

Abridged Audited Group Annual Financial Statements

For the year ended 31 December 2011

MERAPE RESOURCES LIMITED (Incorporated in the Republic of South Africa)

Company Registration Number: 1987/003452/06 Share code: MRF ISIN: ZAE000060000 (Merafe or the Company or the Group)



MERAPE
RESOURCES

Concluded agreement to participate in 20.5% of Lion II



TRIFR improved by 15%



R800m long-term debt facility negotiated and signed



Cash flows from operating activities of R295m



13% decrease in ferrochrome sales volume



Preparation

The following individuals were responsible for the preparation of the Abridged Audited Group Annual Financial Statements: **Kajal Bissessor CA(SA)**, Financial Manager **Zanele Mattala CA(SA)**, Chief Financial Officer

Commentary

Basis of preparation

On 1 March 2012, the board of directors (the Board) of the Company approved the annual financial statements of the Group and the Company for the year ended 31 December 2011.

These abridged Group annual financial statements have been prepared in accordance with the framework concepts, the measurement and recognition requirements of International Financial Reporting Standards (IFRS), the requirements of the Companies Act 71 of 2008, as amended, the AC 500 standards issued by the Accounting Practices Board and include the information required by IAS 34 *Interim Financial Reporting*. The accounting policies adopted are consistent with those adopted in the annual financial statements for the year ended 31 December 2010.

Review of results

The Group annual financial statements from which the abridged Group annual financial statements were derived have been audited by the Group's auditors, KPMG Inc. Their unqualified audit report is available for inspection at the Company's registered address.

Merafe's revenue and operating income is primarily generated from the Xstrata-Merafe Chrome Venture (the Venture), the market leader in ferrochrome, with a total installed capacity of 1.98 million tonnes of ferrochrome per annum. Merafe shares in 20.5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Merafe's earnings from the Venture decreased from the prior year primarily as a result of a decrease of 13% in Merafe's share of ferrochrome sales tonnes from 291 000 in 2010 to 254 000 in 2011 and above inflationary increases in production costs. Chrome ore revenue as a percentage of total revenue increased from 8% in 2010 to 14% in 2011 of which 72% relates to chrome ore exported to Asia during the 2011 financial year. The average Rand Dollar exchange rate for the 2011 year was R7.26 compared to R7.32 in the 2010 year.

Merafe's share of EBITDA from the Venture for the year ended 31 December 2011 was R464.4 million. The EBITDA includes Merafe's attributable share of standing charges of R134.0 million and a foreign exchange gain of R80.9 million. After accounting for corporate costs of R77.2 million and share-based expenses of R7.4 million, Merafe's EBITDA was R379.8 million. Corporate costs increased year-on-year primarily as a result of transaction costs as well as R33.9 million of expenses associated with PAYE and VAT tax liabilities, relating to Voluntary Disclosure Programme Submissions to the South African Revenue Services (SARS) that the Company submitted during the 2011 financial year. The Venture partners are in the process of engaging with SARS with a view to obtaining clarity on other areas where the structure of the Venture creates anomalies with regard to VAT interpretation.

The profit and total comprehensive income for the year is R116.8 million after taking into account depreciation and impairment of R153.1 million, net financing costs of R21.5 million, current tax expense of R47.2 million, deferred tax expense of R36.7 million and secondary tax on companies of R4.5 million. Included in the depreciation and impairment charge of R153.1 million is R41.4 million relating to the impairment of the north block making plant at the Wonderkop smelter which was fully written down in 2011. R29.5 million of the current tax expense arose as a result of the utilisation of capital expenditure in the eastern ring-fence and R17.7 million relates to under-provisions in prior years. The effective rate of taxation has increased from 29% in the prior year to 43% in the current year primarily due to the permanent differences associated with the indirect tax liabilities and the prior years' under-provisions. The balance of unredeemed capital expenditure is estimated to be R270.6 million at 31 December 2011. Net financing costs includes R4.4 million interest primarily relating to VAT, PAYE and income tax.

Trade and other receivables have decreased significantly from the prior year primarily as a result of the decrease in sales tonnes in the last half of 2011 compared to 2010. Property, plant and equipment increased from the prior year as a result of sustaining capex of R173.6 million and R230.8 million of expansionary capex primarily relating to Project Tswelopele of R78.1 million and Project Lion II of R112.0 million. Inventory increased by 23% from the prior year due to an increase in the ferrochrome tonnes on hand and an increase in costs of production.

