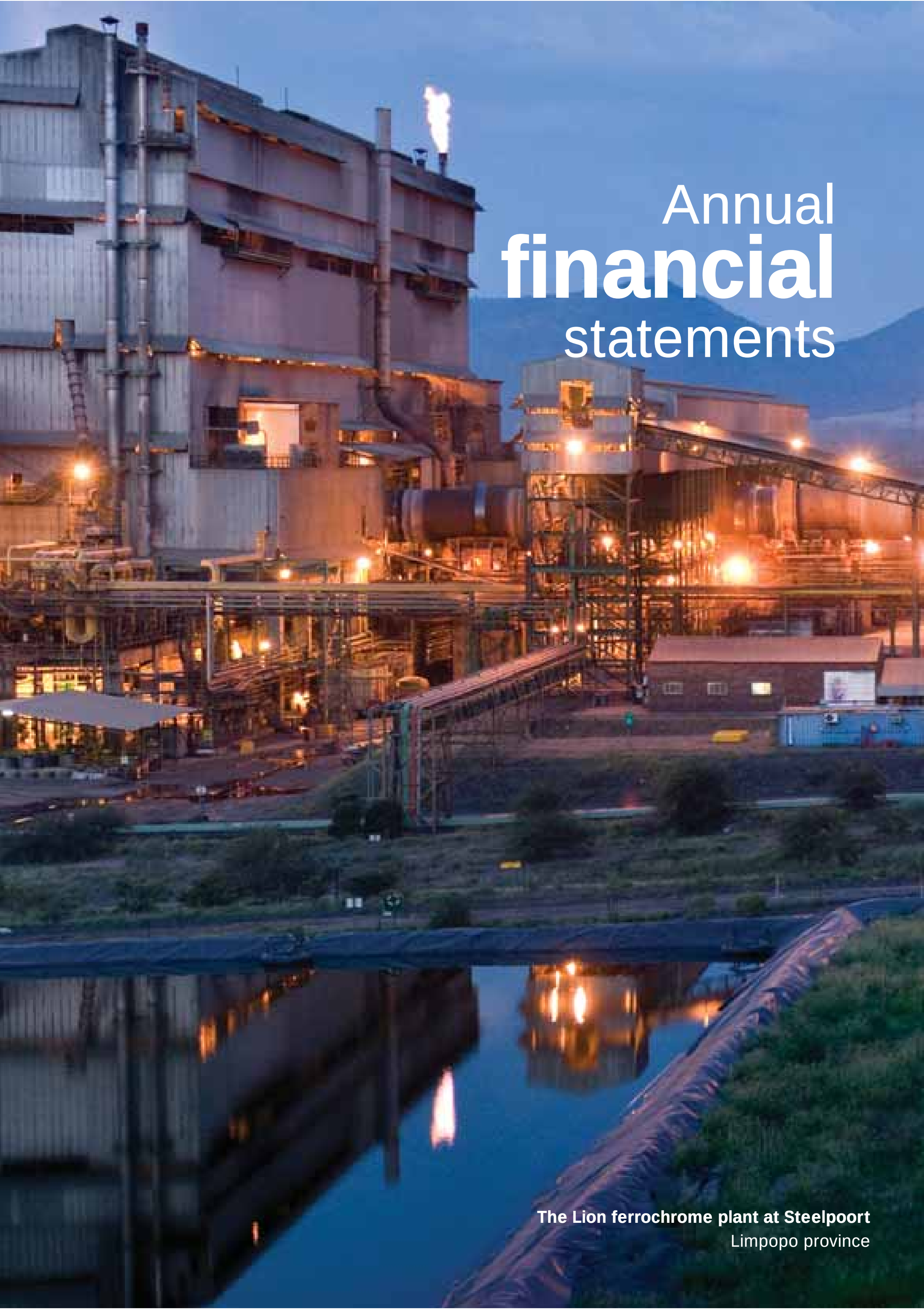
Annual **financial** statements



The Lion ferrochrome plant at Steelpoort
Limpopo province

CONTENTS

These annual financial statements have been audited in compliance with section 30 of the Companies Act 71 of 2008, as amended.

The following individuals were responsible for the preparation of the annual financial statements:

Kajal Bissessor CA(SA)
Financial Manager

Zanele Matlala CA(SA)
Chief Executive Officer

These annual financial statements will be published on 22 March 2013.

APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Merafe Resources Limited, comprising the statements of financial position at 31 December 2012, the statements of comprehensive income, changes in equity, and cash flows for the year then ended and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa. In addition, the directors are responsible for preparing the directors' report.

The directors are also responsible for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of the consolidated and separate annual financial statements

The consolidated and separate annual financial statements of Merafe Resources Limited, as identified in the first paragraph, were approved by the board of directors on 28 February 2013 and signed by:

Zanele Matlala
Chief Executive Officer

28 February 2013

COMPANY SECRETARY'S CERTIFICATE

for the year ended 31 December 2012

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of section 88 (2)(e) of the Companies Act of South Africa, and that all such returns appear to be true, correct and up to date.

Amritha Mahendranath
Company Secretary

28 February 2013

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 December 2012

The Audit and Risk Committee reports that it has adopted formal terms of reference as its Audit and Risk Committee Charter, and that it has discharged all of its responsibilities for the current financial year, in compliance with the Charter.

The Audit and Risk Committee is satisfied that an adequate system of internal control is in place to reduce significant risks faced by the group to an acceptable level, and that these controls have been effective throughout the period under review. The system is designed to manage, rather than eliminate, the risk of failure and to maximise opportunities to achieve business objectives. This can provide only reasonable, but not absolute assurance.

As required by the JSE Limited Listings Requirements 3.84(h), the Audit and Risk Committee has satisfied itself that Zanele Matlala, the Chief Financial Officer during the current financial year, has appropriate experience and expertise.

The Audit and Risk Committee has evaluated the consolidated and separate financial statements of Merafe Resources Limited for the year ended 31 December 2012 and based on the information provided to the Audit and Risk Committee, considers that it complies, in all material respects with the requirements of the various Acts governing disclosure and reporting in the consolidated and separate financial statements. The Audit and Risk Committee has evaluated the independence of the external auditors and the Audit and Risk Committee is satisfied that the external auditors have remained independent. The Audit and Risk Committee therefore recommends the adoption of the consolidated and separate financial statements by the board.

