

REVIEWED RESULTS

For the six months ended 30 June 2007

- **REVENUE UP FROM R330 MILLION TO R730 MILLION**
- **EBITDA UP FROM R4 MILLION TO R183 MILLION**
- **EARNINGS PER SHARE UP FROM (1) CENT TO 4 CENTS**

MERAFE RESOURCES LIMITED
(Incorporated in the Republic of South Africa)
(Registration number 1987/003452/06)
Share Code: MRF
ISIN: ZAE 00060000
("Merafe" or "the Company")

GROUP CONDENSED INCOME STATEMENT

	6 months ended 30 June 2007 Reviewed R'000	6 months ended 30 June 2006 Unaudited R'000
Revenue	729 833	330 293
EBITDA	183 348	4 008
Depreciation	(18 001)	(10 851)
Net financing costs	(31 317)	(18 991)
Profit/(loss) before taxation	134 030	(25 834)
Normal taxation	(164)	-
Deferred taxation	(42 631)	-
Secondary taxation on companies	(1 388)	(1 970)
Profit/(loss) for the period	89 847	(27 804)
Earnings/(loss) per share (cents)	4	(1)
Diluted earnings/(loss) per share (cents)	4	(1)
Ordinary shares in issue	2 386 479 739	2 339 241 009
Weighted average number of shares for the period	2 351 095 379	2 251 861 364

GROUP CONDENSED BALANCE SHEET

	As at 30 June 2007 Reviewed R'000	As at 31 December 2006 Audited R'000
Assets		
Non-current assets	1 508 169	1 494 910
Property, plant and equipment	1 508 169	1 465 739
Deferred tax asset	-	28 825
Investments	-	346
Current assets	712 291	612 540
Inventories	406 513	319 356
Trade and other receivables	296 670	273 708
Bank and cash	9 108	19 476
Total assets	2 220 460	2 107 450
Equity and liabilities		
Capital and reserves	1 207 726	1 105 989
Issued share capital	23 865	23 416
Share premium	1 162 993	1 142 887
Equity-settled share-based payment	3 738	3 300
Non-distributable reserve	-	9 103
Accumulated profit/(loss)	17 130	(72 717)
Non-current liabilities	330 745	424 753
Non-current borrowings	293 098	413 799
Deferred tax liability	13 806	-
Provision for close-down and restoration	23 841	10 954
Current liabilities	681 989	576 708
Trade and other payables	357 343	316 194
Current portion of non-current borrowings	149 929	153 371
Bank overdraft	174 717	107 143
Total equity and liabilities	2 220 460	2 107 450

GROUP CONDENSED STATEMENT OF CHANGES IN EQUITY

	6 months ended 30 June 2007 Reviewed R'000	6 months ended 30 June 2006 Unaudited R'000
Issued share capital	23 865	23 393
Balance at beginning of the period	23 416	22 475
New shares issued during the period	449	918
Share premium	1 162 993	1 142 001
Balance at the beginning of the period	1 142 887	1 091 743
Premium on new shares issued during the period	20 106	50 258
Equity-settled share-based payment	3 738	2 992
Balance at the beginning of the period	3 300	2 510
Share-based payment	438	482
Accumulated loss	17 130	(239 664)
Balance at the beginning of the period	(72 717)	(211 860)
Net profit/(loss) for the period	89 847	(27 804)
Non-distributable reserve	-	-
Balance at the beginning of the period	9 103	-
Downstream project	(9 103)	-
	1 207 726	928 722

