# Merafe Resources Limited

**Registration number 1987/003452/06**

## Annual Financial Statements

**Audited**

**for the year ended 31 December 2016**

The following individuals were responsible for the preparation of the annual financial statements:

***Kajal Bissessor CA(SA)***
Financial Director

***Zanele Matlala CA(SA)***
Chief Executive Officer

These annual financial statements were published on 6 March 2017.

# Merafe Resources Limited
(Reg. No. 1987/003452/06)

## Annual Financial Statements
*for the year ended 31 December 2016*

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## Company secretary's certificate
*for the year ended 31 December 2016*

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of section 88(2)(e) of the Companies Act of South Africa, and that all such returns appear to be true, correct and up to date.

**CorpStat Governance Services**
William Somerville
Company Secretary
6 March 2017

# Report of the audit and risk committee

*for the year ended 31 December 2016*

The audit and risk committee reports that it has adopted formal terms of reference as its audit and risk committee Charter (the Charter), and that it has discharged all of its responsibilities for the current financial year, in compliance with the Charter.

The audit and risk committee is satisfied that an adequate system of internal control is in place to reduce significant risks faced by the group to an acceptable level, and that these controls have been effective throughout the period under review. The system is designed to manage, rather than eliminate, the risk of failure and to maximise opportunities to achieve business objectives. This can provide only reasonable, but not absolute assurance. In addition, the audit and risk committee reviews the financial control systems, the accounting systems and sets the group's policy on non-audit services provided by the external auditors. It also monitors compliance with legal requirements, assesses the performance of financial management, approves external audit fees, budgets, plans and performance, and conducts an annual review and assessment of the business risks the group faces.

As required by the JSE Limited Listings Requirements 3.84(h), the audit and risk committee has satisfied itself that Kajal Bissessor, the Financial Director during the current financial year has the appropriate experience and expertise to fulfil the responsibilities of the finance function.

The approval of the Integrated Report is also the responsibility of the audit and risk committee. The committee members are appointed annually by the shareholders at the Annual General Meeting.

The audit and risk committee has evaluated the consolidated and separate financial statements of Merafe Resources Limited for the year ended 31 December 2016 and based on the information provided to the audit and risk committee, considers that it complies, in all material respects, with the requirements of the various Acts governing disclosure and reporting in the consolidated and separate financial statements.

The audit and risk committee has evaluated the independence of the external auditors and the audit and risk committee is satisfied that the external auditors have remained independent. The audit and risk committee therefore recommends the adoption of the consolidated and separate financial statements by the board.

The duty to nominate auditors for appointment lies with the audit and risk committee. As KPMG have been auditors since 2003, it was decided to put the audit out to tender. Following the tender process, Deloitte and Touché were nominated as external auditors of the company, subject to shareholder approval. The Board would like to thank KPMG for their services as external auditors to Merafe. The Board is satisfied that the proposed external auditors and Mr Patrick Ndlovu comply with the relevant provisions of the Companies Act and the JSE Listings Requirements.

**Karabo Nondumo CA(SA)**
Chairperson – Audit and Risk Committee
6 March 2017

# Directors' report

*for the year ended 31 December 2016*

## 1. Nature of business

The company, through its wholly-owned ultimate subsidiary, Merafe Ferrochrome and Mining Proprietary Limited (Merafe Ferrochrome) and through a pooling and sharing venture with Glencore Operations South Africa Proprietary Limited (Glencore), participates in chrome mining and the beneficiation of chrome ore into ferrochrome. The Glencore-Merafe Chrome Venture (Venture) operates five ferrochrome smelters, twenty-two ferrochrome furnaces and eight mines, situated in the North-West, Limpopo and Mpumalanga Provinces of South Africa. Merafe Ferrochrome's share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) is 20.5%. The Venture comprises assets to which both Glencore and Merafe Ferrochrome have granted the right of use.

Listed below are the assets to which Merafe Ferrochrome has granted the right of use to the Venture:

| **Ferrochrome Smelters** | | **Chrome mines** | | **UG2 plants and pelletisers** | |
|---|---|---|---|---|---|
| ***Asset*** | ***Merafe Ferrochrome's interest*** | ***Asset*** | ***Merafe Ferrochrome's interest*** | ***Asset*** | ***Merafe Ferrochrome's interest*** |
| Wonderkop smelter (furnaces 5 and 6) | 50% | Boshoek mine | 100% | Impala Kanana UG2 plant | 100% |
| Boshoek smelter | 100% | Kroondal and Wonderkop mine | 20.5% | Lonmin UG2 plants | 20.5% |
| Lion I smelter | 20.5% | Helena mine | 20.5% | Mototolo UG2 plant | 20.5% |
| Lion II smelter | 20.5% | Magareng mine | 20.5% | Bokamoso pelletising plant | 20.5% |
| | | | | Motswedi pelletising plant | 100% |
| | | | | Tswelopele pelletising plant | 20.5% |

## 2. Group financial results

The financial statements set out the financial results of the group and company and have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards and the requirements of the Company's Act of South Africa, supported by reasonable and prudent judgements where required.

Merafe Ferrochrome's share of EBITDA from the Venture is accounted for at 20.5%. In addition to Merafe Ferrochrome's share of EBITDA from the Venture, corporate expenses, interest on debt, depreciation and interest received are accounted for in order to determine earnings before taxation of the group. Refer to Note 1.3.2, Basis of consolidation – Transactions with the Venture, for further information regarding the accounting policy for Merafe Ferrochrome's interest in the Venture.

## 3. Loans and borrowings

Refer to note 9.

## 4. Going concern

The directors believe that the company has sufficient resources and expected cash flows to continue as a going concern for the year ahead.

## 5. Dividend policy

The company has a hybrid dividend policy that has features of a stable dividend policy and a residual dividend policy. The company intends to pay a stable dividend of a minimum of 30% of headline earnings, at least once a year, taking into account the annual financial performance, expansionary projects and economic circumstances prevailing at the time. In addition, in any given year, the directors may consider an additional distribution in the form of special dividends and/or share buy-backs dependent on the company's financial position, future cash requirements, future earning prospects, availability of distributable reserves and other factors. Dividends are recognised when they are declared by the board of the company.

## 6. Ordinary dividends

An interim dividend of R20 million was declared and paid during the 2016 year. A final dividend of R100.4 million was declared for the year ended 31 December 2016.

## 7. Share capital

The full details of the authorised and issued share capital of the company are set out in note 6 to the annual financial statements. Merafe did not issue any shares for cash or effect any share repurchases under a general or specific authority.

## 8. Changes to Directorate

The following change to the Board was effective during the period:

- Z Van Der Walt resigned effective 7 March 2016.

The Board comprised of the following Directors at 6 March 2017:

- Chris Molefe (Chairperson), Belese Majova, Abiel Mngomezulu, Mpho Mosweu, Karabo Nondumo, Shaun Blankfield, Zanele Matlala, Kajal Bissessor.

## 9. Major shareholders

The following shareholders were the registered holders of 5% or more of the issued ordinary shares in the company at 31 December 2016:

- Glencore Netherlands B.V. – 28.68%;
- Industrial Development Corporation – 21.78%.

## 10. Directors' interests in Merafe Resources Limited

Refer to note 22.2 for the beneficial interests of directors in shares of the company and note 22.1 for transactions with key management personnel and non-executive directors.

## 11. Details of investments in subsidiaries and structured entities

Refer to note 3 for details of investments in subsidiaries and structured entities.

## 12. Property, plant and equipment

There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year. Management is of the opinion that the carrying value of property, plant and equipment is reflected at less than its recoverable amount.

## 13. Events after the reporting date

Refer to note 26.

## 14. Special Resolutions

The following special resolutions were passed by the shareholders at the 2016 Annual General Meeting:

- Approval of non-executive directors' fees;
- Loans or other financial assistance to related or inter-related companies and General Authority to repurchase company shares.

## Approval of the consolidated and separate financial statements of Merafe Resources Limited

The consolidated and separate financial statements of Merafe Resources Limited were approved by the Board on 6 March 2017 and signed by:

**Zanele Matlala**
6 March 2017

**Chris Molefe**
6 March 2017

# Independent Auditor's Report

To the shareholders of Merafe Resources Limited

**Report on the Audit of the Consolidated and Separate Financial Statements**

*Opinion*

We have audited the consolidated and separate financial statements of Merafe Resources Limited (the group and company) set out on pages 11 to 76, which comprise the statements of financial position at 31 December 2016, and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Merafe Resources Limited at 31 December 2016, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

*Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. The matter was addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*Key Audit matters (continued)*

<table>
<tr><td colspan="2">Valuation of Property, plant and equipment (PPE) – relates to the consolidated financial statements<br><br>Refer to Note 1.5, 1.20.2 and 2.1 to the financial statements.</td></tr>
<tr><td>The key audit matter</td><td>How the matter was addressed in our audit</td></tr>
<tr><td colspan="2">The carrying value of the Group’s PPE amounted to R3.235 billion at 31 December 2016. The valuation of PPE was identified as a key audit matter due to the significance of this balance to the consolidated financial statements, as well as the significance of management’s judgements in determining its valuation. In considering the valuation of PPE, we focused on the assessment of residual value and useful lives of assets, and considered the impairment model of the group, as described further below.</td></tr>
<tr><td>Assessment of residual values and useful lives of assets<br><br>Management applies estimates and judgements in its determination of residual values and useful lives of assets. Residual values relate to the permanent structures which include the smelters and pelletisers. The residual values are estimated by management to be higher than the carrying amount of these assets and therefore these assets are not depreciated.<br><br>Management reviews the residual values and useful lives of assets at each financial year end and adjusts for changes, where appropriate. Determination of the residual value is based on the current estimated market value, as well as the age and condition of the assets expected at the end of the useful life. Changes in the estimated residual value could result in volatility in the depreciation charge.<br><br>Impairment assessment<br><br>At the time of the annual impairment assessment, management did not identify any impairment indicators. This was mainly due to the significant increase in the price and demand of Ferrochrome during the year. However, an impairment</td><td>Our audit included the following procedures:<br><br>— We evaluated the assumptions made by management in the determination of residual values and useful lives to ensure that these are consistent with the principles of IAS 16 Property, plant and equipment;<br><br>— We assessed the whether the residual values were reasonable by challenging management’s judgments through comparing the residual values to external market data;<br><br>— We compared the useful lives of each class of asset in the current year to the prior year to determine whether there were any significant changes in the useful lives of assets, and considered the reasonableness of changes based on our knowledge of the business and the industry.<br><br>— We assessed whether indicators of impairment existed at 31 December 2016 based on our knowledge of the business and the industry.</td></tr>
</table>

| | |
|---|---|
| assessment was performed at 31 December 2016 to corroborate the valuation of PPE.<br><br>The recoverability of PPE is largely dependent on macro-economic factors, which includes foreign currency exchange rates and commodity price forecasts, as well as internal assumptions and estimates related to production levels and operating costs.<br><br>**Impairment assessment (continued)**<br><br>The impairment assessment involves significant estimations regarding price forecasting and discounting of future cash flows. The model is sensitive to foreign currency exchange rates and commodity prices.<br><br>As indicated in note 2.1, no impairment has been recognised at 31 December 2016. | — We utilised KPMG valuation experts as part of our audit team to assess the appropriateness of management's impairment model, by comparing it to the principles of IAS 36 *Impairment of Assets*.<br><br>— We evaluated whether the significant inputs and assumptions used in the model were reasonable by:<br>• Comparing commodity prices and foreign exchange rates to external market data and forecasts;<br>• Evaluating forecast production levels and operating costs in relation to current and historical data;<br>• Recalculating the discount rate of the group based on our knowledge of the industry and taking external market data into consideration; and<br>— We also performed a sensitivity analysis, to assess the impact of the most significant inputs into the model on any potential impairment. |

| **Valuation of Investment in Subsidiaries – relates to the separate financial statements**<br><br>Refer to Note 1.18.5 and 3. | |
|---|---|
| **The key audit matter** | **How the matter was addressed in our audit** |
| The carrying value of the company's investment in subsidiaries amounted to R1.357 billion at 31 December 2016. This balance includes the investment cost and loans to subsidiaries, which is most significant part of the value of the investment.<br><br>The movement in the loans for the year is valued at fair value on initial recognition. Once recognised, the loans are then amortised over the term of the loan. The fair value is determined in accordance with International Financial Reporting Standards using an effective interest rate method and taking into consideration the current market related interest rate. | As part of our audit:<br><br>— We evaluated whether the model used in determining the fair value of the movement in the loan was appropriate in terms of the principles of IFRS 13 *Fair Value Measurement.*<br><br>— We assessed whether the inputs and the assumptions used in the valuation model, including the current cost of debt and expected term of the loan, were reasonable in comparison to market data and the current expected life of mine. |

| | |
|---|---|
| The investment in subsidiaries is the most significant asset in the separate financial statements of the company, which drove the identification of this matter as a key audit matter. | — We recalculated the amortisation of the loan and assessed the accounting treatment thereof in the separate financial statements. |

*Other Information*

The directors are responsible for the other information. The other information comprises the Integrated Annual Report, Directors' Report, Report of the Audit and Risk Committee and the Company Secretary's Certificate as required by the Companies Act of South Africa, and the Shareholders Information, which we obtained prior to the date of this report. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

*Responsibilities of the Directors for the Consolidated and Separate Financial Statements*

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

*Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting

a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Report on Other Legal and Regulatory Requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Merafe Resources Limited for 13 years.

KPMG Inc.