Mfanyana Salanje CA(SA)
Chairperson – Audit and Risk Committee

28 February 2013

DIRECTORS' REPORT

1. Nature of business

The company, through its wholly-owned ultimate subsidiary, Merafe Ferrochrome and Mining Proprietary Limited (Merafe Ferrochrome) and through a pooling and sharing venture with Xstrata South Africa Proprietary Limited (Xstrata), participates in chrome mining and the beneficiation of chrome ore into ferrochrome. The Xstrata-Merafe Chrome Venture (Venture) operates five ferrochrome smelters, twenty ferrochrome furnaces and nine mines and Merafe Ferrochrome's share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) is 20.5%. The Venture comprises assets to which both Xstrata and Merafe Ferrochrome have granted the right of use.

Listed below are the assets to which Merafe Ferrochrome has granted the right of use to the Venture:

Ferrochrome smelters		Chrome mines		UG2 plants and pelletisers	
Asset	Merafe Ferrochrome's interest	Asset	Merafe Ferrochrome's interest	Asset	Merafe Ferrochrome's interest
Wonderkop smelter (furnaces 5 and 6)	50%	Horizon mine**	100%	Impala Kanana UG2 plant	100%
Boshoek smelter	100%	Boshoek mine	100%	Lonmin UG2 plants	20.5%
Lion I smelter	20.5%	Kroondal and Wonderkop mine	20.5%	Mototolo UG2 plant	20.5%
Lion II smelter*	20.5%	Helena mine	20.5%	Bokamoso pelletising plant	20.5%
		Magareng mine**	20.5%	Boshoek pelletising plant	100%
				Tswelopele pelletising plant	20.5%

* *Currently under construction*
** *Currently under development*

2. Group financial results

The financial statements set out the financial results of the group and company on pages 134 to 182. These financial statements have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards, supported by reasonable and prudent judgements where required.

Merafe Ferrochrome's share of EBITDA from the Venture is accounted for at 20.5%. In addition to Merafe Ferrochrome's share of EBITDA from the Venture, corporate expenses, interest on debt, depreciation and interest received are accounted for in order to determine earnings before taxation of the group. Refer to Note 1.3.2, Basis of consolidation – Transactions with the Venture, for further information regarding the accounting policy for Merafe Ferrochrome's interest in the Venture.

DIRECTORS' REPORT (continued)

for the year ended 31 December 2012

3. Loans and borrowings

During December 2011, management concluded an agreement with ABSA Capital for a loan facility of R800 million (refer Note 9.2). R512 million of the total facility was utilised as at reporting date and the remaining R288 million was available and unutilised.

4. Venture projects

Description	Project cost (Merafe's portion at 20.5% cost)	Expected completion date	Progress
Horizon mine development 40 000 tonnes of chrome ore per month	R66m	H1 2013	On track to be completed within schedule/budget (refer to Note 27 regarding the prospective sale of the mine)
Lion II smelter complex 360 000 tonnes per annum of ferrochrome smelting capacity and development of Magareng mine	R1bn	Magareng mine H1 2013 Lion II H2 2013	On track to be completed within schedule/budget

The Tswelopele pelletising and sintering plant was hot commissioned on 7 October 2012 and reached design production capacity within the first two months of operation. The project was completed on schedule and on budget.

5. Going concern

The directors believe that the company has sufficient resources and expected cash flows to continue as a going concern for the year ahead.

6. Dividend policy

The company has a hybrid dividend policy that has features of a stable dividend policy and a residual dividend policy. The company intends to pay a stable dividend once a year, based on the annual financial performance, expansionary projects and economic circumstances prevailing at the time. In addition, in any given year, the directors may consider an additional distribution in the form of special dividends and/or share buy backs dependent on the company's financial position, future cash requirements, future earning prospects, availability of distributable reserves and other factors. Dividends are recognised when they are declared by the board of the company.

7. Ordinary dividends

No ordinary dividends were declared and paid during the 2012 year.

8. Share capital

Full details of the authorised and issued share capital of the company are set out in Note 6 to the annual financial statements.

9. Directorate

The following changes to the board of directors were effected:

Name	Effective date	Details
Mr Stuart Elliot	31 May 2012	Resigned as Chief Executive Officer
Ms Zanele Matlala	1 June 2012	Ms Matlala, the company's Chief Financial Officer (CFO) during 2012, was appointed CEO with effect from 1 June 2012 and continued to fulfil the CFO role until the effective date of appointment of the new CFO
Mr Ditabe Chocho	2 January 2013	Appointed as CFO

Non-executive directors are remunerated periodically for their contribution to the board. Executive directors do not receive board fees in addition to their remuneration. Details of the current board of directors are set out on pages 92 and 93 of this annual report. A detailed report on directors' remuneration has been prepared in accordance with the JSE Limited Listings Requirements and Companies Act and appears in Note 22.1 to the annual financial statements.

10. Major shareholders

The following shareholders were the registered holders of 5% or more of the issued ordinary shares in the company at 31 December 2012:

- Royal Bafokeng Resources Holdings Proprietary Limited – 28.9%;
- The Industrial Development Corporation of South Africa Limited – 21.9%;
- Regarding Capital Management Proprietary Limited – 5.6%.

11. Directors' interests in Merafe Resources Limited

Refer to Note 22.2 for the beneficial interests of directors in shares of the company.

12. Special Resolutions

There were no special resolutions for Merafe Ferrochrome and Merafe Chrome and Alloys Proprietary Limited passed during the year. The following special resolutions were passed for Merafe Resources Limited:

Special Resolution Number 1: Approval of directors' fees for the 2011 financial year

"Resolved that, the directors' fees paid by the company for the financial year ending 31 December 2011, as set out on page 182 of the 2011 integrated report, be and are hereby approved."

Special Resolution Number 2: Approval of non-executive directors' fees

"Resolved that, the revised fees which will be payable to the non-executive directors for their services to the board and committees of the board with effect from 1 January 2012 as set out on page 40 of the 2011 integrated annual report, be and are hereby approved."

Special Resolution Number 3: Loans or other financial assistance to related or inter-related companies

"Resolved that, subject to compliance with the requirements of the company's Memorandum of Incorporation, the Companies Act and the Listings Requirements of the JSE Limited, each as presently constituted and as amended from time to time, the board of directors of the company (the "board") be and are hereby authorised, for a period of two years from the date of this meeting, on such terms and conditions that the board may determine, to provide any direct or indirect financial assistance ("financial assistance" will herein have the meaning attributed to such terms in section 45(1) of the Companies Act) to a related or inter-related corporation (or to a member of a related or inter-related corporation) or any person related to any of them."

