Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration number 1987/003452/06)
Share Code: MRF ISIN: ZAE000060000
(Merafe or the Company or the Group)

MERAFE
RESOURCES

REVIEWED RESULTS

For the six months ended 30 June 2009

COMMENTARY

Basis of preparation

In compliance with the JSE Limited Listings Requirements, Merafe Resources Limited Group (Merafe) prepared its interim financial report for the six months ended 30 June 2009 in accordance with *IAS34: Interim Financial Reporting*. The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31 December 2008.

Review of results

The historical interim financial information of Merafe was 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 1,98 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.

The first six months of 2009 has proven to be a very challenging period for Merafe, with an EBITDA loss of R74,7 million. The loss is primarily as a result of the decrease in the average European benchmark ferrochrome price from 156,5USc/lb in the first half of 2008 to 79USc/lb in the first quarter of 2009 and 69USc/lb in the second quarter of 2009. This, coupled with the rapid strengthening of the rand in the second quarter of 2009, also contributed to the EBITDA loss.

Merafe's share of saleable ferrochrome production decreased by 15% from 150 500 tonnes in the first half of 2008 to 128 100 tonnes in the first half of 2009. The decrease in saleable ferrochrome production was mainly attributable to a decrease in demand for ferrochrome in the first quarter of 2009 as a result of the global economic slowdown.

Merafe's share of EBITDA loss from the Venture for the six months ended 30 June 2009 was R56,5 million. The EBITDA loss from the Venture includes Merafe's attributable share of standing charges from the temporary suspension of furnaces and mining operations of R116 million. After accounting for corporate costs of R15,1 million and a share-based payment expense of R3,1 million, Merafe's EBITDA loss was R74,7 million. Depreciation increased period on period primarily as a result of the sustaining capital expenditure and the re-assessment of useful lives and residual values of assets.

The loss and total comprehensive loss for the period is R84,2 million after taking into account depreciation of R50,5 million, net financing costs of R1,1 million, current tax of R1,9 million and deferred tax income of R44 million. The deferred tax income relates to R23 million recognised on the assessable loss and R21 million recognised on current temporary differences primarily relating to property, plant and equipment. The balance of unredeemed capital expenditure is estimated to be R135,5 million at 30 June 2009.

Merafe started the year with a cash balance of R540 million. After paying current tax of R88 million, recognising a foreign exchange loss on cash held in US$ of R44 million and investing R84 million in capex, Merafe still managed to generate R142 million in cashflows, closing with a healthy cash balance at 30 June 2009 of R466 million. As ferrochrome production increases, the Venture will experience a buildup in working capital. With its strong cash balance and available banking facilities the Company is well placed in this regard. Merafe has a R350 million long-term debt due to be re-paid in one instalment on 31 December 2012. Merafe has agreed to cede R90 million of its cash balance to its bankers, ABSA Capital.

Review of operations

The Venture operated at an average ferrochrome production capacity of 30% in the first half of 2009 in response to weak demand and growing stockpiles. The highly efficient Premus technology furnaces remained in operation resulting in improved ore consumption efficiency which increased by 8% from the prior period and increased electricity efficiency, which improved by 14% compared to the first half of 2008.

Despite improved efficiencies, variable costs rose by 24% due to ongoing inflationary pressures, which include a 27% increase in electricity prices and an average 64% increase in reductant prices. The cost of production, excluding standing charges, increased by 20% over the comparable period. However, cost savings initiatives limited fixed cost increases to approximately 8% period-on-period. The initiatives included freezing all new appointments and promotions, reducing fixed term contract employees, reducing the use of contractors, limiting maintenance expenditure and eliminating overtime where possible.

Cost savings and efficiency initiatives enabled the Venture to avoid retrenching any permanent employees. The retention of the Venture's skilled labour force has proved to be very beneficial now that the Venture is seeing signs of a market upturn. Training programmes and maintenance and repairs were carried out at suspended operations during this period. Mining activities were scaled down according to smelter requirements and contractual production obligations at opencast operations were reduced to a minimum. UG2 ore consumption by the smelters as opposed to mined chrome ore was optimised to reduce input costs. Developments were curtailed to preserve cash in light of global economic conditions and poor market conditions. Lower chrome ore demand enabled the Venture to temporarily cease normal production at the Horizon mine and commence with the mine's development, which will increase the run-of-mine chrome ore capacity from 180 000 tonnes to 480 000 tonnes per annum in 2013.

