Reviewed interim results

For the six months ended 30 June 2013

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)

Key features

Increase in production of
23%

Increase in revenue of
19%

Decrease in EBITDA from R263m to
R210m

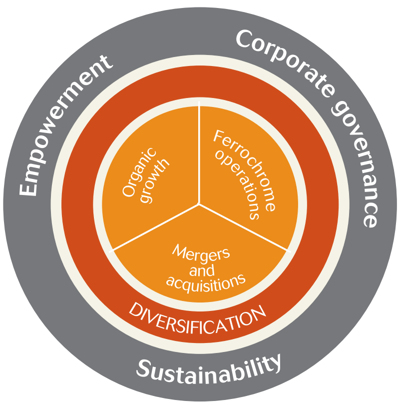
Decrease in HEPS from 5.5 cents to
3.8 cents

Operating cash flows of
R234m

The Venture's
R5bn
Project Lion II is on schedule and within budget

Preparation of this report

The following individuals were responsible for the preparation of the reviewed interim results:
Kajal Bissessor CA(SA), Financial Manager
Ditabe Chocho CA(SA), Chief Financial Officer



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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 and to grow through diversification

Commentary

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe Resources Limited ("Merafe") prepared its interim financial report for the six months ended 30 June 2013 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 and Financial Pronouncements as issued by Financial Reporting Standards Council. 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 2012.

Review of results

The condensed consolidated interim financial results of Merafe and its subsidiaries ("Company") for the six months ended 30 June 2013 have been reviewed by the Company's auditor, KPMG Inc. In their review report dated 6 August 2013, 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 statements.

Merafe's revenue and operating income is primarily generated from the Glencore-Merafe Chrome Venture ("the Venture"), one of the world's largest producers of ferrochrome, with a total installed capacity of 1.98 million tonnes of ferrochrome per annum. Merafe shares in 20.5% of the earnings before interest, taxation, depreciation and amortisation ("EBITDA") from the Venture.

Merafe's share of ferrochrome sales volume from the Venture for the first half of 2013 amounted to 137 000 tonnes which was 10% above the 2012 comparative period of 124 000 tonnes. Chrome ore revenue as a percentage of total revenue decreased from 14% in the first half of 2012 to 12% in the first half of 2013. The average Rand US Dollar exchange rate was R9.21 in the first half of 2013, compared to R7.90 for the 2012 comparative period. The average European benchmark ferrochrome price was 120USc/lb in the first half of 2013 compared to 125USc/lb in the first half of 2012.

Merafe's share of EBITDA from the Venture for the first half of 2013 was R236.5m (2012 H1: R279.3m). EBITDA from the Venture decreased period on period primarily as a result of the decrease in the average European benchmark ferrochrome price, inflationary increases, an increase in standing charges relating to the unprotected strike at the eastern mining operations and foreign exchange losses incurred which were partially offset by the weakening of the Rand compared to the US Dollar and the increase in ferrochrome sales tonnes. EBITDA for the first half of 2013 includes a foreign exchange ("forex") loss of R28.7m against a forex gain of R3.6m in the comparative period. The forex loss primarily arose as a result of the realised losses on the forex contract hedge.

After accounting for corporate costs of R23.3m (H1 2012: R17.2m) and a share-based payment expense of R3m (H1 2012: share based payment income of R0.8m), Merafe's EBITDA was R210.2m. Corporate costs increased from the 2012 comparative period primarily as a result of the reversal of an overprovision for an indirect tax liability that was included in the prior period.

The profit and total comprehensive income for the period was R33.5m after taking into account depreciation of R69.4m, an impairment loss of R75.9m, net financing costs of R9.6m, current tax expense of R0.8m, deferred tax expense of R22.3m and a R1.3m write-back arising from prior years' overprovision of current tax. The impairment loss was as a result of the Venture considering the sale of its Horizon mine. The balance of unredeemed capital expenditure is estimated to be R507m at 30 June 2013.

Property, plant and equipment increased over the six months to 30 June 2013 as a result of capital expenditure of R280m of which R200m was expansionary and R80m was sustaining. Expansionary capital comprised expenditure primarily on Project Lion II. Trade and other payables include a new financing facility made available by Glencore on 30 June 2013. Merafe's share of the utilised portion of the facility was R101m.

Merafe started the year with a cash balance of R83m, generated operating cash flows of R234m, invested R280m in capital expenditure, raised loans of R48m, incurred R38m foreign exchange fluctuations on cash held and closed with a cash balance of R47m at 30 June 2013. Of this balance, cash held by Merafe was R17m and Merafe's share of cash in the Venture was R30m. At 30 June 2013, Merafe had long-term debt owing to ABSA Capital of R560m and approximately R240m unutilised ABSA long-term debt facilities.

