ABRIDGED AUDITED GROUP ANNUAL FINANCIAL STATEMENTS

For the year ended 31 December 2012

MERAFE 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)

5%
increase in revenue

Headline EPS of
5 cents

Cash from operating activities of
R257m

Project Tswelopele commissioned within schedule and budget

Total recordable injury frequency rate remains stable

Preparation of this report
The following individuals were responsible for the preparation of the abridged audited Group annual financial statements: **Kajal Bissessor CA(SA)**, Financial Manager **Zanele Matlala CA(SA)**, Chief Executive Officer

Commentary

Basis of preparation

On 28 February 2013, 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 2012.

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, and the AC 500 standards issued by the Accounting Practices Board and contain the information required by IAS 34 Interim Financial Reporting. The accounting policies adopted are in terms of IFRS and are consistent with those adopted in the annual financial statements for the year ended 31 December 2011.

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 1.98m 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 2012 share of ferrochrome sales tonnes from the Venture was 255 000 which was marginally above the prior year's sales tonnes of 254 000. Chrome ore revenue as a percentage of total revenue decreased from 14% in 2011 to 13% in 2012. The average Rand:US Dollar exchange rate was R8.21 in 2012, compared to R7.26 for the 2011 year. The average European benchmark ferrochrome price decreased from 125USc/lb in 2011 to 121USc/lb in 2012.

Merafe's share of EBITDA from the Venture for the 2012 year was R349.4m (2011:R464.4m). The EBITDA for 2012 includes a foreign exchange (forex) loss of R3.9m against a forex gain of R80.9m in 2011. The forex gain/loss captures all adjustments arising from translation/revaluation of foreign currency denominated balances/hedges to the local currency. This amount includes R5.5m relating to the re-measurement of the foreign currency hedging derivative. This arose as a result of implementation by the Venture of the hedging policy in the fourth quarter of 2012. The Board approved hedging policy requires Merafe to hedge its foreign currency exposure to the US$ ferrochrome margin in line with the quarterly European price of ferrochrome. The EBITDA from the Venture decreased from the prior year primarily as a result of the decrease in the average European benchmark ferrochrome price and an increase in costs which were partially offset by the weakening of the Rand compared to the US Dollar. The EBITDA includes Merafe's attributable share of standing charges of R167.2m. After accounting for corporate costs of R33.6m and a share-based payment expense of R2.1m, Merafe's EBITDA was R313.7m. Corporate costs of R33.6m decreased year on year primarily as a result of transaction costs and expenses associated with indirect tax liabilities that were incurred in 2011.

The profit and total comprehensive income for the year was R48.9m after taking into account depreciation of R140.1m, an impairment loss of R77.5m, net financing costs of R19.7m, current tax expense of R0.3m, deferred tax expense of R60.2m and R33.0m write-back arising from prior years' overprovision of current tax. Depreciation increased year on year as a result of the re-assessment of useful lives and residual values in accordance with IAS 16, Property, Plant and Equipment as well as the accelerated depreciation recognised on assets scrapped during the year. The impairment loss was primarily as a result of the Venture considering the sale of some of its mining assets as part of its portfolio review. The R33.0m write-back of current tax and the increase in the effective rate of tax arose from the South African Revenue Services (SARS) assessment of our returns during 2012. The balance of unredeemed capital expenditure is estimated to be R446m at 31 December 2012.

As per SENS announcement dated 7 August 2012, it was reported that SARS issued Merafe Ferrochrome and Mining Proprietary Limited with an audit letter of findings of R26m. SARS have since withdrawn the letter of findings of R26m. As previously reported, the Venture partners were in the process of engaging with SARS with a view to obtaining clarity on other areas where the structure of the Venture created anomalies with regard to VAT interpretation. We are pleased to report that this matter is now resolved.

Property, plant and equipment increased from 31 December 2011 as a result of R603m of capital expenditure of which R423m was expansionary and R180m was sustaining. Expansionary capital primarily comprised expenditure on Project Tswelopele and Project Lion II.

