

Merrill Lynch South African Investor-to-Corporate Trip

22 October 2008



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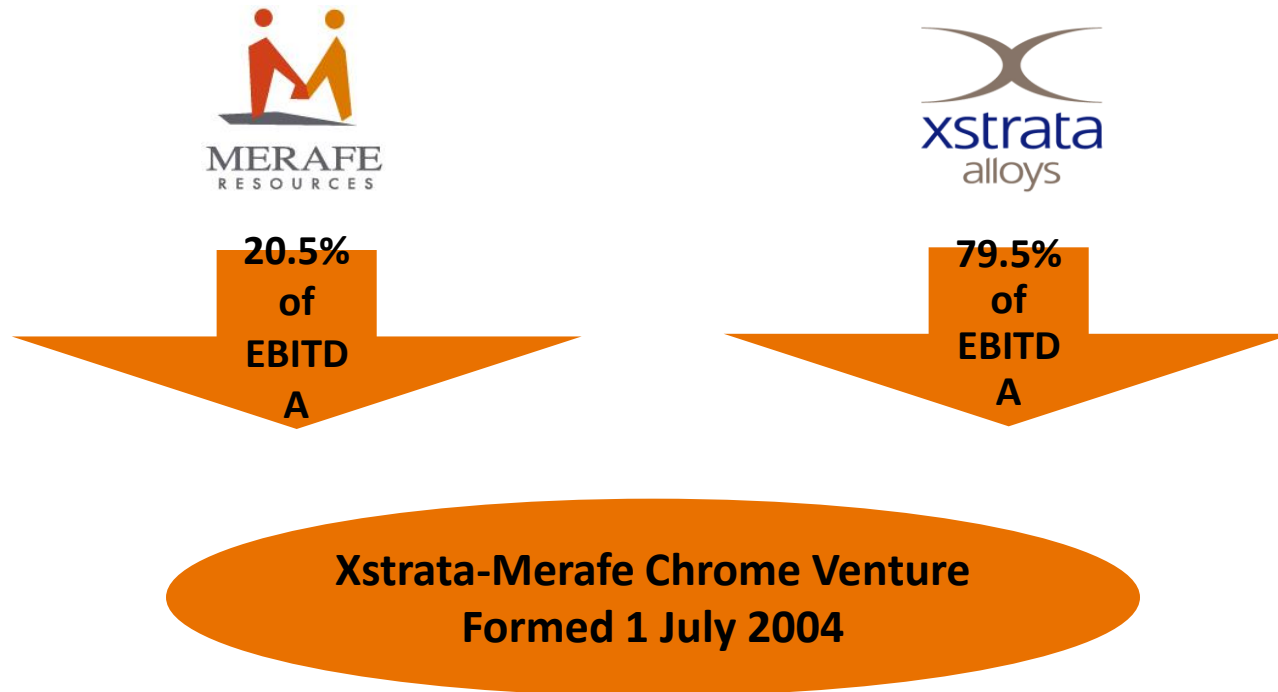
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# Corporate Structure



- ✓ Largest ferrochrome producer in the world ( $\pm 20\%$  market share)
- ✓ Opportunity to invest directly into Xstrata's ferrochrome business

# Share price information

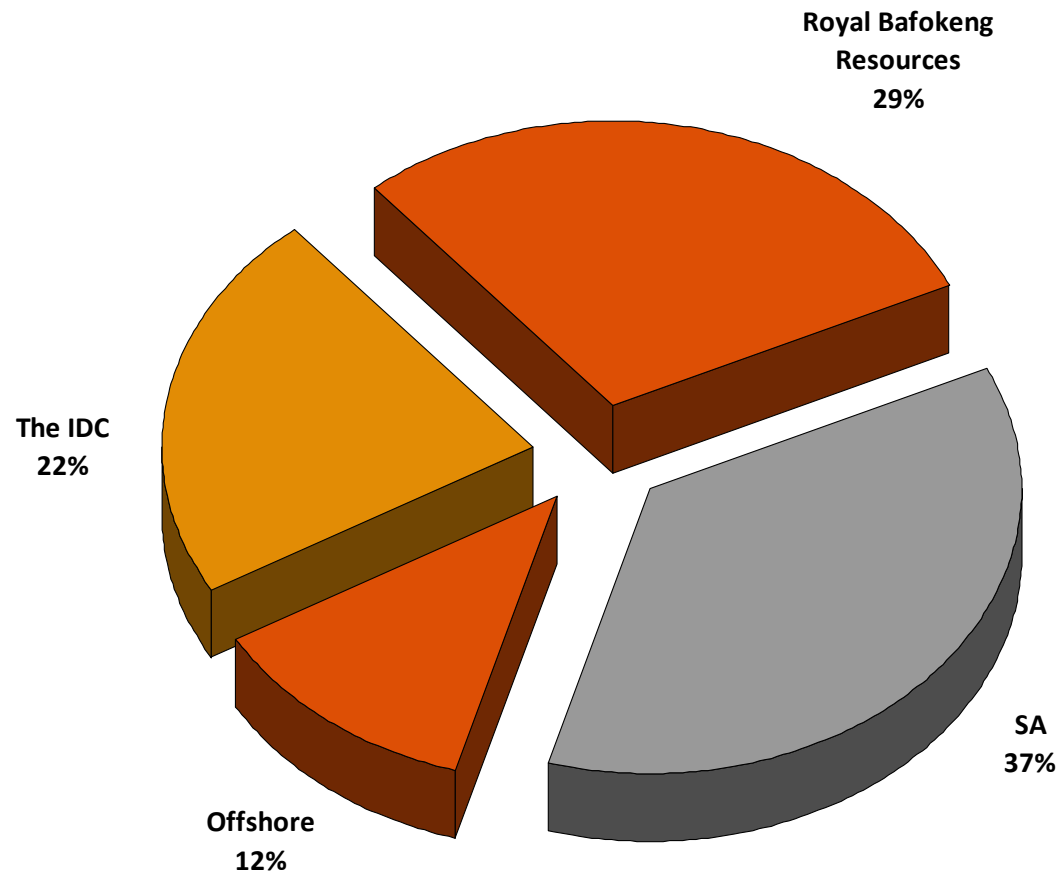
	<u>ZAR</u>	<u>US\$</u>
Market capitalisation*	2.7bn	263m
Share price*	1.09	0.11
1 year high	4.34	0.43
1 year low	0.97	0.10
Shares outstanding	2.45 billion shares	

