REVIEWED INTERIM RESULTS

for the six months ended 30 June 2011

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)

KEY FEATURES

- Approved 20,5% participation in Lion II
- Profit of R86 million, EPS of 3,5 cents
- Two fatalities, TRIFR improved by 13%
- Production cost increases of 16%
- Healthy cash balance of R366 million

CONSOLIDATED CONDENSED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2011 Reviewed R'000	Six months ended 30 June 2010 Reviewed R'000
Revenue	**1 319 278**	1 191 272
EBITDA	**206 007**	322 379
Depreciation	**(44 906)**	(46 023)
Net financing costs	**(16 120)**	(12 727)
Profit before taxation	**144 981**	263 629
Taxation	**(58 971)**	(74 890)
Current tax	**(16 987)**	–
Deferred tax	**(37 474)**	(70 845)
Secondary tax on companies	**(4 510)**	(4 045)
Profit and total comprehensive income for the period	**86 010**	188 739
Basic earnings per share (cents)	**3,5**	7,7
Diluted earnings per share (cents)	**3,4**	7,6
Headline earnings per share (cents)	**3,5**	7,3#
Diluted headline earnings per share (cents)	**3,4**	7,2#
Ordinary shares in issue	**2 476 656 043**	2 460 508 860
Weighted average number of shares for the period	**2 476 656 043**	2 459 799 376
Diluted weighted average number of shares for the period	**2 495 990 715**	2 488 677 466

# Headline earnings	*R179 million*
Total comprehensive income for the period	*R189 million*
Profit on disposal of property, plant and equipment	*(R10 million)*

CONSOLIDATED CONDENSED STATEMENT OF FINANCIAL POSITION

	As at 30 June 2011 Reviewed R'000	As at 31 December 2010 Audited R'000
Assets		
Property, plant and equipment	**2 301 262**	2 192 600
Total non-current assets	**2 301 262**	2 192 600
Inventories	**889 016**	865 251
Trade and other receivables	**403 023**	435 514
Current tax asset	**–**	3 519
Cash and cash equivalents	**366 118**	320 724
Total current assets	**1 658 157**	1 625 008
Total assets	**3 959 419**	3 817 608
Equity		
Share capital	**24 767**	24 767
Share premium	**1 253 568**	1 253 568
Equity-settled share-based payment reserve	**28 112**	24 391
Retained earnings	**1 308 756**	1 272 279
Total equity attributable to equity holders	**2 615 203**	2 575 005
Liabilities		
Loans and borrowings	**312 542**	312 786
Provision for closure and restoration costs	**46 300**	39 439
Deferred tax liability	**507 009**	469 534
Total non-current liabilities	**865 851**	821 759
Loans and borrowings	**575**	831
Financial liability	**7 815**	11 048
Trade and other payables	**456 508**	408 965
Current tax liability	**13 467**	–
Total current liabilities	**478 365**	420 844
Total liabilities	**1 344 216**	1 242 603
Total equity and liabilities	**3 959 419**	3 817 608

CONSOLIDATED CONDENSED STATEMENT OF CHANGES IN EQUITY

	Six months ended 30 June 2011 Reviewed R'000	Six months ended 30 June 2010 Reviewed R'000
Share capital	**24 767**	24 605
Balance at the beginning of the period	**24 767**	24 593
Share options exercised	**–**	12
Share premium	**1 253 568**	1 244 872
Balance at the beginning of the period	**1 253 568**	1 244 072
Share premium arising from share options exercised	**–**	800
Equity-settled share-based payment reserve	**28 112**	20 491
Balance at the beginning of the period	**24 391**	22 109
Share-based payment	**3 721**	(1 618)
Retained earnings	**1 308 756**	1 182 314
Balance at the beginning of the period	**1 272 279**	1 042 762
Profit and total comprehensive income for the period	**86 010**	188 739
Dividend	**(49 533)**[a]	(49 187)[b]
Total equity at the end of year	**2 615 203**	2 472 282

a relates to the dividend declared by the Board on 25 February 2011 and paid on 28 March 2011
b relates to the dividend declared by the Board on 26 February 2010 and paid on 29 March 2010

CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2011 Reviewed R'000	Six months ended 30 June 2010 Reviewed R'000
Profit before taxation	**144 981**	263 629
Interest paid	**22 209**	18 268
Interest received	**(6 089)**	(5 541)
Depreciation	**44 906**	46 023
Adjusted for non-cash items	**3 721**	(1 411)
Adjusted for working capital changes	**28 851**	(236 655)
Cash flows from operations	**238 579**	84 313
Interest paid	**(14 103)**	(16 406)[d]
Interest received	**2 856**[c]	5 541
Net cash from operating activities	**227 332**	73 448
Net cash utilised in investing activities	**(125 870)**	(112 057)
Acquisition of property, plant and equipment – expansionary	**(63 100)**	(36 817)
Acquisition of property, plant and equipment – sustaining	**(62 770)**	(75 240)
Net cash used in financing activities	**(54 287)**	(102 930)
Dividends paid	**(49 533)**	(49 187)
Secondary tax on companies paid	**(4 510)**	(4 045)
Proceeds from issue of shares	**–**	812
Decrease in non-current borrowings	**(244)**	(50 510)
Net increase/(decrease) in cash and cash equivalents	**47 175**	(141 539)
Cash and cash equivalents at the beginning of the year	**320 724**	462 632
Effect of exchange rate fluctuations on cash held	**(1 781)**	2 002
Cash and cash equivalents at the end of the period	**366 118**	323 095

c excludes R3,2 million income relating to the fair value adjustment on the interest rate swap
d excludes R1,9 million expense relating to the fair value adjustment on the interest rate swap

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 2011 in accordance with International Financial Reporting Standards ("IFRS"), which include 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 2010.