Merafe started the year with a cash balance of R320.7 million, generated R358.2 million in cashflows, paid a dividend and secondary tax on companies of R54.0 million, invested R404.4 million in expansionary and sustaining capex, closing with a cash balance of R220.5 million. Cash in Merafe is R127.4 million and Merafe's share of cash in the Venture is R93.1 million.

During December 2011, Merafe concluded agreements with ABSA Capital to secure long-term debt facilities of R800 million which includes refinancing of its existing R300 million long-term debt and funding for Project Lion II. At 31 December 2011, Merafe had long-term debt of R300 million.

Review of operations

During 2011, Merafe's total ferrochrome production was 263 000 tonnes which represented 65% of installed capacity utilisation. Ferrochrome production was 12% lower than in 2010 which was due to scheduled maintenance during the high electricity winter months and weaker market conditions that was compounded by industrial action.

There were above-inflation cost increases for chrome ore, which rose by 24%, and electricity, which increased by 23% from the comparative 2010 year. However, overall cash production costs rose by 14% in nominal rand terms, as we were able to mitigate the effect of the above-mentioned cost increases by optimising electricity consumption during different tariff periods, by using lower priced UG2 ore and through ongoing consumption efficiency improvements.

Ongoing initiatives to optimise reductant mixes have contributed an additional 6% reduction in average reductant costs compared to 2010. We expect additional improvements after the commissioning of the Tswelopele pelletising and sintering plant in the second half of 2012 and Lion Phase II Project in the second half of 2013.

JSE Socially Responsible Investment (SRI) Index

Merafe was one of only 22 companies to be recognised as Best Performers out of the 74 companies who qualified for the Index in 2011 and one of only six companies who have been recognised as Best Performers for the past five years. The Index assesses company's social, economic and environmental performance.

Safety

Our biggest disappointment in 2011 was the two tragic fatalities at the Venture's ferrochrome operations during the first month of 2011. Our deepest sympathies to the families, colleagues and friends of Mr Zweni Abraham Mkhize of our Wonderkop plant and Mr Chaka Aubrey Letsolo of our Lydenburg plant, who both lost their lives.

After the tragedies, in addition to the procedures that we always follow after a fatality, the Venture immediately held a safety summit with its ferrochrome and mining operations. The actions taken appear to be effective as there have been no further fatalities in any of our operations during the year. We have reduced our total recordable injury frequency rate from 4.58 in the comparative 2010 year to 3.90 this year, an improvement of 15% year-on-year.

Market review

Strong global stainless steel production growth, driven mostly by a 15% increase in stainless steel production in China, resulted in record production of stainless steel in 2011 of 33.9 million tonnes compared to 32.4 million tonnes in 2010. Global demand for ferrochrome reached a record 9.3 million tonnes in 2011, exceeding the previous high of 9.1 million tonnes in 2010. Strong end-user demand and restocking by stainless steel distribution centres in the first half of 2011 supported the growth in global demand for both stainless steel and ferrochrome.

A number of global issues, including the earthquake and ensuing tsunami in Japan, the Eurozone debt crisis, economic woes in the United States and geopolitical events, such as the Arab Spring, resulted in weaker market conditions which affected ferrochrome demand in the second half of 2011.

Global ferrochrome production of 8.9 million tonnes remained the same in 2011 compared to the 2010 comparative year. South African production rose during the first quarter of 2011, but overall volumes from South Africa declined by 9% due to progressively weaker demand during the year and reduced production during the high electricity tariff South African winter.

In response to strong demand and an increased availability of chromite ore, Chinese ferrochrome production increased by 13%, or 288 000 tonnes, on the production levels achieved in 2010. Despite producing around 2.5 million tonnes of ferrochrome in 2011, China remains a net ferrochrome importer with 1.8 million tonnes imported in 2011. This represents 42% of total Chinese demand of which South Africa supplied 1.1 million tonnes, an increase of 18% on the previous year.

The Chinese chromite ore market continues to grow strongly with 9.4 million tonnes imported in 2011, an increase of 9% on the previous year. South Africa supplied around 50% of the chromite imported into China, a 51% increase on 2010's record volumes. These exports of chrome ore to China are advancing the development of the ferrochrome industry in China, displacing capacity in South Africa and undermining South African sales

of beneficiated chrome ore in the form of ferrochrome. The South African ferrochrome industry has brought this situation to the attention of the Government of South Africa and is engaging with the Government of South Africa to protect South Africa's chrome ore reserves and its mature chrome beneficiation industry.

During 2011, the European benchmark contract price for ferrochrome was an average of 125 US¢ per pound, a 0.6% increase from the previous year.

