



**MERAFE**  
RESOURCES

## Investec Small Cap Resources Conference

4 September 2009

“Ready to deliver”



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# Corporate Structure



20.5%  
of  
EBITDA



79.5%  
of  
EBITDA

**Xstrata-Merafe Chrome Venture  
Formed 1 July 2004**

- ✓ Largest ferrochrome producer in the world
- ✓ Opportunity to invest directly into Xstrata's ferrochrome business



# Share price information

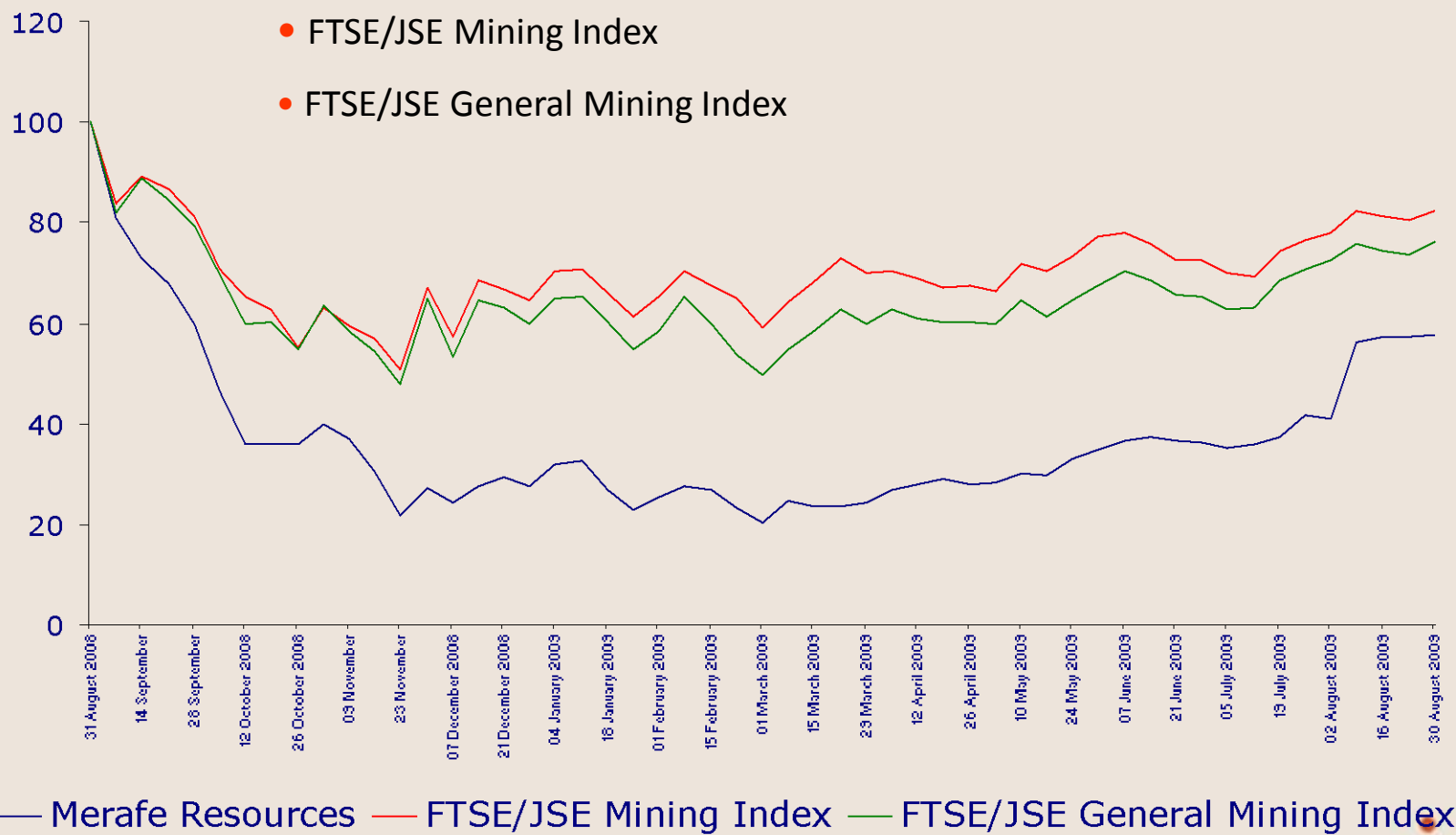
	<u>ZAR</u>
Market capitalisation*	3.88bn
Share price*	1.58
12 month high	2.92
12 month low	0.55
Shares outstanding	2.46 billion shares

\*As at 28 August 2009

# Merafe's share price performance over the past year

Merafe's share price performance relative to:

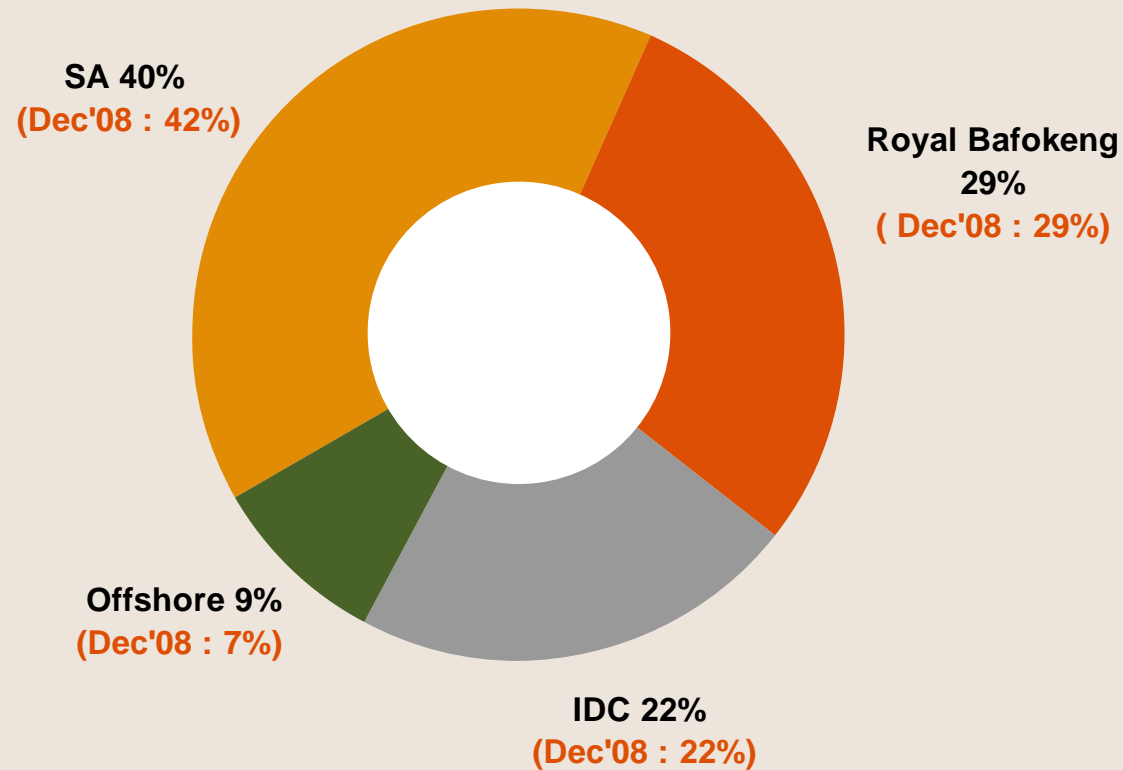
- FTSE/JSE Mining Index
- FTSE/JSE General Mining Index



