with organic growth of our ferrochrome business.

To grow through diversification.

Sponsor: Merill Lynch South Africa Proprietary Limited

Executive directors: Z Matlala (Chief Executive Officer), B McBride
Non-executive directors: CK Molefe (Chairman)*, NB Majova*, M Mamathuba, A Mngomezulu*, K Nondumo*, M Salanje*, S Phiri, M Mosweu, Z van der Walt*
Company secretary: A Mahendranath
Registered office: First Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton, 2196
Transfer secretaries: Link Market Services South Africa Proprietary Limited
* *Independent*