Reviewed interim results

for the six months ended 30 June 2014

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)

KEY FEATURES

16% increase in production tonnes to 168k

35% increase in revenue to R2bn

134% increase in HEPS to 8.9 cents

Cash from operating activities of **R265m**

Flagship **Project Lion II** in production

Preparation of this report

The following individuals were responsible for the preparation of this report:

Kajal Bissessor CA(SA)
Finance and Investor Relations Manager

Ditabe Chocho CA(SA)
Chief Financial Officer

These results were published on 12 August 2014.

COMMENTARY

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe prepared its interim financial report for the six months ended 30 June 2014 in accordance with the measurement and recognition requirements of IFRS, the requirements of the Companies Act of South Africa and the presentation and disclosure requirements of 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 the 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 2013.

Review of results

The condensed consolidated interim financial results of Merafe and its subsidiaries ("Merafe" or the "Company") for the six months ended 30 June 2014 have been reviewed by the Company's external auditors, KPMG Inc. The auditors have expressed an unmodified conclusion on the condensed consolidated interim financial statements and their review report, dated 12 August 2014, is available for inspection at the Company's Registered Office. The auditors' 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.

Merafe's revenue and operating income is primarily generated from the Glencore Merafe Chrome Venture ("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.

Revenue increased 35% from the prior year mainly due to a 25% increase in ferrochrome sales to 171kt (2013 H1: 137kt) and a 16% weaker Rand/Dollar exchange rate. Chrome ore revenue as a percentage of total revenue decreased to 10% in the first half of 2014 (2013 H1: 12%).

Merafe's 20.5% EBITDA from the Venture was R460.2m (2013 H1: R236.5m). EBITDA includes a lower foreign exchange loss of R3.5m (2013 H1: R28.7m), as a result of the lower utilisation of the Venture's US Dollar facilities. Further, EBITDA also includes Merafe's attributable share of standing charges of R35.7m (2013 H1: R23.9m) which increased mainly as a result of the platinum strike action and related impact on the UG2 plants.

After accounting for corporate costs of R37.4m (2013 H1: R26.3m), which include a share based payment expense of R3.3m (2013 H1: R3.0m), Merafe's EBITDA was R422.8m (2013 H1: R210.2m). Corporate costs increased mainly as a result of restructuring costs at Merafe head-office level referred to later in this report.

Profit for the six months was R224.7m (2013 H1: R33.5m) after taking into account depreciation of R84.6m (2013 H1: R69.5m), impairment of Rnil (2013 H1: R75.9m), net financing costs of R18.3m (2013 H1: R9.6m), current tax expense of R35.9m (2013 H1: R0.8m) and a deferred tax expense of R59.3m (2013 H1: R22.3m). Depreciation increased as a result of commencement of Project Lion II depreciation. The impairment in the prior period related to the Horizon mine which has since been placed on care and maintenance, as previously reported. Net financing costs increased largely because of higher debt levels and the reduced capitalisation of borrowing costs related to Project Lion II, which was brought into use in the second quarter of 2014. The current tax expense increased as a result of higher taxable profits and the full utilisation of capital expenditure in two of the three taxation ring-fences. The balance of unredeemed capital expenditure is estimated to be R465m as at 30 June 2014 (31 December 2013: R553m).

Property, plant and equipment increased as a result of capital expenditure of which R94.6m was sustaining and R152.5m was expansionary. Expansionary capital comprised expenditure primarily on the Venture's flagship expansion, namely Project Lion II. Expansionary capital includes borrowing costs capitalised of R9.5m (H1 2013: R11.3m). As at 30 June 2014, Merafe's capital commitments were R231m of which R117m was contracted for but not provided for and R114m was authorised but not contracted for.

As at 30 June 2014, Merafe had a net cash balance of R19m which comprised cash held by Merafe of R30m and R11m relating to Merafe's share of the overdraft balance in the Venture. Merafe had total debt owing to Absa Capital of R592m at 30 June 2014.

Trade and other payables reduced from 31 December 2013 primarily as a result of the lower utilisation of the short-term inventory facility of R65m at 30 June 2014 (31 December 2013: R194m).