Source: I-Net Bridge

# Shareholder analysis

## Shareholders at end of July 2009



# Sustainable Development (recent achievements)

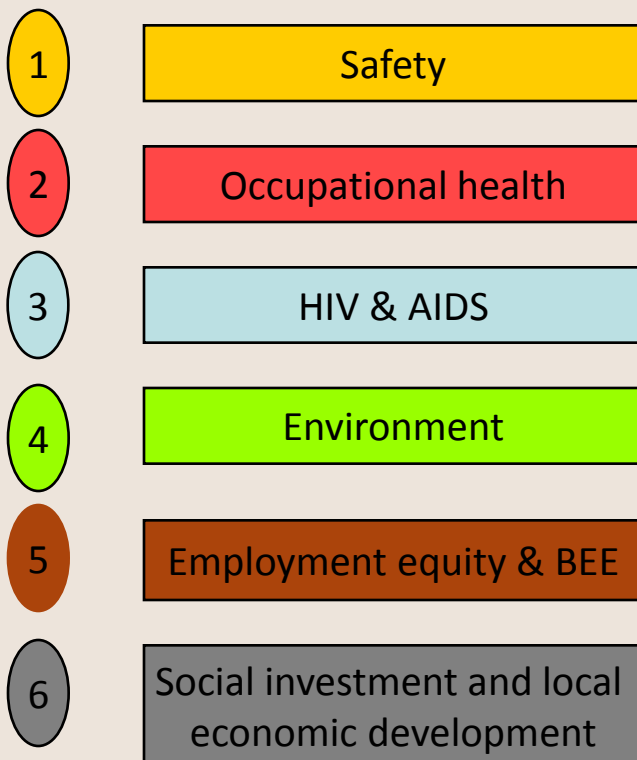
Some of Merafe's achievements to date:

- **Ranked number 1 in the Resources sector** in both 2008 and 2009 Financial Mail Top Empowerment Companies Survey (Empowerdex)
- Listed among the 14 Top Performers on the **JSE SRI Index** in 2007 and 2008
- Awarded together with its partner, Xstrata, the **Nedbank Capital Green Mining Award** in 2008 for Sustainable Development Programmes
- **Energy efficiency initiatives** with Xstrata received an award from the National Business Initiative at the Eskom *eta* award ceremony

## Sustainable development (cont.)

Merafe's commitment to **sustainable development** is reflected in its approach:

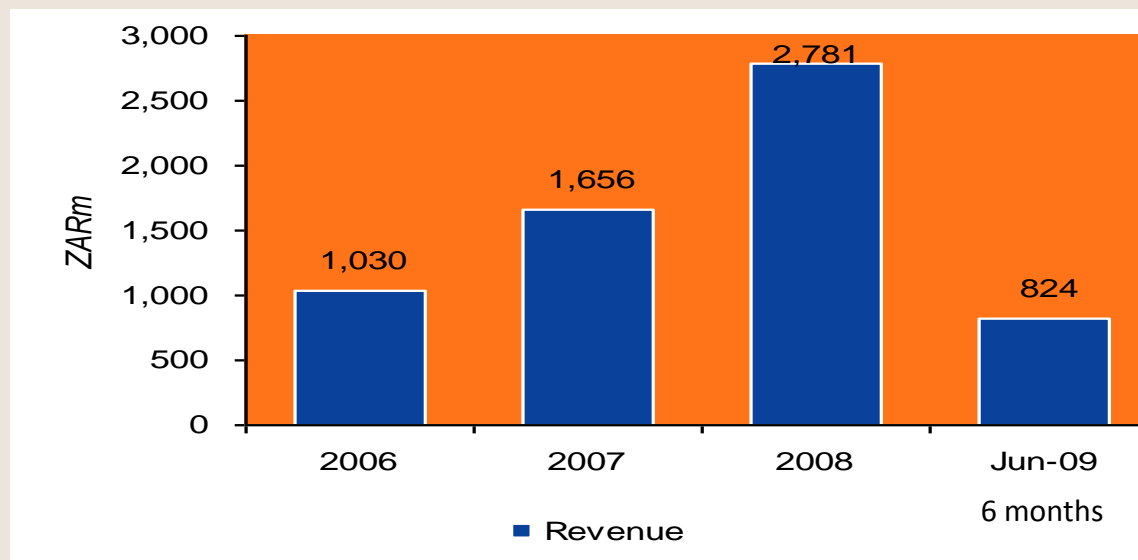
- First Sustainability report produced in 2003
- 2008 Sustainability report was subjected to independent third party assurance
- Its pillars of sustainable development are:



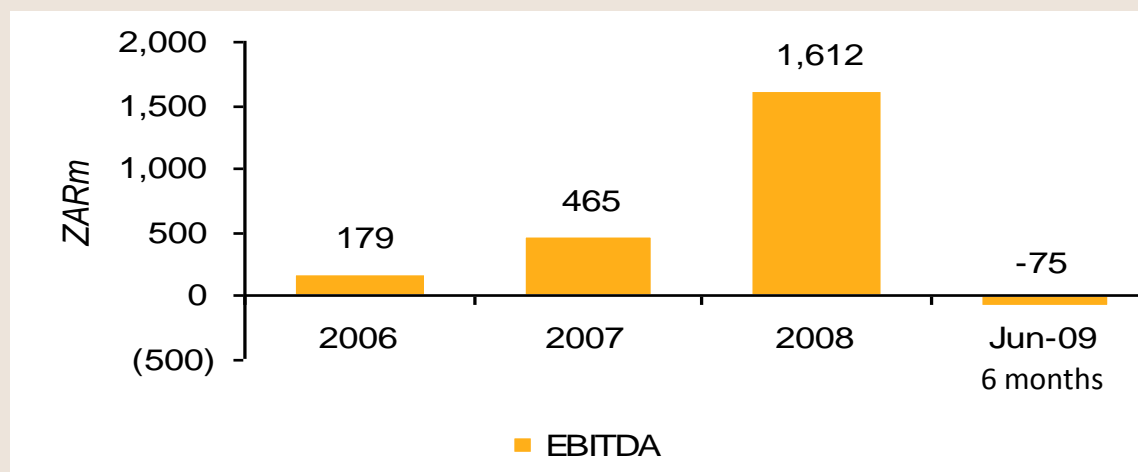


# Financial performance over the last three years

## Revenue

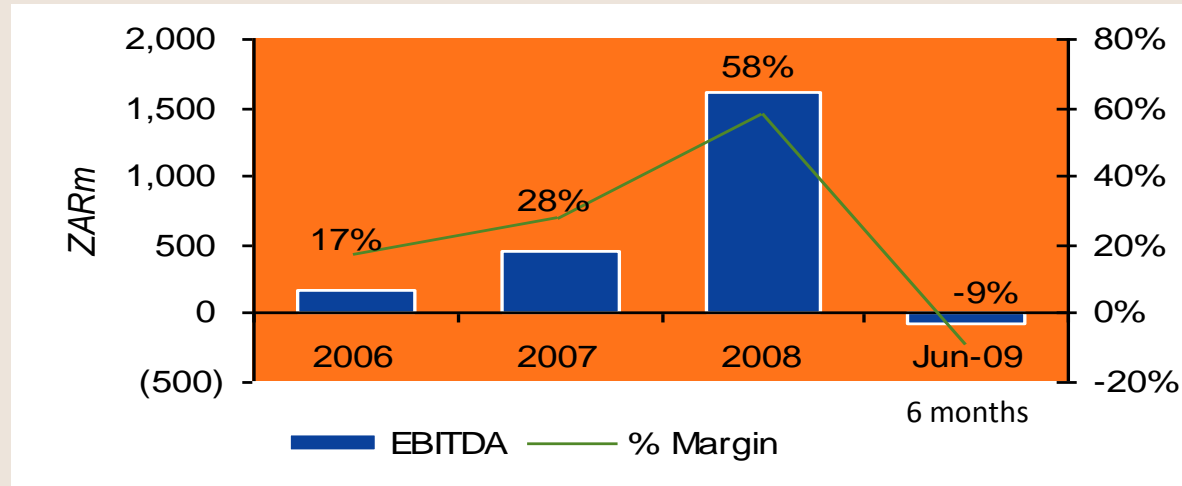


## EBITDA

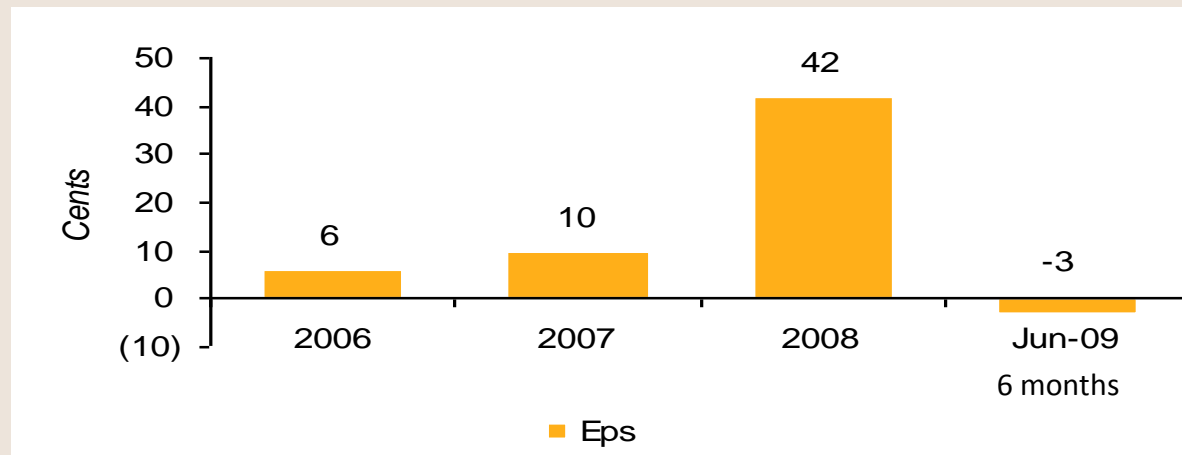


# Financial performance over the last three years (cont.)

## EBITDA and margin evolution



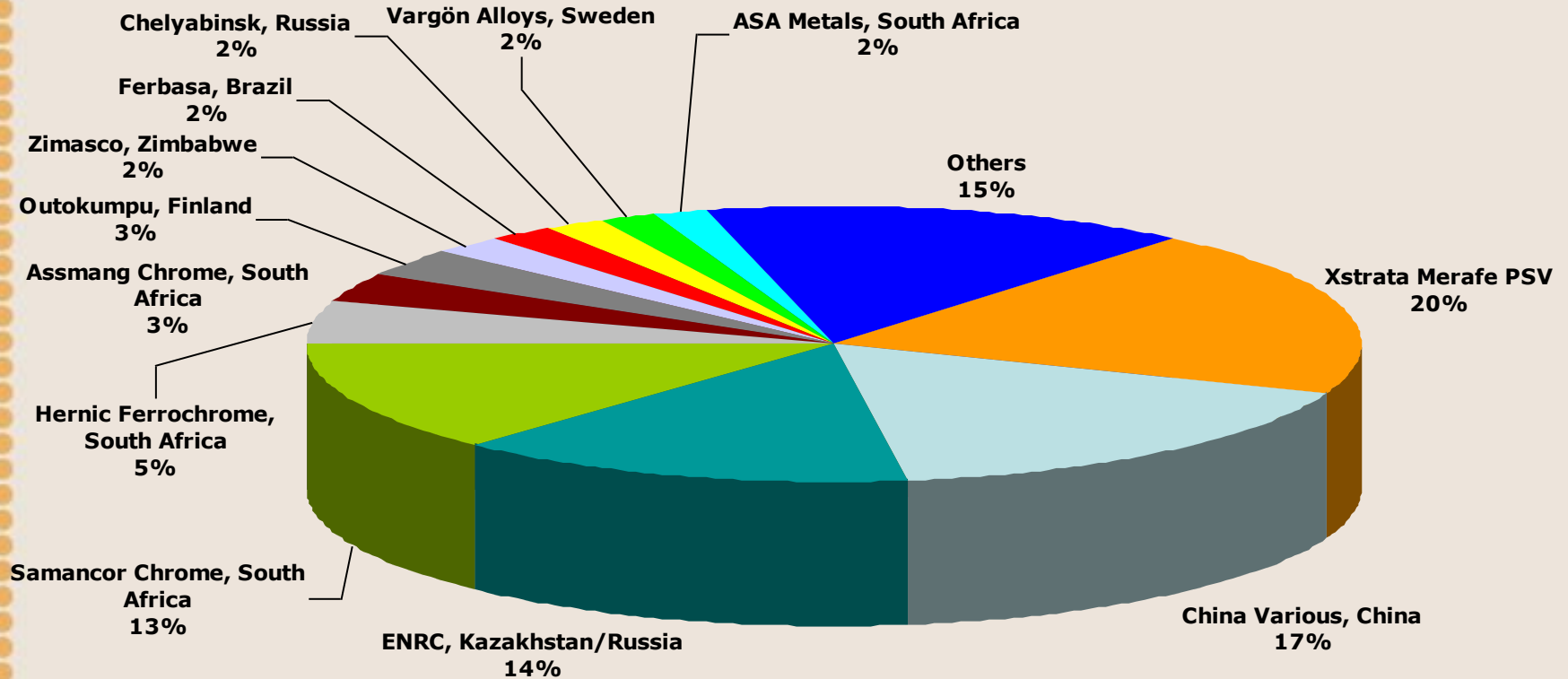
## Earnings per share



# Key features for the six months ended 30 June 2009

- Revenue down by 49% to R824 million
- Net financing costs down by 96%
- Headline loss of R84 million equating to a loss of 3c per share
- Cash flows from operations of R144 million
- Strong cash balance of R466 million
- Ferrochrome inventory reduced by 42% in the last six months
- Permanent debt of R350 million payable in one instalment at 31 December 2012