\*As at 20 October 2008

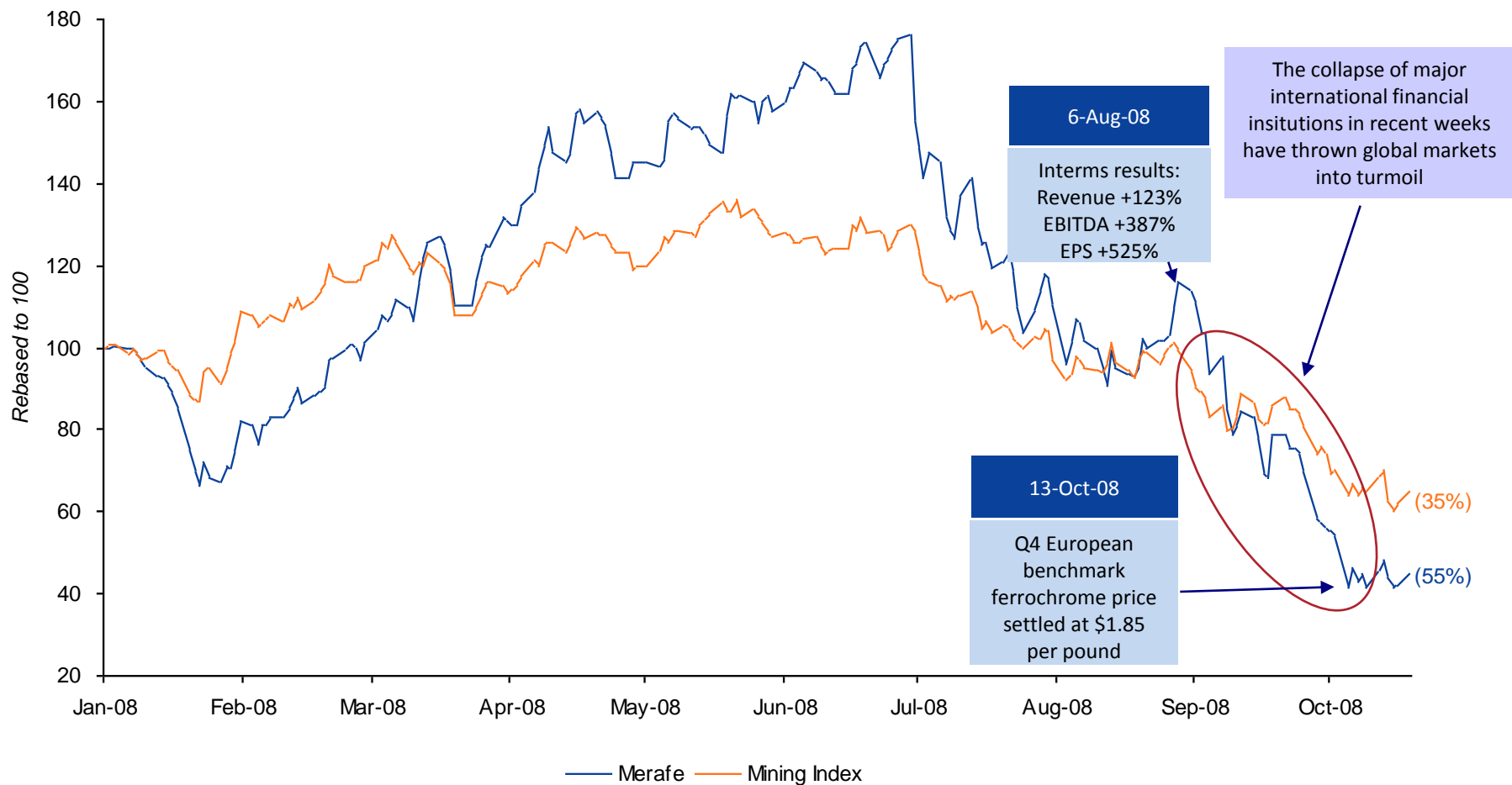
US\$ amounts based on exchange rate of  
R10.17:\$ at 20 October 2008

# Shareholder analysis

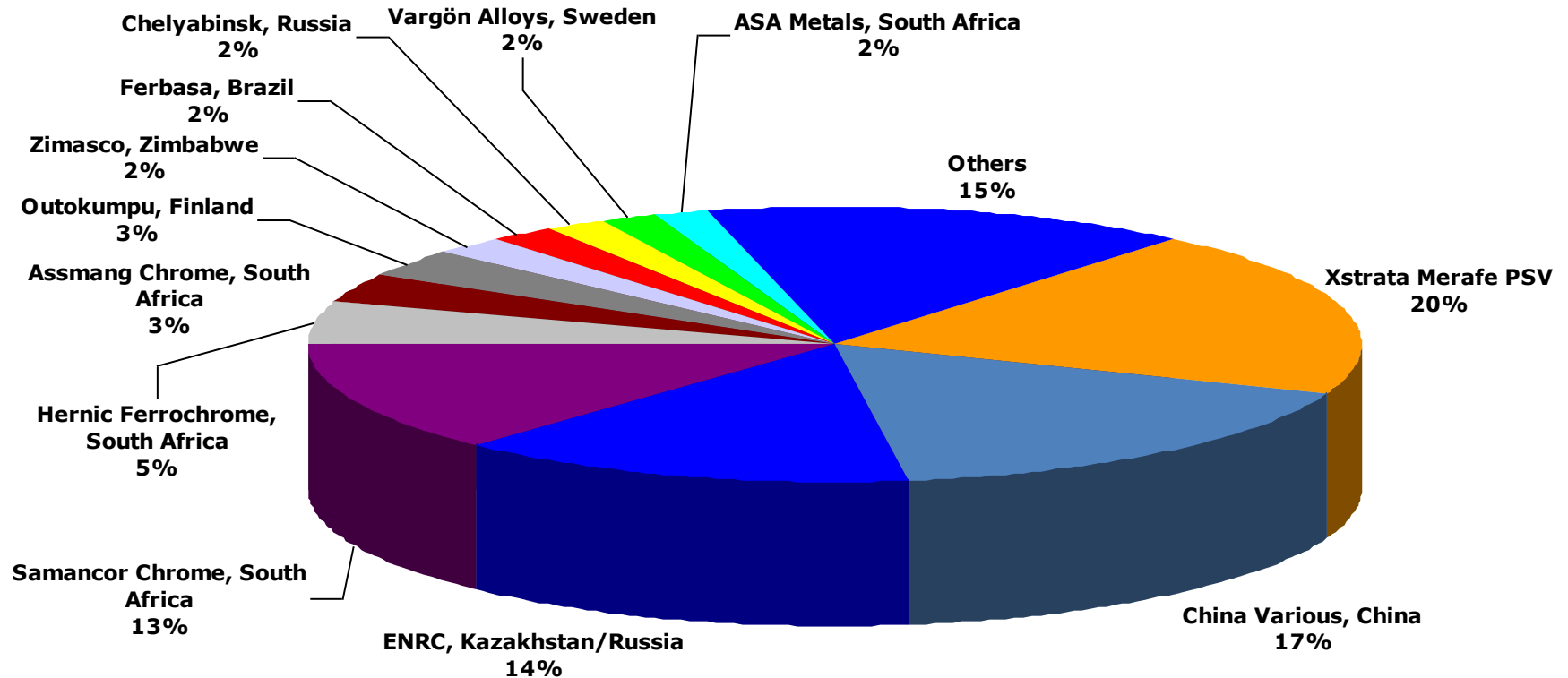
## Major shareholders – September 2008



# Merafe's share price performance relative to Mining Index



# Xstrata-Merafe, the world's largest ferrochrome producer



# Operations overview

SMELTERS	CAPACITY
Wonderkop	520 kt FeCr - <b>6 furnaces (Conventional)</b>
Rustenburg	440 kt FeCr - <b>6 furnaces (Conventional)</b>
Boshoek	240 kt FeCr – <b>2 furnaces (Outokumpu)</b>
Lydenburg	400 kt FeCr - <b>4 furnaces (Premus)</b>
Lion	360 kt FeCr - <b>2 furnaces (Premus)</b>
<b>Total</b>  <b>5 production sites</b>	<ul style="list-style-type: none"> <li>• 1 960 kt in production capacity</li> <li>• 20 furnaces</li> <li>• 7 mines</li> </ul>