DIRECTORS' REPORT (continued)

for the year ended 31 December 2012

13. Details of investments in subsidiaries and special purpose entities

Refer to Note 3 for details of investments in subsidiaries and special purpose entities.

14. Property, plant and equipment

There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year. Management is of the opinion that the carrying value of property, plant and equipment is reflected at less than its recoverable amount.

15. Events after the reporting date

No material facts or circumstances occurred between 31 December 2012 and 28 February 2013 that may require adjustment or disclosure in these annual financial statements.

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF MERAFE RESOURCES LIMITED
for the year ended 31 December 2012

We have audited the annual financial statements of Merafe Resources Limited, which comprise the consolidated and separate statements of financial position at 31 December 2012, the consolidated and separate statements of comprehensive income, changes in equity and cash flows for the year then ended and the notes comprising a summary of significant accounting policies and other explanatory notes as set out on pages 134 to 182.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate under the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the consolidated and separate financial position of Merafe Resources Limited at 31 December 2012 and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Other reports required by the Companies Act

As part of our audit of the financial statements for the year ended 31 December 2012, we have read the Directors' report, the report of the Audit and Risk Committee and the Company Secretary's certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

KPMG Inc
Registered Auditor

Per Riaan Davel
Chartered Accountant (SA)
Registered Auditor
Director

28 February 2013

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

STATEMENTS OF COMPREHENSIVE INCOME
for the year ended 31 December 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Revenue	14	2 541 984	2 426 755	13 472	22 090
Foreign exchange (losses)/gains		(3 886)	80 930	–	–
Operating and other expenses		(2 224 448)	(2 127 860)	(26 978)	(34 378)
Earnings/(losses) before interest, taxation, depreciation and impairment		313 650	379 825	(13 506)	(12 288)
Depreciation and impairment*		(217 641)	(153 113)	(3 750)	(437)
Results from operating activities	15	96 009	226 712	(17 256)	(12 725)
Net finance (expense)/income	16	(19 660)	(21 565)	3 302	627
Finance expense		(29 302)	(32 853)	(12)	(4 383)
Finance income		9 642	11 288	3 314	5 010
Profit/(loss) before income tax		76 349	205 147	(13 954)	(12 098)
Income tax	17	(27 476)	(88 397)	4 402	(3 319)
Profit/(loss) and total comprehensive income for the year		48 873	116 750	(9 552)	(15 417)
Profit/(loss) and total comprehensive income for the year attributable to:					
Owners of the company		48 873	116 750	(9 552)	(15 417)
Earnings per share					
Basic earnings per share (cents)	18.1	2	5		
Diluted earnings per share (cents)	18.3	2	5		

** Group – includes R140m depreciation (2011: R112m) and R78m impairment (2011: R41m)*
** Company –includes R0.3m depreciation (2011: R0.4m) and R3.5m impairment (2011: Rnil)*

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Assets					
Property, plant and equipment	2.1	2 677 308	2 372 768	406	3 898
Investment in subsidiaries	3			1 187 655	1 187 655
Deferred tax assets	11	–	–	10 767	6 365
Total non-current assets		2 677 308	2 372 768	1 198 828	1 197 918
Inventories	4	1 088 885	1 065 932	–	–
Trade and other receivables	5	344 725	262 979	107 104	33 954
Current tax asset		26 424	–	–	–
Cash and cash equivalents	19.1	82 643	220 459	26 185	120 575
Assets held for sale	27	72 127	–	–	–
Total current assets		1 614 804	1 549 370	133 289	154 529
Total assets		4 292 112	3 922 138	1 332 117	1 352 447
Equity					
Share capital	6	24 932	24 932	24 932	24 932
Share premium	7	1 262 481	1 262 481	1 262 481	1 262 481
Equity-settled share-based payment reserve	8	33 847	31 759	33 847	31 759
Retained earnings/(accumulated loss)		1 388 369	1 339 496	(29 367)	(19 815)
Total equity attributable to equity holders of the company		2 709 629	2 658 668	1 291 893	1 299 357
Liabilities					
Loans and borrowings	9	523 872	312 778	1 767	1 608
Provision for closure and restoration costs	10	57 892	48 396	–	–
Deferred tax liabilities	11	551 165	506 204	–	–
Total non-current liabilities		1 132 929	867 378	1 767	1 608
Loans and borrowings	9	636	508	50	–
Financial liability	12	–	6 098	–	–
Trade and other payables	13	430 368	375 946	38 407	51 482
Current tax liability		–	13 540	–	–
Liabilities held for sale	27	18 550	–	–	–
Total current liabilities		449 554	396 092	38 457	51 482
Total liabilities		1 582 483	1 263 470	40 224	53 090
Total equity and liabilities		4 292 112	3 922 138	1 332 117	1 352 447

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Issued share capital – ordinary shares	6	24 932	24 932	24 932	24 932
Balance at beginning of year		24 932	24 767	24 932	24 767
Share options exercised		–	165	–	165
Share premium – ordinary shares	7	1 262 481	1 262 481	1 262 481	1 262 481
Balance at beginning of year		1 262 481	1 253 568	1 262 481	1 253 568
Share premium arising from share options exercised		–	8 913	–	8 913
Equity-settled share-based payment reserve	8	33 847	31 759	33 847	31 759
Balance at beginning of year		31 759	24 391	31 759	24 391
Share-based payment expensed during the year		2 088	7 368	2 088	7 368
Retained earnings		1 388 369	1 339 496	(29 367)	(19 815)
Balance at beginning of year		1 339 496	1 272 279	(19 815)	45 135
Profit/(loss) and total comprehensive income for the year		48 873	116 750	(9 552)	(15 417)
Ordinary dividend paid		–	(49 533)*	–	(49 533)*
Total equity at end of year		2 709 629	2 658 668	1 291 893	1 299 357