Per Bavhana Sooku
Chartered Accountant (SA)
Registered Auditor
Director
6 March 2017

# Merafe Resources Limited

## Statements of comprehensive income

*for the year ended 31 December 2016*

| | Note | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| Revenue | *14* | **5 701 567** | 4 428 075 | **65 201** | 49 593 |
| Foreign exchange (losses)/gains | | **(78 185)** | 83 424 | **-** | - |
| Operating and other expenses | *15* | **(4 490 185)** | (3 695 507) | **(16 755)** | (19 205) |
| Earnings before interest, taxation, depreciation and impairment | | **1 133 197** | 815 992 | **48 446** | 30 388 |
| Depreciation | | **(329 893)** | (267 352) | **(355)** | (252) |
| Impairment | | **-** | (6 401) | **-** | - |
| Results from operating activities | *15* | **803 304** | 542 239 | **48 091** | 30 136 |
| Finance expense | | **(63 400)** | (65 008) | **(1)** | (9) |
| Finance income | | **4 044** | 1 943 | **11 625** | 1 617 |
| Net finance (expense)/income | *16* | **(59 356)** | (63 065) | **11 624** | 1 608 |
| Profit before income tax | | **743 948** | 479 174 | **59 715** | 31 744 |
| Income tax | *17* | **(211 518)** | (135 717) | **1 345** | 4 477 |
| Profit and total comprehensive income for the year | | **532 430** | 343 457 | **61 060** | 36 221 |
| Profit and total comprehensive income for the year attributable to: | | | | | |
| Owners of the company | | **532 430** | 343 457 | **61 060** | 36 221 |
| *Earnings per share* | | | | | |
| Basic earnings per share (cents) | *18.1* | **21.2** | 13.7 | | |
| Diluted earnings per share (cents) | *18.4* | **21.2** | 13.7 | | |

# Merafe Resources Limited

## Statements of financial position

*at 31 December 2016*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | *Note* | **R'000** | R'000 | **R'000** | R'000 |
| **Assets** | | | | | |
| Property, plant and equipment | *2.1* | **3 235 204** | 3 240 370 | **209** | 516 |
| Investments in subsidiaries | *3* | | | **1 357 478** | 1 292 655 |
| Deferred tax asset | *11* | **19 340** | 17 995 | **19 340** | 17 995 |
| **Total non-current assets** | | **3 254 544** | 3 258 365 | **1 377 027** | 1 311 166 |
| Inventories | *4* | **1 105 437** | 1 445 887 | **-** | - |
| Current tax assets | *12* | **36 395** | 10 773 | **-** | - |
| Trade and other receivables | *5* | **1 278 147** | 317 454 | **1 769** | 972 |
| Cash and cash equivalents | *19.1* | **287 880** | 325 126 | **56 325** | 103 039 |
| **Total current assets** | | **2 707 859** | 2 099 240 | **58 094** | 104 011 |
| **Total assets** | | **5 962 403** | 5 357 605 | **1 435 121** | 1 415 177 |
| **Equity** | | | | | |
| Share capital | *6* | **25 107** | 25 107 | **25 107** | 25 107 |
| Share premium | *7* | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |
| Retained earnings | | **2 602 474** | 2 120 007 | **37 480** | 26 383 |
| **Total equity attributable to owners of the company** | | **3 897 156** | 3 414 689 | **1 332 162** | 1 321 065 |
| **Liabilities** | | | | | |
| Loans and borrowings | *9* | **189 102** | 472 755 | **-** | 1 947 |
| Share based payment liability | *8* | **5 012** | 3 147 | **5 012** | 3 147 |
| Provision for closure and restoration costs | *10* | **151 747** | 139 351 | **-** | - |
| Deferred tax liability | *11* | **829 528** | 763 724 | **-** | - |
| **Total non-current liabilities** | | **1 175 389** | 1 378 977 | **5 012** | 5 094 |
| Loans and borrowings | *9* | **187 839** | 101 176 | **-** | 24 |
| Trade and other payables | *13* | **668 235** | 444 314 | **88 739** | 86 101 |
| Share based payment liability | *8* | **9 208** | 2 893 | **9 208** | 2 893 |
| Bank overdraft | *19.1* | **24 576** | 15 556 | **-** | - |
| **Total current liabilities** | | **889 858** | 563 939 | **97 947** | 89 018 |
| **Total liabilities** | | **2 065 247** | 1 942 916 | **102 959** | 94 112 |
| **Total equity and liabilities** | | **5 962 403** | 5 357 605 | **1 435 121** | 1 415 177 |

# Merafe Resources Limited

## Statements of changes in equity

*for the year ended 31 December 2016*

| | Note | Group 2016 R'000 | Group 2015 R'000 | Company 2016 R'000 | Company 2015 R'000 |
|---|---|---|---|---|---|
| **Issued share capital - ordinary shares** | *6* | **25 107** | 25 107 | **25 107** | 25 107 |
| Balance at beginning of year | | **25 107** | 25 053 | **25 107** | 25 053 |
| Share grants exercised | | **-** | 54 | **-** | 54 |
| **Share premium – ordinary shares** | *7* | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |
| Balance at beginning of year | | **1 269 575** | 1 269 578 | **1 269 575** | 1 269 578 |
| Share issue expenses arising from share options exercised | | **-** | (3) | **-** | (3) |
| **Equity-settled share-based payment reserve** | *8* | **-** | - | **-** | - |
| Balance at beginning of year | | **-** | 24 651 | **-** | 24 651 |
| Shares vested during the year | | **-** | (2 205) | **-** | (2 205) |
| Share based payments expensed during the year | | **-** | 2 465 | **-** | 2 465 |
| Transfer to retained earnings | | **-** | (8 090) | **-** | (8 090) |
| Transfer to share based payment liability | | **-** | (16 821) | **-** | (16 821) |
| **Retained earnings** | | **2 602 474** | 2 120 007 | **37 480** | 26 383 |
| Balance at beginning of year | | **2 120 007** | 1 804 220 | **26 383** | 17 832 |
| Profit and total comprehensive income for the year | | **532 430** | 343 457 | **61 060** | 36 221 |
| Dividend paid | | **(49 963)** | (45 192) | **(49 963)** | (45 192) |
| Transfer from share based payment reserve | | **-** | 8 090 | **-** | 8 090 |
| Transfer from share based payment liability | | **-** | 9 432 | **-** | 9 432 |
| **Total equity at end of year attributable to owners** | | **3 897 156** | 3 414 689 | **1 332 162** | 1 321 065 |

# Merafe Resources Limited

## Statements of cash flows

*for the year ended 31 December 2016*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | *Note* | **R'000** | R'000 | **R'000** | R'000 |
| **Cash flows from operating activities** | | | | | |
| Cash generated from operating activities | *19* | **721 719** | 1 051 507 | **59 786** | 184 143 |
| Finance costs | | **(50 745)** | (41 201) | **(1)** | (9) |
| Finance income | | **2 727** | 1 460 | **1 947** | 1 133 |
| Taxation paid | | **(172 193)** | (58 972) | **-** | - |
| **Net cash from operating activities** | | **501 508** | 952 794 | **61 732** | 185 267 |
| **Cash flows from investing activities** | | | | | |
| Proceeds on disposal of property, plant and equipment | | **-** | 48 | **-** | 48 |
| Acquisition of property, plant and equipment | | | | | |
| - sustaining[b] | | **(275 995)** | (259 185) | **(49)** | (224) |
| - expansionary[b] | | **(11 587)** | (44 320) | **-** | - |
| Increase in investments | | **-** | - | **(56 463)** | (45 000) |
| **Net cash utilised in investing activities** | | **(287 582)** | (303 457) | **(56 512)** | (45 176) |
| **Cash flows from financing activities** | | | | | |
| Dividends paid | | **(49 963)** | (45 192) | **(49 963)** | (45 192) |
| Loans repaid during the year | | **(196 990)** | (57 154) | **(1 971)** | - |
| **Net cash utilised in financing activities** | | **(246 953)** | (102 346) | **(51 934)** | (45 192) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(33 027)** | 546 991 | **(46 714)** | 94 899 |
| Cash and cash equivalents at 1 January | | **309 570** | (162 468) | **103 039** | 8 140 |
| Effect of exchange rate fluctuations on cash held during the year | | **(13 239)** | (74 953) | **-** | - |
| **Cash and cash equivalents at 31 December** | *19.1* | **263 304** | 309 570 | **56 325** | 103 039 |

[b] *Relates to 20.5% of the Venture's total cash outflow. Note 2.1 details the property, plant and equipment owned by Merafe Ferrochrome.*

# Merafe Resources Limited

## Significant accounting policies

*for the year ended 31 December 2016*

### 1. Accounting policies

### 1.1 Reporting entity

Merafe Resources Limited (company) is domiciled in the Republic of South Africa. The address of the company's registered office is Building B, Second Floor, Ballyoaks Office Park, 35 Ballyclare Drive, Bryanston, 2191. The consolidated financial statements as at and for the year ended 31 December 2016 comprise the company and its subsidiaries (together referred to as the group and individually as group entities). The group is primarily involved in the mining and beneficiation of chrome ore into ferrochrome. Where reference is made to the "group" and "consolidated" in the accounting policies, it should be interpreted as also referring to the "company" where the context requires, unless otherwise indicated.

### 1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated and separate financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Pronouncements as issued by Financial Reporting Standards Council, the JSE Listing Requirements and the requirements of the Companies Act of South Africa. The consolidated and separate financial statements were authorised for issue by the board on 6 March 2017.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position which are measured at their fair values:

- Derivative financial instruments (refer to note 1.18.2); and
- Cash-settled share-based payments (refer to 1.10.3).

1.2.3 Functional and presentation currency

The consolidated and separate financial statements are presented in South African Rand, which is the company's functional currency.

All financial information presented in South African Rand has been rounded to the nearest thousand, unless otherwise indicated.

1.2.4 Use of estimates and judgements

The preparation of the consolidated and separate financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.4 Use of estimates and judgements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 1.5, 1.20.2 and 2.1: Measurement of depreciation and impairment, useful lives and residual values of property, plant and equipment
Note 1.10.3 and 8: Share-based payment transactions
Note 1.5.3.5, 2 and 9.1: Lease classification
Note 1.8 and 10: Provision for closure and restoration costs
Note 1.14 and 11: Utilisation of tax losses
Note 1.3: Consolidation: control assessment
Note 1.18.2: Measurement of embedded derivative

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements and have been applied consistently by group entities.

1.2.5 Standards and interpretations issued and not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2017. and have not been applied in preparing these consolidated and separate financial statements. The standards which may be relevant to the group are set out below. The group does not plan to adopt these standards early. These standards will be adopted in the period that it becomes effective.

***IFRS 15 Revenue from contracts with customers***
The standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services.*

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The amendments apply for annual periods beginning on or after 1 January 2018.

Based on an initial high level review of existing sales contracts, the new standard is not expected to have a significant impact on the group.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

***Disclosure Initiative*** **(Amendments to IAS 7)**

The amendments provide for disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. This includes providing a reconciliation between the opening and closing balances for liabilities arising from financing activities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

Based on a review of the amendments, the standard is not expected to have a significant impact to the group.

**IFRS 9** ***Financial Instruments***

On 24 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial *Instruments: Recognition and Measurement.*

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model. Management have assessed and is not expected to have an impact.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The criteria for classification into categories are not expected to have a significant effect. Based on historical and current information, there are no significant impairment losses recognised.

The new standard is therefore not expected to have a significant impact to the group.

**IFRS 16** ***Leases***

IFRS 16 was published in January 2016. It sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, ie the customer ('lessee') and the supplier ('lessor'). IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 has one model for lessees which will result in almost all leases being included on the Statement of Financial position. No significant changes have been included for lessors.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

**IFRS 16 *Leases*** *(continued)*

The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15. The transitional requirements are different for lesees and lessors. The group is assessing the potential impact on the financial statements resulting from the application of IFRS 16. Various operating leases are in the process of being evaluated to ascertain terms and conditions in order to quantify the impact to the group which will be included in the financial statements for the year ended 31 December 2018. These operating leases are not material to the group.

***Recognition of Deferred Tax Assets for Unrealised Losses*** **(Amendments to IAS 12)**

The amendments provide additional guidance on the existence of deductible temporary differences, which depend solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset.

The amendments also provide additional guidance on the methods used to calculate future taxable profit to establish whether a deferred tax asset can be recognised.

Guidance is provided where an entity may assume that it will recover an asset for more than its carrying amount, provided that there is sufficient evidence that it is probable that the entity will achieve this.

Guidance is provided for deductible temporary differences related to unrealised losses are not assessed separately for recognition. These are assessed on a combined basis, unless a tax law restricts the use of losses to deductions against income on a specific type.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

This new standard is not expected to have a significant impact to the group.

***Clarifying share-based payment accounting*** **(Amendments to IFRS 2)**

Currently, there is ambiguity over how a company should account for cetain types of share-based payment arrangements. The IASB has responded by publishing amendments to IFRS 2 share-based payment.

The amendments cover three accounting areas:

*Measurement of cash-settled share-based payments* – The new requirements do not change the cumulative amount of expense that is ultimately recognised, because the total consideration for a cash-settled share-based payment is still equal to the cash paid on settlement.

**1. Accounting policies** *(continued)*

**1.2 Basis of preparation** *(continued)*

1.2.5 Standards and interpretations issued and not yet effective *(continued)*

***Clarifying share-based payment accounting*** **(Amendments to IFRS 2)** *(continued)*

*Classification of share-based payments settled net of tax withholdings* – The amendments introduce an exception stating that, for classification purposes, a share-based payment transaction with employees is accounted for as equity-settled if certain criteria are met.

*Accounting for a modification of a share-based payment from cash-settled to equity-settled* – The amendments clarify the approach that companies are to apply.

The new requirements are not expected to have a material impact to the group. The amendments are effective for annual periods commencing on or after 1 January 2018.

**1.3. Basis of consolidation**

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the group. The group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

1.3.2 Transactions with the Venture

Glencore Operations South Africa (Pty) Ltd (Glencore) and Merafe Ferrochrome pooled and shared their ferrochrome assets on 1 July 2004 to form the Venture. The Venture's primary business is the production and sale of ferrochrome to the stainless steel industry. The Venture is the only operating asset of the group and is strategic to the group's activities. While Merafe Ferrochrome's assets forms part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Venture's Executive Committe, Joint Board and sub-committees. Merafe Ferrochrome receives 20.5% of the Venture's earnings before interest, taxation, depreciation and amortisation (EBITDA) and owns 20.5% of the working capital.

In management's view, the Venture is a joint arrangement as defined in IFRS 11 as Merafe Ferrochrome and Glencore are bound by a contractual arrangement which constitutes joint control. The following significant judgements and assumptions were relevant in the joint control assessment:

**1. Accounting policies** *(continued)*

**1.3. Basis of consolidation** *(continued)*

1.3.2 Transactions with the Venture *(continued)*

a) The ultimate operational decision making responsibility in the Venture resides with the Joint Board. The Chairman of the Board, who is appointed by Glencore, has a casting vote at the Joint Board level on all decisions except for decisions relating to reserved matters. The reserved matters include, inter-alia, the managing of input costs relating to chrome production, operation of the various chrome producing assets, disposal of assets forming part of the pooled operations, increasing the operational capacity of chrome producing assets and acquiring or constructing new chrome producing assets. These reserved matters, in management's view, are likely to have the most significant impact on returns of the Venture and therefore would constitute its "relevant activities" as defined in IFRS 10. Contractually, decisions over the reserved matters require the unanimous consent of Merafe Ferrochrome and Glencore as those decisions cannot be made unilaterally.

b) There is a significant disparity in holdings between Merafe Ferrochrome's interest in the Venture at 20.5% and Glencore's interest in the Venture at 79,5%. However, this does not influence the joint control conclusion as the benefits each party stand to gain from the arrangement was the determining factor in the joint control arrangement rather than other forms of arrangements. Furthermore, any dispute relating to the interpretation of the Pooling and Sharing Agreement (the Venture agreement) is to be settled by an arbitrator appointed by the Arbitration Foundation of South Africa (AFSA) and in management's view the AFSA provides for a neutral dispute resolution process and would not favour either Glencore or Merafe Ferrochrome.

c) The lack of legal form of the Venture results in Merafe Ferrochrome and Glencore having rights to the assets and obligations for the liabilities held in the Venture. This lack of legal separation between the Venture, Glencore and Merafe Ferrochrome is further supported by the fact that the South African Revenue Services looks though the Venture and directly taxes Merafe Ferrochrome and Glencore respectively for the income generated from the Venture.

d) In terms of the Venture agreement, Merafe Ferrochrome and Glencore maintain legal ownership of their respective assets contributed to the Venture and upon winding up of the Venture, Glencore and Merafe Ferrochrome will also receive a portion of any new assets acquired by the parties post 1 July 2004 and to the extent that an asset relates to their existing assets, be required to acquire the other party's portion at fair value which indicates that the parties have rights to the assets of the Venture. The lack of legal form of the Venture results in Glencore and Merafe Ferrochrome having rights to the assets and obligations for the liabilities held in the Venture and consequently joint operations classification in terms of IFRS 11.