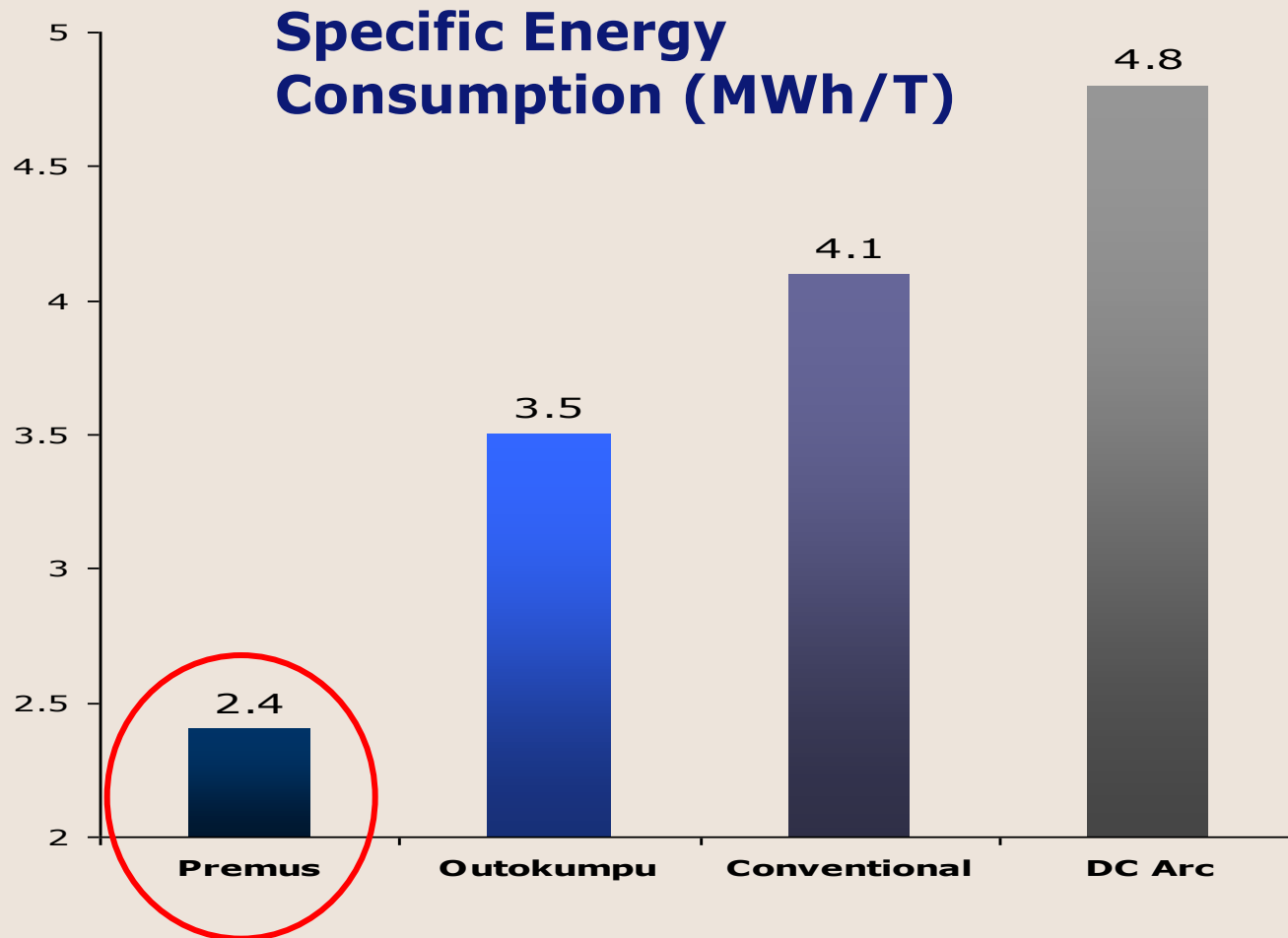
# Xstrata-Merafe, the world's largest ferrochrome producer



# Operations overview

<b>SMELTERS</b>	<b>CAPACITY</b>
Wonderkop	553 kt FeCr - 6 furnaces (Conventional)
Rustenburg	430 kt FeCr - 6 furnaces (Conventional)
Boshoek	240 kt FeCr – 2 furnaces (Outokumpu)
Lydenburg	396 kt FeCr - 4 furnaces (Premus)
Lion	360 kt FeCr - 2 furnaces (Premus)
Total	<ul style="list-style-type: none"> <li>• 1 979 kt in production capacity</li> <li>• 20 furnaces</li> </ul>
<b>5 production sites</b>	<ul style="list-style-type: none"> <li>• 7 mines</li> </ul>

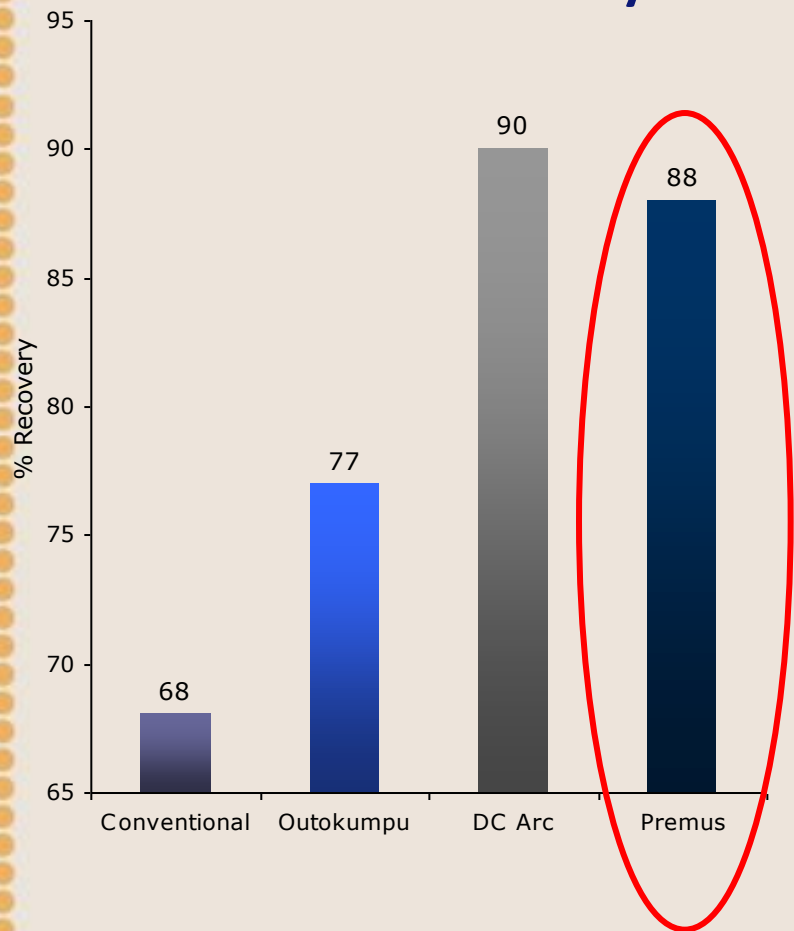
The Venture anticipated the changes in the South African electricity tariffs and invested in efficiencies:



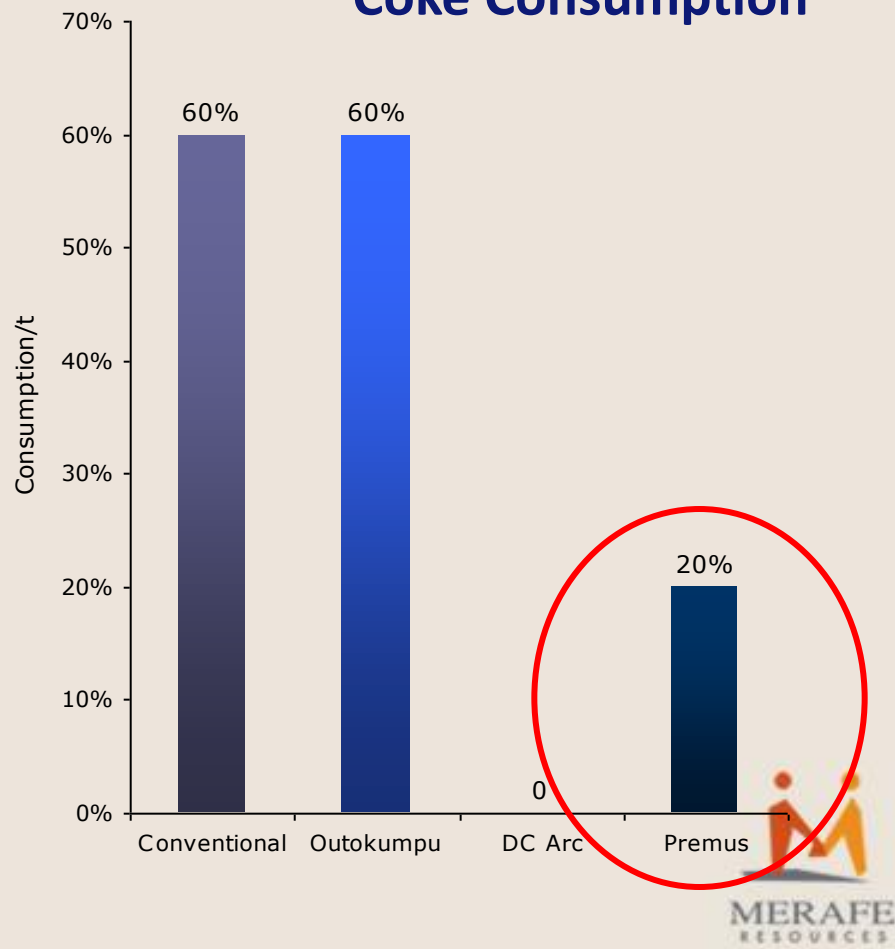
# Xstrata-Merafe challenge to contain costs – Lion Ferrochrome 15 (cont.)

Comparative resources consumption gives Premus a further edge:

## Chrome Recovery

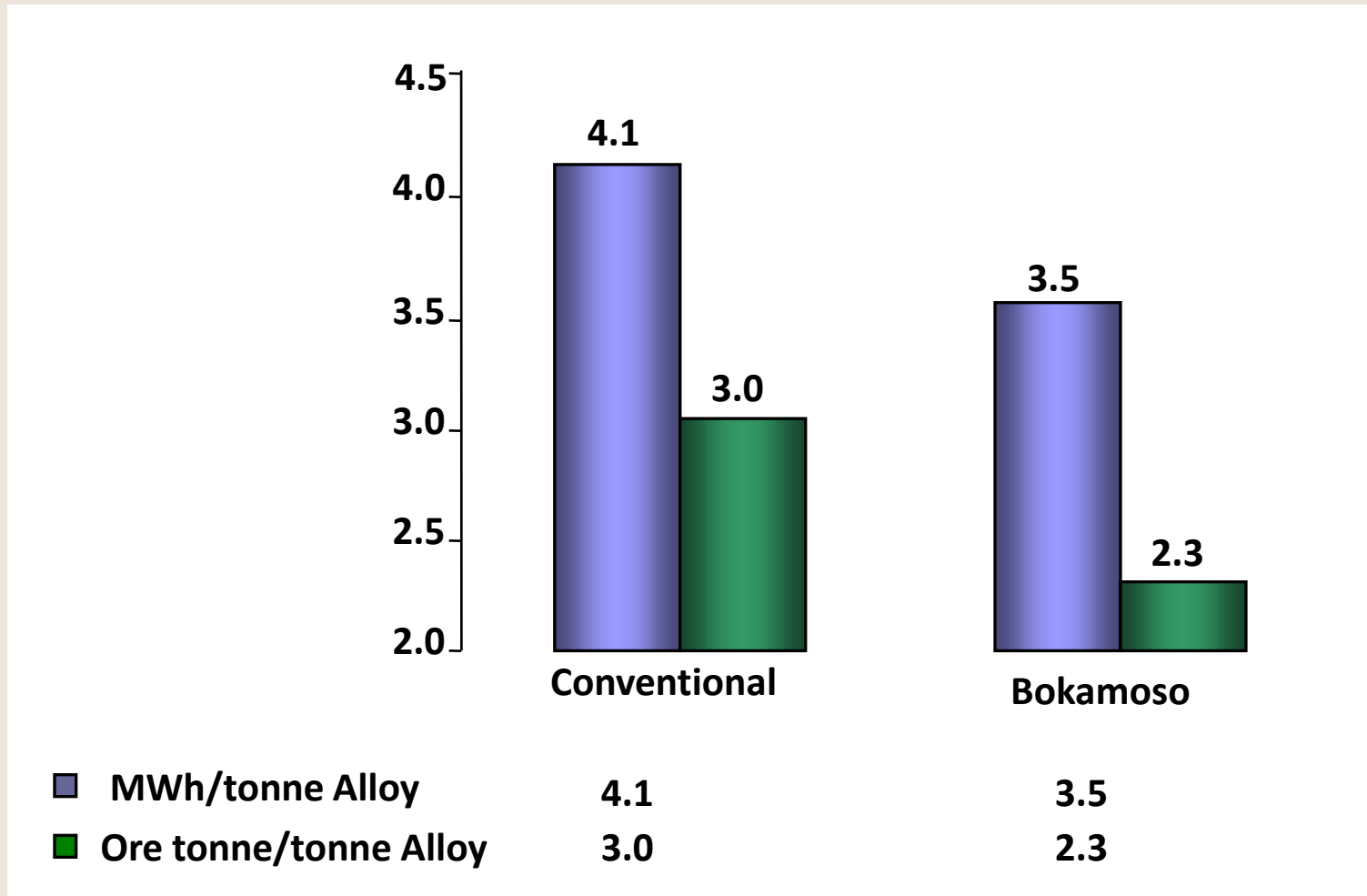


## Coke Consumption



# Bokamoso – improved energy consumption

Xstrata-Merafe position with regard to the forecast high energy tariffs





# Initiatives by the Venture to contain costs

In response to the global economic downturn, the Venture has introduced the following initiatives to contain costs:

- Freezing all new appointments and promotions
- Reducing fixed term contract employees
- Reducing the use of contractors
- Limiting maintenance expenditure
- Eliminating overtime where possible
- Operating the most efficient furnaces (Premus)