GROUP CONDENSED CASH FLOW STATEMENT

	6 months ended 30 June 2007 Reviewed R'000	6 months ended 30 June 2006 Unaudited R'000
Net profit/(loss) before tax for the period	134 030	(25 834)
Interest paid	31 604	19 543
Interest received	(287)	(552)
Depreciation	18 001	10 851
Adjusted for non-cash items	17 634	482
Adjusted for working capital changes	(73 264)	(332 419)
Cash flows from operating activities	127 718	(327 929)
Interest paid	(31 604)	(19 543)
Interest received	287	552
Taxation paid	(1 567)	-
Cash flows from operating activities	94 834	(346 920)
Cash flows from investing activities	(60 085)	(90 695)
Investment matured	346	-
Acquisition of property, plant and equipment	(60 431)	(90 695)
Cash flows from financing activities	(112 691)	380 369
Proceeds from issue of shares	11 452	51 176
Loans raised during the year	-	376 046
Repayment of non-current borrowings	(124 143)	(46 853)
Net decrease in cash and cash equivalents	(77 942)	(57 246)
Cash and cash equivalents at the beginning of the year	(87 667)	(87 427)
Cash and cash equivalents at the end of the year	(165 609)	(144 673)

COMMENTARY

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe has prepared its Group financial statements for the six months ended 30 June 2007 in accordance with International Financial Reporting Standards (IFRS). The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31 December 2006.

Review of results

The results of the Group have been reviewed by the Group's auditors, KPMG Inc. Their unqualified review report is available for inspection at the Company's registered address.

Merafe's income is generated from the Xstrata-Merafe Chrome Venture (the Venture), the market leader in ferrochrome, with a total managed capacity of 1,96 million tonnes of ferrochrome production per annum. Merafe shares in 20,5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

In the comparative six month period, Merafe recorded a net loss of R27,8 million, mainly due to weak ferrochrome prices and a strong Rand. The first half of 2007 showed an increase in the ferrochrome price, a comparatively weaker Rand and some operations that had been temporarily shut down were re-started, resulting in increased production. Merafe's share of EBITDA from the Venture for the six month period ended 30 June 2007 was R197,1 million from attributable saleable ferrochrome production of 139 000 tonnes (30 June 2006: 85 000 tonnes). After accounting for corporate costs of R13,4 million and a share-based payment expense of R0,4 million, the Group's EBITDA was R183,3 million. The net profit after tax for the first half of 2007 is R89,8 million after taking into account a deferred tax expense of R42,6 million.

The deferred tax expense of R42,6 million was mainly attributable to the taxable income generated by the Group, which is offset against unredeemed capital expenditure.

Merafe has repaid R160,0 million of its borrowings since 31 December 2006 through cash flows generated by operating activities and an active reduction in its accounts receivable days. The balances remaining at 30 June 2007 are R165,0 million in respect of preference shares, R277,5 million in respect of the loan for the Lion Ferrochrome plant and R147,0 million owing to Xstrata, included in trade and other payables.

Review of operations

Global demand for ferrochrome remained strong in the first half of 2007 resulting in increased prices for ferrochrome despite the fact that new capacity was brought on-stream from Lion Ferrochrome and other local producers.

The strong demand for ferrochrome necessitated the resumption of operations at five out of the seven furnaces that were closed during 2006. The two furnaces (Wonderkop 5 & 6) that remain closed are expected to return to operation during the second half of 2007.

Despite the negative effect of ongoing mining sector inflation, increased production volumes positively impacted fixed cost structures but inevitably had an adverse effect on variable costs. The higher level of production precipitated the use of more power at elevated winter tariff structures, increased consumption of imported coke and the purchasing of additional lumpy ore at a premium. Due to the significant energy requirements of ferrochrome production, the Venture is participating in the demand market programme of Eskom, assisting Eskom to manage demand on the national grid whilst achieving a financial benefit for the Venture.

To meet increased demand from the smelters, chrome ore production will be increased at Thorncliffe, Helena and Waterval mines and opencast reserves at Boshoeck are being developed. The new UG2 chrome ore recovery plant at Eastern Platinum Mine has been commissioned and is producing at design capacity, providing a further low cost source of chrome ore.

The Lion Ferrochrome plant experienced some commissioning problems accompanied by adverse consequential operating conditions which caused delays in the planned ramp-up schedule. Additional engineering and operational staff were allocated to the operation to mitigate the impact and as a result the plant recovered some lost production time. The plant is expected to reach its design capacity of 360 000 tonnes per annum during the fourth quarter of 2007. The metal recovery plant was commissioned at the end of June 2007, which will increase production during the second half of the year.