Accounting for joint operations results in Merafe Ferrochrome recognising its assets that were contributed to the Venture and its portion of the assets held jointly in the Venture. Similarly Merafe Ferrochrome recognises its liabilities, including its share of any liabilities incurred jointly. Merafe Ferrochrome recognises its revenue and share of the revenue from the Venture as well as its expenses and share of expenses relating to the Venture. The accounting that was adopted by Merafe since the formation of the Venture is consistent with the accounting for joint operations as required by IFRS 11.

Refer to Related Parties note 22.3 for the items that represent the group's share of the working capital and EBITDA of the Venture.

**1. Accounting policies** *(continued)*

**1.3. Basis of consolidation** *(continued)*

1.3.3 Structured entities

The group has established structured entities (SEs). The related parties Note 22 includes the identity and relationship of the SEs to the group. The group does not have any direct or indirect shareholding in these entities. An SE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SE's risks and rewards, the group concludes that it controls the SE. SEs controlled by the group were established under terms that impose strict limitations on the decision making powers of the SE's management and that result in the group receiving the majority of the benefits related to the SE's activities, and retaining the majority of the residual or ownership risks related to the SEs or their assets.

1.3.4 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

**1.4 Foreign currency**

Foreign currency transactions
Transactions in foreign currencies are translated to the functional currency of the group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African Rand (Rand) at the foreign exchange rate ruling at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to Rand at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

**1.5 Property, plant and equipment**

1.5.1 Recognition and measurement

*1.5.1.1 Mining assets including mine development costs*
Mining assets, including mine development costs and mine plant facilities, are stated at cost less accumulated depreciation and accumulated impairment. Costs include pre-production expenditure incurred in the development of the mine and the present value of future decommissioning costs. Development costs incurred to develop new ore bodies, to define mineralisation in existing ore bodies and to establish or expand productive capacity are capitalised. Mine development costs in the ordinary course of maintaining production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalised until the ore body achieves commercial levels of production, at which time the asset is deemed to be available for use and is amortised as set out below.

# Merafe Resources Limited

## Significant accounting policies

*for the year ended 31 December 2016 (continued)*

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.1 Recognition and measurement *(continued)*

*1.5.1.2 Mineral and surface rights*

Mineral and surface rights are stated at cost less accumulated depreciation and accumulated impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights has diminished below cost, an impairment loss is recognised in profit or loss in the period that such determination is made.

*1.5.1.3 Land, non-mining assets and corporate assets*

Land is stated at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate (where relevant) of the costs of dismantling and removing the items, restoring the site on which they are located and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

*1.5.1.4 Exploration and evaluation expenditure*

Exploration and evaluation expenditure relates to costs incurred during the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than acquired from the purchase of another mining company, is recognised as an asset provided that one of the following conditions are met:

- Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future. Purchased exploration and evaluation assets are recognised as assets at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indications that the carrying amounts of the assets may exceed their recoverable amounts. To the extent that this occurs, an impairment loss is recognised in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met. Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development received appropriate approvals.

# Merafe Resources Limited

## Significant accounting policies

*for the year ended 31 December 2016 (continued)*

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.2 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replacement part is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1.5.3 Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, less its residual value.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate. Useful lives are assessed using internal experts. Residual values are assesseed using market information on similar sales transactions.

*1.5.3.1 Mineral and surface rights*
Mineral rights that are being depleted are depreciated over their estimated useful lives using the units of production method, based on proven and probable ore reserves. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

*1.5.3.2 Mining assets including mine development costs*
Mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years, depending on the nature of the asset.

*1.5.3.3 Capital work in progress*
Capital work in progress is not depreciated. The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, an impairment loss is recognised in the financial year in which this is determined.

*1.5.3.4 Land, non-mining assets and corporate assets*
Non-mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years depending upon the nature of the asset. Land is not depreciated.

**1. Accounting policies** *(continued)*

**1.5 Property, plant and equipment** *(continued)*

1.5.3 Depreciation and amortisation *(continued)*

*1.5.3.5 Leased assets*

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy Note 1.12. Leased assets are depreciated over the shorter of the lease term and their useful lives. The useful life of leased assets is on average twenty years.

Other leases are operating leases and are not capitalised.

1.5.4 Derecognition

Property, plant and equipment are derecognised upon disposal or when no future economic benefits are expected to flow to the group from their use. Gains or losses on derecognition of an item of property, plant and equipment are determined by the comparing of the proceeds from disposal, if applicable, with the carrying amount of the item and are recognised directly in profit or loss.

**1.6 Financial instruments**

1.6.1 Non-derivative financial assets

The group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, the group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies non-derivative financial assets into the following categories:

**1. Accounting policies** *(continued)*

**1.6 Financial instruments** *(continued)*

1.6.1 Non-derivative financial assets *(continued)*

*Loans and receivables*
Loans and receivables are financial assets with fixed or determined payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables and intercompany loans.

*Cash and cash equivalents*
Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

1.6.2 Non-derivative financial liabilities

The group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

1.6.3 Derivative financial instruments

Embedded derivatives are separated from the host contract and accounted for separately if:

- the economic characteristics and risk of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

**1. Accounting policies** *(continued)*

**1.6 Financial instruments** *(continued)*

1.6.3 Derivative financial instruments *(continued)*

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted as described below.

*Separable embedded derivatives*
Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

**1.7 Share capital**

*Ordinary shares*
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

**1.8 Provisions**

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

*Provision for closure and restoration costs*
Long-term environmental obligations are based on the group's environmental management plan, in compliance with current environmental and regulatory requirements.

A full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The related costs are capitalised to mining assets and are amortised over the useful lives of the related assets. Annual movements in the provision relating to the change in the net present value of the provision due to changes in estimated cash flows or discount rates are adjusted against the costs capitalised to mining assets. Ongoing rehabilitation costs are expensed in profit or loss.

Annual movements in the provision relating to passage of time, i.e. unwinding of discount, are expensed.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure.

Guarantees have been provided by the Venture to the Department of Mineral Resources in respect of the liability for closure and restoration costs. These guarantees are in the name of Glencore and relate to the Venture, and are disclosed in note 20.2. The guarantees are not recognised as liabilities in the financial statements.

**1. Accounting policies** *(continued)*

**1.9 Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is determined on the following basis:

- Finished goods on hand are valued using the weighted average cost. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost includes an appropriate share of production overheads based on normal operating capacity and directly attributable administration costs.
- Consumable stores and raw materials are valued at weighted average cost and include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

**1.10 Employee benefits**

1.10.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans and accumulated leave if the group has a present legal or constructive obligation to pay as a result of past services provided by the employee and the obligation can be estimated reliably.

1.10.2 Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payment is available.

Defined contribution plans are funded through monthly contributions to the provident fund, which is governed by the Pension Fund Act of 1956. All employees of the group belong to the provident fund. The group's liability is limited to its annually determined contributions.

The group and company provides medical cover to current employees through various funds. The medical plans are funded through monthly contributions to the medical aid fund. The group's and company's liability is limited to its annually determined contributions.

**1. Accounting policies** *(continued)*

**1.10 Employee benefits** *(continued)*

1.10.3 Share-based payment transactions

The share incentive scheme allows qualifying directors and employees to be granted share options and share grants. Share options and share grants may be granted to all employees of the company and any of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share option and share grant scheme. The fair value of share options and share grants are measured at grant date and spread over the period during which the employees become unconditionally entitled to the share grants and share options. The fair value of the share options and share grants are measured using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the share options and share grants were granted.

Share-based payment arrangements in which the group received goods or services as consideration of its own equity instruments were accounted for as equity-settled share-based payment transactions up until 29 June 2015. On 30 June 2015, the company changed its intention with regard to the settlement of all share-based payment transactions from equity to cash.

The fair value of the amount payable to employees in respect of cash settled share based payment arrangements is recognised as an expense with a corresponding increase in liabilities, over the period during which the employees become unconditionally entitled to payment. The liability is remeasured at each reporting date and at settlement date based on the fair value of the share based payment arrangement. Any change in the liability is recognised in profit or loss.

**1.11 Revenue**

1.11.1 Sale of goods

Revenue comprises sales of ferrochrome and chrome ore at invoiced value, net of value added tax, trade discounts and intra-group sales. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognised when all the following conditions are met:

(a) The group has transferred to the buyer the significant risks and rewards of ownership of the goods.
(b) The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
(c) The amount of revenue can be measured reliably.
(d) It is probable that the economic benefits associated with the transaction will flow to the group.
(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Determining whether the group is acting as an agent or principal is based on an evaluation of the risks and responsibilities taken by the group, including inventory risk and responsibility for the delivery of goods or services.

**1. Accounting policies** *(continued)*

**1.11 Revenue** *(continued)*

1.11.1 Sale of goods *(continued)*

*Ferrochrome and chrome ore marketing arrangement with Glencore International AG*
Glencore is acting as agent and the group is acting as principal for ferrochrome and chrome ore sales.

*Distribution arrangements with Glencore Limited, Glencore Canada Inc and Mitsui and Co Europe Plc (the distribution agents)*
The group is acting as principal for the ferrochrome sales to the distribution agents as the risks and rewards of ownership pass from the group to the distribution agents.

The distribution agents are acting as principal for subsequent sales to stainless steel customers.

The agreements contain a price adjustment feature whereby the ferrochrome is provisionally invoiced to the distribution agents at a price that is linked to the ruling benchmark price when the risks and rewards pass to the distribution agents. The agreements provide for the final price to be determined based on the price the distributing agent receives for the ferrochrome via the ultimate sale to the stainless steel customer.

The price adjustment feature is recognised as an embedded derivative as it is a component of a hybrid contract that also includes a non-derivative sales host contract with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative. The embedded derivative causes the cash flows that would be required by the contract to be modified according to the ferrochrome price.

The embedded derivative is recognised at fair value in "trade and other receivables" and is included in the statement of financial position.

1.11.2 Management fees

Revenue from management fees is recognised at the fair value of the consideration received or receivable. Revenue is recognised in the accounting periods in which the services are rendered.

Management fees recognised in the company relates to a recovery of costs from the subsidiary, Merafe Ferrochrome and is recognised when the costs are recovered net of value added taxation.

Management fees recognised in Merafe Ferrochrome relates to employee services rendered to the Venture and is recognised when the services are rendered net of value added taxation.

1.11.3 Dividends

Dividends received by the company are recognised at the fair value of the consideration received or receivable.

**1. Accounting policies** *(continued)*

**1.12 Lease payments**

1.12.1 Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

1.12.2 Finance lease payments

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a consistent periodic rate of interest in the remaining balance of the liability.

**1.13 Finance income and expenses**

1.13.1 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.13.2 Finance expenses

Finance expenses comprise interest expense on borrowings, interest on tax related items, unwinding of the discount on the rehabilitation provision. Finance expenses for the company include the fair value adjustment on the intercompany loan as per note 3 and note 16.

Borrowing costs directly related to the financing of a qualifying capital project under construction are capitalised to the project cost during construction, until such time as the related asset is substantially ready for its intended use, i.e. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term from money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the group during the period.

**1.14 Income Tax**

Tax expense comprises current tax and deferred tax. Tax expenses are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current tax rate is 28%.

**1. Accounting policies** *(continued)*

**1.14 Income Tax** *(continued)*

Deferred tax is not recognised for the following temporary differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets, including deferred tax assets relating to the carry forward of unutilised tax losses and/or unutilised capital allowances are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

*Dividend withholding tax*
Dividend withholding tax is payable at a rate of 15% on dividends paid to shareholders. The rate changed to 20% effective 22 February 2017. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the South African Revenue Services on behalf of the shareholder.

*Tax exposures*
In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

**1.15 Segment reporting**

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incurs expenses. The group has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome. Internal management accounts are prepared monthly on the basis of one reportable segment which is reviewed monthly by the Chief Financial Officer and Chief Executive Officer (Chief Operating Decision Maker).

Ferrochrome and chrome ore are the products produced by the Venture. Most of the products produced are used in the manufacturing of stainless steel. Refer to Note 14 for geographical areas of ferrochrome and chrome ore sales and information on customers that individually comprise more than 10% of total ferrochrome and chrome ore sales.

**1. Accounting policies** *(continued)*

**1.16 Earnings per share**

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. Headline EPS is calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue/outstanding during the period. Diluted headline EPS is calculated by dividing headline earnings by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares.

**1.17 Dividend distributions**

Dividend distributions to the company's shareholders are recognised as a liability in the consolidated and separate financial statements in the period in which the dividends are approved by the board of directors. Dividends declared after the reporting period are disclosed in the notes to the financial statements and are not recognised in the current financial statements. The cash flows for dividends are included in financing activities.

**1.18 Determination of fair values**

A number of the group accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the methods as indicated below. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The carrying values of financial assets and liabilities as reflected in the statement of financial position are a reasonable approximation of their fair values, unless otherwise stated in the respective note.

1.18.1 Net trade receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

1.18.2 Embedded derivatives

The embedded derivative is included in trade and other recevables at fair value. The fair value of the embedded derivative is based on the latest available ferrochrome prices and closing foreign exchange rate.

**1. Accounting policies** *(continued)*

**1.18 Determination of fair values** *(continued)*

1.18.3 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

1.18.4 Share-based payment transactions

The fair value of employee share options and share grants is measured using the Black-Scholes-Merton model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Refer to Note 8 for details regarding the assumptions used in the valuation model.

1.18.5 Investment in subsidiaries and intercompany loans

Investment in subsidiaries are measured at cost. Intercompany loans are initially measured at fair value and subsequently at amortised cost. The fair value is determined based on the present value of cash flows, discounted at the group interest rate for debt over the period based on the resources and reserves of the group.

**1.19 Mining royalty**

The mining royalty was effective from 1 March 2010 and requires the payment of a royalty for the benefit of the National Revenue Fund, in respect of the transfer of mineral resources. The mining royalty is payable on chrome ore in lumps, chips and fines as listed in schedule 2 of the Mineral and Petroleum Resources Royalty Act (the Act).

Chrome ore in lumps, chips and fines is an unrefined mineral resource and therefore the mining royalty is payable on “gross sales” as defined and is calculated in accordance with the unrefined mineral resource formula as detailed in the Act.

Gross sales is calculated using third party sales prices.

The mining royalty is recognised in the statement of profit or loss and is included in operating and other expenses.

**1. Accounting policies** *(continued)*

**1.20 Impairments**

1.20.1 Financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about loss events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

1.20.2 Non-financial assets

The carrying amount of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. The Group reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable by comparing the recoverable amounts to these carrying values. If there are indications that impairment may have occurred, estimates are prepared of recoverable amounts. The recoverable amount of the cash generating unit (CGU) is considered to be the value in use (VIU). The VIU is determined based on expected future cash flows of property, plant and equipment which are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including reserves and production estimates, together with economic factors such as the ferrochrome prices, discount rates and foreign currency exchange rates.

**1. Accounting policies** *(continued)*

**1.20 Impairments**

1.20.2 Non-financial assets

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised.