* *Approved by the board on 25 February 2011*

STATEMENTS OF CASH FLOWS
for the year ended 31 December 2012

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Cash flows from operating activities					
Cash generated from/(utilised in) operating activities	19	283 991	344 080	(97 593)	(970)
Interest paid		(29 302)	(29 186)	(12)	(835)
Interest received		9 642	10 383	3 314	4 104
Taxation paid	19.2	(7 285)	(30 157)	–	(158)
Net cash from operating activities		257 046	295 120	(94 291)	2 141
Cash flows from investing activities					
Advance of subsidiary loan account		–	–	–	77 302
Proceeds on disposal of property, plant and equipment		16	–	16	–
Acquisition of property, plant and equipment					
– sustaining[b]		(179 658)	(173 603)	(274)	(272)
– expansionary[b]		(423 568)	(230 801)	–	–
Net cash (utilised in)/generated from investing activities		(603 210)	(404 404)	(258)	77 030
Cash flows from financing activities					
Proceeds from issue of shares		–	9 078	–	9 078
Dividends paid		–	(49 533)	–	(49 533)
Secondary tax on companies paid		–	(4 511)	–	(4 511)
Loans raised during the year		211 094	–	159	66
Repayment of loans and borrowings		–	(8)	–	–
Net cash used in financing activities		211 094	(44 974)	159	(44 900)
Net (decrease)/increase in cash and cash equivalents		(135 070)	(154 258)	(94 390)	34 271
Cash and cash equivalents at 1 January		220 459	320 724	120 575	86 304
Effect of exchange rate fluctuations on cash held during the year		(2 746)	53 993	–	–
Cash and cash equivalents at 31 December	19.1	82 643	220 459	26 185	120 575

[b] *Relates to 20.5% of the Venture's total cash outflow. Note 2.1 details the property, plant and equipment owned by Merafe Ferrochrome*

SIGNIFICANT ACCOUNTING POLICIES
for the year ended 31 December 2012

1. Accounting policies

1.1 Reporting entity

The company is domiciled in the Republic of South Africa. The address of the company's registered office is 68 Wierda Road East, Block B, First Floor, Wierda Valley, Sandton. The consolidated financial statements of the company as at and for the year ended 31 December 2012 comprise the company and its subsidiaries (together referred to as the group and individually as group entities), the group's interest in the Venture and special purpose entities. The group is primarily involved in the mining and beneficiation of chrome ore into ferrochrome. Where reference is made to the "group" and "consolidated" in the accounting policies, it should be interpreted as also referring to the "company" where the context requires, unless otherwise noted.

1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated and separate annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC 500 standards issued by the Accounting Practices Board and the requirements of the Companies Act of South Africa. The consolidated and separate financial statements were authorised for issue by the board on 28 February 2013.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following material items in the statement of financial position which are measured at their fair values:

- Derivative financial instruments;
- Equity-settled share-based payments;
- Assets held for sale.

1.2.3 Functional and presentation currency

The consolidated financial statements are presented in South African Rand, which is the company's functional currency.

All financial information presented in South African Rand has been rounded to the nearest thousand, unless otherwise indicated.

1.2.4 Use of estimates and judgements

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

In particular, information about significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

Note 1.5.3 Measurement of depreciation and impairment, useful lives and residual values of property, plant and equipment

Note 1.10.2 Share-based payment transactions

Notes 9.1 and 24 Lease classification

Note 10 Provision for closure and restoration costs

Note 11 Utilisation of tax losses

Note 27 Assets held for sale

1. Accounting policies (continued)

1.2 Basis of preparation (continued)

1.2.4 Use of estimates and judgements (continued)

The accounting policies set out below have been applied consistently to all periods presented in these consolidated and separate financial statements, and have been applied consistently by group entities.

1.2.5 Standards and interpretations issued and not yet effective

There are new or revised Accounting Standards and Interpretations in issue that are not yet effective. All Accounting Standards and Interpretations in issue at the time of finalising the financial statements were considered. Other than IFRS 10, Consolidated Financial Statements, IFRS 11, Joint Arrangements and IFRS 12, Disclosure of Interests in other entities which will be effective for the company's 2013 year-end, the directors have considered the following Standards and Interpretations and do not expect them to have any significant impact on future financial statements:

IFRS 9 – Financial Instruments

IFRS 13 – Fair Value Measurements

IAS 27 – Consolidated and Separate Financial Statements

IAS 28 – Investments in Associates and Joint Ventures

IAS 1 – Presentation of Financial Statements

IAS 32 – Financial Instruments Presentation

IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine

IFRS 7 – Financial Instruments: Disclosures

IAS 19 – Employee Benefits

Management have performed an assessment of IFRS 10, IFRS 11 and IFRS 12. The following considerations were highlighted from the assessment:

The Venture is a joint arrangement as defined in IFRS 11 as Merafe Ferrochrome and Xstrata are bound by a contractual arrangement which constitutes joint control.

The lack of legal form of the Venture results in Merafe Ferrochrome and Xstrata having rights to the assets and obligations for the liabilities held in the Venture and consequently results in joint operation classification in terms of IFRS 11.

Accounting for joint operations results in Merafe Ferrochrome recognising its assets that were contributed to the Venture and its portion of the assets held jointly in the Venture. Similarly Merafe Ferrochrome should recognise its liabilities, including its share of any liabilities incurred jointly. Merafe Ferrochrome should also recognise its revenue and share of the revenue from the Venture as well as its expenses and share of expenses relating to the Venture. The accounting that was adopted by Merafe since the formation of the Venture is consistent with the accounting for joint operations as required by IFRS 11.

It is anticipated that due to the nature of the Venture agreement and the disparity in holdings between the parties to the arrangement, additional disclosures will be required in the 2013 annual report with regard to significant judgements and assumptions made in the joint control and joint operation assessment. In addition, management will provide additional disclosure in the consolidated financial statements as required by IFRS 12. Apart from the additional disclosure requirements, adoption of IFRS 10, IFRS 11 and IFRS 12 will not result in any changes in the measurement and recognition of assets, liabilities or equity in the consolidated financial statements.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control of the company commences until the date that control ceases. In the financial statements of the company, subsidiaries are stated at cost less accumulated impairment losses. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the group.

1.3.2 Transactions with the Venture

The Venture resulted in Xstrata and Merafe Ferrochrome pooling and sharing their ferrochrome assets. The consolidated financial statements of the company include the assets that the group controls and the liabilities that it incurs in the course of pursuing the operation, and the expenses that the group incurs and its share of the income/expenses that it earns from the Venture. Note 22.3 contains details of the group's share of the working capital and EBITDA from the Venture.

