



Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration number 1987/003452/06)
("Merafe" or "the Company")
Share Code: MRF ISIN: ZAE 000060000

Reviewed results for the twelve months ended 31 December 2005

GROUP ABRIDGED INCOME STATEMENT

| | 12 months to 31 December 2005 Reviewed R'000 | 9 months to 31 December 2004 Audited R'000 |
|-------------------------------------|--|--|
| Revenue | 614,562 | 502,369 |
| EBITDA | 110,162 | 59,540 |
| Depreciation | (6,987) | (231) |
| Net financing costs | (29,652) | (38,585) |
| Profit before taxation | 73,523 | 20,724 |
| Dividends on preference shares | (28,281) | - |
| STC | (3,535) | - |
| Net profit after tax | 41,707 | 20,724 |
| Earnings per share (cents) | 3.05 | 1.67 |
| Headline earnings per share (cents) | 3.05 | 1.67 |
| Ordinary shares in issue | 2,247,157,460 | 1,237,917,518 |
| Weighted average shares for period | 1,365,438,168 | 1,236,676,723 |

GROUP ABRIDGED BALANCE SHEET

| | 12 months to 31 December 2005 Reviewed R'000 | 9 months to 31 December 2004 Audited R'000 |
|---|--|--|
| ASSETS | | |
| NON-CURRENT ASSETS | | |
| Options, mineral and participation rights | 258 | 258 |
| Property, plant and equipment | 1,330,236 | 740,222 |
| Investments | 346 | 346 |
| CURRENT ASSETS | 692,500 | 486,790 |
| Available-for-sale-bonds | - | 6,062 |
| Financial asset | - | 1,752 |
| Inventories | 324,309 | 237,270 |
| Trade and other receivables | 281,449 | 189,486 |
| Bank and cash | 86,742 | 52,220 |
| TOTAL ASSETS | 2,023,340 | 1,227,616 |
| EQUITY AND LIABILITIES | | |
| CAPITAL AND RESERVES | | |
| Share capital | 22,474 | 12,379 |
| Share premium | 1,091,743 | 567,035 |
| Equity-settled share-based payment | 2,510 | 1,545 |
| Fair value reserve | - | 1,637 |
| Accumulated loss | (211,860) | (253,567) |
| NON-CURRENT LIABILITIES | | |
| Long-term borrowings | 2,357 | 395,990 |
| Long-term borrowings – Preference shares | 322,476 | - |
| CURRENT LIABILITIES | 793,640 | 512,597 |
| Trade and other payables | 354,699 | 412,078 |
| Provisions | 33,595 | 21,817 |
| Current portion of long-term borrowings | 231,177 | 54,669 |
| Bank overdraft | 174,169 | 24,033 |
| TOTAL EQUITY AND LIABILITIES | 2,023,340 | 1,227,616 |

STATEMENT OF CHANGES IN EQUITY

| | 12 months to 31 December 2005 Reviewed R'000 | 9 months to 31 December 2004 Audited R'000 |
|--|--|--|
| Share capital – Ordinary shares | 22,474 | 12,379 |
| Balance at beginning of period | 12,379 | 11,957 |
| New shares issued during period | 10,095 | 422 |
| Share premium – Ordinary shares | 1,091,743 | 567,035 |
| Balance at beginning of period | 557,035 | 527,217 |
| Premium on new shares issued during the period | 534,708 | 29,818 |
| Equity-settled share-based payment | 2,510 | 1,545 |
| Balance at beginning of period | 1,545 | 849 |
| Share-based payment | 965 | 696 |
| Accumulated loss | (211,860) | (253,567) |
| Balance at beginning of period | (253,567) | (264,894) |
| Prior-year adjustment | - | (9,397) |
| Net profit for the period | 41,707 | 20,724 |
| Fair value reserve | - | 1,637 |
| BALANCE AT END OF PERIOD | 904,867 | 319,029 |