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2016*

**2.1 Property, plant and equipment**

| | | At the beginning of year – 2016 | | | | Movements during the year – 2016 | | | | | At the end of the year – 2016 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Cost | Accumulated depreciation and impairment | Carrying value | Additions | Disposals – Cost | Disposals – Accumulated Depreciation | Depreciation | Impairment | Movement in CWIP | Cost | Accumulated depreciation and impairment | Carrying value |
| | | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| | **Group 2016** | | | | | | | | | | | | |
| | Land, mineral and surface rights | **122 364** | **(63 896)** | **58 468** | **-** | **(4 023)** | **4 023** | **(4 232)** | **-** | **-** | **118 341** | **(64 105)** | **54 236** |
| | Boshoek smelter | **1 225 129** | **(208 022)** | **1 017 107** | **113 617** | **(100 163)** | **100 163** | **(110 758)** | **-** | **-** | **1 238 583** | **(218 617)** | **1 019 966** |
| | Wonderkop smelter | **310 225** | **(122 661)** | **187 564** | **18 378** | **(19 598)** | **19 598** | **(25 726)** | **-** | **-** | **309 005** | **(128 789)** | **180 216** |
| | Lion smelter | **1 348 776** | **(243 263)** | **1 105 513** | **51 592** | **(24 299)** | **24 299** | **(109 357)** | **-** | **-** | **1 376 069** | **(328 321)** | **1 047 748** |
| | Borrowing costs capitalised on Project Lion II | **40 476** | **(4 219)** | **36 257** | **-** | **-** | **-** | **(2 024)** | **-** | **-** | **40 476** | **(6 243)** | **34 233** |
| | Tswelopele pelletising plant | **171 418** | **(21 254)** | **150 164** | **4 575** | **(5 095)** | **5 095** | **(12 600)** | **-** | **-** | **170 898** | **(28 759)** | **142 139** |
| | Bokamoso pelletising plant | **204 100** | **(51 202)** | **152 898** | **13 917** | **(8 788)** | **8 788** | **(18 821)** | **-** | **-** | **209 229** | **(61 235)** | **147 994** |
| | Western mines | **188 767** | **(51 190)** | **137 577** | **19 436** | **(896)** | **896** | **(20 451)** | **-** | **-** | **207 307** | **(70 745)** | **136 562** |
| | Eastern mines | **412 810** | **(118 981)** | **293 829** | **51 368** | **(1 787)** | **1 787** | **(36 754)** | **-** | **-** | **462 391** | **(153 948)** | **308 443** |
| | Corporate assets | **3 805** | **(1 988)** | **1 817** | **49** | **(557)** | **556** | **(794)** | **-** | **-** | **3 297** | **(2 226)** | **1 071** |
| | Capital work in progress (CWIP) | **99 176** | **-** | **99 176** | **-** | **-** | **-** | **-** | **-** | **63 420** | **162 596** | **-** | **162 596** |
| | **Total** | **4 127 046** | **(886 676)** | **3 240 370** | **272 932** | **(165 206)** | **165 205** | **(341 517)*** | **-** | **63 420** | **4 298 192** | **(1 062 988)** | **3 235 204** |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Company 2016** | | | | | | | | | | | | |
| | Land, mineral and surface rights | **4 023** | **(4 023)** | **-** | **-** | **(4 023)** | **4 023** | **-** | **-** | **-** | **-** | **-** | **-** |
| | Corporate assets | **1 818** | **(1 302)** | **516** | **49** | **(557)** | **556** | **(355)** | **-** | **-** | **1 310** | **(1 101)** | **209** |
| | **Total** | **5 841** | **(5 325)** | **516** | **49** | **(4 580)** | **4 579** | **(355)** | **-** | **-** | **1 310** | **(1 101)** | **209** |

* R329.9m depreciation is recognised in the statement of comprehensive income. R11.6m relates to depreciation capitalised to inventory.

The property, plant and equipment is encumbered by a loan more fully described in note 9.2.

Management assessed the residual values of the permanent components of the smelters and pelletisers as higher than the carrying values of these assets and therefore no depreciation has been calculated on these assets. The carrying value of these assets are R1bn. This is consistent with the prior year.

Although there were no indicators of impairment at 31 December 2016, the group performed an impairment assessment on the basis set out in note 1.20.2, and concluded that no impairment was necessary in the current year.

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2016*

**2.1 Property, plant and equipment** *(continued)*

| | At the beginning of year - 2015 | | | | | At the end of the year - 2015 | | | | At the end of the year - 2015 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cost | Accumulated depreciation and impairment | Carrying value | Additions | Disposals – Cost | Disposals – Accumulated Depreciation | Depreciation | Impairment | Movement in CWIP | Cost | Accumulated depreciation and impairment | Carrying value |
| | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 | R'000 |
| **Group 2015** | | | | | | | | | | | | |
| Land, mineral and surface rights | 137 606 | (74 067) | 63 539 | - | (15 242) | 15 242 | (5 071) | | - | 122 364 | (63 896) | 58 468 |
| Boshoek smelter | 1 185 873 | (185 151) | 1 000 722 | 97 698 | (58 442) | 58 442 | (81 313) | | - | 1 225 129 | (208 022) | 1 017 107 |
| Western mines | 316 835 | (199 555) | 117 280 | 36 651 | (164 719) | 164 719 | (16 354) | | - | 188 767 | (51 190) | 137 577 |
| Wonderkop smelter | 284 168 | (108 399) | 175 769 | 32 069 | (6 012) | 6 012 | (20 274) | | - | 310 225 | (122 661) | 187 564 |
| Tswelopele pelletising plant | 169 118 | (13 373) | 155 745 | 5 680 | (3 380) | 3 380 | (11 261) | | - | 171 418 | (21 254) | 150 164 |
| Wonderkop mine | 27 397 | (16 430) | 10 967 | - | - | - | (2 054) | | - | 27 397 | (18 484) | 8 913 |
| Lion smelter | 1 244 909 | (147 250) | 1 097 659 | 103 867 | - | - | (89 612) | (6 401)[1] | - | 1 348 776 | (243 263) | 1 105 513 |
| Borrowing costs capitalised on Project Lion II | 40 476 | (2 195) | 38 281 | - | - | - | (2 024) | | - | 40 476 | (4 219) | 36 257 |
| Eastern mines | 359 121 | (71 885) | 287 236 | 26 292 | - | - | (28 612) | | - | 385 413 | (100 497) | 284 916 |
| Bokamoso pelletising plant | 202 848 | (44 131) | 158 717 | 6 982 | (5 730) | 5 730 | (12 801) | | - | 204 100 | (51 202) | 152 898 |
| Corporate assets | 3 536 | (2 604) | 932 | 1 625 | (1 418) | 1 378 | (700) | | - | 3 805 | (1 988) | 1 817 |
| Capital work in progress (CWIP) | 132 315 | - | 132 315 | - | - | - | - | | (33 139) | 99 176 | - | 99 176 |
| **Total** | 4 104 202 | (865 040) | 3 239 162 | 310 864 | (254 943) | 254 903 | (270 076)* | (6 401) | (33 139) | 4 127 046 | (886 676) | 3 240 370 |
| **Company 2015** | | | | | | | | | | | | |
| Land, mineral and surface rights | 4 023 | (4 023) | - | - | - | - | - | | - | 4 023 | (4 023) | - |
| Corporate assets | 2 014 | (1 443) | 571 | 224 | (420) | 393 | (252) | | - | 1 818 | (1 302) | 516 |
| **Total** | 6 037 | (5 466) | 571 | 224 | (420) | 393 | (252) | | - | 5 841 | (5 325) | 516 |

*R267.4m depreciation is recognised in the statement of comprehensive income. R2.7m relates to depreciation capitalised to inventory.

The property, plant and equipment is encumbered by a loan more fully described in note 9.2.

Management assessed the residual values of the permanent components of the smelters and pelletisers as higher than the carrying value of these assets and therefore no depreciation has been calculated on these assets. This is consistent with prior year. The group performed an impairment assessment on the basis set out in note 1.20.2, and concluded that no impairment was necessary.

[1]*This relates to transformers that failed prematurely and were replaced.*

### 2.2 Finance lease asset

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| *Finance lease assets* | | | | |
| **Plant and equipment** | | | | |
| Cost | **52 697** | 49 611 | - | 322 |
| Accumulated depreciation | **(15 753)** | (13 286) | - | (304) |
| **Carrying value at end of year** | **36 944** | 36 325 | - | 18 |

*Note: The cost and accumulated depreciation of the Lion and Boshoek assets as stated above relates to 100% of the leased assets as recognised in the Venture's accounting records. Merafe's portion of the carrying value is R11.7m (31 December 2015: R11,9m).*

**3.**

| **2016** | **Issued share capital** | **Percentage holding** | **Investment cost** | **Loans to subsidiaries** | **Total** |
|---|---|---|---|---|---|
| **Investments in subsidiaries** | **Number of shares** | **%** | **R'000** | **R'000** | **R'000** |
| ***Directly held*** | | | | | |
| **Merafe Chrome** | **200** | **100** | **106 628** | **1 250 850** | **1 357 478** |
| ***Indirectly held*** | | | | | |
| **Merafe Ferrochrome** | **400** | **100** | ***** | **-** | **-** |
| 2015 | | | | | |
| Investments in subsidiaries | | | | | |
| *Directly held* | | | | | |
| Merafe Chrome | 200 | 100 | 101 683 | 1 190 972 | 1 292 655 |
| *Indirectly held* | | | | | |
| Merafe Ferrochrome | 400 | 100 | * | - | - |

*** less than R1 000**

The above loans are unsecured, interest free, have no fixed terms of repayment and are long-term in nature. The wholly owned subsidiaries are incorporated in the Republic of South Africa The assumptions used in the valuation of this loan are as follows:

- Method of valuation: Effective interest rate method;
- Term: 55 years (based on the reserves and resources of the Merafe Resources Limited group);
- Interest rate: Current cost of debt interest rate for the group which takes into consideration the risk profile of the group.

Interest in the profits of subsidiaries for the year ended 31 December 2016 amounted to R471m (2015: R307m ). Subsidiaries are incorporated in the Republic of South Africa.

**3. Investment in subsidiaries** *(continued)*

**Structured entities**

The following entities are consolidated and considered to be subsidiaries of the Merafe Resources Limited group:

- Horizon Nature Conservation Trust (deregistered during 2016)
- Merafe Kroondal Rehabilitation Trust
- Merafe Resources Limited Share Incentive Scheme Trust

Refer to the related parties Note 22 for further details on investments in subsidiaries and structured entities. There has been no signifcant changes in the nature and risks associated with these structured entities.

There are no contractual arrangements that require the company to provide financial support to any of the above entities nor are there any events or circumstances that could expose the company to a loss.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **4. Inventories** | | | | |
| Work in progress | **1 149** | 56 360 | – | – |
| Consumables stores | **81 354** | 78 359 | – | – |
| Raw materials | **443 772** | 478 299 | – | – |
| Finished goods | **579 162** | 852 114 | – | – |
| Less: net realisable value write-down | **-** | (19 245) | – | – |
| | **1 105 437** | 1 445 887 | – | – |

***2015 net realisable value write-down***

The write-down of inventories to net realisable value relates to 52 260 tonnes of raw materials that was written down to a net realisable value of R27.9m.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **5. Trade and other receivables** | | | | |
| Net trade receivables | **1 025 907** | 184 803 | **-** | - |
| Trade receivables | **1 335 041** | 596 238 | **-** | - |
| Trade receivables discounted | **(309 134)** | (411 435) | **-** | - |
| Pre-payments | **5 676** | 17 226 | **-** | - |
| Embedded derivative recognised on sales contracts[2] | **116 675** | (33 951) | **-** | - |
| Glencore receivable[1] | **34 955** | 79 309 | **-** | - |
| Other receivables | **94 934** | 70 067 | **1 769** | 972 |
| | **1 278 147** | 317 454 | **1 769** | 972 |

[1] Related party balance

[2] Level 2 hierarchy per IFRS 13. The valuation is based on observable market inputs.

**5. Trade and other receivables** *(continued)*

The group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 20. Trade receivables relating to local sales have an average payment term of 60 days and are non-interest bearing. Trade receivables relating to foreign sales have an average payment term of 90 days and bear interest at US$ LIBOR (London Interbank Offered Rate) + 1.5% on balances that are overdue.

| | Group | |
|---|---|---|
| | **2016** | 2015 |
| | **R'000** | R'000 |
| Trade receivables per sales region | | |
| Africa | **71 013** | 56 557 |
| Asia | **913 856** | 379 689 |
| America | **203 805** | 25 789 |
| Europe | **146 367** | 134 203 |
| | **1 335 041** | 596 238 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **6. Share capital** | | | | |
| *Authorised* – 3 500 000 000 shares of 1 cent each | **35 000** | 35 000 | **35 000** | 35 000 |
| *Issued* – 2 510 704 248 ordinary shares of 1 cent each | | | | |
| Issued share capital at beginning of year | **25 107** | 25 053 | **25 107** | 25 053 |
| Share options exercised | **-** | 54 | **-** | 54 |
| Issued share capital at end of year | **25 107** | 25 107 | **25 107** | 25 107 |

All ordinary shares have equal voting rights. There are no restrictions on the distribution of dividends or repayment of capital in terms of the Memorandum of Incorporation of the company.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **7. Share premium** | | | | |
| Balance at beginning of year | **1 269 575** | 1 269 578 | **1 269 575** | 1 269 578 |
| Share issue expenses arising from share options exercised | **-** | (3) | **-** | (3) |
| Balance at end of year | **1 269 575** | 1 269 575 | **1 269 575** | 1 269 575 |

### 8. Equity-settled and cash-settled share-based payment arrangements

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **Equity-settled share-based payment reserve** | | | | |
| Balance at beginning of year | - | 24 651 | - | 24 651 |
| Share grants vested during the year | - | (2 205) | - | (2 205) |
| Share based payments expensed during the year | - | 2 465 | - | 2 465 |
| Transfer to retained earnings | - | (8 090) | - | (8 090) |
| Transfer to share based payment liability | - | (16 821) | - | (16 821) |
| Balance at the end of year | - | - | - | - |
| **Cash-settled share-based payment liability** | | | | |
| Balance at beginning of year | **6 040** | - | **6 040** | - |
| Transfer from retained earnings | - | 16 821 | - | 16 821 |
| Share-based payment expense | **12 805** | (613) | **12 805** | (613) |
| Share grants vested | **(4 625)** | (736) | **(4 625)** | (736) |
| Transfer to retained earnings | - | (9 432) | - | (9 432) |
| Balance at the end of year | **14 220** | 6 040 | **14 220** | 6 040 |
| Current | **9 208** | 2 893 | **9 208** | 2 893 |
| Non-current | **5 012** | 3 147 | **5 012** | 3 147 |

8.1 Share option schemes

On 14 December 1999 a share incentive scheme was approved by the shareholders as an incentive to employees (including executive directors) of the company and its subsidiaries to identify themselves more closely with the activities of the company and to promote its continued growth by giving them an opportunity of acquiring shares therein. Management has applied the provisions of IFRS 2: Share-based payment in accounting for and disclosing all share options granted, except for share options granted before 7 November 2002, or share options granted after this date, but which had vested prior to 1 January 2005.