Merafe Ferrochrome retains full ownership of its assets and any profit or loss on sale of these assets will revert to Merafe Ferrochrome in accordance with its participation interest. The future economic benefits derived by the pooled assets are managed together with Xstrata and represent a contractual arrangement to realise operational efficiencies by the two parties.

As the Venture board only manages the pooled operations and the pooled assets, control over the assets remains with the respective parties and therefore Merafe Ferrochrome will continue to include its assets and its share of the pooled assets in its financial statements.

Merafe Ferrochrome recognises its portion of the different components of the pooled EBITDA, its non-current assets and working capital in line with the contractual agreement and the relevant IFRS standards that govern the recognition, measurement and disclosure of these items. As a consequence, Merafe Ferrochrome does not account for the Venture as a joint venture as contemplated by IAS 31, Interests in Joint Ventures.

1.3.3 Special purpose entities

The group has established special purpose entities (SPEs). The related parties Note 22 includes the identity and relationship of the SPEs to the group. The group does not have any direct or indirect shareholding in these entities. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the group and the SPE's risks and rewards, the group concludes that it controls the SPE. SPEs controlled by the group were established under terms that impose strict limitations on the decision making powers of the SPE's management and that result in the group receiving the majority of the benefits related to the SPE's activities, and retaining the majority of the residual or ownership risks related to the SPEs or their assets.

1.3.4 Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

1.4 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to South African Rand at the foreign exchange rate ruling at that date. The foreign exchange gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for the effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currency that are measured at fair value are translated to Rand at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognised in profit or loss. Non-monetary items that are measured in terms of historical costs in a foreign currency are translated using the exchange rate at the date of the transaction.

1. Accounting policies (continued)

1.5 Property, plant and equipment

1.5.1 Recognition and measurement

1.5.1.1 Mining assets including mine development costs

Mining assets, including mine development costs and mine plant facilities, are stated at cost less accumulated depreciation, amortisation and impairment losses. Costs include pre-production expenditure incurred in the development of the mine and the present value of future decommissioning costs. Development costs incurred to develop new ore bodies, to define mineralisation in existing ore bodies and to establish or expand productive capacity are capitalised. Mine development costs in the ordinary course of maintaining production are expensed as incurred. Initial development and pre-production costs relating to a new ore body are capitalised until the ore body achieves commercial levels of production, at which time the asset is deemed to be available for use and is amortised as set out below.

1.5.1.2 Mineral and surface rights

Mineral and surface rights are stated at cost less accumulated depreciation and accumulated impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights has diminished below cost, an impairment loss is recognised in profit or loss in the period that such determination is made.

1.5.1.3 Land, non-mining assets and corporate assets

Land is stated at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of self constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items, restoring the site on which they are located and any other costs directly attributable to bringing the assets to a working condition for their intended use.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within operating and other expenses.

1.5.1.4 Exploration and evaluation expenditure

Exploration and evaluation expenditure relates to costs incurred during the exploration and evaluation of potential mineral reserves and resources and includes costs such as exploratory drilling and sample testing and the costs of pre-feasibility studies. Exploration and evaluation expenditure for each area of interest, other than acquired from the purchase of another mining company, is recognised as an asset provided that one of the following conditions are met:

- Such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- Exploration and evaluation activities in the area of interest have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future. Purchased exploration and evaluation assets are recognised as assets at fair value if purchased as part of a business combination.

An impairment review is performed, either individually or at the cash-generating unit level, when there are indications that the carrying amounts of the assets may exceed their recoverable amounts. To the extent that this occurs, an impairment loss is recognised in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions outlined above is met. Expenditure is transferred to mine development assets or capital work in progress once the work completed to date supports the future development of the property and such development received appropriate approvals.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.5 Property, plant and equipment (continued)

1.5.2 Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the group and its cost can be measured reliably. The carrying amount of the replacement part is derecognised. The costs of day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

1.5.3 Depreciation and amortisation

Depreciation and amortisation are calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if appropriate.

1.5.3.1 Mineral and surface rights

Mineral rights that are being depleted are amortised over their estimated useful lives using the units of production method, based on proven and probable ore reserves. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

1.5.3.2 Mining assets including mine development costs

Mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years, depending on the nature of the asset.

1.5.3.3 Capital work in progress

Capital work in progress is not depreciated. The net carrying amounts of capital work in progress at each mine property are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. To the extent that these values exceed their recoverable amounts, an impairment loss is recognised in the financial year in which this is determined.

1.5.3.4 Land, non-mining assets and corporate assets

Non-mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life. The useful life ranges between one and thirty years depending upon the nature of the asset. Land is not depreciated.

1.5.3.5 Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy Note 1.12. Leased assets are depreciated over the shorter of the lease term and their useful lives. The useful life of leased assets is on average twenty years.

Other leases are operating leases and are not capitalised.

1.6 Financial instruments

1.6.1 Non-derivative financial assets

The group initially recognises loans and receivables on the date that they are originated. All other financial assets (including assets designated as at fair value through profit or loss) are recognised initially on the trade date, which is the date that the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the group is recognised as a separate asset or liability.

1. Accounting policies (continued)

1.6 Financial instruments (continued)

1.6.1 Non-derivative financial assets (continued)

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the group has a legal right to offset the amounts and intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

The group classifies non-derivative financial assets into the following categories:

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are designated at fair value through profit or loss if the group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the group's documented risk management or investment strategy. Attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, which takes into account any dividend income, are recognised in profit or loss.

Financial assets designated at fair value through profit or loss relate to the interest rate swap on the ABSA loan more fully described in Note 9.2.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

1.6.2 Non-derivative financial liabilities

The group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date the group becomes a party to the contractual provisions of the instrument.

The group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The group classifies non-derivative financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method.

Other financial liabilities comprise loans and borrowings, bank overdrafts and trade and other payables.

1.6.3 Derivative financial instruments, including hedge accounting

The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. Embedded derivatives are separated from the host contract and accounted for separately if:

- the economic characteristics and risks of the host contract and the embedded derivative are not closely related;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the combined instrument is not measured at fair value through profit or loss.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.6 Financial instruments (continued)

1.6.3 Derivative financial instruments, including hedge accounting (continued)

On initial designation of the derivative as a hedging instrument, the group formally documents the relationship between the hedging instrument and hedged item, including the risk management objectives and strategy in undertaking the hedge transaction and the hedged risk, together with the methods that will be used to assess the effectiveness of the hedging relationship. The group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80% to 125%. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that ultimately could affect reported profit or loss.