GROUP ABRIDGED CASH FLOW STATEMENT

| | 12 months to 31 December 2005 Reviewed R'000 | 9 months to 31 December 2004 Audited R'000 |
|---|--|--|
| Cash generated by operations | (146,160) | 38,208 |
| Interest cost | (32,666) | (42,218) |
| Interest received | 3,014 | 3,634 |
| Cash flows from operating activities | (175,812) | (376) |
| Cash flows from investing activities | (597,098) | (21,414) |
| Cash flows from financing activities | (657,296) | 58,921 |
| Net (decrease)/ increase in cash and cash equivalents | (115,614) | 37,131 |
| Cash and cash equivalents at beginning of period | 28,187 | (8,944) |
| Cash and cash equivalents at end of period | (87,427) | 28,187 |

COMMENTARY

Basis of preparation

In compliance with the Listings Requirements of the JSE Limited, ("the JSE") Merafe has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the twelve months ended 31 December 2005. The accounting policies adopted are consistent with those applied in the annual financial statements for the period ended 31 December 2004, except for the changes noted under the heading "First-time adoption of IFRS".

The major effect on Merafe's financial statements of adopting IFRS, relates to the changes to the accounting policy for property, plant and equipment and share-based payments.

The effects of the first-time adoption of IFRS are detailed below under the heading "First-time adoption of IFRS".

Review of results

The reviewed results of the Company, as set out above, have been reviewed by the Company's auditors, KPMG Inc, as required by the JSE. Their review report is available for inspection at the Company's registered address.

Merafe's current source of income is generated from its chrome venture with Xstrata SA (Proprietary) Limited ("the Xstrata-Merape Chrome Venture"), which became effective on 1 July 2004 and reinforced the merged entity then as the market leader with a total managed capacity of 1.38 million tonnes of ferrochrome per annum. Merafe shared in 11% of the earnings before interest, tax, depreciation and amortisation ("EBITDA") from the Xstrata-Merape Chrome Venture until 30 June 2005. Merafe's share of the EBITDA from the Xstrata-Merape Chrome Venture increased to 14% from 1 July 2005. Following the Wonderkop acquisition, as described below, Merafe's share of the EBITDA increased by a further 3% to 17% and the managed capacity to 1.56 million tonnes from 16 November 2005. The 17% share of EBITDA will increase to 20.5% from 1 July 2006. With Project Lion being commissioned in the third quarter of 2006, the total managed capacity of the Xstrata-Merape Chrome Venture will increase to 1.92 million tonnes.

The following table provides an analysis of the EBITDA of Merafe for the two 6 month comparative periods.

| | 6 months to 30-6-2005 R'000 | 6 months to 31-12-2005 R'000 | 12 months to 31-12-2005 R'000 |
|---------------------------------------|-----------------------------------|------------------------------------|-------------------------------------|
| Revenue | 296,068 | 318,494 | 614,562 |
| EBITDA – Chrome Venture | 76,304 | 62,560 | 138,864 |
| Transaction costs * | (2,000) | (10,275) | (12,275) |
| Corporate costs | (7,000) | (9,427) | (16,427) |
| EBITDA – Merafe | 67,304 | 42,858 | 110,162 |
| Attributable saleable production (kt) | 64,861 | 77,156 | 142,017 |

* – transaction costs and advisory fees relating to the acquisition of the Wonderkop JV and the Capital Raising referred to below.

Whilst net profit after tax increased by R21 million year on year, the second half results were disappointing after the positive first six months. This was as a result of a 13% decline in the ferrochrome price and the Rand strengthening by 8% against the US\$ over this six-month period as well as standing charges from the temporary closure of furnaces.

During the last twelve months, R65 million of the redeemable preference shares were redeemed, reducing the balance at year-end to R322 million.

Review of operations

Operating conditions benefited during the year from improved performance at the Rustenburg pelletising plant, the increased availability of Outokumpu pellets from the Boshhoek plant and reduced overall raw material requirements through better efficiencies from higher pellet availabilities. Following routine maintenance work, the two furnaces at the Wonderkop JV have remained suspended in light of prevailing market conditions and to improve the distribution of agglomerated ores across the chrome operations. In addition, a further five furnaces are being temporarily suspended, comprising two furnaces at Wonderkop, two furnaces at Rustenburg and one furnace at Boshhoek, and will be returned to production according to market conditions.

In June 2005, further suspensions were announced at seven of the Xstrata-Merape Chrome Venture furnaces to perform planned maintenance during the winter months when energy costs are elevated. All seven furnaces were brought back into operation during the third quarter. The standing charges attributable to Merafe due to the temporary closure of these furnaces were R10.5 million.