Review of results

The condensed group financial results of Merafe and its subsidiaries for the six months ended 30 June 2011 have been reviewed by the Company's auditor, KPMG Inc. In their review report dated 2 August 2011, 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 group interim financial statements.

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 20,5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Merafe's earnings from the Venture decreased from the six months comparative period primarily as a result of the strengthening of the Rand against the US Dollar and an increase in costs of goods sold. The average Rand Dollar exchange rate was R6,90 in the first half of 2011 compared to R7,53 for the 2010 comparative period.

The average European benchmark ferrochrome price increased from 118,5USc/lb to 130USc/lb period on period and Merafe's share of sales tonnes decreased from 148 400 tonnes in the first half of 2010 to 146 100 tonnes in the first half of 2011. Merafe's revenue for the first half of 2011 includes chrome ore sales whereas these were recognised in operating expenses in the prior period.

Merafe's share of EBITDA from the Venture for the six months ended 30 June 2011 was R263,2 million. The EBITDA includes Merafe's attributable share of standing charges of R44,2 million and a foreign exchange gain of R11,9 million. After accounting for corporate costs of R53,5 million and share-based payment expenses of R3,7 million, Merafe's EBITDA was R206 million. Corporate costs of R53,5 million increased period on period primarily as a result of transaction costs as well as R29,7 million of expenses associated with indirect tax liabilities, relating to Voluntary Disclosure Submissions to the South African Revenue Services that the Company is in the process of finalising.

The profit and total comprehensive income for the period is R86 million after taking into account depreciation of R44,9 million, net financing costs of R16,1 million, current tax expense of R17 million, deferred tax expense of R37,5 million and secondary tax on companies of R4,5 million. The current tax expense arose primarily as a result of the full utilisation of capital expenditure in the eastern taxation ring-fence. The effective rate of taxation has increased from 28% in the first half of 2010 to 41% in the first half of 2011 as a result of the permanent differences associated with the indirect tax liabilities recognised in the current period. The balance of unredeemed capital expenditure is estimated to be R161 million at 30 June 2011. Net financing costs increased period on period as a result of interest of R8,1 million relating to the indirect tax liabilities recognised in the current period.

Property, plant and equipment increased from the prior period as a result of R126 million of capital expenditure of which R63 million is expansionary and R63 million is sustaining. Expansionary capital expenditure comprises R45 million spent on Project Tswelopele and R18 million relating to the expansionary development of the Venture's eastern and western mines. The expansionary and sustaining capital expenditure was financed using internally generated cash flows.

Merafe started the period with a cash balance of R321 million, generated R225 million in cash flows, paid a dividend and secondary tax on companies of R54 million and invested R126 million in expansionary and sustaining capex, closing with a healthy cash balance of R366 million. Cash in Merafe is R146 million and Merafe's share of cash in the Venture is R220 million. Merafe has long-term debt of R300 million due to be repaid in one instalment on 31 December 2012.

Review of operations

Ferrochrome production in the first half of 2011 was 150 000 tonnes, 4% lower than the comparative period, due to a number of furnace refurbishments that were brought forward to the first half of 2011. The refurbishment activities largely focused on the more efficient Premus furnaces, resulting in lower efficiencies and increased production costs.

Production costs increased by 16% in Rand terms period on period. Chrome ore costs have risen as a result of higher UG2 prices and increased mining costs. Eskom, the South African power utility, increased energy prices by 27% in 2011. Ongoing electrical energy efficiency improvements and prioritising of maintenance during the high-tariff winter months will offset some of this impact on costs. During the past decade, energy efficiency improvement initiatives at the Venture's ferrochrome operations and the development of the Venture's proprietary Premus technology have reduced electricity consumption per tonne of ferrochrome produced by more than 25%. Further improvements will result from the commissioning of Lion II and the Tswelopele pelletising and sintering plant from 2013 onwards.

Ongoing initiatives to optimise reductant mixes to reduce the impact of highly priced metallurgical coke have contributed to a slight reduction in average reductant prices, compared to the comparative period.

Safety, health, environment and mineral resources

We are saddened to report that the Venture did not achieve its goal of zero harm as a result of two unfortunate fatal injuries sustained at the Wonderkop and Lydenburg operations during the period. Our condolences are extended to the families of the deceased.

The ongoing efforts by the Venture to strive for zero harm is evident by an improvement of 13% on its total reportable injury frequency rate (TRIFR) during the first six months of 2011 when compared to the 2010 year.