On 13 April 2010, a new incentive scheme was approved by the shareholders. Share grants were issued under the new incentive scheme. Refer to note 8.2 for details regarding the share grants.

From inception of the new incentive scheme up until 29 June 2015, the company's intention was to equity settle. The Board took a decision to cash settle, effective 29 June 2015, to avoid dilution of equity, subject to certain conditions

8. **Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.1 Share option schemes *(continued)*

The terms and conditions of the options are listed below and are settled by cash:

| Grant date | Number of options | Vesting conditions |
|---|---|---|
| Options granted to senior employees on 1 March 2008 | 2 598 516 | One third per year over the period 1 March 2011 to 1 March 2013 |
| Options granted to key management on 9 March 2009 | 3 000 000 | One third per year over the period 1 April 2012 to 1 April 2014 |
| Options granted to key management on 1 October 2010 | 2 654 771 | One third per year over the period 1 October 2013 to 1 October 2015 |
| Options granted to key management on 1 October 2010 | 2 654 771 | One third per year over the period 1 October 2014 to 1 October 2016 |
| | 10 908 058 | |

The options lapse after 10 years if not exercised, while employed within the group. The options are forfeited when an employee resigns from the group and has not exercised his/her options. In the event of an employee leaving the group for a reason approved of by the directors or in the event of the employee's death, the employee or his/her estate has 12 and 24 months, respectively, to exercise and/or implement options granted to that employee.

The number and weighted average exercise price of share options are as follows:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Weighted average exercise price in cents per share** | **Number of options '000** | Weighted average exercise price in cents per share | Number of options '000 |
| Outstanding balance at beginning of year | **144** | **18 496** | 144 | 20 699 |
| Options exercised during the year | **82** | **(3 365)** | 70 | (1 000) |
| Options forfeited during the year | **127** | **(4 223)** | 206 | (1 203) |
| Outstanding balance at end of year | **139** | **10 908** | 144 | 18 496 |
| Exercisable at end of year | **139** | **10 908** | 144 | 17 611 |

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.1 Share option schemes *(continued)*

**Share options outstanding at the end of the year have the following exercise prices:**

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **'000** | '000 |
| 55 cents | **-** | 2 481 |
| 56 cents | **-** | 884 |
| 67 cents | **-** | - |
| 73 cents | **-** | - |
| 69 cents | **3 000** | 3 000 |
| 136 cents | **5 310** | 5 310 |
| 227 cents | **2 598** | 6 821 |
| | **10 908** | 18 496 |

**Share options outstanding at the end of the year have the following exercise dates:**

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **'000** | '000 |
| 31 December 2008 | **-** | - |
| 30 June 2009 | **-** | 295 |
| 30 June 2010 | **-** | 295 |
| 31 December 2010 | **-** | 2 481 |
| 1 March 2011 | **866** | 2 273 |
| 30 June 2011 | **-** | 295 |
| 1 March 2012 | **1 866** | 3 273 |
| 1 March 2013 | **1 866** | 3 274 |
| 1 March 2014 | **1 000** | 1 000 |
| 1 October 2013 | **885** | 885 |
| 1 October 2014 | **1 770** | 1 770 |
| 1 October 2015 | **1 770** | 1 770 |
| 1 October 2016 | **885** | 885 |
| | **10 908** | 18 496 |

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.1 Share option schemes *(continued)*

The following share options were outstanding at 31 December 2016 in favour of executive directors of the company:

| | ZJ Matlala | K Bissessor |
|---|---|---|
| Average exercise price (cents) | 136 | 69 |
| | 000's | 000's |
| Exercisable on 1 April 2012 | - | 1 000 |
| Exercisable on 1 April 2013 | - | 1 000 |
| Exercisable on 1 April 2014 | - | 1 000 |
| Exercisable on 1 October 2013 | 885 | - |
| Exercisable on 1 October 2014 | 1 770 | - |
| Exercisable on 1 October 2015 | 1 770 | - |
| Exercisable on 1 October 2016 | 885 | - |
| | 5 310 | 3 000 |

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes-Merton model, with the following inputs :

| | **2016 Share options** | 2015 Share options |
|---|---|---|
| Weighted average grant price (cents) | **139** | 136 |
| Exercise price in cents (weighted average) | **82** | 136 |
| Expected volatility | **48%** | 43% |
| Option life in years | **5 - 6** | 5 - 6 |
| Expected dividends | **12.29%** | 2.74% |
| Risk-free interest rate | **7.85%** | 8.88% |
| Intrinsic value of shares | **R4 419 768** | R424 232 |

8.2 Share grants

The new share incentive scheme was approved by shareholders on 13 April 2010. During 2010 to 2016, various share grants and share options were issued to directors and employees of the company.

The purpose of the share incentive scheme is to serve as an incentive and reward to employees (including executive directors) of the company and its subsidiaries for services rendered and to be rendered, aimed at promoting the continued growth of the company by giving employees an opportunity to acquire shares in the company and to serve as a retention mechanism for employees whose services are regarded by the company to be crucial to the future growth and sustainability of the company's business. Share options and share grants are granted by the board of directors of the company on the recommendation of the Remuneration Committee.

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

The Black-Scholes Merton option pricing model was used to determine the fair value of the share grants. This valuation methodology is consistent with previous valuation calculations.

The share grants are split between portions being subject to performance conditions and portions with no performance conditions. For share grants issued prior to 2013, 50% of the share grants to directors are subject to performance conditions and 50% are not subject to performance conditions. 20% of the share grants to employees are subject to performance conditions and 80% are not subject to performance conditions for share grants issued prior to 2013.

The following market and non-market conditions relate to the share grants granted to directors and employees prior to 2013:

| Vesting condition | Type | Weighting | Three-year option | Four-year option | Five-year option |
|---|---|---|---|---|---|
| | | % | % | % | % |
| Capacity growth* | Non-market | 25 | 100 | 100 | 100 |
| Assets under management** | Non-market | 25 | 100 | 100 | 100 |
| JSE SRI Index*** | Non-market | 25 | 100 | 100 | 100 |
| JSE Small Capitalisation Index and Mining Index | Market | 25 | - | - | - |

* *The target is to grow ferrochrome capacity cumulatively by 3% (first hurdle), 6% (second hurdle) or 9% (third hurdle)*

** *The target is to grow total assets under management cumulatively by 6% (first hurdle), 12% (second hurdle), or 18% (third hurdle)*

*** *There are no hurdles. The index must be maintained for full incentives or if lost then there is no incentive on this measure. The areas measured under this index relate to environmental sustainability, economic sustainability, social sustainability and corporate governance.*

**Note**: The capacity growth and assets under management target have three hurdles at which differing amounts of the share grants are earned. If the first hurdle is met then 50% of the share grants are earned. If the second hurdle is met then 75% of the share grants are earned and if the third hurdle is met then 100% of the share grants are earned.

The performance conditions include 75% of non-market conditions and 25% of market conditions. The probabilities relating to non-market conditions are estimated by management and will be adjusted each year. Market conditions of outperformance of either the mining index or the JSE small capitalisation index are incorporated using the probability of 62,5% into the initial valuation and are not subsequently adjusted for.

The Remuneration Committee introduced a new performance condition for the share grants granted from 2013 onwards. The performance condition is based on a single performance metric which is Merafe's total shareholder return ("TSR") over a three year period compared to the TSR of a selection of eleven JSE Listed small capitalisation mining and resource companies.

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

If Merafe's TSR over the three year period places it in one of the top three positions, then the full number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant. If Merafe's TSR over the three year period places it in 6th position, then one third of the number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant. If Merafe's performance over the three year period lies between any of the above points, then a prorated number of performance granted shares will vest in equal proportions on the 3rd, 4th and 5th anniversaries of their grant.

The percentage subject to performance conditions and not subject to performance conditions are as follows for each level of staff:

| | **Not subject to performance conditions** | **Subject to performance conditions** |
|---|---|---|
| CEO | 30% | 70% |
| Executive Directors | 40% | 60% |
| Senior Managers | 50% | 50% |
| Other employees | 100% | 0% |

From inception of the new incentive scheme up until 29 June 2015, the company's intention was to equity settle. The board took a decision to cash settle, effective 29 June 2015, to avoid dilution of equity.

The following assumptions were used in the valuation model:

| | **2016** | | **2015** | |
|---|---|---|---|---|
| | 2013 - 2016 share grants | 2010 - 2012 share grants | 2013 - 2015 share grants | 2010 - 2012 share grants |
| Risk free rate | 7.85% | 7.85% | 8.88% | 8.88% |
| Expected volatility | 48% | 48% | 43% | 43% |
| Expected dividend yield | 12.29% | 12.29% | 2.74% | 2.74% |
| Expected life | 0.99 – 2.78 | 0.43 | 1.67 | 0.84 |
| Vesting periods (years) | 3,4 and 5 | 3,4 and 5 | 3,4 and 5 | 3,4 and 5 |
| Weighted average exercise price (Rands) | 0 | 0 | 0 | 0 |
| Weighted average grant price (Rands) | 0.79 – 0.96 | 0.81 | 0.94 | 0.93 |
| Weighted average option value (Rands) | 0.99 – 1.13 | 1.49 | 0.65 | 0.66 |
| Performance conditions | Yes | Yes | Yes | Yes |
| Intrinsic value of shares | R22 295 614 | R3 100 156 | R7 005 468 | R2 779 977 |

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

The following share grants relating to employees and executive directors were outstanding at 31 December 2016:

| Vesting date | Total | Share grant date |
|---|---|---|
| 04 May 2017 | 390 299 | 4 May 2012 |
| 13 June 2017 | 1 488 583 | 13 June 2012 |
| 06 March 2017 | 1 114 180 | 06 March 2013 |
| 06 March 2018 | 1 114 180 | 06 March 2013 |
| 01 April 2017 | 922 448 | 01 April 2014 |
| 01 April 2018 | 922 448 | 01 April 2014 |
| 01 April 2019 | 922 448 | 01 April 2014 |
| 01 April 2018 | 1 341 560 | 01 April 2015 |
| 01 April 2019 | 1 341 560 | 01 April 2015 |
| 01 April 2020 | 1 341 560 | 01 April 2015 |
| 01 April 2019 | 1 497 370 | 01 April 2016 |
| 01 April 2020 | 1 497 369 | 01 April 2016 |
| 01 April 2021 | 1 497 369 | 01 April 2016 |
| Total | 15 391 374 | |

**8. Equity-settled and cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

The following share grants relating to executive directors were outstanding at 31 December 2016:

| **Vesting date** | **ZJ Matlala** | **K Bissessor** |
|---|---|---|
| 4 May 2017 | 183 950 | 70 754 |
| 13 June 2017 | 1 488 584 | - |
| 6 March 2017 | 759 575 | 166 600 |
| 6 March 2018 | 759 575 | 166 600 |
| 1 April 2017 | 626 752 | 136 182 |
| 1 April 2018 | 626 752 | 136 182 |
| 1 April 2019 | 626 752 | 136 182 |
| 1 April 2018 | 850 548 | 302 337 |
| 1 April 2019 | 850 548 | 302 337 |
| 1 April 2020 | 850 548 | 302 337 |
| 1 April 2019 | 941 409 | 334 634 |
| 1 April 2020 | 941 409 | 334 634 |
| 1 April 2021 | 941 409 | 334 634 |
| Total | 10 447 811 | 2 723 413 |

**2016**

| | **Total** |
|---|---|
| Opening balance | **15 074 930** |
| Granted during the year | **4 563 757** |
| Vested during the year | **(4 247 313)** |
| **Closing balance 31 December 2016** | **15 391 374** |

2015

| | |
|---|---|
| Opening balance | **20 219 031** |
| Granted during the year | **4 088 202** |
| Vested during the year – employees | **(3 619 518)** |
| Vested during the year – retrenchments | **(5 350 371)** |
| Share grants forfeited during 2015 | **(262 414)** |
| **Closing balance 31 December 2015** | **15 074 930** |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **9.** | **Loans and borrowings** | | | | |
| 9.1 | Finance leases – property, plant and equipment | **13 468** | 14 451 | **-** | 24 |
| 9.2 | ABSA Capital/Standard Bank | **363 473** | 559 480 | **-** | - |
| 9.3 | Horizon Nature Conservation Trust | **-** | - | **-** | 1 947 |
| | Total loans and borrowings | **376 941** | 573 931 | **-** | 1 971 |
| | Current portion of loans and borrowings | **187 839** | 101 176 | **-** | 24 |
| | – ABSA Capital/Standard Bank | **186 500** | 100 000 | **-** | - |
| | – Finance leases | **1 339** | 1 176 | **-** | 24 |
| | **Non-current portion of loans and borrowings** | **189 102** | 472 755 | **-** | 1 947 |

9.1 Finance leases – property, plant and equipment

These loans are secured by finance leases over plant and equipment with a carrying value of R37m (31 December 2015: R36m) as per note 2.2. The loans are repayable in monthly installments averaging R267k (31 December 2015: R267k) on all finance leases excluding the company's head office. Interest is payable at an average of 13.5% (31 December 2015: 13.5%) per annum. The finance lease relating to the company's head office is repayable in monthly installments averaging R12k (2015: R12k) and interest is payable at 13.7%. This lease came to an end during 2016.

In accordance with the agreement with the Venture, Merafe Ferrochrome receives 20.5% of the Venture's EBITDA whilst retaining ownership of its assets. The finance lease obligations in the group's statement of financial position and the finance lease repayments represent 20.5% of the Venture's total obligations whereas the carrying values of assets that secure the finance leases, relate to the assets that are controlled by the group and are reflected in the group statement of financial position.

Minimum finance lease repayments:

| **2016** | **Capital R'000** | **Interest R'000** | **Total R'000** |
|---|---|---|---|
| Repayable 2017 | **1 339** | **1 672** | **3 011** |
| Repayable 2018 to 2021 | **5 114** | **5 141** | **10 225** |
| Repayable thereafter | **7 015** | **4 519** | **11 564** |
| **Total** | **13 468** | **11 332** | **24 800** |

| 2015 | Capital R'000 | Interest R'000 | Total R'000 |
|---|---|---|---|
| Repayable 2016 | 1 176 | 1 811 | 2 987 |
| Repayable 2017 to 2020 | 4 806 | 5 844 | 10 650 |
| Repayable thereafter | 8 469 | 5 488 | 13 957 |
| Total | 14 451 | 13 143 | 27 594 |

*Note: Above repayments include interest and capital.*

**9. Loans and borrowings** *(continued)*

9.2 ABSA Capital/Standard Bank

This facility was concluded in the first quarter of 2015. R500m being a term facility repayable in 10 half yearly instalments expiring in March 2020 and R300m being a Revolving Credit Facility (RCF) expiring after 3 years in March 2018. The term facility bears interest at the Johannesburg Interbank Agreed Rate (JIBAR) plus a margin of 300 basis points and the RCF bears interest at JIBAR plus a margin of 280 basis points. At 31 December 2016, JIBAR was 7.3% (31 December 2015: 6.30%). At 31 December 2016, R363m (31 December 2015: R560m) of the total facility was utilised, with headroom of R283m available (31 December 2015: R191m).