Project update

The Venture commenced construction of the Phase II expansion of the Lion ferrochrome smelter complex and associated Magareng mine development in South Africa. The bulk earthworks are almost complete and all the long lead items have been ordered with some of the kiln components already manufactured. The development of the Magareng mine will be accelerated and it is expected that the mine will produce at full underground capacity and the processing plant will be fully operational in the first quarter of 2013. The Lion II smelter will be commissioned during the second half of 2013.

The Venture commenced construction of the Tswelopele pelletising and sintering plant during April 2011 and are on track to complete construction in the second half of 2012 and reach full production in 2013. The bulk earthworks are complete and the civil work on the critical path is over 80% complete. The Tswelopele pelletising and sintering plant is being built at the Rustenburg smelter and will improve energy efficiencies.

Events after the reporting date

1. Awarding of prospecting rights over the farms St George and Richmond

Xstrata, on behalf of the Venture was granted Prospecting Right 2798 (PR) on 8 February 2012, in respect of chrome ore over the farms St George and Richmond, a total of 4 019.9 hectares which, is contiguous to the Thorncliffe mining complex. Prospecting will commence during 2012.

2. SARS VAT audit of Merafe Ferrochrome and Mining Proprietary Limited

During February 2012, SARS issued an assessment letter to the value of R112 million, including interest and penalties, primarily relating to the disallowance of input VAT claimed on Project Bokamoso and Project Lion I for the financial years of 2005 to 2008, following a VAT audit. Management's view, supported by independent tax advisors and senior legal counsel, is that the assessment is incorrect and that the Company was entitled to claim VAT on Project Bokamoso and Project Lion I. SARS have been informed of the intention to object to the assessment.

3. Agreement with Eskom to buy back energy not consumed

As per SENS announcement dated 17 February 2012, the Venture has reached agreement with Eskom to assist with the power utility's power supply requirements. The Venture has temporarily closed five of its furnaces from 18 February 2012 until 31 May 2012 and in return, Eskom will buy-back the energy not consumed by these five furnaces. The arrangement will have a net positive economic impact for both the Venture and Eskom. The ferrochrome production loss to the Venture is estimated to be 100 000 tonnes.

Outlook

2011 was characterised by a number of well published global issues, resulting in weaker market conditions for ferrochrome. Despite this, global stainless steel production grew by 4.7% year-on-year. We expect European stainless steel melt production to remain relatively flat in 2012, however, we expect global stainless steel production to grow by 6% in 2012, driven mainly by China, Taiwan, North America and India. The expected closure of approximately 30% of ferrochrome capacity in South Africa as a result of industry power buy back arrangements with Eskom, followed by expected winter furnace closures when electricity tariffs increase, is expected to result in tight supply dynamics in the ferrochrome market.

The aforementioned expected increased production of stainless steel and tight supply of ferrochrome is expected to increase demand for ferrochrome units and improve ferrochrome pricing. Expected increases in electricity costs and mining costs will, however, result in margins remaining under pressure. The completion of Project Tswelopele and Lion II in 2012 and 2013 respectively will reduce the energy requirements of the Venture, leaving us well positioned for any upturn in global demand.

On behalf of the Board

Chris Molefe
Non-executive Chairman

Stuart Elliot
Chief Executive Officer

Sandton, 6 March 2012

Abridged consolidated statement of comprehensive income

	Year ended 31 Dec 2011 Audited	Year ended 31 Dec 2010 Audited
	R'000	R'000
Revenue	2 426 755	2 558 441
EBITDA	379 825	529 815
Depreciation and impairment	(153 113)	(113 535)
Net financing costs	(21 565)	(24 997)
Profit before taxation	205 147	391 283
Taxation	(88 397)	(112 579)
Current tax	(29 433)	(20 180)
Deferred tax	(36 670)	(88 354)
Prior years' under-provision	(17 783)	-
Secondary tax on companies	(4 511)	(4 045)
Profit and total comprehensive income for the year	116 750	278 704
Basic earnings per share (cents)	5	11
Diluted earnings per share (cents)	5	11
Headline earnings per share (cents)	6*	11*
Diluted headline earnings per share (cents)	6*	11*
Dividend per share (cents)	-	2*
Ordinary shares in issue	2 493 221 394	2 476 656 043
Weighted average number of shares for the period	2 478 541 751	2 463 152 779
Diluted weighted average number of shares for the period	2 486 859 923	2 481 965 326

* This relates to a dividend that was declared by the Board on 25 February 2011
Headline earnings reconciliation

Total comprehensive income for the year
Profit on disposal of property, plant and equipment
Impairment

	R158 million	R269 million
	R117 million	R279 million
	-	(R10 million)
	R41 million	-