Merafe started the year with a cash balance of R221m, generated operating cash flows of R257m, invested R603m in capital expenditure, raised loans of R211m, incurred R3m foreign exchange fluctuations on cash held and closed with a cash balance of R83m at 31 December 2012. Cash in Merafe was R24m and Merafe's share of cash in the Venture was R59m. At 31 December 2012, Merafe had long-term debt owing to ABSA Capital of R512m and approximately R288m unutilised ABSA long-term debt facilities.

The Merafe Board decided not to declare a dividend for the 2012 financial year, taking into account expansionary projects and the projected debt and cash levels of the Group.

Review of operations

During 2012, Merafe's total ferrochrome production was 242 000 tonnes which was 8% lower than the comparative period primarily as a result of weaker demand and participation in Eskom's power buy-back programme. The compensation received from Eskom for the electricity not consumed was adequate to cover the costs and lost profits on the associated volumes. Operating capacity utilisation for the 2012 year reduced to 66% compared to 72% for the prior year.

Total cost increases were contained at 9.2%. We continue to benefit from cost savings as a result of investments in improving efficiencies in our operations.

Safety and environment

Although there were no fatalities for the 2012 year, we are saddended to report the loss of one of our contractor employees, Mr Segopotje Johannes Ramontja, who passed away on 14 February 2013. Our deepest sympathies go out to his family, colleagues and friends.

The safety of our employees remains a key focus area as evidenced by the Venture's total recordable injury frequency rate of 4.05 for the 2012 year which was at similar levels to prior years. There were no significant adverse environmental incidents in the Venture during the reporting period.

Mineral Reserves, Mineral Resources and Mining Rights

During 2012, there were no material changes to the mineral reserves, mineral resources and mining rights of the Venture.

Employment equity and empowerment

Both Merafe and the Venture exceeded the employment equity targets as per the Mining Charter scorecard for the year under review. We are pleased to report that in the *Financial Mail* Top Empowerment Companies Survey of JSE Listed Companies published in 2012, Merafe was named number one in the Resources sector.

Market review

Growth in stainless steel production in 2012 was primarily driven by the increased production of stainless steel in China. This resulted in a new record production of stainless steel in 2012 of 35.2m* tonnes compared with the 34.1m* tonnes in 2011. Global demand for ferrochrome was up year on year, to 9.7m* tonnes in 2012, exceeding the previous high of 9.5m* tonnes in 2011.

The increased demand and reduced supply of ferrochrome resulted in the drawing down of global ferrochrome stocks. A number of issues, including the continuation of concerns for the Eurozone due to the ongoing debt crisis, economic woes in the United States and other geopolitical events, such as the change of leadership in the Communist Party of China, resulted in weaker market conditions which affected ferrochrome demand in the second half of 2012.

Global ferrochrome production increased to 9.3m* tonnes in 2012 compared to 9.2m* tonnes in 2011. South African production declined during 2012 on the back of the agreements that South African producers had with Eskom to sell back electricity to the grid. South African ferrochrome production declined by 9% year on year. In response to the resulting increased demand for domestically produced ferrochrome and an increased availability of chrome ore, Chinese ferrochrome production increased by 9%*, from the production levels achieved in 2011. Despite producing around 3.3m* tonnes of ferrochrome in 2012, China remains a net ferrochrome importer with 1.5m* tonnes imported in 2012, a year on year decrease of 15%*.

Chrome ore imports into China reduced from 9.4m tonnes* in 2011 to 9.3m* tonnes in 2012, however, Chinese demand for chrome ore increased year on year with the excess coming from a draw down of Chinese port stocks of chrome ore to feed the increased production of ferrochrome in China. South Africa supplied around 48%* of the chrome ore imported into China, a 2%* decrease from 2011's record volumes. These exports of chrome ore continue to advance 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 Department of Minerals and Resources (DMR). The DMR has initiated a process with major ferrochrome, chrome ore and platinum producers to find a solution aimed at improving the current plight of the South African chrome value chain.