The commissioning of Bokamoso, an R800 million 1,2 mtpa pelletising and sintering plant, has commenced. Full commissioning of this plant will provide additional agglomeration capacity to enable all fine ore produced by the Venture's mines, together with purchased UG2 chrome ore (a by-product of platinum production) to be agglomerated and consumed by the smelters at the Western Limb operations. Merafe is currently in discussions with Xstrata with regard to its option on the best way for Merafe to participate in this project.

Submissions have been made to the Department of Minerals and Energy for New Order Prospecting and Mining Rights for the Venture. To date, 50% of conversion applications have been granted New Order Mining Rights by the Minister of Minerals and Energy.

Market review

Demand for ferrochrome remained strong in the first half of 2007. Production of stainless steel continues to grow and is anticipated to increase to almost 30 million tonnes for 2007, which is around 5% higher than the record levels reached last year. It is anticipated that the lower production from Western Europe, and to a lesser extent Eastern Europe and the Americas, will be compensated for by further significant production growth in China of around 38% year-on-year to approximately 6,8 million tonnes.

High nickel prices have resulted in numerous stainless steel producers increasing the production of ferritic (higher virgin chrome content) grades and reducing production of the nickel-bearing austenitic grades. This switch away from the nickel-intensive stainless steel has boosted demand for virgin chrome input, as less scrap is available in the lower value ferritic range.

The positive move taken by the Indian government to impose a US\$44 per tonne export duty on chrome ore exports, together with the strong consumption of the chrome ore by ferrochrome producers especially in South Africa, has led to higher traded chrome ore prices. The increased cost of imported chrome ore has decreased the cost competitiveness of the Chinese ferrochrome industry which depends entirely on imported ore, and has resulted in Chinese stainless steel producers importing increased quantities of ferrochrome to meet their demand.

The combination of continued stainless melt growth, increased ferritic stainless steel production and strong ferrochrome import demand from China in the first two quarters led to demand for ferrochrome outstripping production, especially in China. This has led to a decrease in ferrochrome stocks and increases in ferrochrome prices, with South African ferrochrome producers operating at near full capacity.

The strong ferrochrome market has resulted in an increase in the ferrochrome base price from 75USc/lb in the first quarter of 2007 to 82USc/lb in the second quarter of 2007. This has been a significant increase from an average base price of about 70USc/lb in 2006.

Merafe Coal

On 21 June 2007, Merafe announced the formation of a 50/50 joint venture with Scharrig Mining Limited called Merafe Coal. Merafe Coal intends to maximise the value of its existing coal resources by mining them while at the same time look for growth opportunities in the coal mining sector. The existing coal resources are expected to be brought to account towards the end of 2008.

Merafe has done business effectively through joint ventures as demonstrated in the past. Merafe looked for a partner in coal and was impressed with the credentials and track record of Scharrig. Management is excited about this venture as it brings a new and complementary commodity and skills into the Merafe stable.

Future prospects

The increase in production of ferritic grades and low nickel-bearing grades, together with continued strong ferrochrome demand from China, bodes well for ferrochrome demand for the remainder of the year. This will compensate for the stainless steel production slow down in the third quarter, caused by a number of stainless steel mills cuts in austenitic output, due to the impact of previous strong nickel prices and very recently, by the decline in nickel prices and its knock-on effect on high nickel-bearing stainless steel prices. A further ferrochrome price increase of 18USc/lb has already been announced for the third quarter resulting in a base price of US\$1/lb. Merafe's share of the attributable sales and EBITDA from the Venture for the second half of 2007 is expected to be more than the attributable sales and EBITDA for the first half of 2007.

It is management's primary objective to continue to use cashflows received from the Venture to reduce gearing levels and Merafe still has unredeemed capex in excess of R1 billion.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

Sandton
7 August 2007

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Executive Directors: DS Phiri (Chief Executive Officer), Z van der Walt, B McBride, S Elliot

Non-Executive Directors: CK Molefe, (Chairman), L Mogotsi, J Matlala, M Mthenjane, T Ramantsi, M Mamathuba, A Mahendranath (Company Secretary)

Transfer Secretaries: Link Market Services South Africa (Pty) Limited

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