Derivatives are recognised initially at fair value; any attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Cash flow hedges
When the hedged item is a non-financial asset, the amount accumulated in equity is retained in other comprehensive income and reclassified to profit or loss in the same period or periods during which the non-financial item affects profit or loss. In other cases as well, the amount accumulated in equity is reclassified to profit or loss in the same period that the hedged item affects profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss.

Separable embedded derivatives
Changes in the fair value of separated embedded derivatives are recognised immediately in profit or loss.

Other non-trading derivatives
When a derivative financial instrument is not designated in a hedge relationship that qualifies for hedge accounting, all changes in its fair value are recognised immediately in profit or loss.

1.7 Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

1.8 Provisions

A provision is recognised if, as a result of a past event, the group has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised in profit or loss.

Provision for closure and restoration costs

Long-term environmental obligations are based on the group's environmental management plan, in compliance with current environmental and regulatory requirements.

Full provision is made based on the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the reporting date. The related costs are capitalised to mining assets and are amortised over the useful lives of the related assets. Annual movements in the provision relating to the change in the net present value of the provision due to changes in estimated cash flows or discount rates are adjusted against the costs capitalised to mining assets. Ongoing rehabilitation costs are expensed in profit or loss.

Annual movements in the provision relating to passage of time, i.e. unwinding of discount, are expensed.

Cost estimates are not reduced by the potential proceeds from the sale of assets or from plant clean-up at closure.

1. Accounting policies (continued)

1.8 Provisions (continued)

Guarantees have been provided by the Venture to the Department of Mineral Resources in respect of the liability for closure and restoration costs. These guarantees are in the name of Xstrata and relate to the Venture, and are disclosed in Note 20.2. The guarantees are not recognised as liabilities in the annual financial statements.

1.9 Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Cost is determined on the following basis:

- Finished goods on hand are valued using the weighted average cost. Cost includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. Cost includes an appropriate share of production overheads based on normal operating capacity and directly attributable administration costs.
- Consumable stores and raw materials are valued at weighted average cost and include expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

1.10 Employee benefits

1.10.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans and accumulated leave if the group has a present legal or constructive obligation to pay as a result of past services provided by the employee and the obligation can be estimated reliably.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined contribution plans are funded through monthly contributions to the provident fund, which is governed by the Pension Fund Act of 1956. All employees of the group belong to the provident fund. The group's liability is limited to its annually determined contributions.

The group provides medical cover to current employees through various funds. The medical plans are funded through monthly contributions to the medical aid fund. The group's liability is limited to its annually determined contributions.

1.10.2 Share-based payment transactions

The share incentive scheme allows qualifying directors and employees to be granted share options and share grants. Share options and share grants may be granted to all employees of the company and any of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share option and share grant scheme. The fair value of share options and share grants are measured at grant date and spread over the period during which the employees become unconditionally entitled to the share grants and share options. The fair value of the share options and share grants are measured using the Black-Scholes-Merton model, taking into account the terms and conditions upon which the share options and share grants were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is due only to share prices not achieving the threshold for vesting. Grant date fair value is recognised as an employee expense with corresponding increase in equity over the vesting period which is taken into account in determining the grant date fair value.

Share-based payment arrangements in which the group received goods or services as consideration of its own equity instruments are accounted for as equity-settled share-based payment transactions.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.11 Revenue

1.11.1 Sale of goods

Revenue comprises sales of ferrochrome and chrome ore at invoiced value, net of value added tax, trade discounts and intra-group sales. Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Revenue is recognised when all the following conditions are met:

(a) The group has transferred to the buyer the significant risks and rewards of ownership of the goods.

(b) The group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.

(c) The amount of revenue can be measured reliably.

(d) It is probable that the economic benefits associated with the transaction will flow to the group.

(e) The costs incurred or to be incurred in respect of the transaction can be measured reliably.

If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

Determining whether the group is acting as an agent or principal is based on an evaluation of the risks and responsibilities taken by the group, including inventory risk and responsibility for the delivery of goods or services.

Ferrochrome and chrome ore marketing arrangement with Glencore International AG
Glencore is acting as agent and the group is acting as principal for ferrochrome and chrome ore sales.

Distribution arrangements with Glencore Limited, Glencore Canada Inc and Mitsui and Co Europe Plc (the distribution agents)
The group is acting as principal for the ferrochrome sales to the distribution agents as the risks and rewards of ownership pass from the group to the distribution agents.

The distribution agents are acting as principal for subsequent sales to stainless steel customers.

The agreements contain a price adjustment feature whereby the ferrochrome is provisionally invoiced to the distribution agents at a price that is linked to the ruling benchmark price when the risks and rewards pass to the distribution agents. The agreements provide for the final price to be determined based on the price the distributing agent receives for the ferrochrome via the ultimate sale to the stainless steel customer.

The price adjustment feature is recognised as an embedded derivative as it is a component of a hybrid contract that also includes a non-derivative sales host contract with the effect that some of the cash flows of the combined contract vary in a way similar to a stand-alone derivative. The embedded derivative causes the cash flows that would be required by the contract to be modified according to the ferrochrome price.

The embedded derivative is recognised at fair value in “trade and other receivables”/”trade and other payables” and is included in the statement of financial position.

1.11.2 Management fees

Revenue from management fees is recognised at the fair value of the consideration received or receivable. Revenue is recognised in the accounting periods in which the services are rendered.

Management fees recognised in the company relates to a recovery of costs from the subsidiary, Merafe Ferrochrome and is recognised as/when the costs are recovered net of value added taxation.

Management fees recognised in Merafe Ferrochrome relates to employee services rendered to the Venture and is recognised as/when the services are rendered net of value added taxation.

1. Accounting policies (continued)

1.12 Lease payments

1.12.1 Operating lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

1.12.2 Finance lease payments

Minimum lease payments are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a consistent periodic rate of interest in the remaining balance of the liability.

1.13 Finance income and expenses

1.13.1 Finance income

Finance income comprises interest income on funds invested and positive changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method.

1.13.2 Finance expenses

Finance expenses comprise interest expense on borrowings, interest on tax related items and negative changes in the fair value of financial assets at fair value recognised in profit or loss.