** Source: Heinz Pariser/February 2013*

Developments

Project Lion II

The commissioning of Lion II is expected during the second half of 2013 and about 50% of the budgeted cost of R1bn was incurred to 31 December 2012. In spite of heavy rainfalls and community unrest, the expected commissioning date is still envisaged in the second half of 2013 and the project remains within budget. Once this plant is fully operational, additional consumption efficiency improvements and cost savings are expected to materialise.

Project Tswelopele

We are pleased to report that Project Tswelopele, our new pelletising and sintering plant, was completed on schedule and within budget during 2012. The plant was hot commissioned on 7 October 2012 and reached design production capacity within the first two months of operation. We are proud to report that more than 1.6m hours were worked on this project, without any lost time injuries.

Outlook

Stainless steel production is expected to increase by 4%* in 2013 and by 5%* in the long term which would lead to increased growth in demand for ferrochrome globally. Given the reduced supply of ferrochrome resulting from the Eskom buy-back agreements in South Africa, coupled with improved market sentiments, we expect increased pricing going forward. Our low cost base leaves us well positioned to take advantage of the increased demand for ferrochrome. We look forward to a further strengthening of our position as the lowest cost producers in South Africa when our flagship and world class project, Lion II, comes on stream. We continue to recognise the importance of diversification and this will be a focus of the management team once project Lion II is completed.

** Source: Heinz Pariser/February 2013*

Changes to Directorate

Mr Stuart Elliot resigned as Chief Executive Officer (CEO) with effect from 31 May 2012.

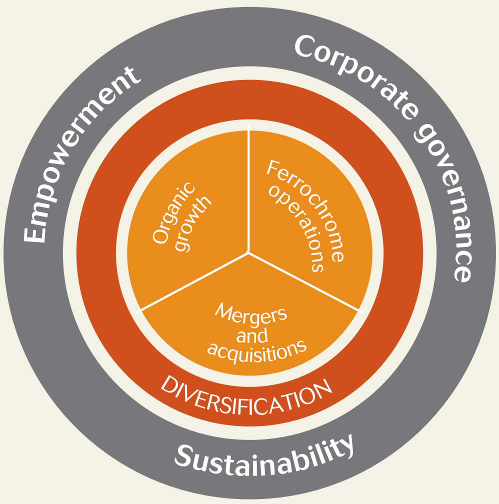
Ms Zanele Matlala, who was previously Chief Financial Officer (CFO) was appointed as CEO with effect from 1 June 2012 and also fulfilled the CFO role until the effective date of appointment of the new CFO.

Mr Ditabe Chocho was appointed CFO with effect from 2 January 2013.

Chris Molefe
Non-executive Chairman

Zanele Matlala
Chief Executive Officer

Sandton
5 March 2013



&

Our goals remain focused…..

- To ensure our interests in the ferrochrome industry are profitable and sustainable
- To continue with organic growth of our ferrochrome business and to grow through diversification

Abridged consolidated statement of comprehensive income

	Year ended 31 Dec 2012 Audited R'000	Year ended 31 Dec 2011 Audited R'000
Revenue	2 541 984	2 426 755
EBITDA	313 650	379 825
Depreciation and impairment	(217 641)	(153 113)
Net financing costs	(19 660)	(21 565)
Profit before taxation	76 349	205 147
Taxation	(27 476)	(88 397)
Current tax	(306)	(29 433)
Deferred tax	(60 155)	(36 670)
Prior years over/(under) provision	32 985	(17 783)
Secondary tax on companies	–	(4 511)
Profit and total comprehensive income for the year	48 873	116 750
Basic earnings per share (cents)	2	5
Diluted earnings per share (cents)	2	5
Headline earnings per share (cents)	5#	6#
Diluted headline earnings per share (cents)	5#	6#
Ordinary shares in issue	2 493 221 394	2 493 221 394
Weighted average number of shares for the year	2 493 221 394	2 478 541 751
Diluted weighted average number of shares for the year	2 500 172 742	2 486 859 923
# *Headline earnings reconciliation*	R126 million	R158 million
Profit and total comprehensive income for the year	R49 million	R117 million
Impairment	R77 million	R41 million