The loans are secured by the following:
* A general notarial bond over movable plant and equipment;
* A cession of rights, title and interest of Merafe Ferrochrome's participation interest under the Pooling and Sharing Agreement with Glencore;
* A cession of rights, title and interest of the Wonderkop assets, Bokamoso assets, Lion I and Lion II assets; and
* A cession of bank accounts.

Further to the above security, there is a negative pledge in place over all Merafe Ferrochrome's assets.

There were no defaults on loan agreements in both the 2015 and 2016 financial year.

9.3 Horizon Nature Conservation Trust

This loan is unsecured, interest free, has no fixed repayment terms but by intent is of a long-term nature. The Trust was deregistered during 2016 and the loan has been impaired.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **10. Provision for closure and restoration costs** | | | | |
| Balance at beginning of year | **139 351** | 129 029 | - | - |
| Horizon mine disposal | **-** | (8 408) | - | - |
| Utilised during the year | **-** | (418) | - | - |
| Provisions made during the year | **161** | 2 054 | - | - |
| Current portion: 2015 | **-** | 7 932 | - | - |
| Unwinding of discount | **12 235** | 9 162 | - | - |
| Balance at end of year | **151 747** | 139 351 | - | - |

**10. Provision for closure and restoration costs** *(continued)*

The provision is for a liability for the rehabilitation of land involved in any prospecting or mining operations of the group and to discharge any liability which may arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation that may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture.

Independent assessments of the rehabilitation provision was performed as follows:

Eastern mines: 2016
Western mines: 2015
Smelters: 2013

The next independent assessment will be performed during 2017 and will include principles based on NEMA (National Environmental Management Act).

For purposes of calculating the provision, management have assumed a long-term inflation rate of 6% and a discount rate of 8% for both the current and prior year. The expected timing of outflows ranges between eight and thirty years.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **11. Deferred tax (liabilities)/assets** | | | | |
| Recognised deferred tax (liabilities)/assets: | | | | |
| Property, plant and equipment | **(890 305)** | (841 782) | **(9)** | 14 |
| Provisions and accruals | **61 372** | 76 057 | **4 375** | 2 025 |
| Finance lease obligations | **3 771** | 4 047 | **-** | 7 |
| Tax losses | **14 974** | 15 949 | **14 974** | 15 949 |
| | **(810 188)** | (745 729) | **19 340** | 17 995 |
| Deferred tax assets | **19 340** | 17 995 | **19 340** | 17 995 |
| Deferred tax liabilities | **(829 528)** | (763 724) | **-** | - |
| **Net balance** | **(810 188)** | (745 729) | **19 340** | 17 995 |

Management are of the view that the deferred tax asset is recoverable based on the fact that the management fee and dividends are controlled by the holding company.

### 11. Deferred tax (liabilities)/assets *(continued)*

**Movement in temporary differences during the year – Group**

| | Balance 1 January 2015 | Recognised in profit or loss in 2015 | Balance 31 December 2015 | Recognised in profit or loss in 2016 | Balance 31 December 2016 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Property, plant and equipment | (752 140) | (89 642) | (841 782) | (48 523) | (890 305) |
| Provisions and accruals | 61 984 | 14 073 | 76 057 | (14 685) | 61 372 |
| Finance leases | 3 861 | 186 | 4 047 | (276) | 3 771 |
| Tax losses | 12 598 | 3 351 | 15 949 | (975) | 14 974 |
| | (673 697) | (72 032) | (745 729) | (64 459) | (810 188) |

The company had a tax loss of R53m at 31 December 2016 (2015: R57m).

**Movement in temporary differences during the year – Company**

| | Balance 1 January 2015 | Recognised in profit or loss in 2015 | Balance 31 December 2015 | Recognised in profit or loss in 2016 | Balance 31 December 2016 |
|---|---|---|---|---|---|
| | R'000 | R'000 | R'000 | R'000 | R'000 |
| Property, plant and equipment | (3) | 17 | 14 | (23) | (9) |
| Provisions and accruals | 892 | 1 133 | 2 025 | 2 350 | 4 375 |
| Finance leases | 31 | (24) | 7 | (7) | - |
| Tax losses | 12 598 | 3 351 | 15 949 | (975) | 14 974 |
| | 13 518 | 4 477 | 17 995 | 1 345 | 19 340 |

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **12. Current tax assets** | | | | |
| Balance at the beginning of the year | **10 773** | 15 485 | **-** | - |
| Current tax expense | **(147 690)** | (64 743) | **-** | - |
| Prior year overprovision | **631** | 1 059 | **-** | - |
| Provisional tax payments | **172 193** | 58 972 | **-** | - |
| Interest income | **488** | - | **-** | - |
| Balance at the end of the year | **36 395** | 10 773 | **-** | - |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **13.** | **Trade and other payables** | | | | |
| | Trade payables | **390 749** | 256 882 | **-** | - |
| | Employee benefit accruals | **76 009** | 71 189 | **9 769** | 6 612 |
| | Other payables and accruals* | **201 477** | 116 245 | **2 615** | 5 144 |
| | Merafe Ferrochrome loan | **-** | - | **76 355** | 74 345 |
| | | **668 235** | 444 316 | **88 739** | 86 101 |

** Includes VAT accruals*

***Uncertain Tax Position***
Included in other payables and accruals, is an amount of R75m relating to an uncertain royalty tax position of Merafe Ferrochrome. This tax position will be defended should SARS proceed to issue an assessment.

Trade payables are non–interest bearing and are normally settled on 30 to 45 day terms. Other payables are non–interest bearing and are normally settled on 30 day terms.

An accrual is recognised for the employer's liability for annual leave and associated costs. The accrual for compensated absences is recognised when the employee renders the service and the accrual is updated on a monthly basis. Employee benefits include an accrual for bonuses in terms of the group's bonus scheme.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in note 20.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **14.** | **Revenue** | | | | |
| | Revenue from the sale of ferrochrome | **4 923 076** | 3 945 577 | - | - |
| | Revenue from the sale of chrome ore | **778 407** | 482 418 | - | - |
| | Dividend received | **-** | - | **50 000** | 45 000 |
| | Management fees | **84** | 80 | **15 201** | 4 593 |
| | | **5 701 567** | 4 428 075 | **65 201** | 49 593 |

**14. Revenue** *(continued)*

*Geographical areas of ferrochrome sales*

The majority of customers are stainless steel mills located at the following revenue destinations:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Revenue R'000** | **% of revenue in relation to total ferrochrome revenue** | Revenue R'000 | % of revenue in relation to total ferrochrome revenue |
| *Revenue destination* | | | | |
| Africa and Middle East* | **150 710** | **3** | 141 515 | 4 |
| Americas** | **703 638** | **14** | 254 189 | 6 |
| Asia*** | **3 319 455** | **68** | 2 813 715 | 71 |
| Europe**** | **749 273** | **15** | 736 158 | 19 |
| Total | **4 923 076** | **100** | 3 945 577 | 100 |

*Geographical areas of chrome ore sales*

| | **2016** | | **2015** | |
|---|---|---|---|---|
| | **Revenue R'000** | **% of revenue in relation to total chrome revenue** | Revenue R'000 | % of revenue in relation to total chrome revenue |
| *Revenue destination* | | | | |
| South Africa, Oman, Turkey and UAE | **96 476** | **12** | 59 243 | 12 |
| Asia, Australia, USA and Europe | **681 931** | **88** | 423 175 | 88 |
| Total | **778 407** | **100** | 482 418 | 100 |

* *Includes South Africa, Morocco and Oman*
** *Includes Canada, Latin America and USA*
*** *Includes China, Japan, Hong Kong, Korea, Singapore, Taiwan, Thailand, India, United Arab Emirates*
**** *Includes UK, Austria, Belgium, France, Germany, Italy, Netherlands, Slovenia, Spain, Sweden, Finland and Luxembourg*

**14. Revenue** *(continued)*

Sales to the following customers individually comprise more than 10% of total sales:

| Ferrochrome | **2016 Revenue R'000** | **2016 % of revenue in relation to total ferrochrome revenue** | 2015 Revenue R'000 | 2015 % of revenue in relation to total ferrochrome revenue |
|---|---|---|---|---|
| Customer A | **568 956** | **12** | 286 038 | 7 |
| Customer B | **749 909** | **15** | 796 029 | 20 |
| Customer C | **493 407** | **10** | 477 893 | 12 |
| Total | **1 812 272** | **37** | 1 559 960 | 39 |

| Chrome ore | **2016 Revenue R'000** | **2016 % of revenue in relation to total chrome ore revenue** | 2015 Revenue R'000 | 2015 % of revenue in relation to total chrome ore revenue |
|---|---|---|---|---|
| Customer D | **-** | **-** | 73 763 | 15 |
| Customer E | **133 622** | **17** | 39 664 | 8 |
| Customer F | **90 953** | **12** | - | - |
| Total | **224 575** | **29** | 113 427 | 23 |

Note: The marketing agent, Glencore International AG, accepts 60% of the risk related to non–payment of credit sales of ferrochrome and 100% of the risk related to non–payment of credit sales of chrome ore.

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **15.** | **Results from operating activities** | | | | |
| | The following items have been taken into account in arriving at results from operating activities: | | | | |
| | Corporate social investment | **(3 919)** | (7 389) | **(10)** | (3 964) |
| | Social and labour plans | **(867)** | (1 341) | **-** | - |
| | Enterprise development | **(1 323)** | (24) | **-** | - |
| | Embedded derivative recognised on sales contracts | **134 549** | (34 681) | **-** | - |
| | Consulting fees | **(4 142)** | (9 420) | **(2 172)** | (3 650) |
| | Increase in provision for closure and restoration | **-** | (2 049) | **-** | - |
| | Operating lease expenses | **(2 926)** | (6 982) | **-** | - |
| | Personnel expenses* | **(674 726)** | (595 227) | **(16 940)** | (5 679) |
| | – Salaries and wages | **(537 362)** | (478 246) | **(2 241)** | (2 210) |
| | – Defined contribution expense – provident fund | **(58 232)** | (53 726) | **(195)** | (258) |
| | – Defined contribution expense – medical aid | **(53 444)** | (49 382) | **(62)** | (61) |
| | – Cash/equity-settled share-based payment expense | **(12 805)** | (1 852) | **(12 805)** | (1 852) |
| | – Increase in accrual for leave pay | **(5 193)** | (4 675) | **(68)** | (45) |
| | – Increase in accrual for bonuses | **(7 690)** | (7 346) | **(1 569)** | (1 253) |

** Includes remuneration relating to key management personnel (see note 22.1)*

The proportion of the group's employees covered by the provident fund is as follows:

| | % of employees covered by the plan | |
|---|---|---|
| | **2016** | 2015 |
| The Company | **100** | 100 |
| The Venture | **100** | 100 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| | | **R'000** | R'000 | **R'000** | R'000 |
| **16.** | **Net finance (expense)/income recognised in profit or loss** | | | | |
| | **Finance expense** | **(63 400)** | (65 008) | **(1)** | (9) |
| | Finance expense on financial liabilities measured at amortised cost | **(51 165)** | (55 846) | **(1)** | (9) |
| | Interest on loans and borrowings | **(51 164)** | (55 837) | **-** | - |
| | Finance expense on bank overdraft and finance lease | **(1)** | (9) | **(1)** | (9) |
| | Unwinding of discount on rehabilitation provision | **(12 235)** | (9 162) | **-** | - |
| | **Finance income** | **4 044** | 1 943 | **11 625** | 1 617 |
| | Interest income on bank deposits | **3 556** | 1 943 | **3 264** | 1 617 |
| | SARS interest income | **488** | - | **-** | - |
| | Unwinding of intercompany loan | **-** | - | **8 361** | - |
| | Net finance (expense)/income | **(59 356)** | (63 065) | **11 624** | 1 608 |
| | **Net finance income per financial instrument category** | | | | |
| | **Loans and receivables** | **3 555** | 1 934 | **3 263** | 1 608 |
| | Interest income on bank deposits | **3 556** | 1 943 | **3 264** | 1 617 |
| | Finance expense on bank overdraft and finance lease | **(1)** | (9) | **(1)** | (9) |
| | **Financial liabilities measured at amortised cost** | **(51 164)** | (55 837) | **8 361** | - |
| | Interest expense on loans and borrowings | **(51 164)** | (55 837) | **-** | - |
| | Unwinding of intercompany loan | **-** | - | **8 361** | - |
| | **Financial assets measured at fair value** | **(12 235)** | (9 162) | **-** | - |
| | Other liability | **(12 235)** | (9 162) | **-** | - |
| | | **(59 844)** | (63 065) | **11 624** | 1 608 |

| | | Group | | Company | |
|---|---|---|---|---|---|
| | | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **17.** | **Income tax** | | | | |
| | **Normal taxation** | **(211 518)** | (135 717) | **1 345** | 4 477 |
| | **Current tax** | **(147 059)** | (63 685) | **-** | - |
| | – current year | **(147 690)** | (64 743) | **-** | - |
| | – prior years' over provision | **631** | 1 058 | **-** | - |
| | **Deferred tax** | **(64 459)** | (72 032) | | - |
| | Deferred taxation – current charge | **(64 459)** | (72 032) | **1 345** | 4 477 |
| | Total taxation | **(211 518)** | (135 717) | **1 345** | 4 477 |
| | At 31 December 2016, the total estimated unredeemed capital expenditure in the group was nil (31 December 2015: R174m). | | | | |
| | Profit before income tax R'000 | **743 948** | 479 174 | **59 715** | 31 744 |
| | Taxation on profit before taxation at standard rate | **28.0** | 28.0 | **28.0** | 28.0 |
| | Taxation effect of non–deductible expenditure | **0.4**[1] | 0.7[1] | **0.6**[1] | 6.0[1] |
| | Taxation effect of non–taxable income | **-** | - | **(31.3)**[2] | (39.7)[2] |
| | Taxation effect of unrecognised temporary differences | **-** | (0.1) | **-** | (8.4)[3] |
| | Prior years' overprovision | **-** | (0.2) | **0.4** | - |
| | Effective tax rate | **28.4** | 28.4 | **(2.3)** | (14.1) |

[1] Includes cash and equity-settled share-based payments, legal and consulting fees
[2] Relates to inter-company income
[3] Relates to share based payments change of intention from equity to cash

| | | **2016 (cents)** | 2015 (cents) |
|---|---|---|---|
| **18.** | **Earnings per share** | | |
| 18.1 | Basic earnings per share | **21.2** | 13.7 |

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of R532m (2015: R343m) and a weighted average number of ordinary shares outstanding during the year of 2 510 704 248 (2015: 2 509 634 174).