Review of operations

Ferrochrome production for the first six months of 2013 was 23% higher than the comparative 2012 period. Operating capacity utilisation for the first six months of 2013 was 79% compared to 64% for the prior comparative period. This was primarily as a result of operational improvements of furnaces, higher winter month production and the impact of the successful commissioning and ramp up of the Tswelopele pelletising plant. Ferrochrome production volumes in the first half of 2013 were also impacted by the Eskom power buyback agreement as in the 2012 comparative period.

Unfortunately, the Venture suffered an unprotected strike at its eastern mining operations towards the end of the first half of 2013 which resulted in the dismissal of more than 1 200 employees. These mining operations were recently resumed and the smelters that were supplied by these mines were not significantly affected due to sufficient stockpiles of chrome ore.

Safety

The safety of our employees remains a key focus area as evident from our total recordable injury frequency rate of 4.27 for the first half of 2013 which was at similar levels to the prior year. Despite these efforts, we deeply regret to report that there were two fatalities during 2013. In addition to the fatality already reported on 5 March 2013, another employee, Mr Gabafiwe Petrus Ramatlapeng passed away on 10 July 2013. Our deepest sympathies go out to his family, colleagues and friends.

Market review

Global stainless steel production was 19.2m* tonnes in the first half of 2013 which was 7% higher than the 2012 comparative period. Global consumption of ferrochrome reached 5.1m* tonnes in the first half of 2013, driven by stronger stainless steel production. Despite a strong start to the year, stainless steel production continues to be threatened by global economic uncertainty and weak market sentiment. In addition, the downward trend in the nickel price continues to negatively impact prices, keeping inventory levels and apparent consumption of stainless steel suppressed.

Global ferrochrome production was 4.8m* tonnes in first half of 2013 which was 3%* higher than the comparative 2012 period. China remains the determining factor in the industry producing more than 47%* of the world's stainless steel and accounting for 37%* of the world's total ferrochrome production in the first half of 2013. Chinese ferrochrome production continues its forward growth momentum and China maintained its position as the largest producing country in the world. China is currently ahead of South Africa, which accounted for only 29%* of global ferrochrome production in the first half of 2013. Ferrochrome supply from South Africa was most impacted in the first half of 2013 by producers participating in Eskom's buyback programme. Most South African ferrochrome producers are expected to produce at higher capacity utilisation rates in the second half of 2013, post the buy-back programme.

South African ferrochrome imports into 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 3.1m** tonnes of chrome ore was imported into China from South Africa in the first half of 2013, which is an increase of 48% period on period. The South African ferrochrome industry has continued to advance its engagement with the South African Government to find sustainable solutions to this challenge.

The European benchmark ferrochrome price for the first quarter of 2013 was settled at 112.5 USc/lb and increased to 127USc/lb in the second quarter of 2013. The third quarter European benchmark ferrochrome price was settled at 112.5USc/lb.

Developments

We are delighted to report that good progress has been made on our flagship Lion II smelter project which should be ready for hot commissioning by the end of this year. The Magareng mine, which will be supplying chrome ore to the Lion II smelter, is already in production and the surface processing plant at the mine was recently commissioned. The overall Lion II project remains on schedule and within budget and to 30 June 2013 about 65% of the total budgeted cost of R5bn, Merafe's portion of which is R1bn, was spent.

Outlook

Stainless steel production is expected to grow by 7%* in 2013 and by 5%* in the long-term which is expected to lead to increased demand for ferrochrome globally. Since the Tswelopele pelletising plant is in full operation, we are proud to report that our Rustenburg plant is now on par with the cost performance of our other non-premus furnaces. This should enable an increase in production going forward as already evidenced by our capacity utilisation improvement in the first half of 2013. In addition, once Lion II ramps-up to full production capacity, we forecast an improvement of 6% in total cost per tonne, across our operations. These investments in improving our cost efficiencies in our operations leave us well positioned as one of the lowest cost producers in the world. This will enable us to take advantage of the increased demand for ferrochrome and grow our market share.

Merafe has the advantage of a strong balance sheet, low gearing, a healthy cash-flow and a partnership with Glencore, one of the world's largest and profitable mining companies.