In respect of Merafe Coal, an environmental impact assessment and an environmental management programme are currently being conducted at Bankfontein and Schoongezicht. Once the reports are finalised, they will be considered by Merafe's board of directors and the way forward will be determined.

Market review

Production of stainless steel melt weakened significantly in the first half of 2009, materially reducing global demand for ferrochrome. Global stainless steel melt production of 10,4 million tonnes in the first half of 2009 was approximately 30% lower than the comparative period in 2008 and 9% lower than the second half of 2008, with material reductions from Western European, Japanese and American producers. In contrast, China's stainless steel melt production for the first six months of 2009 was 20% higher than in the second half of 2008 and only slightly weaker than in the first half of 2008.

The significant reduction in demand for ferrochrome from stainless steel producers and increasing worldwide stockpiles led to a sharp fall in the European benchmark ferrochrome price from its record highs in the third quarter of 2008 of 205USc/lb to settle at 79USc/lb in the first quarter of 2009. Prices dropped further in the second quarter of 2009 to 69USc/lb.

Lower ferrochrome prices led to the majority of Chinese ferrochrome production becoming uncompetitive and consequently Chinese ferrochrome imports increased by 44% in the first half of 2009 compared to the same period in 2008. China's import of chrome ore for the first half of 2009 significantly decreased by 36% compared to the same period in 2008. Approximately 50% of Chinese chrome ore imports originated from South Africa.

Outlook

Global stainless steel melt production started to recover towards the end of the second quarter and is likely to continue into the third quarter on the back of real demand and restocking. Increasing demand for ferrochrome, combined with lower global ferrochrome stocks, has resulted in a third quarter European benchmark ferrochrome price of 89USc/lb, an increase of 29% over the second quarter price. In response to the strengthening in demand for ferrochrome, the Venture has increased ferrochrome production capacity to 60% through the re-commissioning of several furnaces at the Venture's five ferrochrome operations. The Company is cautiously optimistic that demand will remain at current levels in the fourth quarter of 2009. The deferral of most planned expansions is expected to continue in South Africa and globally, in response to the current uncertain global economic outlook.

Merafe continued to maintain its strong cash position through the economic downturn. Inventory levels were reduced considerably and strong cash flows were generated from the unwinding of stockpiles. The strong rand continues to impact on earnings, however, the Company remains well positioned to withstand the present uncertain economic climate.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

Sandton
4 August 2009

KEY FEATURES

- STRONG CASH BALANCE OF R466 MILLION
- CASH FLOWS FROM OPERATIONS OF R144 MILLION
- FERROCHROME INVENTORY REDUCED BY 42% IN THE LAST SIX MONTHS
- NET FINANCING COSTS DOWN BY 96%
- HEADLINE LOSS OF R84 MILLION EQUATING TO A LOSS OF 3 CENTS PER SHARE

GROUP CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2009 Reviewed R'000	Six months ended 30 June 2008 Reviewed R'000
Revenue	**824 081**	1 627 610
EBITDA	**(74 737)**	893 601
Depreciation	**(50 507)**	(28 157)
Net financing costs	**(1 145)**	(28 097)
(Loss)/profit before taxation	**(126 389)**	837 347
Taxation	**42 203**	(234 889)
Current taxation	**(1 898)**	(799)
Deferred taxation	**44 101**	(233 558)
Secondary taxation on companies	**–**	(532)
(Loss)/profit and total comprehensive (loss)/income for the period	**(84 186)**	602 458
(Loss)/earnings per share (cents)	**(3)**	25
Diluted (loss)/earnings per share (cents)	**(3)**	24
Headline (loss)/earnings per share (cents)	**(3)**	25
Diluted headline (loss)/earnings per share (cents)	**(3)**	24
Ordinary shares in issue	**2 459 258 860**	2 459 258 860
Weighted average number of shares for the period	**2 459 258 860**	2 451 166 292
Diluted weighted average number of shares for the period	**2 479 639 408**	2 488 928 176

