MERAFE RESOURCES

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

PROFIT AFTER TAX ↑ 284%
EARNINGS PER SHARE ↑ 133%
REVENUE ↑ 68%
EBITDA ↑ 62%
NET ASSET VALUE ↑ 24%

Reviewed results for the year ended 31 December 2006

GROUP ABRIDGED INCOME STATEMENT

	Year ended 31 December 2006 Reviewed R'000	Year ended 31 December 2005 Audited R'000
Revenue	1,030,486	614,562
EBITDA	178,643	110,162
Depreciation	(25,303)	(6,987)
Net financing costs	(9,221)	(29,652)
Profit before taxation	144,119	73,523
Dividends on preference shares	(29,967)	(28,281)
Taxation	46,053	(3,535)
Net profit after tax	160,205	41,707
Earnings per share (cents)	7	3
Headline earnings per share (cents)	7	3
Ordinary shares in issue	2,341,569,564	2,247,157,460
Weighted average shares for the year	2,296,747,099	1,365,438,168

GROUP ABRIDGED BALANCE SHEET

	As at 31 December 2006 Reviewed R'000	As at 31 December 2005 Audited R'000
Assets		
Non-current assets	1,515,884	1,330,840
Options for mineral rights	258	258
Property, plant and equipment	1,465,481	1,330,236
Deferred tax	49,799	-
Investments	346	346
Current assets	612,540	692,500
Inventories	319,356	324,309
Trade and other receivables	273,708	281,449
Bank and cash	19,476	86,742
Total assets	2,128,424	2,023,340
Equity and liabilities		
Capital and reserves	1,117,948	904,868
Issued share capital	23,415	22,475
Share premium	1,142,888	1,091,743
Equity-settled share-based payment	3,300	2,510
Accumulated loss	(51,655)	(211,860)
Non-current liabilities	424,753	232,425
Non-current borrowings	413,799	224,833
Provision for close down and restoration costs	10,954	7,592
Current liabilities	585,723	886,047
Trade and other payables	302,501	585,828
Other provisions	22,708	26,003
Current portion of non-current borrowings	153,371	100,047
Bank overdraft	107,143	174,169
Total equity and liabilities	2,128,424	2,023,340

STATEMENT OF CHANGES IN EQUITY

	Year ended 31 December 2006 Reviewed R'000	Year ended 31 December 2005 Audited R'000
Issued share capital - ordinary shares	23,415	22,475
Balance at the beginning of the year	22,474	12,379
New shares issued during the year	941	10,096
Share premium - ordinary shares	1,142,888	1,091,743
Balance at the beginning of the year	1,091,743	557,035
Premium on new shares issued during the year	51,145	534,708
Equity-settled share-based payment	3,300	2,510
Balance at the beginning of the year	2,510	1,545
Share-based payment	790	965
Accumulated loss	(51,655)	(211,860)
Balance at the beginning of the year	(211,860)	(253,567)
Net profit for the year	160,205	41,707
Fair value reserve	-	-
Balance at the beginning of the year	-	1,637
Movements recognised directly in equity	-	322
Fair value gain on available-for-sale financial instrument matured	-	(1,959)
Balance at end of year	1,117,948	904,868

GROUP ABRIDGED CASH FLOW STATEMENT

	Year ended 31 December 2006 Reviewed R'000	Year ended 31 December 2005 Audited R'000
Cash flows from operating activities	(88,454)	113,535
Interest paid	(39,914)	(60,948)
Interest received	726	3,015
Taxation paid	(3,745)	(3,535)
Cash flows from operating activities	(131,387)	52,067
Cash flows from investing activities	(166,590)	(590,920)
Cash flows from financing activities	297,737	423,239
Net decrease in cash and cash equivalents	(240)	(115,614)
Cash and cash equivalents at the beginning of the year	(87,427)	28,187
Cash and cash equivalents at the end of the year	(87,667)	(87,427)

Basis of preparation

In compliance with the JSE Limited (JSE) Listings Requirements, Merafe has prepared its consolidated annual financial statements in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 December 2006. The accounting policies adopted are consistent with those applied in the annual financial statements for the year ended 31 December 2005.

Review of results

The results of the Company 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 income is generated from the Xstrata-Merafe Chrome Venture (the Venture), the market leader in ferrochrome with a total managed capacity of 1.96 million tonnes of ferrochrome per annum.

Merafe shared in 17% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture for the six months to 30 June 2006. Merafe's share of the EBITDA increased to 20.5% for the six months to 31 December 2006.

During the first half of the year, a net loss of R27,8 million was incurred (loss per share of 1 cent), mainly due to weak ferrochrome prices and a strong rand. The second half of the year showed an increase in the ferrochrome price and a weaker rand and operations that had been shut down were re-started, resulting in increased production. The net profit after tax during the second half of the year was R188 million (earnings per share of 8 cents) after taking into account the recognition of a deferred tax asset of R49,7 million. In compliance with IAS 12, the Company has raised a deferred tax asset for deductible temporary differences as it is probable that sufficient future taxable income will be generated against which these temporary differences can be utilised. Merafe's attributable saleable production of ferrochrome from the Venture was 239,742 tonnes and the EBITDA includes corporate costs of R22 million.