# Barriers to entry

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

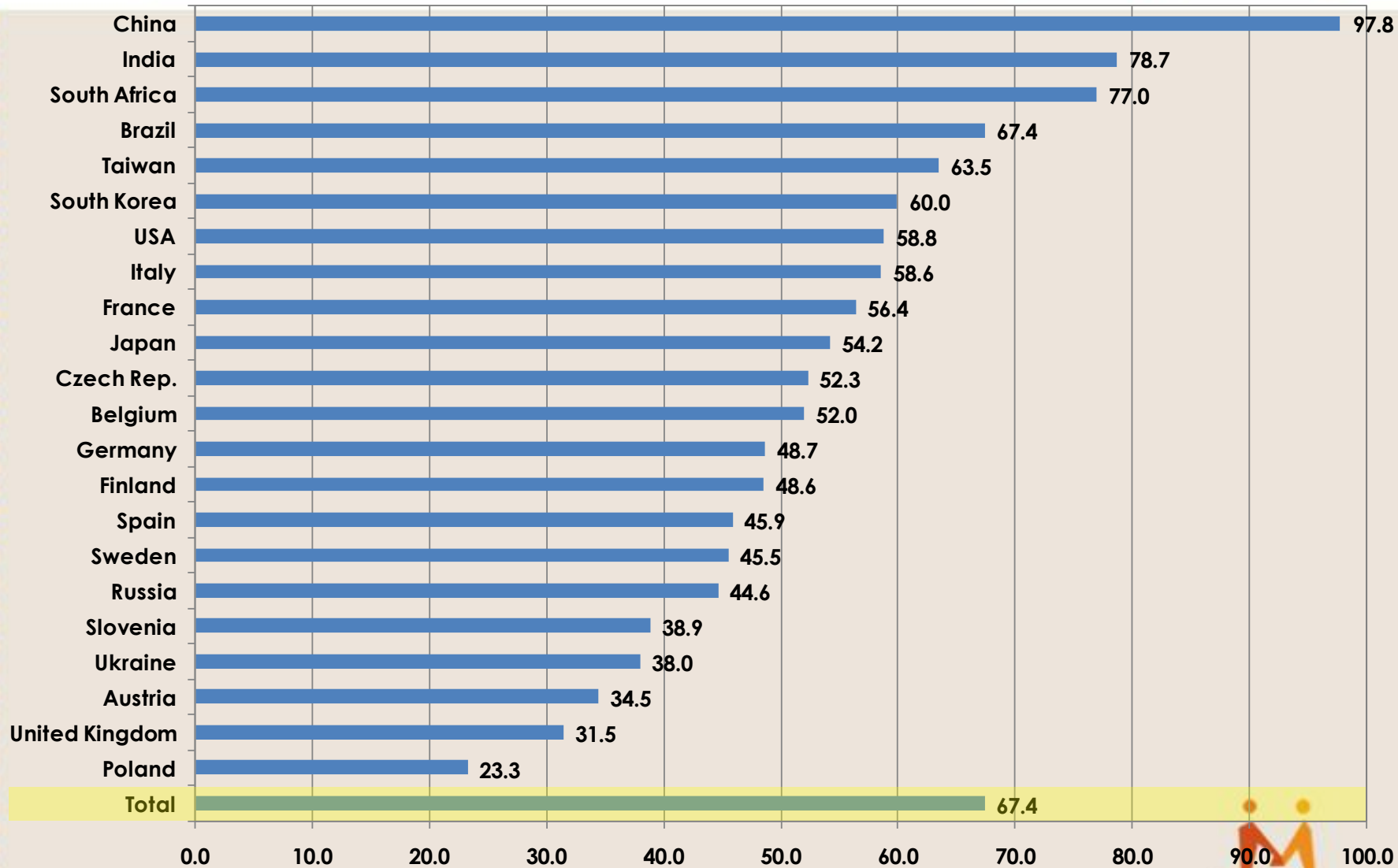
- Capital cost of building smelters up by over 500%
- Lead time for critical items needed for construction now 3 years
- Power supply - when will power be available for new projects?
- Shortage of available quality ore reserves
- Shortage of artisans and skilled labour
- Escalating production costs

## Crude stainless steel production (estimate for 2009)

	2007 '000 t	2008 '000 t	2008 /2007 %	2009 '000 t (estimate)	2009 /2008 %
NAFTA	2,171	1,925	-11.3	1,612	-16.3
European Union	8,109	7,822	-3.5	6,109	-21.9
Japan	3,901	3,564	-8.6	2,347	-34.1
S. Korea / Taiwan / India	5,305	4,458	-16.0	4,465	0.2
Others	1,508	1,298	-13.9	1,244	-4.2
<b>China</b>	<b>7,610</b>	<b>7,344</b>	<b>-3.5</b>	<b>8,400</b>	<b>14.4</b>
<b>Total</b>	<b>28,604</b>	<b>26,411</b>	<b>-7.7</b>	<b>24,177</b>	<b>-8.4</b>

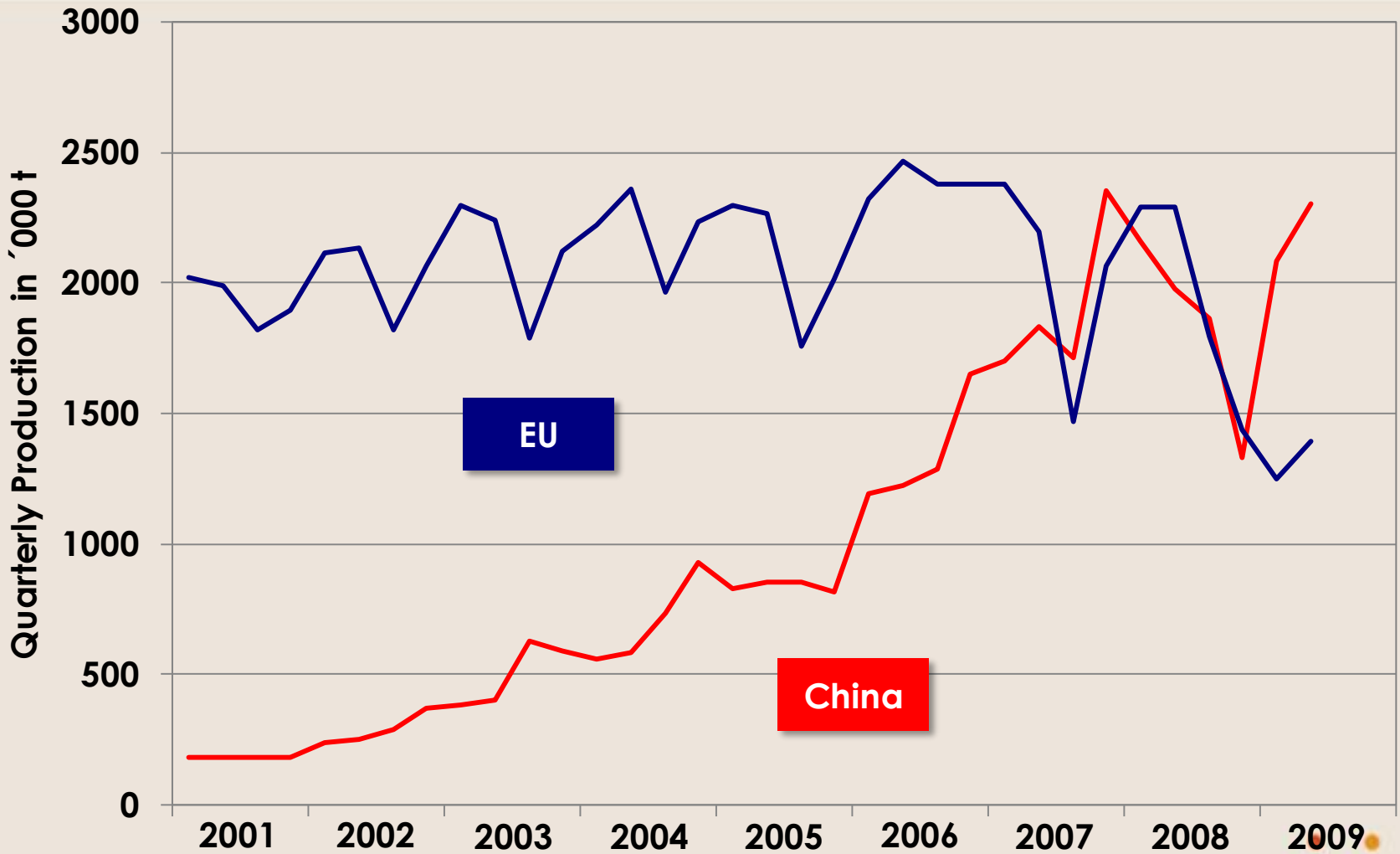
Source: Heinz P. Pariser / Merafe Resources Limited