# Barriers to entry

## Low barriers to entry, a thing of the past:

- Capital cost of building smelters have gone up over 500%
- Lead time for critical items needed for construction now 3 years
- Power supply - when will power be available for new projects?
- Shortage of available quality ore reserves
- Serious shortage of artisans and skilled labour (until 2010)
- Escalating production costs

# Production of Charge/HC ferrochrome

	2006	2007	Change	2008	2009	Change in %	
	In '000 t		in %	In '000 t		08 / 07	09 / 08
<i>Charge</i>							
Brazil	141	164	16.3	165	170	0.6	3.0
Finland	243	242	-0.4	240	241	-0.8	0.4
Sweden	88	80	-9.1	86	110	7.5	27.9
South Africa	2,912	3,549	21.9	3,570	3,650	0.6	2.2
<b>Subtotal</b>	<b>3,384</b>	<b>4,035</b>	<b>19.2</b>	<b>4,061</b>	<b>4,171</b>	<b>0.6</b>	<b>2.7</b>
<i>HC FeCr</i>							
China	870	1,232	41.6	1,515	1,520	23.0	0.3
India	634	928	46.3	1,100	1,200	18.5	9.1
Kazakhstan (saleable)	873	952	9.0	970	970	1.9	0.0
Russia (saleable)	204	185	-9.3	274	300	48.1	9.5
Sweden	49	44	-10.2	40	60	-9.1	50.0
Zimbabwe	214	201	-5.9	175	175	-12.9	0.0
Iran	17	17	0.0	17	17	0.0	0.0
Vietnam	-	-	-	-	120	-	-
<b>Subtotal</b>	<b>2,861</b>	<b>3,559</b>	<b>24.4</b>	<b>4,091</b>	<b>4,242</b>	<b>14.9</b>	<b>3.7</b>
<b>Total Material Weight</b>	<b>6,245</b>	<b>7,594</b>	<b>21.6</b>	<b>8,152</b>	<b>8,413</b>	<b>7.3</b>	<b>3.2</b>
<b>Cr Content</b>	<b>3,558</b>	<b>4,298</b>	<b>20.8</b>	<b>4,776</b>	<b>4,955</b>	<b>11.1</b>	<b>3.8</b>
<b>Cr Content in %</b>	<b>57.0</b>	<b>56.6</b>	<b>-</b>	<b>58.6</b>	<b>58.9</b>	<b>-</b>	<b>-</b>

Data: Heinz H. Pariser – Oct 2008

# Major capacity changes

	2006	2007	2008	2009	2010
<b>Projected capacity</b>	<b>7,200</b>	<b>7,200</b>	<b>8,250</b>	<b>8,720</b>	<b>9,355</b>
Expansions					
Sweden	-	-	30	30	20
Finland	-	-	-	-	100
IFM (Ramp-up)	-	230	30	-	-
Tata (Ramp-up)	-	-	60	90	-
Xstrata, Lion II	-	-	-	-	-
ASA	-	-	-	-	-
Samancor	-	-	-	-	-
Assmang	-	-	-	-	-
Hernic	-	-	-	-	-
Kazchrome		Effective after 2010	-	-	-
India	-	410	50	330	300
Vietnam (Jindal)	-	-	-	120	40
China	-	410	300	65	35
<b>Total Expansions</b>	<b>-</b>	<b>1050</b>	<b>470</b>	<b>635</b>	<b>495</b>
<b>Total Capacity (including new)</b>	<b>7,200</b>	<b>8,250</b>	<b>8,720</b>	<b>9,355</b>	<b>9,850</b>
<b>Production</b>	<b>6,245</b>	<b>7,594</b>	<b>8,152</b>	<b>8,413</b>	<b>9,172</b>
<b>Capacity Utilisation</b>	<b>86.7%</b>	<b>92.0%</b>	<b>93.5%</b>	<b>89.3%</b>	<b>93.1%</b>

Data: Heinz H. Pariser – Oct 2008, Merafe Resources

# China chrome ore imports

	2006		2007		2008 (1-8)		% Change	
	in '000 t	US\$/t	in '000 t	US\$/t	in '000 t	US\$/t	Y-t-D	
United States	66	122	0		0	759	0.0	
Brazil	99	161	106	194	61	412	-9.1	
<b>Turkey</b>	<b>741</b>	<b>172</b>	<b>1,083</b>	<b>274</b>	<b>770</b>	<b>459</b>	<b>-1.1</b>	
Albania	83	152	230	252	94	412	-48.2	
Kazakhstan	144	157	198	333	166	540	27.2	
<b>India</b>	<b>1,340</b>	<b>191</b>	<b>984</b>	<b>346</b>	<b>424</b>	<b>567</b>	<b>-43.1</b>	
Vietnam	73	121	104	142	43	230	-37.2	
Philippines	85	136	221	152	276	165	88.4	
Iran	245	176	245	176	245	176	0.0	
Oman	71	136	338	155	585	224	174.4	
Pakistan	197	173	295	296	304	460	48.9	
Sudan	29	222	15	338	25	451	82.1	
Madagascar	43	166	53	362	76	552	142.7	
<b>South Africa</b>	<b>868</b>	<b>157</b>	<b>1,964</b>	<b>215</b>	<b>1,818</b>	<b>353</b>	<b>53.0</b>	
Australia	224	166	220	221	32	299	-79.4	
Others	17	162	92	264	75	280	0.0	
<b>Total</b>	<b>4,325</b>	<b>171</b>	<b>6,091</b>	<b>255</b>	<b>4,901</b>	<b>382</b>	<b>19.2</b>	