Abridged consolidated statement of financial position

	As at 31 December 2012 Audited R'000	As at 31 December 2011 Audited R'000
ASSETS		
Property, plant and equipment	2 677 308	2 372 768
Total non-current assets	2 677 308	2 372 768
Inventories	1 088 885	1 065 932
Trade and other receivables	344 725	262 979
Current tax assets	26 424	–
Cash and cash equivalents	82 643	220 459
Assets held for sale	72 127	–
Total current assets	1 614 804	1 549 370
Total assets	4 292 112	3 922 138
EQUITY		
Share capital	24 932	24 932
Share premium	1 262 481	1 262 481
Equity-settled share-based payment reserve	33 847	31 759
Retained earnings	1 388 369	1 339 496
Total equity attributable to equity holders	2 709 629	2 658 668
LIABILITIES		
Loans and borrowings	523 872	312 778
Provision for close down and restoration costs	57 892	48 396
Deferred tax liabilities	551 165	506 204
Total non-current liabilities	1 132 929	867 378
Loans and borrowings	636	508
Financial liability	–	6 098
Trade and other payables	430 368	375 946
Current tax liability	–	13 540
Liabilities held for sale	18 550	–
Total current liabilities	449 554	396 092
Total liabilities	1 582 483	1 263 470
Total equity and liabilities	4 292 112	3 922 138

Abridged consolidated statement of changes in equity

	Year ended 31 December 2012 Audited R'000	Year ended 31 December 2011 Audited R'000
Issued share capital – ordinary shares	24 932	24 932
Balance at beginning of year	24 932	24 767
Share options exercised	–	165
Share premium – ordinary shares	1 262 481	1 262 481
Balance at beginning of year	1 262 481	1 253 568
Share premium arising from share options exercised	–	8 913
Equity-settled share-based payment reserve	33 847	31 759
Balance at beginning of year	31 759	24 391
Share-based payment	2 088	7 368
Retained earnings	1 388 369	1 339 496
Balance at beginning of year	1 339 496	1 272 279
Profit and total comprehensive income for the year	48 873	116 750
Ordinary dividend paid	–	(49 533)*
Total equity at end of year	2 709 629	2 658 668

** Approved by the Board on 25 February 2011*

Abridged consolidated statement of cash flow

	Year ended 31 December 2012 Audited R'000	Year ended 31 December 2011 Audited R'000
Profit before taxation	76 349	205 147
Interest paid	29 302	32 853
Interest received	(9 642)	(11 288)
Depreciation and impairment	217 641	153 113
Adjusted for non-cash items	2 088	7 368
Adjusted for working capital changes	(31 747)	(43 113)
Cash flows from operations	283 991	344 080
Interest paid	(29 302)	(29 186)
Interest received	9 642	10 383
Tax paid	(7 285)	(30 157)
Cash flows from operating activities	257 046	295 120
Cash flows from investing activities	(603 210)	(404 404)
Proceeds on disposal of property, plant and equipment	16	–
Acquisition of property, plant and equipment – sustaining	(179 658)	(173 603)
Acquisition of property, plant and equipment – expansionary	(423 568)	(230 801)
Cash flows from financing activities	211 094	(44 974)
Dividends paid	–	(49 533)
Secondary tax on companies paid	–	(4 511)
Proceeds from issue of shares	–	9 078
Increase/(decrease) in non-current borrowings	211 094	(8)
Net decrease in cash and cash equivalents	(135 070)	(154 258)
Cash and cash equivalents at the beginning of the year	220 459	320 724
Effect of exchange rate fluctuations on cash held	(2 746)	53 993
Cash and cash equivalents at the end of the year	82 643	220 459

Sponsor

Merrill Lynch South Africa Proprietary Limited