Borrowing costs directly related to the financing of a qualifying capital project under construction are capitalised to the project cost during construction, until such time as the related asset is substantially ready for its intended use, i.e. when it is capable of commercial production. Where funds are borrowed specifically to finance a project, the amount capitalised represents the actual borrowing costs incurred. Where surplus funds are available in the short term from money borrowed specifically to finance a project, the income generated from such short-term investments is also capitalised and deducted from the total capitalised borrowing costs. Where the funds used to finance a project form part of general borrowings, the amount capitalised is calculated using a weighted average rate applicable to the relevant general borrowings of the group during the period.

1.14 Tax

Tax expense comprises current tax, deferred tax and secondary tax on companies. Tax expenses are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, or in other comprehensive income, in which case it is recognised in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. The current tax rate is 28%.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences:

- Goodwill not deductible for tax purposes.
- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit.
- Differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

Deferred tax assets, including deferred tax assets relating to the carry forward of unutilised tax losses and/or unutilised capital allowances are recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

SIGNIFICANT ACCOUNTING POLICIES (continued)
for the year ended 31 December 2012

1. Accounting policies (continued)

1.14 Tax (continued)

Secondary tax on companies (STC)

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend. STC is provided for at a rate of 10% on the amount by which dividends declared by the company exceed dividends received. STC is recognised as part of the current tax charge in profit or loss, when the related dividend is declared. STC was replaced by a new dividend withholding tax for dividends declared after 1 April 2012.

Dividend withholding tax

Dividend withholding tax is payable at a rate of 15% on dividends paid to shareholders. This tax is not attributable to the company paying the dividend but is collected by the company and paid to the South African Revenue Services on behalf of the shareholder.

Tax exposures

In determining the amount of current and deferred tax, the group takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the company to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

1.15 Segment reporting

An operating segment is a component of the group that engages in business activities from which it may earn revenues and incurs expenses. The group has one reportable segment being the mining and beneficiation of chrome ore into ferrochrome. Internal management accounts are prepared monthly on the basis of one reportable segment which is reviewed monthly by the Chief Financial Officer and Chief Executive Officer (Chief Operating Decision Maker).

Ferrochrome and chrome ore are the products produced by the Venture. Most of the products produced are used in the manufacturing of stainless steel. Refer to Note 14 for geographical areas of ferrochrome and chrome ore sales and information on customers that individually comprise more than 10% of total ferrochrome and chrome ore sales.

1.16 Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options and share grants granted to employees and a future equity-settled share-based payment set out in Note 18.3. Headline EPS is calculated by dividing the headline earnings by the weighted average number of ordinary shares in issue/outstanding during the period. Diluted headline EPS is calculated by dividing headline earnings by the weighted average number of ordinary shares outstanding, adjusted for the effects of all dilutive potential ordinary shares which comprise share options and share grants granted to employees and future equity-settled share-based payments set out in Note 18.4.

1.17 Dividend distributions

Dividend distributions to the company's shareholders are recognised as a liability in the group's and company's financial statements in the period in which the dividends are approved by the board of directors. Dividends declared after the reporting period are disclosed in the notes to the financial statements and are not recognised in the current financial statements. The cash flows for dividends are included in financing activities.

1.18 Determination of fair values

A number of the group accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The carrying values of financial assets and liabilities as reflected in the statement of financial position are a reasonable approximation of their fair values.

1. Accounting policies (continued)

1.18 Determination of fair values (continued)

1.18.1 Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date.

1.18.2 Derivatives

The fair value of the interest rate swap is based on broker quotes using discounting estimates of future cash flows based on the term and maturity of the contract and market interest rates for a similar instrument at the measurement date.

1.18.3 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

1.18.4 Share-based payment transactions

The fair value of employee share options and share grants is measured using the Black-Scholes-Merton model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on Government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value. Refer to Note 8 for details regarding the assumptions used in the valuation model.

1.19 Mining royalty

The mining royalty was effective from 1 March 2010 and requires the payment of a royalty for the benefit of the National Revenue Fund, in respect of the transfer of mineral resources. The mining royalty is payable on chrome ore in lumps, chips and fines as listed in schedule 2 of the Mineral and Petroleum Resources Royalty Act (the Act).

Chrome ore in lumps, chips and fines is an unrefined mineral resource and therefore the mining royalty is payable on “gross sales” as defined and is calculated in accordance with the unrefined mineral resource formula as detailed in the Act.

Gross sales is primarily calculated using an arm’s length transfer price of chrome ore calculated by transfer pricing experts using guidelines developed by the Organisation for Economic Corporation and Development.

The mining royalty is recognised in the statement of consolidated and separate comprehensive income and is included in operating and other expenses.

1.20 Assets held-for-sale or held-for-distribution

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale or held-for-distribution if it is highly probable that they will be recovered primarily through sale or distribution rather than through continuing use.

Immediately before classification as held-for-sale or held-for-distribution, the assets, or components of a disposal group, are remeasured in accordance with the group’s other accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets or employee benefit assets which continue to be measured in accordance with the group’s other accounting policies. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held-for-sale or held-for-distribution, property, plant and equipment are no longer amortised or depreciated.

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1.21 Impairments

1.21.1 Financial assets

A financial asset not classified at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about loss events.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

1.22.2 Non-financial assets

The carrying amount of the group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to that asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (cash-generating unit).

An impairment loss is recognised if the carrying amount of the asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined net of depreciation or amortisation, if no impairment loss has been recognised. Impairment losses on goodwill are not reversed.