Change in strategic focus

Since the formation of the Venture 10 years ago, the Company and its Venture partners have focused on growing the Venture's ferrochrome operations and reducing costs. These initiatives included the acquisition of the Wonderkop assets and various expansionary projects including the Bokamoso and Tswelopele pelletising and sintering plants, the Lion smelter complex as well as UG2 plants and chrome ore reserves. As a result of the implementation of these initiatives, the Company and the Venture have developed and enjoyed significant competitive advantages and the Venture is well positioned for the future.

Merafe's diversification aspirations had previously been constrained by the above initiatives which were funded from internal cash flows and debt. It was envisaged that there would be a renewed focus on diversification upon completion of Lion II. However, the Board has decided that in the short to medium term, the focus of the Company should be on its ferrochrome operations and maximising cash flows from the Venture. Accordingly, the fact that diversification will no longer be a key focus has necessitated a rethink of the head-office structure and its composition. Consequently, the Company has decided to reduce its staff complement, management team and the Board's size and skills set going forward.

Owing solely to the change in focus, the Company and the executives have reached agreement that Ditabe Chocho will leave the Company's employ in December 2014 and Bruce McBride will be leaving the Company in March 2015. Kajal Bissessor, a qualified Chartered Accountant and currently the manager responsible for finance and investor relations, will succeed Ditabe Chocho as executive Financial Director. The Company Secretary, Ami Mahendranath will also be leaving the Company on 30 September 2014. The Company's secretarial functions will be outsourced and further details on the appointment will be announced in due course. In addition, the number of non-executive Board members will be reduced post 2014 year end.

We take the opportunity to thank all the departing executives and staff for their invaluable contribution to the growth of the Company over the years. We are appreciative to them and their families for their commitment and diligence in building Merafe to the Company it is today.

Review of operations

Merafe's operating capacity utilisation for the first half of 2014 was 90% which is equivalent to an increase of 16% compared to the previous corresponding period. This increase is primarily attributable to a stronger market and the impact of the non-recurring Eskom buy-back agreements that were entered into in the first half of 2013.

Despite the start-up costs of Lion II and the impact of the strike action in the platinum sector, the total ferrochrome cost per tonne increase was below mining inflation, primarily as a result of higher production volumes and cost saving initiatives.

The Venture's wage negotiations at its eastern smelters and mines were successfully concluded. Wage negotiations at the Venture's western mines and smelters are ongoing.

Safety

Safety remains a key focus area and all efforts continue to be made to ensure that the highest standards of safety are in place at all the Venture's operations.

As previously reported, an accident occurred on 9 April 2014 at the Venture's Kroondal mine in Rustenburg which sadly resulted in one of our colleagues, Mr Andries Shomolekae, being fatally injured. Our condolences go out to his family, collegues and friends.

The Venture's total recordable injury frequency rate (TRIFR) increased slightly to 4.41 due to two additional injuries in the first half of 2014, compared to the previous corresponding period.

Mineral Reserves, Mineral Resources and Mining Rights

During the first half of 2014, there were no material changes to the mineral reserves, mineral resources and mining rights of the Venture.

Market review

Global stainless steel production for the first half of 2014 reached 21.1m* tonnes, primarily due to a 14.3%* increase in China, compared to the previous corresponding period, while higher production in India and USA also played a role. As a result, 2014 estimated global stainless steel production of 41.9m* tonnes is on track to surpass last year's all time annual high of 38.5m* tonnes.

Global ferrochrome demand continued to rise, reaching 5.7m* tonnes in the first half of the year. Global ferrochrome production increased by 20.5%* to 5.7m* tonnes compared to the previous corresponding period. The majority of this increase came from China and South Africa, which expanded output by 12.4%* and 36.2%* respectively. During the first half of 2014, it is estimated that China accounted for 49.9%* and 35.5%* of the world's stainless steel and ferrochrome production, respectively.

US ferrochrome imports for the first four months of the year increased by 53%# to 192kt# compared to the previous corresponding period. The rise in imports was largely due to a pick-up in real demand with the automotive sector being particularly robust, with healthy demand from the energy, aerospace and special alloy sectors. The restocking of raw materials post year-end further contributed to the rise in US imports.

Chinese chrome ore imports were 4.3m* tonnes for the first five months of the 2014 year, 12.5%* lower compared to the previous corresponding period, with May 2014 imports at the lowest level since July 2012. Chrome ore imports from South Africa were 2.5m* tonnes for the same period, 9.3%* lower compared to the previous corresponding period. The South African platinum producers reached settlement with the unions in late June 2014, bringing an end to the five-month strike that impacted UG2 supply.