GROUP CONDENSED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2009 Reviewed R'000	As at 31 December 2008 Audited R'000
Assets		
Non-current assets	**1 918 383**	1 861 185
Property, plant and equipment	**1 918 383**	1 861 185
Current assets	**1 614 782**	1 893 165
Inventories	**798 304**	1 067 153
Trade and other receivables	**350 138**	286 271
Cash and cash equivalents	**466 340**	539 741
Total assets	**3 533 165**	3 754 350
Equity and liabilities		
Equity	**2 398 272**	2 479 338
Share capital	**24 593**	24 593
Share premium	**1 244 072**	1 244 072
Equity settled share-based payment reserve	**18 706**	15 586
Retained earnings	**1 110 901**	1 195 087
Liabilities	**1 134 893**	1 275 012
Non-current liabilities	**804 926**	845 136
Loans and borrowings	**365 439**	366 174
Provision for close down and restoration costs	**34 356**	29 730
Deferred tax	**405 131**	449 232
Current liabilities	**329 967**	429 876
Loans and borrowings	**1 298**	1 200
Financial liability	**8 723**	11 466
Trade and other payables	**319 930**	331 364
Current tax liability	**16**	85 846
Total equity and liabilities	**3 533 165**	3 754 350

GROUP CONDENSED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2009 Reviewed R'000	Six months ended 30 June 2008 Reviewed R'000
(Loss)/profit before taxation	**(126 389)**	837 347
Interest paid	**20 874**	29 124
Interest received	**(19 729)**	(1 027)
Depreciation	**50 507**	28 157
Adjusted for non-cash items	**376**	20 529
Adjusted for working capital changes	**218 695**	(641 918)
Cash flows from operations	**144 334**	272 212
Interest paid	**(20 874)**	(29 124)
Interest received	**19 342**	1 027
Taxation paid	**(87 728)**	(266)
Cash flows from operating activities	**55 074**	243 849
Cash flows from investing activities	**(83 470)**	(89 110)
Proceeds on disposal of property, plant and equipment	**–**	47
Acquisition of property, plant and equipment – expansionary	**(925)**	(82 035)
Acquisition of property, plant and equipment – sustaining	**(82 545)**	(7 122)
Cash flows from financing activities	**(735)**	(39 294)
Proceeds from issue of shares	**–**	5 528
Decrease in non-current borrowings	**(735)**	(44 822)
Net (decrease)/increase in cash and cash equivalents	**(29 131)**	115 445
Cash and cash equivalents at the beginning of the year	**539 741**	(153 469)
Effect of exchange rate fluctuations on cash held	**(44 270)**	4 878
Cash and cash equivalents at the end of the period	**466 340**	(33 146)

GROUP STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June 2009 Reviewed R'000	Six months ended 30 June 2008 Reviewed R'000
Share capital	**24 593**	24 593
Balance at the beginning of the period	**24 593**	24 494
New shares issued during the period	**–**	99
Share premium	**1 244 072**	1 244 072
Balance at the beginning of the period	**1 244 072**	1 238 643
Premium on new shares issued during the period	**–**	5 429
Equity settled share-based payment reserve	**18 706**	10 492
Balance at the beginning of the period	**15 586**	7 993
Share-based payment	**3 120**	2 499
Retained earnings	**1 110 901**	769 854
Balance at the beginning of the period	**1 195 087**	167 396
(Loss)/profit and total comprehensive (loss)/ income for the period	**(84 186)**	602 458
Balance at end of the period	**2 398 272**	2 049 011

Sponsor

Deutsche Bank
Deutsche Securities (SA) (Proprietary) Limited
(A non-bank member of the Deutsche Bank Group)

Executive Directors: DS Phiri (Chief Executive Officer), B McBride, S Elliot
Non-Executive Directors: CK Molefe, (Chairman), CJ Fauconnier, J Matlala, M Mthenjane, T Ramantsi, M Mamathuba, NB Majova, A Mahendranath (Company Secretary)
Registered office: First floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton, 2196
Transfer Secretaries: Link Market Services South Africa (Pty) Limited

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