# Stainless steel capacity utilisation, Q2 2009



Source: Heinz P. Pariser

# Crude stainless steel production – European Union (EU) & China



Source: Heinz P. Pariser

# Regional ferrochrome demand

	2007 '000 t	2008 '000 t	2008/2007 %	2009 '000 t (estimate)	2009/2008 %
NAFTA	455	502	10.3	422	-16.0
European Union	2,116	2,138	1.0	1,697	-20.6
Japan	890	888	-0.2	660	-25.6
S. Korea/Taiwan/India	1,342	1,040	-22.5	1,062	2.2
Others	743	719	-3.2	603	-16.2
China	2,277	1,987	-12.7	1,920	-3.4
<b>Total</b>	<b>7,823</b>	<b>7,274</b>	<b>-7.0</b>	<b>6,364</b>	<b>-12.5</b>

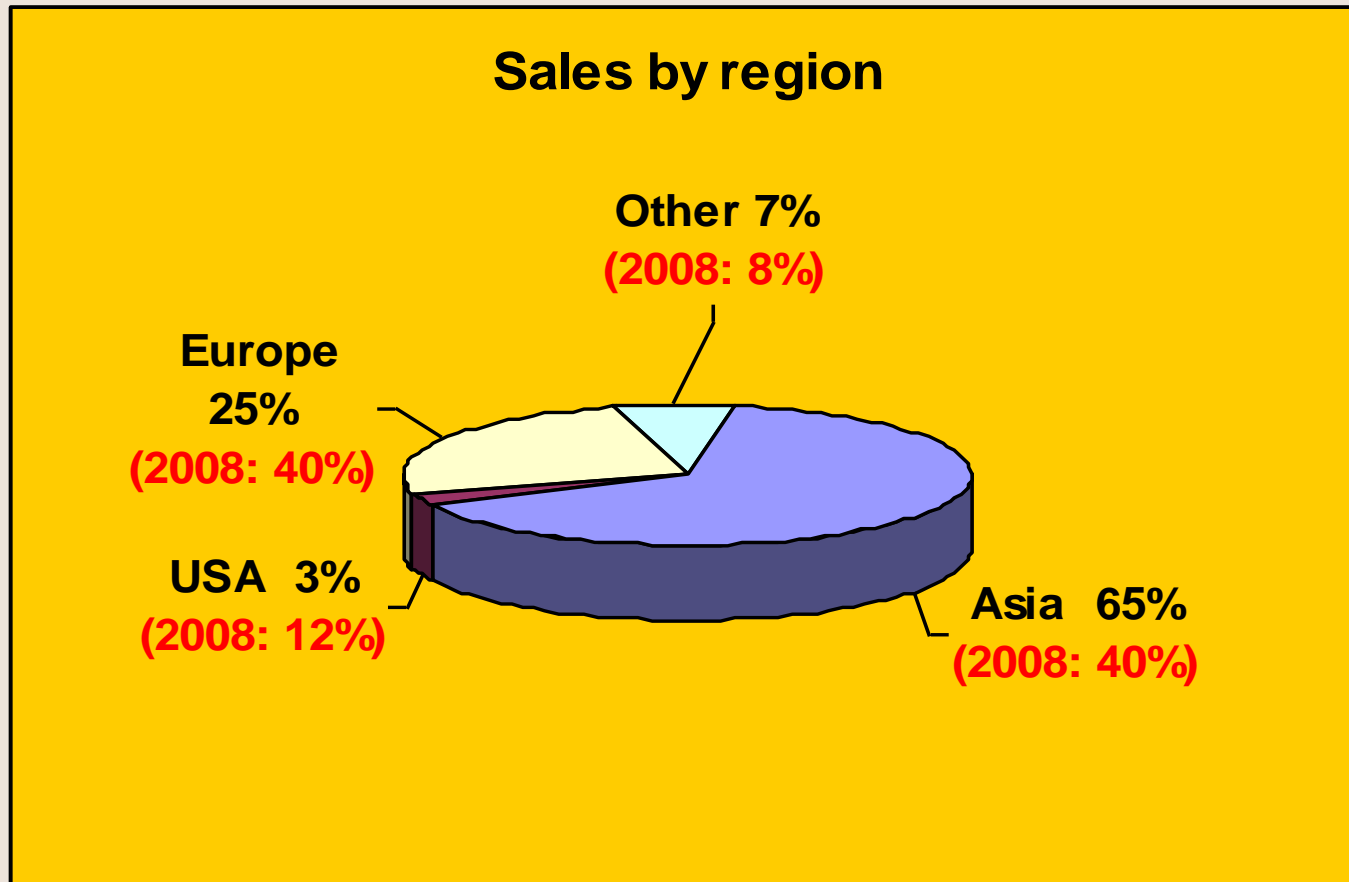
Source: Heinz P. Pariser /Merafe Resources

# Charge/High carbon ferrochrome production

	2007 '000 t	2008 '000 t	2008/2007 %	2009 '000 t (estimate)	2009/2008 %
Brazil	176	193	9.7	145	-25.0
European Union	367	354	-3.6	98	-72.3
Russia, Turkey, Albania	274	335	22.1	222	-33.7
India	928	948	2.2	675	-28.8
Kazakhstan	970	880	-9.3	746	-15.3
South Africa	3,561	3,222	-9.5	1,810	-43.8
Zimbabwe	201	152	-24.5	168	10.5
Iran	17	17	0.0	17	0.0
<b>China</b>	<b>1,232</b>	<b>1,250</b>	<b>1.5</b>	<b>1,100</b>	<b>-12.0</b>
<b>Total</b>	<b>7,726</b>	<b>7,351</b>	<b>-4.9</b>	<b>4,981</b>	<b>-32.2</b>