Modifications were made in 2005 to the Boshhoek furnaces as part of the refurbishment undertaken during the winter shutdown. Using the combined expertise within Xstrata and Merafe, the modifications produced excellent results: the two Boshhoek furnaces are currently operating with great stability, production volumes have increased and operating costs have been significantly reduced.

Operating costs were well contained in 2005 despite lower production volumes. Unit costs fell by R48 per tonne in real terms (excluding standing charges) compared to 2004, due to lower coke prices, mechanical improvements at the Boshhoek furnaces and improved furnace efficiencies resulting from higher pellet availabilities.

Mining operations improved during 2005. Higher underground production volumes from the Kroondal mine, especially after the acquisition of the Marikana reserves announced in July 2005, enabled the lower quality opencast operations at Kroondal and Boshhoek to be scaled down by 200,000 tonnes of run-of-mine production.

The Horizon mine was refurbished during 2005 with the objective of improving yields and production costs and was recommissioned in December 2005. The Thorncliffe mine in the East remained the best performing and lowest cost chrome ore mine in the group in 2005. The Thorncliffe mining complex is being expanded with the development of the Helena mine to supply ore to the new Lion ferrochrome smelter.

Market review

The first half of 2005 was characterised by strong growth in stainless steel melt, which accounts for approximately 80% of global ferrochrome consumption, and in ferrochrome demand. As a result, ferrochrome prices rose to 78¢ per pound in Q2 2005. In the second half, stainless steel stocks began to build, particularly in China, as high nickel prices impacted demand for stainless steel, leading to a slow-down in stainless steel melt production. While globally, stainless steel melt production in 2005 continued at a similar level to the previous year in Europe, stainless steel melt declined by an estimated 4.8% to 8.3 million tonnes in 2005. Production of stainless steel melt also fell in the United States by 7%, in Taiwan, down by 4%, and in Japan, where production declined by 2.5% year-on-year. China was the exception, experiencing significant growth of 33% to around 3.7 million tonnes.

Demand for ferrochrome continued to grow year-on-year, albeit at a slower rate than in the first half of the year, by around 3.6%, bringing global demand to 5.7 million tonnes, up from 5.5 million tonnes in 2004, primarily due to increased production of ferritic grade stainless steel.

As the correction in stainless steel melt production translated into lower ferrochrome demand in the second half of 2005, ferrochrome prices came under pressure, with the base price reducing by 5¢ in each quarter to end the year at 68¢ per pound.

Relatively weak stainless steel melt production continued into the first quarter of 2006 resulting in further downward pressure on prices; in the first quarter the base price reduced by a further 5¢ to 63¢ per pound which will place South African ferrochrome producers under pressure. However, a recovery in the second half of 2006 is expected as both stainless steel melt production and ferrochrome demand gain momentum, with China again anticipated to drive this growth.

Wonderkop acquisition

With effect from 16 November 2005, Merafe acquired a 50% participation interest in the Wonderkop Joint Venture, a 50% interest in the Kroondal resources and a 26% interest in the Marikana resources from Samancor Holdings (Proprietary) Limited for a purchase consideration of R331.7 million.

These assets now form part of the Xstrata-Merape Chrome Venture which resulted in Merafe increasing its share of EBITDA by 3% to 17% from 16 November 2005.

Project Lion

The first stage of Project Lion, a 360,000 tonnes per annum smelting complex in the Mpumalanga province, is currently under construction following ground clearing which commenced during December 2004. The project utilises Xstrata Alloys' proprietary Premus technology, which will deliver significant production cost savings compared to alternative ferrochrome production technologies.

Project Lion was awarded a substantial grant by the South African Department of Trade and Industry in 2005 in recognition of the project's contribution to the sustainable development of the surrounding area. This is a result of the project's beneficial impact on local communities in the form of direct and indirect employment, training schemes, and specific social development programmes initiated, as well as the associated improved infrastructure that will benefit local communities and surrounding industries.

The project has encountered some external difficulties, in particular the quality of the kiln riding rings and roller support castings and difficult ground conditions. Despite these challenges, the project is on track to commission on time and within budget during the third quarter of 2006. The Helena mine development also remains within the project timing schedule and budget, with chrome ore already being brought to surface.