Statement of changes in equity

	Year ended 31 Dec 2011 Audited	Year ended 31 Dec 2010 Audited
	R'000	R'000
Issued share capital – ordinary shares	24 932	24 767
Balance at beginning of year	24 767	24 593
Share options exercised	165	174
Share premium – ordinary shares	1 262 481	1 253 568
Balance at beginning of year	1 253 568	1 244 072
Share premium arising from share options exercised	8 913	9 496
Equity-settled share-based payment reserve	31 759	24 391
Balance at beginning of year	24 391	22 109
Share-based payment	7 368	2 282
Retained earnings	1 339 496	1 272 279
Balance at beginning of year	1 272 279	1 042 762
Profit and total comprehensive income for the year	116 750	278 704
Ordinary dividend paid	(49 533)**	(49 187)*
Total equity at end of year	2 658 668	2 575 005

* Approved by the Board on 26 February 2010

** Approved by the Board on 25 February 2011

Abridged consolidated statement of cash flow

	Year ended 31 Dec 2011 Audited	Year ended 31 Dec 2010 Audited
	R'000	R'000
Profit before taxation	205 147	391 283
Interest paid	32 853	33 853
Interest received	(11 288)	(8 856)
Depreciation and impairment	153 113	113 535
Adjusted for non-cash items	7 368	2 488
Adjusted for working capital changes	(43 113)	(240 249)
Cash flows from operations	344 080	292 054
Interest paid	(29 186)	(31 373)
Interest received	10 383	8 856
Profit on disposal of property, plant and equipment	-	(13 275)®
Tax paid	(30 157)	(23 715)
Cash flows from operating activities	295 120	232 547®
Cash flows from investing activities	(404 404)	(257 223)®
Insurance proceeds on disposal of property, plant and equipment	-	13 275®
Acquisition of property, plant and equipment – sustaining	(173 603)	(167 126)
Acquisition of property, plant and equipment – expansionary	(230 801)	(103 372)
Cash flows from financing activities	(44 974)	(94 402)
Dividends paid	(49 533)	(49 187)
Secondary tax on companies paid	(4 511)	(4 045)
Proceeds from issue of shares	9 078	9 670
Decrease in non-current borrowings	(8)	(50 840)
Net decrease in cash and cash equivalents	(154 258)	(119 078)
Cash and cash equivalents at the beginning of the year	320 724	462 632
Effect of exchange rate fluctuations on cash held	53 993	(22 830)
Cash and cash equivalents at the end of the year	220 459	320 724

® The 2010 insurance proceeds on disposal of property, plant and equipment was reclassified from operating activities to financing activities to more appropriately present the nature of this item. The effect on net cash from operating activities is a decrease of R13.3 million and the effect on net cash utilised in investing activities is an increase of R13.3 million. There is no effect on the cash and cash equivalents balance as previously reported.

Abridged consolidated statement of financial position

	As at 31 Dec 2011 Audited	As at 31 Dec 2010 Audited
	R'000	R'000
Assets		
Property, plant and equipment	2 372 768	2 192 600
Total non-current assets	2 372 768	2 192 600
Inventories	1 065 932	865 251
Trade and other receivables	262 979	435 514
Current tax asset	-	3 519
Cash and cash equivalents	220 459	320 724
Total current assets	1 549 370	1 625 008
Total assets	3 922 138	3 817 608
Equity		
Share capital	24 932	24 767
Share premium	1 262 481	1 253 568
Equity-settled share-based payment reserve	31 759	24 391
Retained earnings	1 339 496	1 272 279
Total equity attributable to equity holders	2 658 668	2 575 005
Liabilities		
Loans and borrowings	312 778	312 786
Provision for close down and restoration costs	48 396	39 439
Deferred tax	506 204	469 534
Total non-current liabilities	867 378	821 759
Loans and borrowings	508	831
Financial liability	6 098	11 048
Trade and other payables	375 946	408 965
Current tax liability	13 540	-
Total current liabilities	396 092	420 844
Total liabilities	1 263 470	1 242 603
Total equity and liabilities	3 922 138	3 817 608

Sponsor **Deutsche Bank**



Executive directors: S Elliot (Chief Executive Officer), Z Mattala, B McBride
Non-executive directors: CK Molefe (Chairman)*, NB Majova*, M Mamathuba, A Mngomezulu*, K Nondumo*, M Salanje*, S Phiri, M Mosweu, Z van der Walt*, Company secretary: A Mahendranath
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Transfer secretaries: Link Market Services South Africa (Proprietary) Limited

* Independent