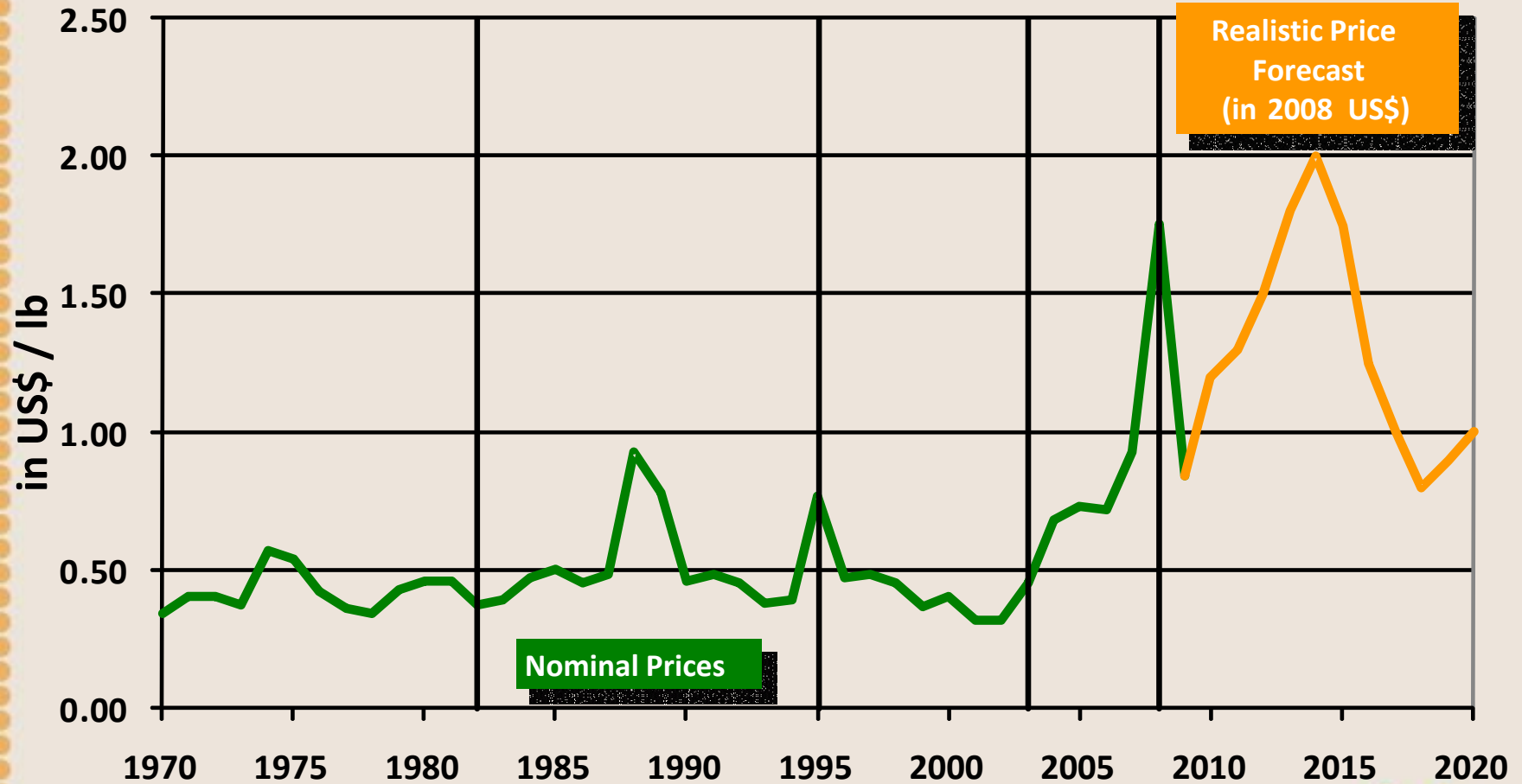
Source: Heinz P. Pariser/Merafe Resources

# Venture's sales by region for the six months to June '09





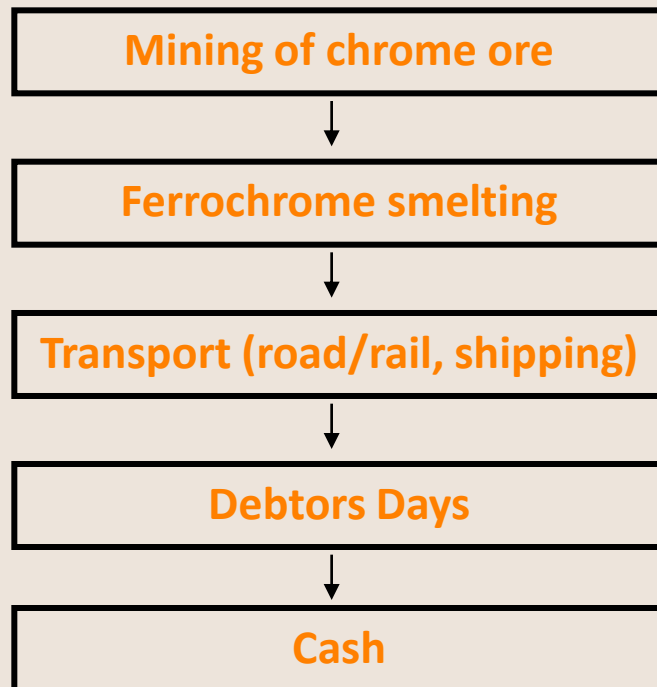
# Charge chrome price development



Source: Heinz P. Pariser

# Working capital requirements in second half of 2009

- Expect cash to be “locked-up” in working capital for the second half of 2009
- This is due to the ramp-up in ferrochrome production
- Typical working capital cycle 5-6 months



- Merafe has sufficient cash and banking facilities to manage this cycle and is ready to deliver

# Production costs

- Despite improved efficiencies, **production costs** continue to be a challenge
- Cost increases to 30 June 2009 are mainly attributable to:
  - an announced 27% increase in **electricity prices** from 1 July 2008
  - an average 64% increase in **reductant prices** (lag effect)
  - double digit **labour cost** increases
  - double digit **inflation**
- Looking forward we see:
  - electricity prices increasing by an announced 31% from 1 July 2009
  - reduced inflation
  - dollar denominated costs such as shipping and reductants reducing owing to the stronger Rand
  - higher absorption of fixed costs, thereby reducing overall costs

# Xstrata-Merafe production capacity utilisation

- The weakness in demand experienced in the fourth quarter of 2008 and well into the first quarter of 2009 as a result of the economic downturn, necessitated the following action undertaken by the Venture:
  - six furnaces were temporarily suspended on 10 November 2008
  - a further five furnaces were suspended from 1 December 2008
  - six further furnaces were suspended from 16 January 2009, bringing a total of suspended furnaces to 17, representing 80% of the Venture's annual production capacity
- During the second quarter of 2009 the Venture increased production capacity and it operated at an average ferrochrome production capacity of 30% in the first half of 2009
- As of July 2009, the Venture has increased ferrochrome production capacity to 60% due to the strengthening in demand for ferrochrome
- It is envisaged that ferrochrome production capacity will be increased from 60% during September to about 85% of annual ferrochrome production capacity

# The ferrochrome industry production capacity utilisation

- Ferrochrome producers worldwide, in particular the South African producers responded swiftly and responsibly to the weakness in ferrochrome demand experienced from the fourth quarter of 2008 by cutting ferrochrome production by as much as 80%
- With the strengthening in demand for ferrochrome as seen from the second quarter of the year, the estimated capacity utilisation for global ferrochrome production in 2009 will be around 55%
- The ferrochrome utilisation rates for third and fourth quarter are estimated to be 66% and 76% respectively

# Point of caution

Some of the immediate concerns to the Company are as follows:

- Risk of ferrochrome producers ramping up at the same time and possibly oversupplying the market
- Over reliance on Chinese stainless steel production with the rest of the world slowly recovering
- A short pull back in Chinese stainless steel production may occur towards end of third quarter
- Power constraints both for ramping up this year and also for future expansions
- Industrial action
- Ferrochrome price – still “soft”
- Strong Rand

# “Ready to deliver”

- The size and flexibility of the Venture provide an advantage
- Have so far weathered the worst storm and are well positioned to deliver into growth
- The **recovery** of global stainless steel production is likely **to continue** into the third and fourth quarter of 2009 on the back of real demand and restocking
- Demand has mainly come from Asia but positive signs are also coming out of Germany
- Global ferrochrome **stockpiles** have **reduced** significantly and inventory levels have **normalised**
- Ferrochrome **demand** is expected to remain at current levels into the fourth quarter of 2009
- European benchmark ferrochrome price has **increased** in the third quarter by 29% to 89USc/lb, signalling a new trend

## “Ready to deliver” (cont.)

- The retention of the Venture’s skilled labour force has proved to be very beneficial now that there are signs of a market upturn
- The Venture has restarted some of the idle capacity and production of ferrochrome has increased to **60% of annual operating capacity** and it’s anticipated to increase to 85% in September 2009
- Strong balance sheet with cash on hand of R466 million





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