*source: Heinz Pariser/July2013

**source: Chinese Customs/June 2013

Chris Molefe
Non-executive Chairman

Zanele Matlala
Chief Executive Officer

Sandton
6 August 2013

Group condensed statement of comprehensive income

	Six months ended 30 June 2013 Reviewed R'000	Six months ended 30 June 2012 Reviewed R'000
Revenue	1 469 324	1 229 840
EBITDA	210 185	262 898
Depreciation and impairment	(145 370)	(67 832)
Net financing costs	(9 579)	(10 426)
Profit before taxation	55 236	184 640
Taxation	(21 713)	(46 570)
Current tax	(797)	(501)
Deferred tax	(22 275)	(79 054)
Prior years overprovision	1 359	32 985
Profit and total comprehensive income for the period	33 523	138 070
Basic earnings per share (cents)	1,3	5,5
Diluted earnings per share (cents)	1,3	5,5
Headline earnings per share (cents)	3,8#	5,5
Diluted headline earnings per share (cents)	3,8#	5,5
Ordinary shares in issue	2 493 221 394	2 493 221 394
Weighted average number of shares for the period	2 493 221 394	2 493 221 394
Diluted weighted average number of shares for the period	2 509 534 023	2 499 047 985

 # Headline earnings reconciliation:

Profit and total comprehensive income for the period	*33 523*	*138 070*
Impairment	*75 933*	*–*
Taxation effect of impairment	*(15 194)*	*–*
Profit on disposal of fixed assets	*(37)*	*–*
Taxation effect of profit on disposal of fixed assets	*10*	*–*
Headline earnings	*94 235*	*138 070*

Group condensed statement of financial position

	As at 30 June 2013 Reviewed R'000	As at 31 December 2012 Audited R'000
ASSETS		
Property, plant and equipment	2 902 009	2 677 308
Total non-current assets	2 902 009	2 677 308
Inventories	1 142 276	1 088 885
Trade and other receivables	395 990	344 725
Current tax assets	26 986	26 424
Cash and cash equivalents	46 541	82 643
Assets held for sale	–	72 127
Total current assets	1 611 793	1 614 804
Total assets	4 513 802	4 292 112
EQUITY		
Share capital	24 932	24 932
Share premium	1 262 481	1 262 481
Equity-settled share-based payment reserve	36 101	33 847
Retained earnings	1 421 892	1 388 369
Total equity attributable to equity holders	2 745 406	2 709 629
LIABILITIES		
Loans and borrowings	571 791	523 872
Provision for close down and restoration costs	54 800	57 892
Deferred tax liabilities	588 633	551 165
Total non-current liabilities	1 215 224	1 132 929
Loans and borrowings	667	636
Trade and other payables	552 505	430 368
Liabilities held for sale	–	18 550
Total current liabilities	553 172	449 554
Total liabilities	1 768 396	1 582 483
Total equity and liabilities	4 513 802	4 292 112

Group condensed statement of changes in equity

	Six months ended 30 June 2013 Reviewed R'000	Six months ended 30 June 2012 Reviewed R'000
Share capital	24 932	24 932
Balance at beginning of the period	24 932	24 932
Share options exercised	–	–
Share premium	1 262 481	1 262 481
Balance at beginning of the period	1 262 481	1 262 481
Share premium arising from share options exercised	–	–
Equity-settled share-based payment reserve	36 101	30 925
Balance at beginning of the period	33 847	31 759
Share grants exercised	(716)	–
Share-based payment	2 970	(834)
Retained earnings	1 421 892	1 477 566
Balance at beginning of the period	1 388 369	1 339 496
Profit and total comprehensive income for the period	33 523	138 070
Total equity at end of the period	2 745 406	2 795 904

Group condensed statement of cash flow

	Six months ended 30 June 2013 Reviewed R'000	Six months ended 30 June 2012 Reviewed R'000
Profit before taxation	55 236	184 640
Interest paid	9 919	15 903
Interest received	(340)	(5 477)
Depreciation and impairment	145 370	67 832
Adjusted for non-cash items	2 970	(834)
Share grants excercised	(716)	–
Adjusted for working capital changes	31 001	(128 378)
Cash flows from operations	243 440	133 686
Interest paid	(9 757)	(15 903)
Interest received	340	2 305*
Tax paid	–	(7 158)
Cash flows from operating activities	234 023	112 930
Cash flows from investing activities	(280 016)	(241 699)
Proceeds on disposal of property, plant and equipment	97	–
Acquisition of property, plant and equipment – expansionary	(200 442)	(163 875)
Acquisition of property, plant and equipment – sustaining	(79 671)	(77 824)
Cash flows from financing activities	47 919	(301)
Increase/(decrease) in non-current borrowings	47 919	(301)
Net increase/(decrease) in cash and cash equivalents	1 926	(129 070)
Cash and cash equivalents at the beginning of the period	82 643	220 459
Effect of exchange rate fluctuations on cash held	(38 028)	(11 764)
Cash and cash equivalents at the end of the period	46 541	79 625

** Excludes R2.9 million income relating to the fair value adjustment on the interest rate swap.*

Sponsor: **Merrill Lynch South Africa Proprietary Limited**

Executive directors: Z Matlala (Chief Executive Officer),
D Chocho (Chief Financial 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*