Capital raising

In November 2005, Merafe successfully raised R554 million in equity and R300 million in debt funding to fund the Wonderkop acquisition as well as to fund Merafe's 20.5% participation in Project Lion.

Dividend

No ordinary dividend has been declared by the directors of Merafe for the twelve months ended 31 December 2005.

First time adoption of IFRS

The date of transition to IFRS for Merafe is 1 April 2004 and therefore as required by IFRS 1, Merafe's opening balance sheet at 1 April 2004 has been restated to reflect all existing IFRS statements expected to be applicable at 31 December 2005. Merafe has adopted the following transitional arrangements:

Share-based payments

Merafe has applied the provisions of IFRS 2, share-based payments, except for share options granted before 7 November 2002, or to share options granted after this date but which had vested prior to 1 January 2005.

Previously, share options granted to employees did not result in any expense to Merafe, other than a dilution in earnings per share when the shares were issued. In accordance with the requirements of IFRS 2, Merafe has recognised an expense in the income statement, with a corresponding credit to equity. The fair value at the date of granting the options is charged to income over the relevant option vesting periods, adjusting to reflect actual and expected levels of vesting.

Property, plant and equipment

Merafe has applied the provisions of IAS 16 – Property, Plant and Equipment, which requires that the Company provide an annual review and assessment of the useful life of its assets, depreciation method and residual values at the end of each financial year and adjusts depreciation charges accordingly. Thus the depreciable amount of property, plant and equipment is its cost less its residual value. Where items of property, plant and equipment comprise individual components for which different depreciation methods are appropriate, each component is accounted for separately.

Previously, individual components were not always separately identified and no residual value was used in determining the depreciable amount of the component.

The effect of the above adjustments on accumulated loss on an annual basis is as follows:

| | Rand |
|--|---------------|
| Accumulated loss – 31 March 2004 – "SA GAAP" | (316,740,082) |
| IFRS adjustments: | |
| – Share-based payments | (848,577) |
| – Property, plant & equipment | 43,298,239 |
| Accumulated loss – 31 March 2004 – "IFRS" | (274,290,420) |
| Net profit after tax – 31 Dec 2004 – "SA GAAP" | 5,547,730 |
| IFRS adjustments: | |
| – Share-based payments | (696,036) |
| – Property, plant & equipment | 15,871,826 |
| Accumulated loss – 31 Dec 2004 – "IFRS" | (253,566,900) |

The effect of the above adjustments on net profit after tax is as follows:

| | Nine months to 31 Dec 2004 Rand |
|----------------------------------|---------------------------------------|
| Net profit after tax – "SA GAAP" | 5,547,730 |
| IFRS adjustments: | |
| – Share-based payments | (696,036) |
| – Property, plant & equipment | 15,871,826 |
| Net profit after tax – "IFRS" | 20,723,520 |

Future prospects

The 19% decline in the ferrochrome base price from 78¢ per pound in Quarter 2, 2005, to 63¢ per pound in Quarter 1, 2006, coupled with the Rand strengthening by 12% against the US\$ during the same period, will place severe downward pressure on the EBITDA from the Xstrata-Merape Chrome Venture in the first half of 2006. After accounting for corporate costs, interest, preference share dividends and depreciation and assuming current Rand:US\$ exchange rates, the Company is expected to make a loss for the 6 months to 30 June 2006. However, a recovery in the second half is expected as both stainless steel melt production and ferrochrome demand gain momentum, with China again anticipated to drive this growth.

Having consolidated and grown the Company's ferrochrome business during the year under review, the board intends giving effect to the Company's previously announced diversification strategy in the year ahead.

Changes to board

As announced on SENS during the year in review, Mr Andre Bekker, Mr Renier Meyjes and Dr Todor Vljajic resigned from the board and Ms Zanele Matlala, Ms Lebogang Mogotsi and Mr Guy Clarke were appointed to the board.

Interim results

The results for the six months ending 30 June 2006 will be published on SENS at around 07h30 on 2 August 2006 and in the press on 3 August 2006.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

Johannesburg
2 March 2006

Sponsor