Data: Heinz H. Pariser – Oct 2008

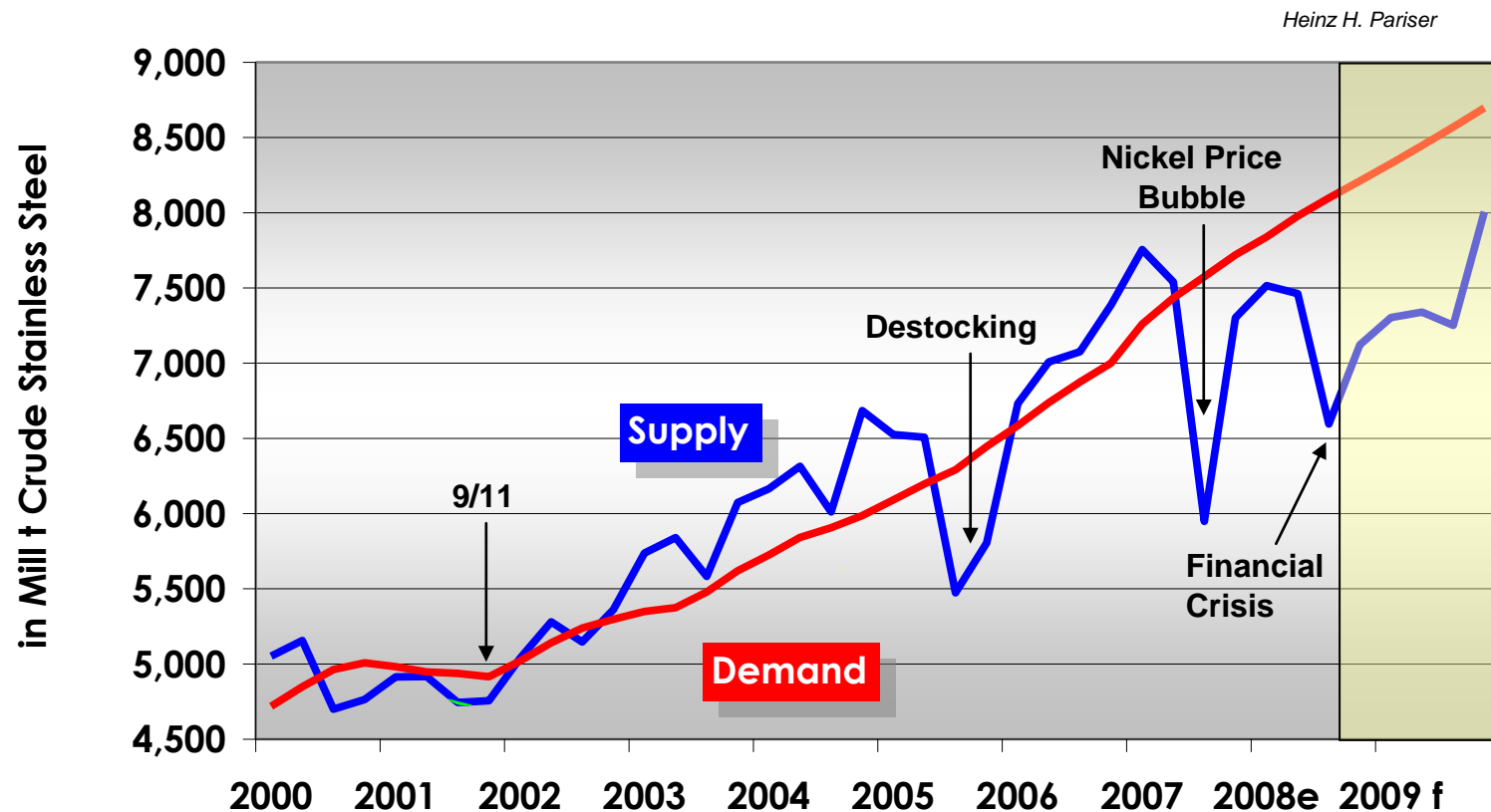
# Latest developments have not changed the fundamentally strong outlook for commodities

## China remains the growth point for the stainless steel and ferrochrome industry

- The International Monetary Fund has recently (Oct 2008) revised its growth forecasts for China from 9.7% in 2008 to 9.3% in 2009
- As such the stainless steel production estimates have been revised from 31.5 million tonnes for 2009 to 29.9 million tonnes (source: Heinz Pariser, Oct 2008)
- China still requires 50,000 skyscrapers by 2025 (McKinsey, 2008)
- China set to urbanise about 350 million people by 2025 (McKinsey, 2008)