18.2 Calculation of weighted average number of shares

| | **Number of shares** | |
|---|---|---|
| | **2016** | 2015 |
| Issued ordinary shares at 1 January | **2 510 704 248** | 2 505 353 877 |
| Effect of share options exercised | **-** | 4 280 297 |
| Weighted average number of shares at 31 December | **2 510 704 248** | 2 509 634 174 |

| | | **2016 (cents)** | 2015 (cents) |
|---|---|---|---|
| 18.3 | Headline earnings per share | **21.2** | 13.9 |

The calculation of headline earnings per share is based on profit attributable to ordinary shareholders of R532m (2015: R348m) and a weighted average number of shares outstanding during the year of 2 510 704 248 (31 December 2015: 2 509 634 174).

| | **2016 R'000** | 2015 R'000 |
|---|---|---|
| *Headline earnings is calculated as follows:* | | |
| Total comprehensive income for the year | **532 430** | 343 457 |
| Impairments* | **-** | 4 609 |
| Profit on sale of assets** | **-** | (35) |
| Headline earnings | **532 430** | 348 031 |

* Net of taxation of nil (2015: R2m )
** Net of taxation of nil (2015: R13k)

**18. Earnings per share** *(continued)*

| | | **2016 (cents)** | 2015 (cents) |
|---|---|---|---|
| 18.4 | Diluted earnings per share | **21.2** | 13.7 |

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of R532m (2015: R343m) and a weighted average number of shares outstanding during the year of 2 510 704 208 (31 December 2015: 2 509 634 174).

| | Number of shares | |
|---|---|---|
| | **2016** | 2015 |
| Weighted average number of ordinary shares used in calculating basic earnings per share | **2 510 704 208** | 2 509 634 174 |

| | | **2016 (cents)** | 2015 (cents) |
|---|---|---|---|
| 18.5 | Diluted headline earnings per share | **21.2** | 13.9 |

The calculation of diluted headline earnings per share is based on profit attributable to ordinary shareholders of R532m (2015: R348m) and a weighted average number of shares outstanding during the year of 2 510 704 208 (31 December 2015: 2 509 634 174).

# Merafe Resources Limited

## Notes to the financial statements

*for the year ended 31 December 2016*

| | | Group | | Company | |
|---|---|---|---|---|---|
| | *Note* | **2016 R'000** | 2015 | **2016 R'000** | 2015 R'000 |
| **19. Cash generated from operating activities** | | | | | |
| **Profit before tax** | | **743 948** | 4974 | **5** | 1 |
| *Adjustments for:* | | | | | |
| Depreciation | | **329 893** | 3532 | **355** | 2 |
| Impairment | | **-** | 0 | **-** | |
| Finance income | | **(4 044)** | (9 | **(162)** | ( |
| Finance expense | 6 | **63 400** | 508 | **1** | |
| Share based payment expense | | **12 805** | 2 | **1** | |
| Share grants exercised | | **(4 624)** | (8 | **(6** | ( |
| Embedded derivative | | **(134 549)** | 36 | **-** | |
| Provision for closure and restoration | | **12 396** | (8 | **-** | |
| Effect of exchange rate fluctuations on cash held during the year | | **13 239** | 4 | **-** | |
| | | **1 032 464** | 916 721 | **56 627** | 29 352 |
| Change in inventories | | **347 659** | (9 | **-** | |
| Change in trade and other receivables | | **(826 144)** | 3 | **521** | |
| Change in trade and other payables | | **167 740** | (1 | **2** | |
| **Cash generated from operating activities** | | **721 719** | 1 051 507 | **59 786** | 184 143 |
| 19.1 Cash and cash equivalents | | | | | |
| **Positive cash balances** | | **287 880** | 325 126 | **56 325** | 1 |
| Bank balance | | **233 093** | 222 636 | **1 705** | 7 |
| Call deposits | | **54 618** | 102 313 | **54 618** | 1 |
| Cash on hand | | **169** | 177 | **2** | |
| **Bank overdraft** | | **(24 576)** | (15 556) | **-** | - |
| **Net cash and cash equivalents in statements of cash flows** | | **263 304** | 309 570 | **56 325** | 1 |
| *Reconciliation of cash in the group* | | | | | |
| Cash in the Venture | | **54 615** | 200 860 | **-** | - |
| Cash in Merafe Ferrochrome, the company and Merafe Kroondal Rehabilitation Trust | | **208 689** | 108 710 | **56 325** | 1 |
| **Total** | | **263 304** | 309 570 | **56 325** | 1 |

*Note: Cash at bank earns interest at a floating rate based on daily bank deposit rates. Call deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest at the respective call deposit rates. The group's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in Note 20.*

### 20. Financial instruments

*Principles of risk management*

The group has exposure to the following risks from its use of financial instruments:
* Credit risk;
* Liquidity risk; and
* Market risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has established a group Audit and Risk Committee, which is responsible for monitoring the group's risk management policies. The committee reports directly to the board of directors on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The group Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The group Audit and Risk Committee is assisted in the oversight role at operations level by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the group Audit and Risk Committee.

Whilst the recommendations are reviewed and approved by the board of directors, the Venture's treasury department is responsible for implementing these recommendations at the Venture level.

The overall objective of the Venture's treasury department is to effectively manage credit risk, liquidity risk and market risks in accordance with the group's strategy. Other responsibilities of the Venture's treasury department include management of the group's cash resources, approval of counter–parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the group.

The Venture's treasury department prepares monthly treasury reports which monitor all significant treasury activities undertaken by the Venture. The report also benchmarks significant treasury activities and monitors key banking risks to ensure continued effectiveness.

The group's significant financial instruments comprise loans and receivables, cash and cash equivalents and financial liabilities measured at amortised cost. The main purpose of these financial instruments is to finance the group's acquisitions and ongoing operations.

**20. Financial instruments** *(continued)*

20.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or counter-party to a financial instrument fails to meet its contractual obligation.

Exposure to credit risk arises as a result of transactions in the group's ordinary course of business and is applicable to all financial assets. Counter-parties are assessed both prior to, during and after conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

*Cash and cash equivalents*

The group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions. The group's cash balances are in the form of short-term deposits in both local and foreign currency.

*Trade and other receivables*

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which the customers operate, has less of an influence on credit risk. Management have considered recoverability of trade and other receivables and no significant impairment losses are expected. There are no impairment losses in the current year.

The group sells the majority of its ferrochrome to a broad range of international customers in terms of the Venture agreement.

The marketing agent, Glencore, accepts 60% of the risk related to non-payment of credit sales of ferrochrome and 100% of the risk of non-payment of credit sales of chrome ore. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the group to a wide variety of customers. These sales are governed by various sales, marketing and distribution agreements. As these agreements have been in place for a number of years and the group has not been exposed to significant unrecoverable amounts, the group does not believe that these arrangements expose it to unacceptable credit risks.

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery. The group does not have netting arrangements with any debtors.

*Investments*

The company has a loan receivable from Merafe Chrome and Alloys Proprietary Limited, a wholly-owned subsidiary. The recoverability of the loan is assessed periodically.

**20. Financial instruments** *(continued)*

20.1 Credit risk *(continued)*

| | Group | | Company | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Exposure to credit risk** | | | | |
| The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was: (refer Note 20.4) | | | | |
| Loans to subsidiaries | **-** | - | **1 250 850** | 1 190 972 |
| Trade and other receivables | **1 192 184** | 236 598 | **1 434** | 643 |
| Cash and cash equivalents | **287 880** | 325 126 | **56 325** | 103 039 |
| | **1 480 064** | 561 724 | **1 308 609** | 1 294 654 |
| The ageing of trade receivables at the reporting date was: | | | | |
| Not past due | **1 269 321** | 586 876 | **1 434** | 643 |
| Past due * | **65 720** | 9 362 | **-** | - |
| | **1 335 041** | 596 238 | **1 434** | 643 |

**As at the date of this report, there are no material trade receivables past due that was not settled and no impairment was raised at 31 December 2016.*

20.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations on time. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Venture's treasury department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The group manages its liquidity risk on a concentrated basis, utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required. The operational, tax, capital and regulatory requirements and obligations of the group are considered in the management of liquidity risk. In addition, management utilises both short-and long term cash flow forecasts and other consolidated financial information to manage liquidity risk.

**20. Financial instruments** *(continued)*

20.2 Liquidity risk *(continued)*

The group uses activity-based costing to cost its products, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the group maintained the following facilities at 31 December 2016:
*The Company*
* ABSA Bank Limited: R1m credit card facilities. Interest is payable at ABSA Bank Limited's prime lending rate. At year end the prime lending rate was 10.5%; and
* ABSA Bank Limited: R0.3m guarantee facility.

*Merafe Ferrochrome*
* ABSA Bank Limited: R15m general banking facility and/or customer foreign currency account facility. Interest would be payable at the prime overdraft rate;
* ABSA Bank Limited: R20.2m financial guarantee facility;
* ABSA Bank Limited: R0.5m credit card facility. Interest on arrears is payable at prime overdraft rate plus 4.5%; and
* ABSA Capital and Standard Bank: R350m term loan and R300m revolving credit facility

*The Venture*
* US$135m (ABSA, Standard Bank, Investec) foreign currency overdraft account. Interest charged at US$ LIBOR plus a margin of between 0.5% and 2.00%;
* Standard Bank debtors factoring facility: US$150m. Interest is charged at US$ LIBOR plus a margin of 1.6%.

At year end US$ LIBOR was 0.7% (31 December 2015: 0.4%).

The following guarantee facilities (Merafe's portion) are in place:

| | ABSA R'000 | Nedbank R'000 | FNB R'000 | Standard R'000 | Total R'000 |
|---|---|---|---|---|---|
| **31 December 2016** | | | | | |
| Facility available and utilised | **17 574** | **19 288** | **59 057** | **41 760** | **137 679** |
| Eskom | **11 514** | **-** | **41 979** | **-** | **53 493** |
| DMR | **4 386** | **19 288** | **17 078** | **41 760** | **82 512** |
| Customs and excise | **314** | **-** | **-** | **-** | **314** |
| Town councils and water boards | **1 360** | **-** | **-** | **-** | **1 360** |
| Percentage utilised | **100%** | **100%** | **100%** | **100%** | **100%** |

**20. Financial instruments** *(continued)*

20.2 Liquidity risk *(continued)*

| | ABSA R'000 | Nedbank R'000 | FNB R'000 | Standard R'000 | Total R'000 |
|---|---|---|---|---|---|
| **31 December 2015** | | | | | |
| Facility available and utilised | **17 574** | **19 310** | **58 532** | **44 539** | **139 955** |
| Eskom | **11 514** | **-** | **41 980** | **-** | **53 494** |
| DMR | **4 386** | **19 310** | **16 552** | **44 539** | **84 787** |
| Customs and excise | **314** | **-** | **-** | **-** | **314** |
| Town councils and water boards | **1 360** | **-** | **-** | **-** | **1 360** |
| Percentage utilised | **100%** | **100%** | **100%** | **100%** | **100%** |

*Note: All of the above guarantees are in the name of Glencore and relate to the Venture.*

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting arrangements.

| **Group 2016** | **Year ended 31 December 2017 R'000** | **Year ended 31 December 2018 R'000** | **Year ended 31 December 2019 R'000** | **Year ended 31 December 2020 onwards R'000** | **Total R'000** |
|---|---|---|---|---|---|
| **Non derivative** | | | | | |
| ABSA and Standard Bank | (131 847) | (135 073) | (112 000) | (52 400) | (431 320) |
| Interest | (31 847) | (21 600) | (12 000) | (2 400) | (67 847) |
| Repayments | (100 000) | (113 473) | (100 000) | (50 000) | (363 473) |
| Finance lease liabilities | (3 008) | (2 586) | (2 532) | (16 674) | (24 800) |
| Trade and other payables | (390 749) | - | - | - | (390 749) |
| Bank overdraft | (24 576) | - | - | - | (24 576) |
| Total | (550 180) | (137 659) | (114 532) | (69 074) | (871 445) |

**20. Financial instruments** *(continued)*

20.2 Liquidity risk *(continued)*

| Group 2015 | Year ended 31 December 2016 R'000 | Year ended 31 December 2017 R'000 | Year ended 2018 R'000 | Year ended 2019 and onwards R'000 | Total R'000 |
|---|---|---|---|---|---|
| **Non derivative** | | | | | |
| ABSA Bank Limited | (147 227) | (137 467) | (116 824) | (157 199) | (558 717) |
| Interest | (47 227) | (37 467) | (16 824) | (7 199) | (108 717) |
| Repayments | (100 000) | (100 000) | (100 000) | (150 000) | (450 000) |
| Finance lease liabilities | (3 209) | (2 818) | (2 585) | (19 212) | (27 824) |
| Trade and other payables | (256 882) | - | - | - | (256 882) |
| Bank overdraft | (15 556) | - | - | - | (15 556) |
| Total | (422 874) | (140 285) | (119 409) | (176 411) | (858 979) |

**Company 2016**
Trade and other payables mature during the year ending 31 December 2017.

**Company 2015**
Trade and other payables mature during the year ending 31 December 2016. The installments relating to finance leases are R24k for 2016.

20.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and ferrochrome prices, will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

**20. Financial instruments** *(continued)*

20.3 Market risk *(continued)*

Currency risk

*Foreign currency*
In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US$). As a result, the group was subject to transaction and translation exposure from flutuations in foreign currency exchange rates.

| | **31 December 2016 US$ '000** | 31 December 2015 US$ '000 |
|---|---|---|
| **Exposure to currency risk** | | |
| The group's exposure to foreign currency risk is as follows: | | |
| Trade receivables | **95 837** | 35 844 |
| Trade receivables sold | **(22 588)** | (26 546) |
| CFC account | **1 002** | 8 469 |
| Net exposure | **74 251** | 17 767 |

| | **Average rate** | | **Reporting date spot rate** | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| The following exchange rates were applied during the year: | | | | |
| Rand: United States Dollar | **14.7** | 12.8 | **13.7** | 15.5 |

*Sensitivity analysis*
A 10 percent (strengthening)/weakening of the rand against the US$ at 31 December 2016 would have (decreased)/increased equity and profit before tax by R101m. A 10 percent (strengthening)/weakening of the rand at 31 December 2015 against the US$ would have (decreased)/increased equity and profit before taxation by R28m. This analysis assumes that all other variables, in particular interest rates, remain constant. This sensitivity does not represent the statement of comprehensive income impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

**20. Financial instruments** *(continued)*

20.3 Market risk *(continued)*
*Interest rate risk*
*Profile*
At the reporting date, the interest rate profile of the group's interest-bearing financial instruments were:

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Average interest rate %** | **Carrying amount R'000** | Average interest rate % | Carrying amount R'000 |
| **Variable rate instruments** | | | | |
| ABSA Bank Limited | **9.9** | **(363 473)** | 9.0 | (559 480) |
| Finance leases – plant and equipment | **13.5** | **(13 468)** | 13.5 | (14 451) |
| Cash and cash equivalents | | | | |
| – local currency | **4.5*** | **249 577** | 4.5* | 178 301 |
| – foreign currency | **0.2** | **13 727** | 1.2 | 131 269 |
| | | **(113 637)** | | (264 361) |

* *Cash balances in local currency receive interest as follows:*
*a The Venture: prime less 6%*
*b The Company and Merafe Ferrochrome*
** Call deposits: daily call deposits rates. At year end the call deposit rate was 7%*
** Current account balances*
*– favourable: 1%*
*– unfavourable: prime (at year end prime was 10.5%)*
** Money market: The average rate was 6% (at year end was 6.9%).*

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **20.4 Financial instruments carrying amounts** | | | | |
| **Loans and receivables** | **1 363 389** | 595 675 | **1 308 609** | 1 294 654 |
| Inter company loan | **-** | - | **1 250 850** | 1 190 972 |
| Trade and other receivables | **1 075 509** | 270 549 | **1 434** | 643 |
| Cash and cash equivalents | **287 880** | 325 126 | **56 325** | 103 039 |
| **Financial assets/liabilities at fair value – embedded derivative** | **116 675** | (33 951) | **-** | - |
| **Financial liabilities measured at amortised cost** | **(792 266)** | (831 918) | **(76 355)** | (76 292) |
| Loans and borrowings – long-term | **(189 102)** | (459 480) | **-** | (1 947) |
| Loans and borrowings – short-term | **(187 839)** | (100 000) | **-** | - |
| Bank overdraft | **(24 576)** | (15 556) | **-** | - |
| Trade and other payables | **(390 749)** | (256 882) | **(76 355)** | (74 345) |

The carrying amount of financial assets and financial liabilities reflected in the statements of financial position approximate their fair values.

