### 8. Cash-settled share-based payment arrangements

| | Group | | Company | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | **R'000** | R'000 | **R'000** | R'000 |
| **Cash-settled share-based payment liability** | | | | |
| Balance at beginning of year | **8 755** | 14 220 | **8 755** | 14 220 |
| Share-based payment expense* | **5 902** | 5 588 | **5 902** | 5 588 |
| Share grants vested | **(5 077)** | (11 053) | **(5 077)** | (11 053) |
| Share grants forfeited* | **(2 805)** | - | **(2 805)** | - |
| Balance at the end of year | **6 775** | 8 755 | **6 775** | 8 755 |
| Current | **3 257** | 3 376 | **3 257** | 3 376 |
| Non-current | **3 518** | 5 379 | **3 518** | 5 379 |

* = *the net Statement of Comprensive Income expense is R3.097 million (2017: R5.588 million).*

Share option/grant 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.

8.1 Share options

Share options that had been granted to employees and senior management in prior years which had to be exercised within 10 years of grant date either lapsed or were exercised. The share options that were exercised were settled by cash.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.1 Share option/grant schemes *(continued)*

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

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **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 | **-** | **-** | 139 | 10 908 |
| Options exercised during the year | | | 172 | (8 310) |
| Options forfeited during the year | **-** | **-** | 227 | (2 598) |
| Outstanding balance at end of year | **-** | **-** | - | - |
| Exercisable at end of year | **-** | **-** | - | - |

There were no share options outstanding at the end of the year (2017: nil).

8.2 Share grants

The new share incentive scheme was approved by shareholders on 13 April 2010. During 2010 to 2018, 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.

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.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

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 different 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 JSE Listed small capitalisation mining and resource companies.

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.

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

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:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | 2015 - 2018 share grants | 2013 - 2014 share grants | 2015 - 2017 share grants | 2013 - 2014 share grants |
| Risk free rate | 8.68% | 8.68% | 7.14% | 7.14% |
| Expected volatility* | 45% | 45% | 47% | 47% |
| Expected dividend yield | 8.32% | 8.32% | 5.48% | 5.48% |
| Expected life (years) | 0.2 – 4.7 | 0.25 | 0.25 – 4.25 | 0.18 – 1.25 |
| Vesting periods (years) | 3 - 5 | 5 | 3,4 and 5 | 3,4 and 5 |
| Weighted average exercise price (Rands) | 0 | 0 | 0 | 0 |
| Weighted average grant price (Rands) | 0.77 – 1.67 | 1.08 | 0.77 – 1.67 | 0.82 – 1.08 |
| Weighted average option value (Rands) | 0.96 – 1.39 | 1.39 | 0.81 – 1.47 | 0.79 – 1.48 |
| Performance conditions | Yes | Yes | Yes | Yes |
| Intrinsic value of shares | R12 815 920 | R992 715 | R15 497 983 | R4 409 023 |

* *The expected volatility of 45% (2017: 48%) is based on historic volatility of the Merafe share price over the past five years.*

The following share grants relating to employees and executive directors were outstanding at 31 December 2018:

| Vesting date | Total | Share grant date |
|---|---|---|
| 01 April 2019 | 649 799 | 01 April 2014 |
| 01 April 2019 | 881 825 | 01 April 2015 |
| 01 April 2020 | 881 825 | 01 April 2015 |

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

| | | |
|---|---|---|
| 01 April 2019 | 977 675 | 01 April 2016 |
| 01 April 2020 | 977 675 | 01 April 2016 |
| 01 April 2021 | 977 675 | 01 April 2016 |
| | | |
| 01 April 2020 | 478 343 | 01 April 2017 |
| 01 April 2021 | 478 343 | 01 April 2017 |
| 01 April 2022 | 478 343 | 01 April 2017 |
| | | |
| 01 April 2021 | 665 776 | 01 April 2018 |
| 01 April 2022 | 665 776 | 01 April 2018 |
| 01 April 2023 | 665 776 | 01 April 2018 |
| | | |
| 06 August 2021 | 213 154 | 06 August 2018 |
| 06 August 2022 | 213 154 | 06 August 2018 |
| 06 August 2023 | 213 154 | 06 August 2018 |
| | | |
| 10 September 2021 | 85 600 | 10 September 2018 |
| 10 September 2022 | 85 600 | 10 September 2018 |
| 10 September 2023 | 85 600 | 10 September 2018 |
| | | |
| Total | 9 675 093 | |

The following share grants relating to executive directors were outstanding at 31 December 2018:

| **Vesting date** | **Ms ZJ Matlala** | **Mr SD Chocho** |
|---|---|---|
| 1 April 2019 | 626 752 | - |
| | | |
| 1 April 2019 | 850 548 | - |
| 1 April 2020 | 850 548 | - |
| | | |
| 1 April 2019 | 941 409 | - |
| 1 April 2020 | 941 409 | - |
| 1 April 2021 | 941 409 | - |
| | | |
| 1 April 2020 | 460 433 | - |
| 1 April 2021 | 460 433 | - |
| 1 April 2022 | 460 433 | - |
| | | |
| 1 April 2021 | 576 692 | - |
| 1 April 2022 | 576 692 | - |
| 1 April 2023 | 576 692 | - |
| | | |
| 6 August 2021 | - | 208 333 |
| 6 August 2022 | - | 208 333 |

**8. Cash-settled share-based payment arrangements** *(continued)*

8.2 Share grants *(continued)*

| | | |
|---|---|---|
| 6 August 2023 | - | 208 333 |
| Total | 8 263 450 | 624 999 |

The movement in the number of share grants can be summarised as follows:

| | **2018 R'000** | 2017 R'000 |
|---|---|---|
| Opening balance | **13 676 380** | 15 391 374 |
| Granted during the year | **3 376 548** | 2 200 513 |
| Vested during the year | **(3 378 190)** | (3 915 507) |
| Forfeited during the year | **(3 999 645)** | - |
| Closing balance | **9 675 093** | 13 676 380 |

| | | **Group** | | **Company** | |
|---|---|---|---|---|---|
| | | **2018 R'000** | 2017 R'000 | **2018 R'000** | 2017 R'000 |
| **9.** | **Loans and borrowings** | | | | |
| 9.1 | Finance leases – property, plant and equipment | **11 112** | 12 138 | **-** | - |
| | Total loans and borrowings | **11 112** | 12 138 | **-** | - |
| | Current portion of loans and borrowings | **(1 233)** | (1 044) | **-** | - |
| | – Finance leases – property, plant and equipment | **(1 216)** | (1 044) | **-** | - |
| | – ABSA/Standard Bank | **(17)** | - | | |
| | **Non-current portion of loans and borrowings** | **9 879** | 11 094 | **-** | - |

9.1 Finance leases – property, plant and equipment

These loans are secured by finance leases over plant and equipment which is included in note 2. The loans are repayable in monthly installments averaging R215k (2017: R267k) on all finance leases. Interest is payable at an average of 13.3% (2017: 11.75%) per annum. Contingent rent, special renewal terms and specific escalation clauses are not applicable to the leases. There are no restrictions that are imposed by the current lease arrangements.

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.