# China's Stainless Steel supply and demand

## Stainless Steel Supply & Demand

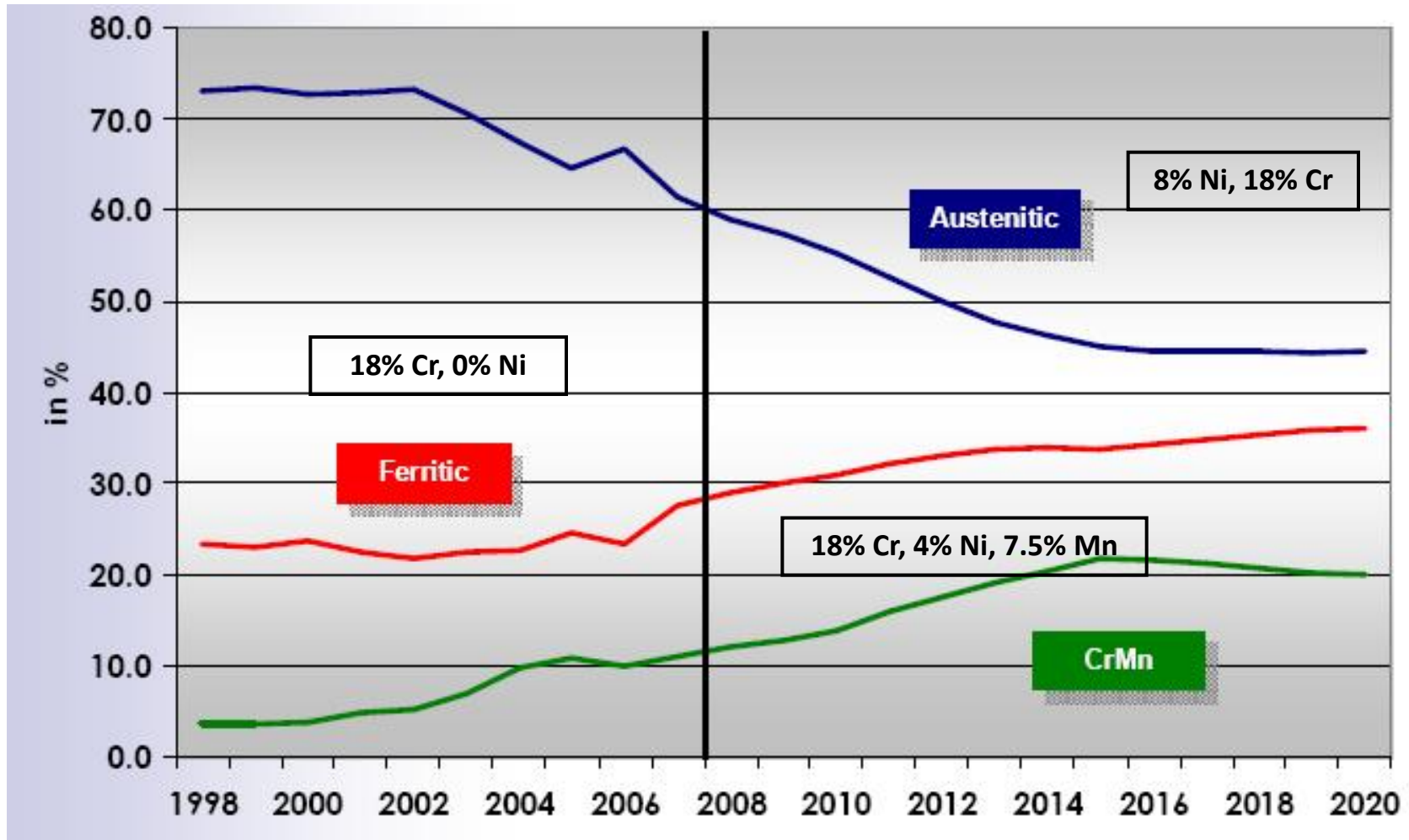


# Development Stainless Steel Product Mix

- Application

- Economics

- Process

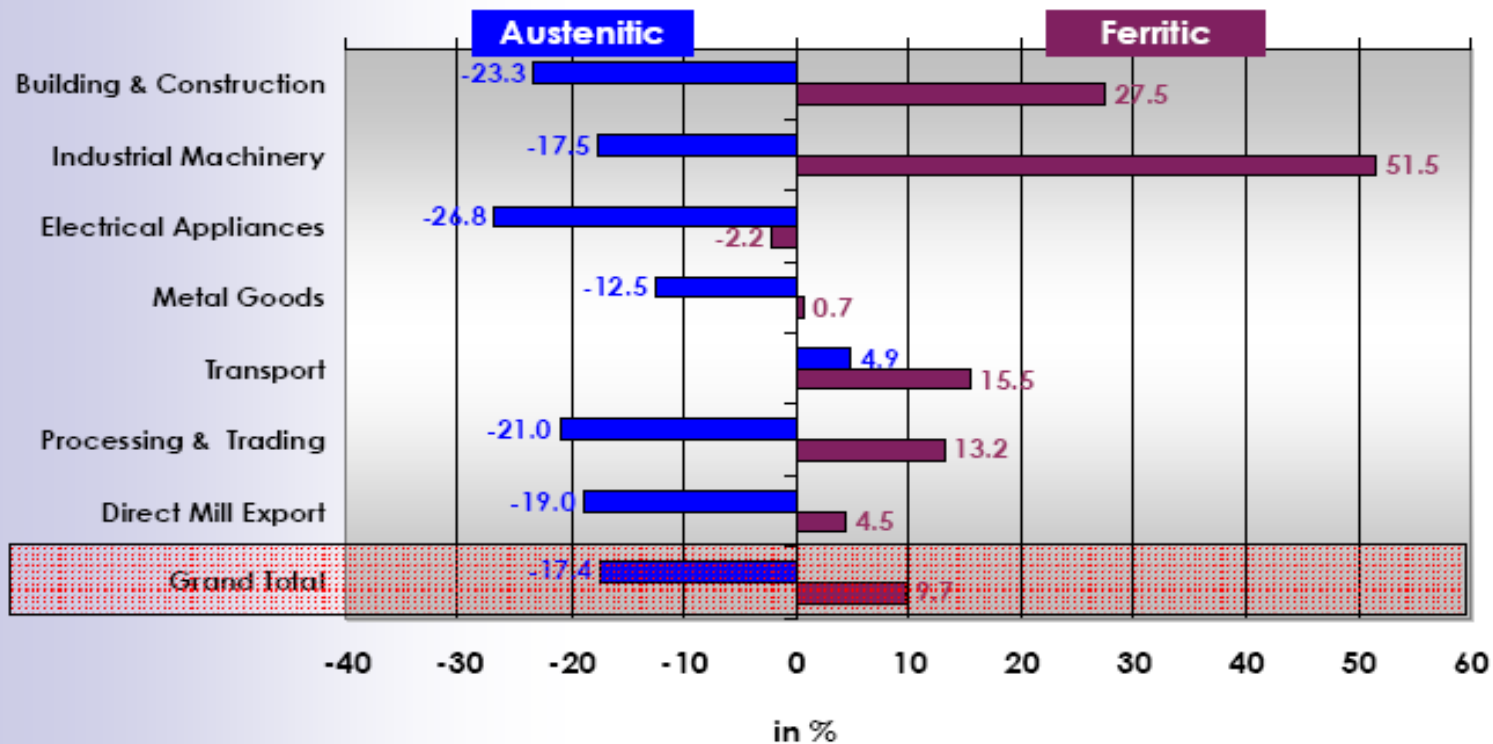


Data: Heinz Pariser/CRU

# Demand changes by segment 2007/2009 - Japan

Heinz H. Pariser  
Alloy Metals & Steels  
Markting Research

## Japan – Demand Changes by Segment 2007/2006



Data: Heinz Pariser



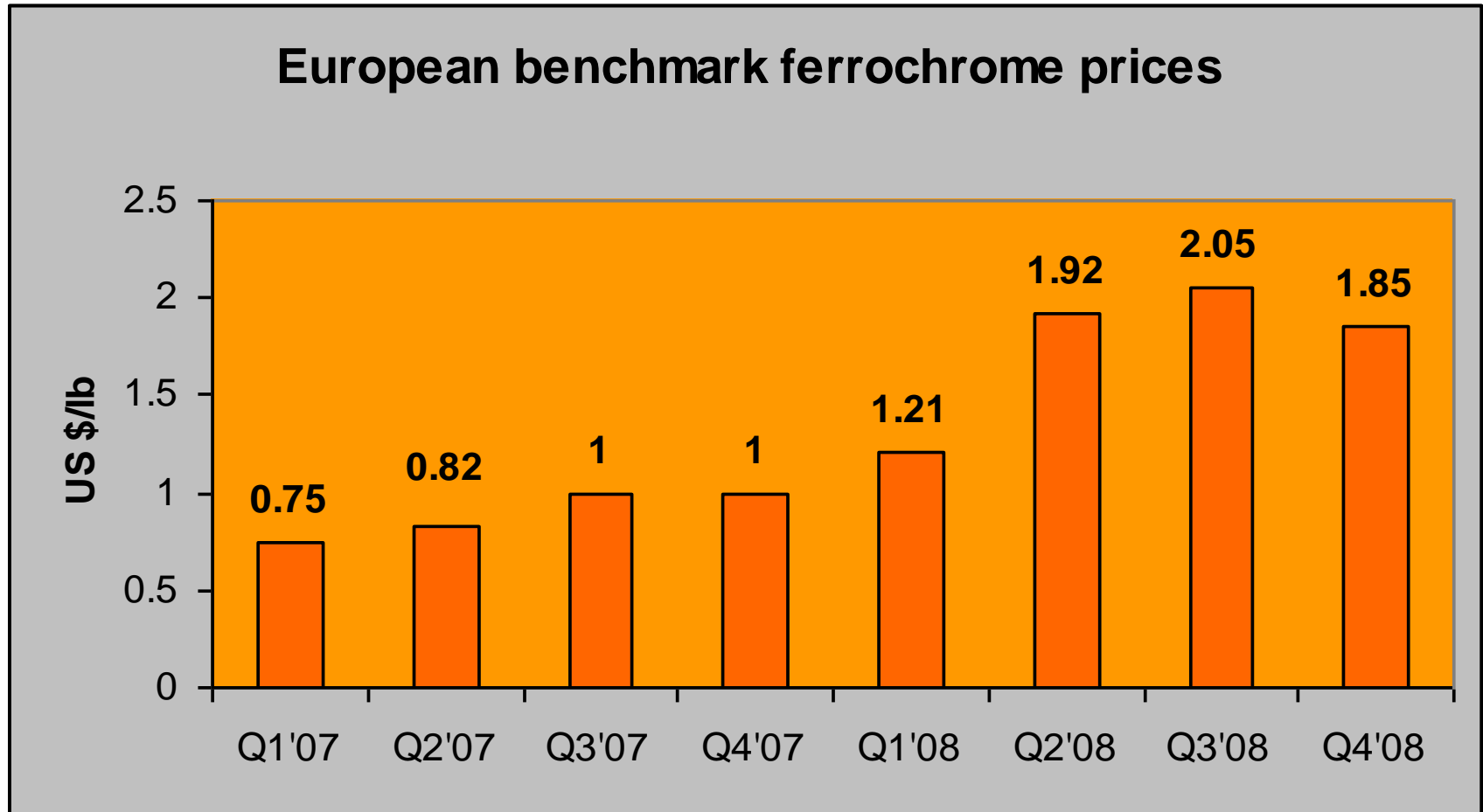
# Stainless steel applications

Cold rolled (CR) flat products represent the largest portion of all stainless steel