### 21. Capital management

The board's policy is to maintain a strong capital base in order to maintain investor, debt providers and the market confidence in the business.

The strong capital base should ensure that any organic or acquisitive growth in the business is sustainable and provides a cushion for the cyclical nature of the resources business.

The board has actively pursued a policy of debt reduction and its objective is to maintain its net gearing level to a maximum of 25% versus total assets. This ratio is calculated taking into account interest bearing debt excluding cash balances divided by total assets. At 31 December 2016 year end, the gearing level was 6% (31 December 2015: 11%).

As the required gearing level has been achieved, the board will focus on balancing the requirement to pay dividends, while at the same time ensuring that there is sufficient capital in the business to see the company through the continued global economic uncertainty, to fund working capital, to fund capital expenditure requirements and to fund other growth opportunities in the business.

When analysing growth opportunities, the board seeks to obtain a minimum internal rate of return of 20%.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements.

### 22. Related parties

| Identity of the related party | Relationship | Transaction and balances |
|---|---|---|
| The Venture | In July 2004, Glencore and Merafe Ferrochrome pooled and shared ferrochrome assets to form the Venture. | Refer Note 22.3 for the amounts that are included in the consolidated financial statements of the group. |
| Merafe Ferrochrome and Mining Proprietary Limited (Merafe Ferrochrome) | Merafe Ferrochrome is a wholly–owned subsidiary of Merafe Chrome. | Merafe Resources charges Merafe Ferrochrome a management fee as per note 14. Dividends were paid to Merafe Chrome of R50m (2015: R45m). A loan account is recognised (refer note 13). |
| Merafe Chrome and Alloys Proprietary Limited (Merafe Chrome) | Merafe Chrome is a wholly owned subsidiary of Merafe Resources Limited (Merafe Resources) | A loan account is recognised with Merafe Resources (refer note 3). Dividends were received from Merafe Ferrochrome of R50m (2015: R45m). |

**22. Related parties** *(continued)*

| Identity of the related party | Relationship | Transaction and balances |
|---|---|---|
| Horizon Nature Conservation Trust (SE) | The Trust, which was registered on 15 July 1998, was established to provide funds for the rehabilitation of land involved in any prospecting or mining operations of Merafe Ferrochrome's Horizon mine and to discharge any liability which may arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation as may be enacted in the future. | The Trust was deregistered during 2016. |
| Merafe Kroondal Rehabilitation Trust (SE) | The Trust, which was registered on 31 May 2006, was established to provide funds for the rehabilitation of land involved in any prospecting or mining operations of Merafe Ferrochrome of the Kroondal mine and to discharge any liability which might arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation as may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture. | A loan account is recognised with Merafe Resources of R84k (2015: R72k) which relates to the payment of audit fees. |
| Merafe Resources Limited Share Incentive Scheme | The Trust was established for the purpose of implementing the company's share incentive scheme in 1999. The trust operates and administers share options which the company may grant to participants. | No transactions occurred during the year. The trust is dormant. |

**22. Related parties** *(continued)*

| Identity of the related party | Relationship | Transaction and balances |
|---|---|---|
| Industrial Development Corporation (IDC) | The IDC holds 21.8% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of their shareholding. | The IDC received the non–executive directors' fees for M Mosweu as disclosed in Note 22.1. IDC received dividends declared by Merafe Resources. |
| Glencore Nederlands B.V. (GN) | GN holds 28.7% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of it's shareholding. | No transactions occurred during the year. GN received dividends declared by Merafe Resources. |
| C Molefe, M Mosweu, BN Majova, Z van der Walt, A Mngomezulu, K Nondumo, ZJ Matlala, K Bissessor, S Blankfield | Directors of Merafe Resources Limited<br>Refer to Directors' Report for changes in directorate during 2016. | Refer to note 22.1 |

22.1 Transactions with key management personnel and non-executive directors

Executive directors of the company and their immediate families control 0.1% (31 December 2015: 0.1%) of the voting shares of the company. In addition to their salaries, the company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf. Executive directors also participate in the company's share incentive schemes (refer note 8).

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| **Directors' fees - Non-executive directors** | **R'000** | R'000 |
| C Molefe | **(606)** | (662)[1] |
| A Mngomezulu | **(464)** | (373) |
| M Mamathuba[2] | **-** | (31) |
| BN Majova | **(479)** | (505) |
| M Mosweu | **(256)** | (294) |
| Z van der Walt | **(98)** | (515) |
| K Nondumo | **(430)** | (457) |
| S Blankfield | **(322)** | (207) |
| | **(2 655)** | (3 044) |

The above fees relate to services rendered as directors. No other services were rendered.

*[1] includes cell phone allowance*
*[2] resigned effective 2 March 2015*

**22. Related parties** *(continued)*

22.1 Transactions with key management personnel *(continued)*

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **R'000** | R'000 |
| **Executive directors and prescribed officers remuneration** | | |
| **ZJ Matlala** | | |
| Salary | **(4 027)** | (3 618) |
| Bonus | **(4 060)** | (3 822) |
| Fringe benefits and leave pay | **(167)** | (283) |
| Provident fund contributions | **(432)** | (635) |
| Share grants vested | **(2 733)** | (2 019) |
| | **(11 419)** | (10 377) |
| **B McBride** | | |
| Salary | **-** | (646) |
| Bonus | **-** | - |
| Severance pay | **-** | (5 411) |
| Fringe benefits and leave pay | **-** | (448) |
| Provident fund contributions | **-** | (91) |
| Share grants vesting | **-** | (4 441)* |
| Share options exercised | **(883)** | - |
| | **(883)** | (11 037) |
| Cost of share options and grants exercised | **1 862** | - |
| Proceeds on disposal of share options and share grants exercised | **(2 745)** | (4 441) |

** Includes R1 014k retrenchment share grants (retrenced effective 15 March 2015).*

**22. Related parties** *(continued)*

22.1 Transactions with key management personnel *(continued)*

| | Company | |
|---|---|---|
| | **2016** | 2015 |
| | **R'000** | R'000 |
| **K Bissessor** | | |
| Salary | **(1 870)** | (1 806) |
| Bonus | **(1 649)** | (1 643) |
| Fringe benefits and leave pay | **(350)** | (237) |
| Provident fund contributions | **(312)** | (310) |
| Share grants vested | **(262)** | (269) |
| | **(4 443)** | (4 265) |
| **A Mahendranath** | | |
| Salary | **-** | - |
| Bonus | **-** | - |
| Severance pay | **-** | - |
| Fringe benefits | **-** | - |
| Leave pay | **-** | - |
| Provident fund contributions | **-** | - |
| Share grants vested and options exercised | **-** | (30) |
| | **-** | (30) |
| Total key management personnel remuneration | **(16 745)** | (25 709) |
| Short-term employee benefits | **(12 867)** | (18 950) |
| Share grants and options | **(3 878)** | (6 759) |

*Note: In accordance with the Remuneration Policy, the 2016 bonus will be paid during March 2017.*

There are no fixed term director service contracts and there are no director service contracts with provisions for predetermined compensation on termination of the contracts in excess of one year's salary and benefits.

**22. Related parties** *(continued)*

22.2 Directors interests in Merafe Resources Limited

As at 31 December 2016, the directors of the company are beneficially interested (directly and indirectly) in 2 774 915 (31 December 2015: 2 774 915) shares in the company.

| | **2016** | | 2015 | |
|---|---|---|---|---|
| | **Direct** | **Indirect** | Direct | Indirect |
| Kajal Bissessor | **700 000** | **-** | 700 000 | - |
| Zanele Matlala | **2 012 305** | **-** | 2 012 305 | - |
| Belese Majova | **-** | **62 610** | - | 62 610 |
| | **2 712 305** | **62 610** | 2 712 305 | 62 610 |

22.3 Transactions with the Glencore–Merafe Chrome Venture

The Venture resulted in Glencore and Merafe Ferrochrome pooling and sharing their ferrochrome assets. The Venture's head-office is located at Portion 27, Farm Waterval 306 JQ, Rustenburg, 0302. While Merafe Ferrochrome's assets form part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Executive Committee, joint board and sub–committees (Treasury, Audit and Risk, Transformation, Sustainable Development and Health and Safety) formed to oversee the combined operation of both companies. The group receives 20.5% of the Venture's earnings before interest, tax, depreciation and amortisation (EBITDA) and owns 20.5% of the Venture's working capital.

Included in the consolidated financial statements are the following items that represent the group's share of the working capital and EBITDA of the Venture.

| | **Year ended 31 December 2016 R'000** | Year ended 31 December 2015 R'000 |
|---|---|---|
| Inventories | **1 099 611** | 1 445 887 |
| Trade and other receivables | **1 274 843** | 316 305 |
| Net cash | **54 615** | 200 860 |
| Finance leases | **(13 468)** | (14 428) |
| Long-term provisions | **(151 747)** | (139 351) |
| Trade and other payables | **(565 026)** | (413 580) |
| Net working capital | **1 698 828** | 1 395 693 |
| | | |
| Revenue | **5 701 567** | 4 428 075 |
| Foreign exchange (losses)/gains | **(78 185)** | 83 424 |
| Operating expenses: the Venture | **(4 447 099)** | (3 659 608) |
| EBITDA | **1 176 283** | 851 891 |

### 23. Contingencies

To the best of our knowledge and belief, other than as set out elsewhere in this report, there are no contingencies in both the current and prior year which may materially affect the financial position of the group.

| | Group | | Company | |
|---|---|---|---|---|
| | **2016 R'000** | 2015 R'000 | **2016 R'000** | 2015 R'000 |
| **24. Operating leases** | | | | |
| Non–cancellable operating lease rentals are payable as follows: | | | | |
| Less than one year | **(1 473)** | (3 701) | **–** | – |
| Between one and five years | **(2 585)** | (4 351) | **–** | – |
| Greater than five years | **(395)** | (5 299) | **–** | – |
| | **(4 453)** | (13 351) | **–** | – |

The group leases various items of office equipment, mine properties and buildings. The lease payments escalate between 7% to 10% per annum for both the prior and current year.

| | | | | |
|---|---|---|---|---|
| **25. Capital commitments** | | | | |
| The group's capital commitments at year end in respect of the Venture were: | | | | |
| – contracted for but not provided for | **47 886** | 36 275 | **–** | – |
| – authorised but not contracted for | **123 399** | 82 008 | **–** | – |
| | **171 285** | 118 283 | **–** | – |

### 26. Events after the reporting date

No material facts or circumstances occurred between 31 December 2016 and 6 March 2017 that may require adjustment or disclosure in these annual financial statements.

### 27. Dividends

An interim dividend of R20m (2015: R25m) was declared on 8 August 2016. A final dividend of R100.4m (2015:R30m) was declared on 6 March 2017.

# Merafe Resources Limited

## Shareholder Information

### 1. Distribution of ordinary shareholders

| | Number of shareholders | % of all members | Number of shares held | % of issued capital |
|---|---|---|---|---|
| Public shareholders | 6 353 | 99.92 | 1 240 935 346 | 49.43 |
| Non–public shareholders | 5 | 0.08 | 1 269 768 902 | 50.57 |
| Directors and their associates | 3 | 0.05 | 2 774 915 | 0.11 |
| Glencore Netherlands B.V. | 1 | 0.02 | 720 163 887 | 28.68 |
| Industrial Development Corporation | 1 | 0.02 | 546 830 100 | 21.78 |
| | 6 358 | 100 | 2 510 704 248 | 100 |

### 2. Holders holding 5% or more of shares in issue

| | Number of shares held | % issued share capital |
|---|---|---|
| Glencore Nederlands B.V. | 720 163 887 | 28.68 |
| Industrial Development Corporation | 546 830 100 | 21.78 |

### 3. Shareholding spread

| | Number of shareholders | % of all shareholders | Number of shares held | % of share capital |
|---|---|---|---|---|
| 1 – 1000 shares | 1 261 | 19.83 | 599 667 | 0.02 |
| 1 001 – 5 000 shares | 1 511 | 23.77 | 4 544 514 | 0.18 |
| 5001 – 10 000 shares | 938 | 14.75 | 7 709 541 | 0.31 |
| 10 001 – 100 000 shares | 2 000 | 31.46 | 67 479 921 | 2.69 |
| 100 001 – 1 000 000 shares | 507 | 7.97 | 154 256 941 | 6.14 |
| 1 000 001 and more shares | 141 | 2.22 | 2 276 113 664 | 90.66 |
| | 6 358 | 100 | 2 510 704 248 | 100 |

### 4. Distribution of shareholders

| | Number of shareholders | % of all shareholders | Number of shares held | % of share capital |
|---|---|---|---|---|
| Diluted funds | 46 | 0.72 | 362 679 672 | 14.45 |
| Pension funds | 97 | 1.53 | 213 241 898 | 8.49 |
| Private companies | 79 | 1.24 | 30 838 509 | 1.23 |
| Individuals | 5 632 | 88.58 | 202 026 970 | 8.05 |
| Close corporations | 78 | 1.23 | 5 304 015 | 0.21 |
| Other corporations | 180 | 2.83 | 1 565 462 572 | 62.35 |
| Nominees and other institutions | 230 | 3.62 | 101 300 983 | 4.03 |
| Banks | 16 | 0.25 | 29 849 629 | 1.19 |
| | 6 358 | 100 | 2 510 704 248 | 100 |

# Merafe Resources Limited

## Shareholder Information *(continued)*

### 5. JSE share performance

| | **2016** | 2015 |
|---|---|---|
| Market capitalisation as at 31 December | **4 142 662 009** | 1 707 278 889 |
| **Share Price (cents)** | | |
| High | **165** | 105 |
| Low | **50** | 49 |
| Closing | **165** | 68 |
| **Shares traded** | | |
| Volume of shares traded | **722 152 424** | 1 258 123 042 |
| Value of shares (ZAR) | **718 875 538** | 1 012 019 912 |
| Volume of shares traded as a percentage of weighted average of shares in issue | **28.76%** | 50% |
| **Shares in issue as at 31 December** | **2 510 704 248** | 2 510 704 248 |

### 6. Distribution of local and foreign beneficial shareholding

| | % of issued capital |
|---|---|
| South African | 62.54 |
| Foreign | 37.46 |

**SHAREHOLDERS' DIARY**

**Meetings**

Annual General Meeting for the 2016 financial year will be held on 4 May 2017.

**Reports**

Interim reports for the six months to 30 June 2017 to be released on 7 August 2017.
Annual results for the twelve months to 31 December 2017 to be released and published in March 2018.