During the period, there were no cases of occupational diseases resulting from current working conditions in the Venture. There were no adverse environmental impacts on the Venture during the period. There have been no material changes to mineral resources and mineral reserves for the period.

COMMENTARY

Market review

Global consumption of ferrochrome reached 4,7 million* tonnes in the first half of 2011, due to record stainless steel production of 17,4 million tonnes, which was 4,2% higher than the comparative period. Growth in global demand for both stainless steel and ferrochrome was driven by strong end user demand and restocking by stainless steel distribution centres and the stainless steel processing industries. China produced more than a third of the world's stainless steel in the first half of the year, an increase of 12% compared to the comparative period.

While stainless steel production grew in the first half of 2011, towards the end of the period renewed concerns over European sovereign debt, tightening of credit in China, a major earthquake in Japan and civil unrest in North Africa and the Middle East impacted confidence in global financial and commodity markets.

The third quarter European benchmark ferrochrome price was settled at 120USc/lb in early July 2011, down from 135USc/lb in the second quarter, reflecting reduced stainless steel demand, particularly in Europe and China.

Global ferrochrome production was 4,7 million* tonnes in the first half of 2011, 4,4% higher than the comparative period. Despite rising chrome ore prices, Chinese ferrochrome production continued to expand, reaching 1,2 million* tonnes in the first half of the year. However, China remains a net ferrochrome importer, with approximately 47% of its 4,5 million tonnes per annum requirement sourced overseas.

** estimate / Heinz Pariser, July 2011*

Developments

In 2010, the Venture concluded an agreement with Lonmin to increase and extend the current UG2 off-take agreement from tailings at Lonmin's Marikana operations, providing a lower cost source of chrome ore to the smelters. Two chromite recovery plant modules were erected at Rowland and a third module was constructed at the Karee 4 processing plant at a total capital cost of R216 million. Merafe's portion, at cost, was R44 million. The recovery plants were successfully commissioned during the first half of 2011 within budget and on schedule.

On-site construction of Project Tswelopele pelletising and sintering plant commenced during April 2011 and is on track to be completed during the second half of 2012, with full production anticipated in 2013. The project is within the total budgeted cost of R917 million (Merafe's portion at cost is R188 million) and progress is according to plan. The plant will agglomerate some of the additional UG2 from the Lonmin operations for effective usage in the Rustenburg smelter and will significantly improve operational efficiencies and costs and will enable further environmental improvements.

The Merafe Board of Directors approved, subject to the conclusion of the relevant legal agreements, the participation by Merafe in the Lion II expansion, in accordance with its 20,5% participation interest. The expansion will involve the construction and commissioning of a 360,000 tonne per annum capacity smelter and the development of the Magareng mine at a budgeted capital cost of R4,9 billion. Merafe's portion, at cost, is R1 billion. Commissioning is planned for the first half of 2013. The completion date of the Magareng mine has been moved forward. Full underground capacity will be reached by end of the first quarter of 2013 with the processing plant in full operation during the first quarter of 2013.

Waterval East mine started up underground operations during May 2011. The build-up is slightly slower than anticipated due to a shortage of trained labour in key positions as well as the impact of geological inconsistencies.

The Development at the Horizon mine is progressing according to plan and is on schedule to reach production capacity of 40 000 tonnes per month by the end of 2013.

Outlook

During 2011, stainless steel production is anticipated to grow by 6%, equating to an increase of 5% in the world consumption of ferrochrome, including a 14% increase in demand for ferrochrome from China. Stainless steel production is expected to continue to grow at around 5% per annum in the medium term, driven predominantly by demand from China.

We expect the destocking of ferrochrome by stainless steel producers to be completed during the third quarter of 2011. This is matched by South African ferrochrome producers' cut back of production during the winter months. We expect seasonal demand improvement, stainless steel restocking by distribution centres and ferrochrome restocking by stainless steel producers resulting in improved trading conditions during the fourth quarter of 2011 and into 2012.

Changes to the Board of Directors during the period

Ms Mpho Mosweu, the Industrial Development Corporation's representative, joined the Board as a Non-executive Director with effect from 2 March 2011.

Mr Zed Van Der Walt joined the Board as an Independent Non-executive Director with effect from 1 July 2011.

On behalf of the Board

Chris Molefe
Non-executive Chairman

Stuart Elliot
Chief Executive Officer

Sandton
2 August 2011

Preparer:
Kajal Bissessor CA(SA)
Financial Manager

Supervisor:
Zanele Matlala CA(SA)
Chief Financial Officer

Sponsor

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

Executive Directors:
S Elliot (Chief Executive Officer)
Z Matlala, B McBride

Non-executive Directors:
CK Molefe (Chairman)*
NB Majova*, M Mamathuba
A Mngomezulu*, K Nondumo*
M Salanje*, S Phiri, M Mosweu,
Z vd Walt*
* *Independent*

Company Secretary:
A Mahendranath

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Transfer secretaries:
Link Market Services South Africa (Proprietary) Limited

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