<b>Application</b>	<b>% Share of global CR flats consumption</b>
<b>Construction</b>	<b>14%</b>
<b>Transport</b>	<b>17%</b>
<b>Industrial equipment</b>	<b>25%</b>
<b>Catering &amp; household products</b>	<b>33%</b>
<b>Welded tubes</b>	<b>6%</b>
<b>Other</b>	<b><u>5%</u></b>
<b>Total</b>	<b><u>100%</u></b>

**Data: CRU**

# Ferrochrome prices



# Gearing

	<u>R'm</u>
<b>Closing balance 30 June 2008</b>	<b>608</b>
Preference shares	75
ABSA (Lion Ferrochrome, Wonderkop & Bokamoso)	350
Xstrata	99
Overdraft	84
Debtors discounting facility	190
<b>Current situation</b>	
Preference shares	75
ABSA	350
Xstrata	0
Overdraft	0
Debtors discounting facility	190

# Production costs are rising for ferrochrome producers

## FeCr producers have been hit hard by surging costs

- **Electricity costs have increased**
  - Eskom has increased tariffs by 27% this year
  - Expect further increases of between 20-25% p.a. over the next three years
- **Labour costs**
  - The Venture has seen double digit increases in 2008
- **Cost of reductants have increased significantly**
  - Coke prices have risen to over \$550/t (FOB China), but are coming off
  - Rising coal prices

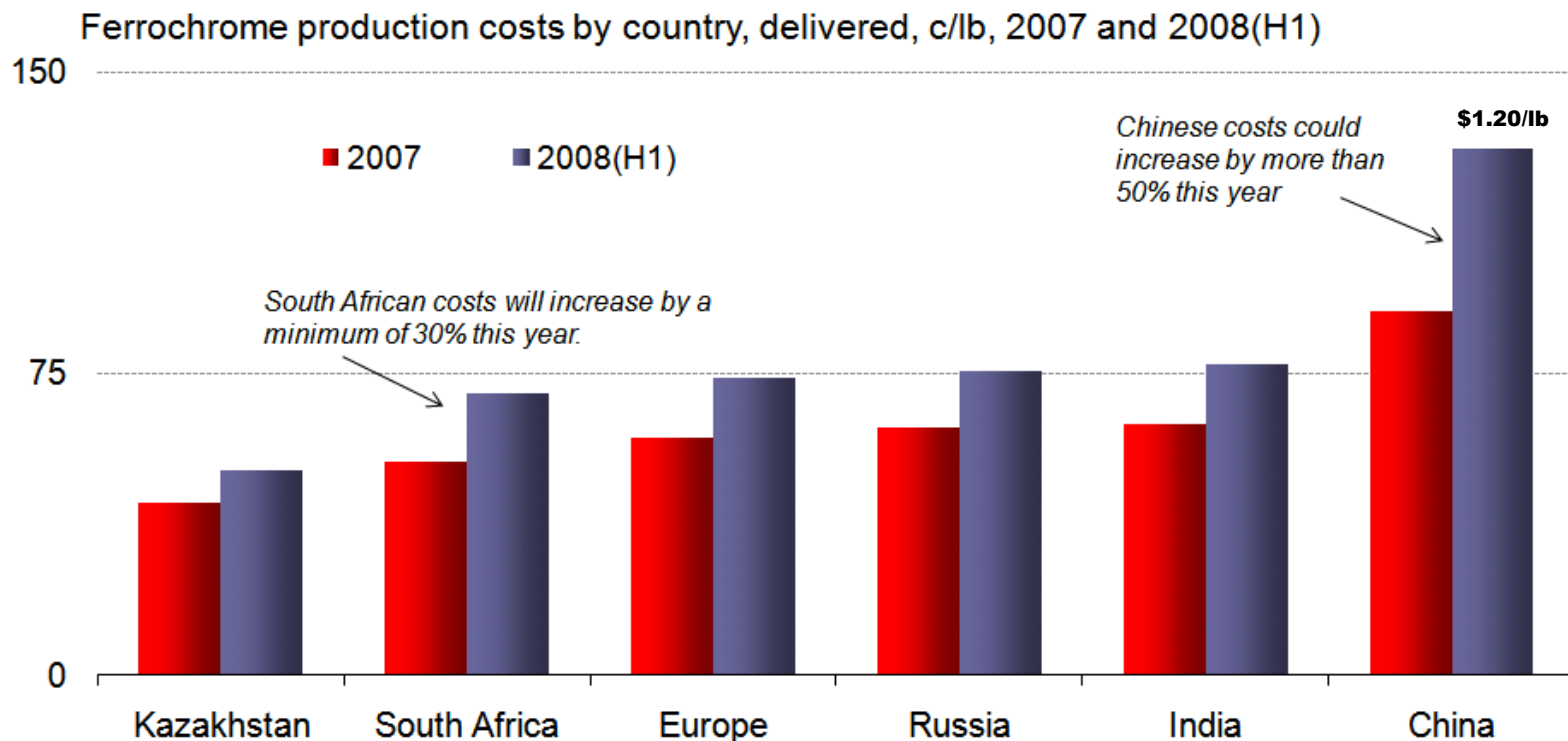
## Average power rates in 2008

Country	USc/kWh
China	5.1c
India	4.9c
Japan	4.3c
Finland	4.2c
Sweden	3.7c
Russia	3.2c
Brazil	3.2c
Zimbabwe	3.0c
Iran	2.8c
South Africa	2.8c
Kazakhstan	1.8c

Data: CRU Analysis

# Production costs

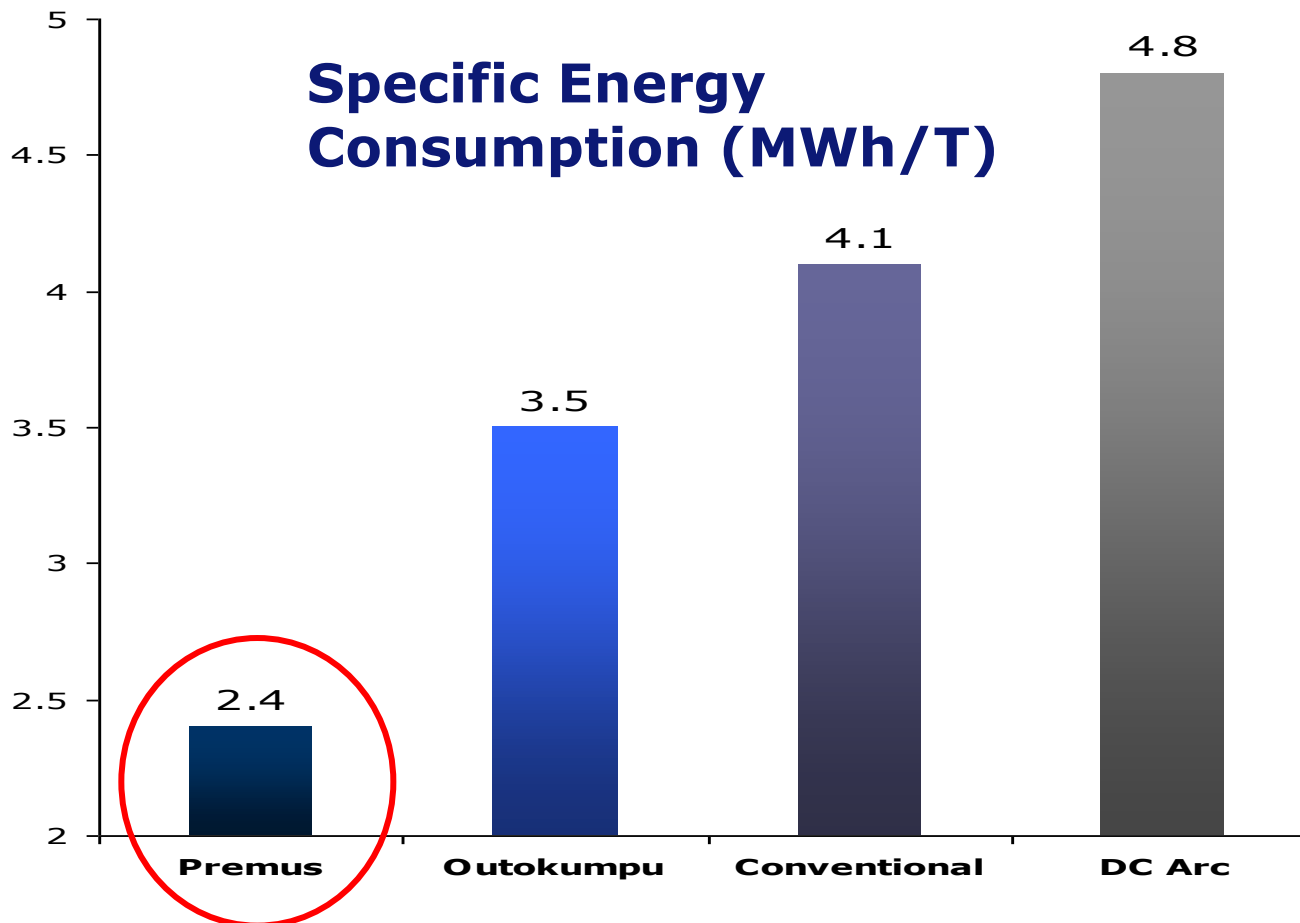
**...although there are significant differences by region**