The second quarter European benchmark ferrochrome price increased by 4USc/lb to 122USc/lb. Despite the European benchmark increase, Chinese stainless mills lowered their monthly ferrochrome tender prices during this period, prompting major Chinese alloy smelters to reduce their output in order to minimise their losses.**

The third quarter European benchmark ferrochrome price was settled at 119USc/lb, a reduction of 2.5% from the price in the second quarter of 2014.

Developments

Project Lion II

As projected in our 23 April 2014 announcement, the second line of the Lion II expansion was successfully commissioned in June 2014 and the plant is now fully operational. During mid-July 2014, daily ferrochrome production reached more than 60% of design capacity and the plant is expected to reach full capacity within the next year. Production is being ramped up and current plant output is better than forecast.

In excess of 11.6m man hours were worked on the project of which 9.6m man hours were without a lost time injury.

Merafe is particularly pleased to announce the safe and successful completion of the Lion II project within a reasonable time and budget variance. After settlement of all outstanding contractor time extension claims, the project expenditure is forecast to finish 7% over the budget originally approved in 2011, including exchange rate variances on the offshore supplied portion of the project. This achievement is particularly significant, against the backdrop of recent challenges experienced in South Africa and the rest of the world in the execution of projects of this nature.

Changes to Directorate

As previously reported, we were saddened by the passing of Mfanyana Salanje, our non-executive director on 11 June 2014. We re-iterate our deepest condolences to his family and gratitude for his contribution and wise counsel over the years.

Declaration of an ordinary dividend for the interim period ended 30 June 2014

The Merafe Board declared an interim dividend of R28m. Notice is hereby given that a gross interim ordinary dividend in the amount of 1.12 cents per ordinary share has been declared by the Board of Merafe, payable to holders of ordinary shares. The dividend will be paid out of distributable reserves.

The ordinary dividend will be subject to a local dividend tax rate of 15%. The total STC credits utilised for the ordinary dividend amounted to R4 841 975. The number of ordinary shares in issue at the date of the declaration was 2 495 754 728 and consequently the STC credits utilised amounted to 0.19401 cents per share. The net ordinary dividend, to those shareholders who are not exempt from paying dividend tax, is therefore 0.98110 cents per share. Merafe's income tax reference number is 9550 008 602.

The important dates pertaining to the dividend are as follows:

	2014
Declaration date:	Monday, 11 August
Last day for ordinary shares respectively to trade cum ordinary dividend:	Friday, 29 August
Ordinary shares commence trading ex-ordinary dividend:	Monday, 1 September
Record date:	Friday, 5 September
Payment date:	Monday, 8 September

Share certificates may not be dematerialised/rematerialised between Monday, 1 September 2014 and Friday, 5 September 2014, 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 Monday, 8 September 2014.

Outlook

Stainless steel production and demand is expected to increase by approximately 5.5%* per year for the next three years. The demand for ferrochrome is expected to follow suit with an increase of approximately 6%* per year for the next three years. Our suite of cost and energy efficient technology, further enhanced with the recent addition of Lion II, place us in an ideal position to significantly benefit from the projected increase in demand for ferrochrome. Furthermore, with our partnership and excellent relationship with Glencore, one of the world's largest diversified miners and leaders in the marketing of chrome ore and ferrochrome, we are excited about the future prospects and further reinforcing our position in this industry.

Chris Molefe
Non-executive Chairman

Zanele Matlala
Chief Executive Officer

Sandton

12 August 2014

References

- * *Heinz Pariser/July 2014*
- ** *Metal Bulletin*
- \# *CRU Chrome Monitor June 2014*

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2014

	Six months ended 30 June 2014 Reviewed R'000	Six months ended 30 June 2013 Reviewed R'000
Revenue	1 990 697	1 469 324
EBITDA	422 782	210 185
Depreciation and impairment	(84 619)	(145 370)
Net financing costs	(18 325)	(9 579)
Profit before taxation	319 838	55 236
Taxation	(95 175)	(21 713)
Current tax	(35 890)	(797)
Deferred tax	(59 285)	(22 275)
Prior years overprovision	–	1 359
Profit and total comprehensive income for the period	224 663	33 523
Basic earnings per share (cents)	9,0	1,3
Diluted earnings per share (cents)	8,9	1,3
Ordinary shares in issue	2 495 754 728	2 493 221 394
Weighted average number of shares for the period	2 494 664 949	2 493 221 394
Diluted weighted average number of shares for the period	2 515 371 345	2 509 534 023