During the last twelve months, R100 million of the redeemable preference shares were redeemed, reducing the balance at year-end to R225 million. The Company borrowed an additional R300 million in order to finance the Lion Ferrochrome project.

Review of operations

The first quarter of 2006 was characterised by weaker market and pricing conditions. This presented an opportunity for the suspension of production at a total of seven furnaces for varying periods of time for major maintenance and refurbishing. Routine maintenance stoppages also occurred at a number of other furnaces during the winter months. Four furnaces remained closed at the end of 2006, two of which have been returned to production in the first quarter of 2007. The lower production volumes during 2006 reduced the demand for raw materials that allowed for improved availability of quality raw material supplies, resulting in improved metallurgical efficiencies in the furnaces, particularly in the Western operations.

Operating costs were well contained in 2006 despite the cost pressures and standing charges associated with idle capacity together with the impact of the ongoing mining sector inflation. Efficiencies were achieved through more stable reductant prices, improved metallurgical performance and sound energy management.

The full commissioning of the Lion Ferrochrome plant in 2007 is expected to have a significant positive impact on average unit operating costs, primarily due to increased energy efficiency from the Venture's Premus technology.

All the above took place whilst achieving an excellent safety performance meeting all targets and zero fatalities.

The Venture has also been active in its submission to the Department of Minerals and Energy for New Order Prospecting and Mining rights, and for the conversion of Old Order Mining and Prospecting Rights under the Minerals & Petroleum Resources Development Act, 2002. Good progress is being made and the Venture expects the process to be successfully completed during 2007.

Market review

The stainless steel market, which accounts for over 80% of global ferrochrome demand, displayed robust growth in 2006. Global demand for stainless steel is estimated at approximately 28 million tonnes, some 14% higher than the previous year. The stainless steel market experienced particularly strong growth from the second quarter, with most major European, American, Asian and Chinese stainless mills operating at full capacity. China is by some margin the largest stainless steel producing country, with stainless melt production of approximately 5.6 million tonnes in 2006 and also remains the most important driver of global demand growth.

In response to strong growth in demand for stainless steel, demand for ferrochrome increased by an estimated 10% in 2006, bringing global demand to 6.3 million tonnes. This demand for ferrochrome has, however, been slightly negatively affected by the increase in consumption of austenitic stainless scrap (replacing primary chrome units in the market), a trend characteristic of the high nickel pricing environment. Higher nickel prices have also prompted an increase in ferritic stainless steel production, as this stainless does not contain nickel. Most of the chrome units in ferritic production are sourced from virgin ferrochrome, which to a degree offsets the weakened demand resulting from increased austenitic scrap usage.

While China has emerged as a significant producer of ferrochrome, it is expected that environmental pressure, limited availability of electricity and reliance on expensive imported ore will restrict further expansions in Chinese ferrochrome production, resulting in increased ferrochrome imports into China. The Chinese government recently halved the import duty on ferrochrome to 1%.

With effect from 1 April 2007, the Indian government plans to impose a $44 per tonne export duty on chrome ore thereby providing a strong disincentive for exports and further increasing the price of ferrochrome production in China. South Africa's Department of Minerals and Energy also plans to gazette new legislation restricting chrome ore exports.

Ferrochrome base prices were under pressure in the first quarter of 2006 with the base price reducing to 63USc/lb. The strong recovery in demand seen from the second quarter of 2006 resulted in price increases to 70USc/lb in the second quarter and 75USc/lb for the three subsequent quarters to the first quarter of 2007. Even though there will be additional ferrochrome units in the market in 2007 (including units from Xstrata-Merafe Lion Ferrochrome), analysts are pointing to rising rather than falling prices in 2007.

Lion Ferrochrome

The Lion Ferrochrome plant was commissioned on schedule and within budget in the third quarter of 2006. The plant's design criteria was met within the first three months of operation, and full commissioning and ramp-up remains on track for completion in the second quarter of 2007. The plant will then be operating at 100% capacity to produce 360 000 tonnes per annum. Growth in global demand for ferrochrome, coupled with the specific quality grades of the Premus technology, will ensure that the product gets absorbed in the market, particularly in China.

Dividend

No ordinary dividend has been declared by the directors of Merafe for the year ended 31 December 2006.

Future prospects

Strong stainless melt production is expected to continue, with China anticipated to further increase stainless production in 2007. The Venture will show increased sales into China in 2007. As a result, the momentum gained during 2006 in ferrochrome demand is set to continue into at least the first half of 2007. Longer term, stainless steel demand is forecast to grow at approximately 6% per annum, which should result in similar growth in global ferrochrome demand.

Merafe will for the first time account for the 20.5% of EBITDA from the Venture for a full 12 months and the 20.5% of the Lion Ferrochrome production in 2007. This, coupled with ferrochrome prices and the Rand/US dollar at their current levels, means that Merafe should show meaningful profits in 2007. Cashflows will continue to be used to reduce gearing levels and Merafe still has unredeemed capex in excess of R1 billion.

Management continues with its efforts towards achieving its diversification strategy. Opportunities have been and will continue to be assessed whilst taking cognisance of the commodity cycles, returns to shareholders and the need to reduce the Company's gearing levels.

Chris Molefe
Non-Executive Chairman

Steve Phiri
Chief Executive Officer

Sandton
6 March 2007

Sponsor

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