Data: CRUAnalysis

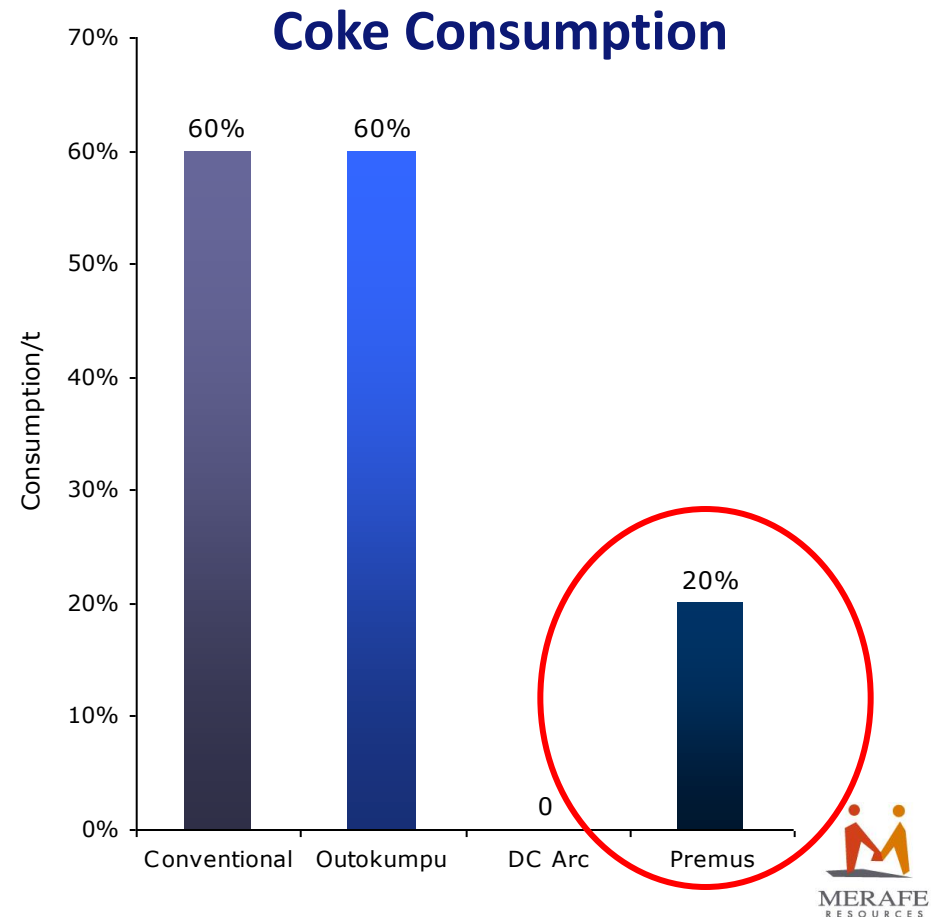
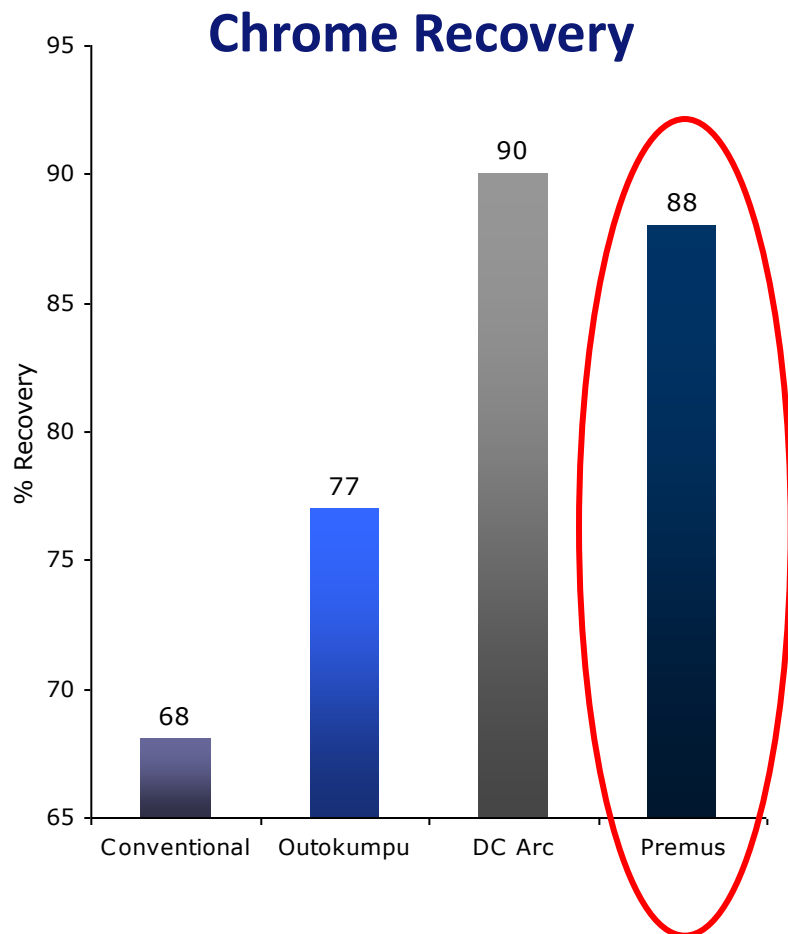
# Xstrata-Merafe challenge to contain costs – Lion Ferrochrome

The Venture anticipated the changes in the South African production environment and invested in efficiencies:



# Xstrata-Merafe challenge to contain costs – Lion Ferrochrome (cont.)

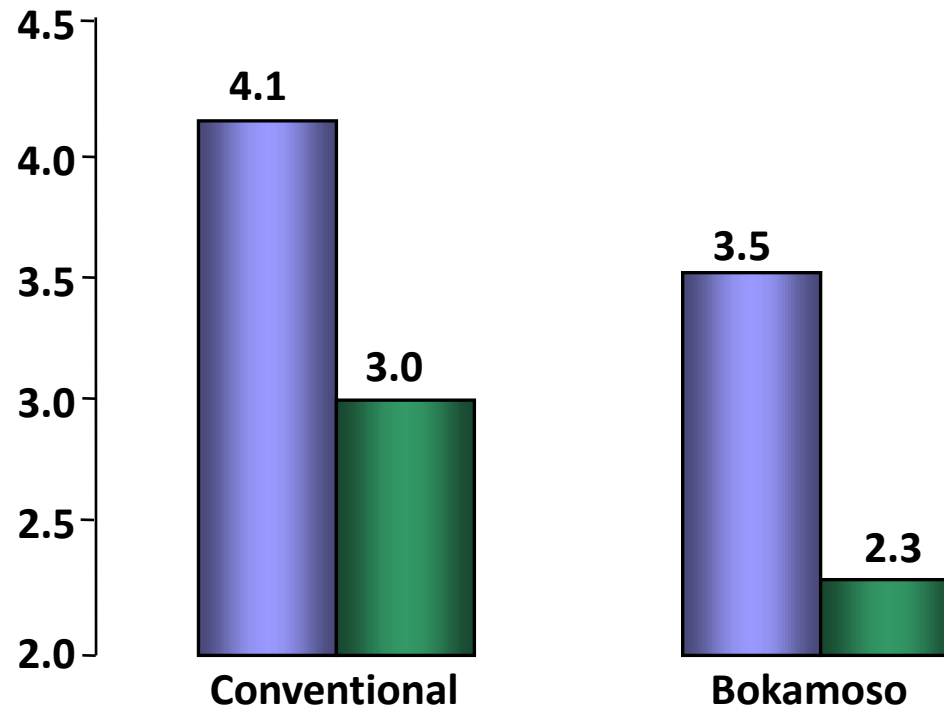
Comparative resources consumption gives Premus a further edge:





# Bokamoso - improved energy consumption

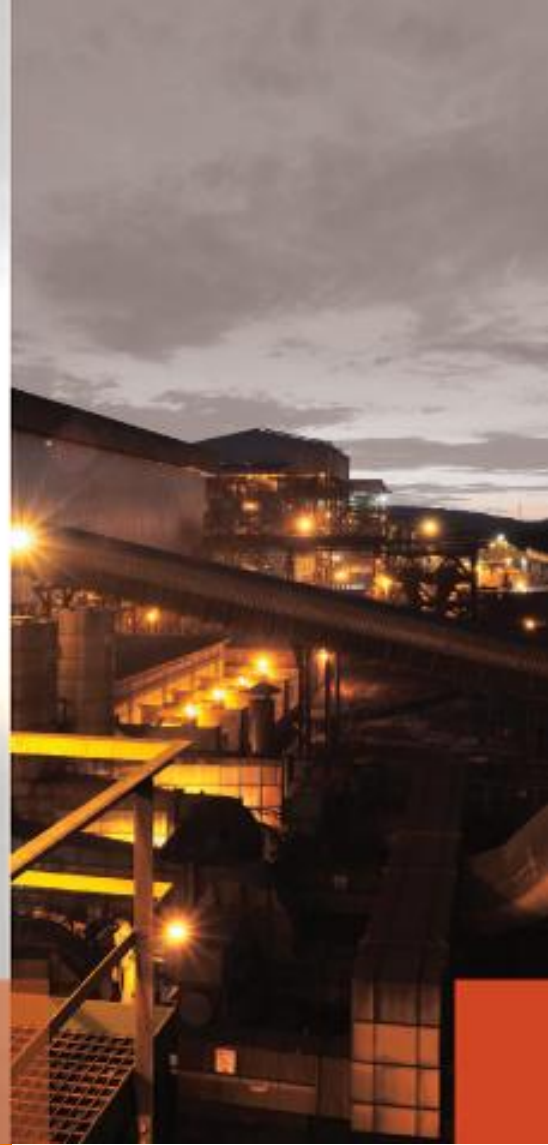
## Xstrata-Merafe position in regard to the forecast high energy tariffs



■ MWh/tonne Alloy	4.1	3.5
■ Ore tonne/tonne Alloy	3.0	2.3

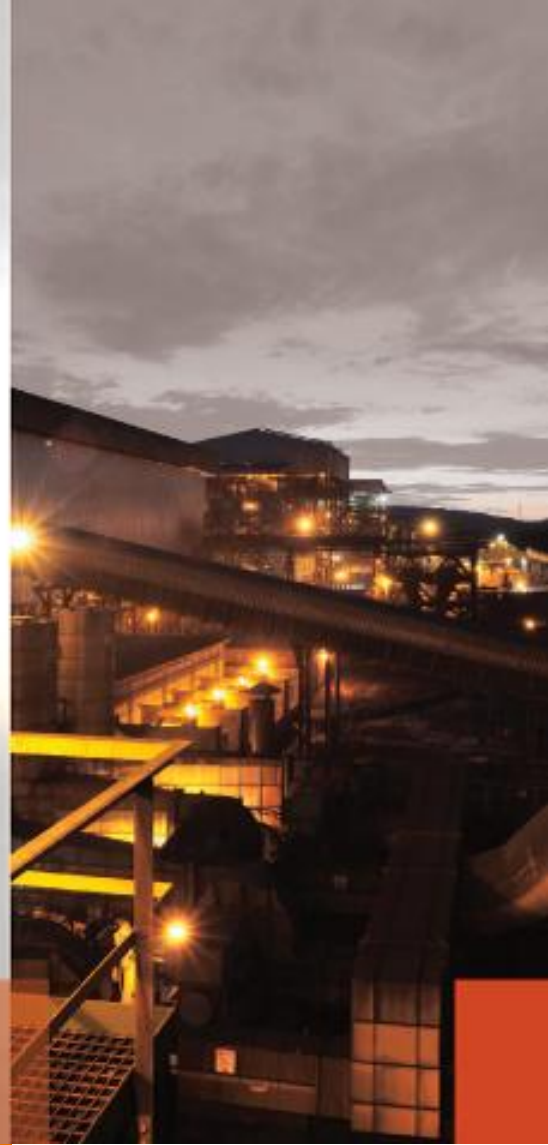
# Prospects

- **China's urbanisation plans to continue**
- **No new ferrochrome capacity expected from South Africa in the next three years**
- **Ferrochrome prices expected to come under pressure in the short-term but recover based on medium term fundamentals**
- **Strong cash flows being generated by Merafe are being used to:**
  - **reduce long term debt**
  - **strengthen working capital position**



[www.meraferesources.co.za](http://www.meraferesources.co.za)





## Appendix



# Merafe Coal

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- Vehicle to pursue coal opportunities in South Africa
- 50/50 joint venture between Merafe and Sentula Mining Limited
- Prospecting of Schoongezicht and Bankfontein coal deposits is underway
- These properties have a total target coal resources of approximately 10m tonnes
- Both projects are opencast and well positioned to supply export quality and Eskom quality coal
- Merafe Coal should be in a position to commence mining during the second half of 2009