Notes:	Six months ended 30 June 2014 Reviewed R'000	Six months ended 30 June 2013 Reviewed R'000
Headline earnings per share (cents)	8,9	3,8
Diluted headline earnings per share (cents)	8,8	3,8
Headline earnings reconciliation		
Profit and total comprehensive income for the period	224 663	33 523
Impairment	–	75 933
Taxation effect of impairment	–	(15 194)
Profit on disposal of fixed assets	(4 695)	(37)
Taxation effect of profit on disposal of fixed assets	1 315	10
Headline earnings	**221 283**	**94 235**

GROUP CONDENSED STATEMENT OF FINANCIAL POSITION

as at 30 June 2014

	As at 30 June 2014 Reviewed R'000	As at 31 December 2013 Audited R'000
ASSETS		
Property, plant and equipment	3 249 215	3 099 988
Total non-current assets	3 249 215	3 099 988
Inventories	1 206 738	1 132 986
Trade and other receivables	617 831	677 649
Current tax asset	1 579	7 440
Cash and cash equivalents	64 761	85 547
Total current assets	1 890 909	1 903 622
Total assets	5 140 124	5 003 610
EQUITY		
Share capital	24 958	24 942
Share premium	1 263 983	1 262 899
Equity-settled share-based payment reserve	40 429	39 011
Retained earnings	1 823 648	1 598 985
Total equity attributable to equity holders	3 153 018	2 925 837
LIABILITIES		
Loans and borrowings	575 003	576 311
Provision for closure and restoration costs	118 249	111 456
Deferred tax liability	685 383	626 099
Total non-current liabilities	1 378 635	1 313 866
Loans and borrowings	31 051	19 471
Trade and other payables*	532 099	648 143
Bank overdraft	45 321	96 293
Total current liabilities	608 471	763 907
Total liabilities	1 987 106	2 077 773
Total equity and liabilities	5 140 124	5 003 610

* *Includes short-term inventory facility of R65m (31 December 2013: R194m)*

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014

	Six months ended 30 June 2014 Reviewed R'000	Six months ended 30 June 2013 Reviewed R'000
Share capital – ordinary shares	24 958	24 932
Balance at beginning of the period	24 942	24 932
Share options exercised	16	–
Share premium – ordinary shares	1 263 983	1 262 481
Balance at beginning of the period	1 262 899	1 262 481
Share premium arising from share options exercised	1 084	–
Equity-settled share-based payment reserve	40 429	36 101
Balance at beginning of the period	39 011	33 847
Share grants exercised	(1 868)	(716)
Share-based payment	3 286	2 970
Retained earnings	1 823 648	1 421 892
Balance at beginning of the period	1 598 985	1 388 369
Profit and total comprehensive income for the period	224 663	33 523
Total equity at period end attributable to equity holders	3 153 018	2 745 406

GROUP CONDENSED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2014

	Six months ended 30 June 2014 Reviewed R'000	Six months ended 30 June 2013 Reviewed R'000
Profit before taxation	319 838	55 236
Interest paid	18 955	9 919
Interest received	(630)	(340)
Depreciation and impairment	84 619	145 370
Adjusted for non-cash items	(1 409)	2 970
Adjusted for working capital changes	(110 834)	31 001
Cash flows from operations	310 539	244 156
Interest paid#	(15 884)	(9 757)
Interest received	421	340
Tax paid	(30 028)	–
Cash flows from operating activities	265 048	234 739
Cash flows from investing activities	(242 386)	(280 016)
Proceeds on disposal of property, plant and equipment	4 695	97
Acquisition of property, plant and equipment – expansionary	(152 525)	(200 442)
Acquisition of property, plant and equipment – sustaining	(94 556)	(79 671)
Cash flows from financing activities	9 524	47 203
Proceeds from issue of shares	1 100	–
Vesting and payment of share grants	(1 868)	(716)
Increase in borrowings	10 292	47 919
Net increase in cash and cash equivalents	32 186	1 926
Cash and cash equivalents at the beginning of the period	(10 746)	82 643
Effect of exchange rate fluctuations on cash held	(2 000)	(38 028)
Cash and cash equivalents at the end of the period	19 440	46 541

Excludes R3m relating to interest accrued

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*,
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