2. Property, plant and equipment

2.1 Property, plant and equipment – 2012

	At the beginning of year – 2012			Movements during the year – 2012					At the end of the year – 2012		
	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000	Additions R'000	Disposals - Cost R'000	Disposals - Accumulated depreciation R'000	Depreciation R'000	Impairment R'000	Cost R'000	Accumulated depreciation and impairment R'000	Carrying value R'000
Group 2012											
Land, mineral and surface rights	137 606	(39 607)	97 999	–	–	–	(5 396)	(21 290)	137 606	(66 293)	71 313
Boshoek smelter	1 039 250	(129 029)	910 221	141 507	(50 473)	50 473	(62 357)		1 130 284	(140 913)	989 371
Horizon mine, Boshoek mine, Kroondal mine, Kanana UG2 plant and Lonmin UG2 plants	232 936	(29 951)	202 985	53 749	(5 688)	5 178	(16 928)	(56 207)	280 997	(97 908)	183 089
Wonderkop smelter	274 967	(91 591)	183 376	13 652	(533)	533	(10 772)	–	288 086	(101 830)	186 256
Tswelopele pelletising plant	–	–	–	155 681	–	–	(285)	–	155 681	(285)	155 396
Wonderkop mine	27 778	(10 393)	17 385	–	(61)	61	(2 103)	–	27 717	(12 435)	15 282
Lion I smelter	381 094	(60 326)	320 768	20 148	(7 031)	7 031	(21 960)	–	394 211	(75 255)	318 956
Helena mine, Magareng mine and Mototolo UG2 plant	156 549	(24 777)	131 772	39 311	(947)	947	(12 457)	–	194 913	(36 287)	158 626
Bokamoso pelletising plant	197 694	(29 272)	168 422	10 074	(8 673)	8 673	(13 563)	–	199 095	(34 162)	164 933
Corporate assets	1 940	(1 589)	351	274	(723)	707	(505)	–	1 491	(1 387)	104
Capital work in progress	339 489	–	339 489	166 620	–	–	–	–	506 109	–	506 109
Sub-total	2 789 303	(416 535)	2 372 768	601 016	(74 129)	73 603	(146 326)*	(77 497)**	3 316 190	(566 755)	2 749 435
Less: Horizon mine held for sale (refer Note 27)											(72 127)
Total property, plant and equipment											2 677 308
Company 2012											
Land, mineral and surface rights	4 023	(476)	3 547	–	–	–	–	(3 547)	4 023	(4 023)	–
Corporate assets	1 940	(1 589)	351	274	(723)	707	(203)	–	1 491	(1 085)	406
Total	5 963	(2 065)	3 898	274	(723)	707	(203)	(3 547)	5 514	(5 108)	406

Management has assessed the residual values of certain of the operating assets as higher than the carrying values of these assets, and therefore no depreciation has been calculated on these assets.

* R140m is recognised in the statement of comprehensive income and the balance is primarily capitalised to inventory.

** The impairment loss primarily relates to the Horizon mine (refer Note 27) and the abandonment of the Chrome Eden Reserves.

The property, plant and equipment is encumbered by a loan more fully described in Note 9.2. Borrowing costs of R8m were capitalised in the current year and are included in capital work in progress.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

2.1 Property, plant and equipment – 2011

	At the beginning of year – 2011			Movements during the year – 2011						At the end of year – 2011		
	Cost	Accumulated depreciation and impairment	Carrying value	Additions	Disposals – Cost	Disposals – Accumulated depreciation	Depreciation and impairment charge for the year	Reclassifications – Cost	Reclassifications – Accumulated depreciation	Cost	Accumulated depreciation and impairment	Carrying value
	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000	R'000
Group 2011												
Land, mineral and surface rights	137 606	(33 799)	103 807	–	–	–	(5 808)	–	–	137 606	(39 607)	97 999
Boshoek smelter	1 003 091	(93 295)	909 796	46 131	(9 801)	9 801	(42 262)	(171)	(3 273)	1 039 250	(129 029)	910 221
Horizon mine, Boshoek mine, Kroondal mine, Kanana UG2 plant and Lonmin UG2 plants	263 181	(42 793)	220 388	129 344	(159 200)	3 390	9 452	(389)	–	232 936	(29 951)	202 985
Wonderkop smelter	257 546	(39 849)	217 697	16 877	(2 785)	2 785	(54 527)	3 329	–	274 967	(91 591)	183 376
Wonderkop mine	29 061	(8 828)	20 233	–	(1 283)	1 283	(2 848)	–	–	27 778	(10 393)	17 385
Lion I smelter	367 664	(46 211)	321 453	19 669	(6 743)	6 743	(20 858)	504	–	381 094	(60 326)	320 768
Helena mine, Magareng mine and Mototolo UG2 plant	110 707	(17 603)	93 104	51 614	(5 772)	991	(8 165)	–	–	156 549	(24 777)	131 772
Bokamoso pelletising plant	195 243	(21 202)	174 041	8 638	(6 187)	6 187	(14 257)	–	–	197 694	(29 272)	168 422
Corporate assets	1 668	(1 422)	246	272	–	–	(167)	–	–	1 940	(1 589)	351
Capital work in progress	131 835	–	131 835	207 654	–	–	–	–	–	339 489	–	339 489
Total	2 497 602	(305 002)	2 192 600	480 199	(191 771)	31 180	(139 440)*	3 273	(3 273)	2 789 303	(416 535)	2 372 768
Company 2011												
Land, mineral and surface rights	4 023	(206)	3 817	–	–	–	(270)	–	–	4 023	(476)	3 547
Corporate assets	1 668	(1 422)	246	272	–	–	(167)	–	–	1 940	(1 589)	351
Total	5 691	(1 628)	4 063	272	–	–	(437)	–	–	5 963	(2 065)	3 898

* R153m is recognised in the statement of comprehensive income which includes R41m impairments. The impairment relates to the North block making plant at the Wonderkop smelter that was impaired as it will be replaced by the new Tswelopele pelletiser that will be commissioned in 2012. R14m is capitalised to inventory.

The property, plant and equipment is encumbered by a loan more fully described in Note 9.2. Borrowing costs of R2.5 m were capitalised.

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000

2. Property, plant and equipment (continued)

2.2 Finance lease assets

The following finance lease assets where Merafe Ferrochrome is the lessee are included in the Boshoek and Lion ferrochrome smelters and corporate assets:

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Plant and equipment				
Cost	41 308	45 962	155	–
Accumulated depreciation	(9 241)	(8 922)	(34)	–
Carrying value at end of year	32 067	37 040	121	–

Note: The cost and accumulated depreciation of the Lion and Boshoek assets relates to 100% of the leased assets as recognised in the Venture's accounting records. Merafe's portion of the carrying value is R15.1m (31 December 2011: R19.5m).

3. Investment in subsidiaries

Investment in subsidiaries	Issued share capital 2012 and 2011 number of shares	Percentage holding 2012 %	Percentage holding 2011 %	Shares at cost 2012 R	Shares at cost 2011 R	Loans (from)/to subsidiaries 2012 R'000	Loans (from)/to subsidiaries 2011 R'000
Directly held							
Merafe Chrome and Alloys Proprietary Limited	200	100	100	200	200	1 187 655	1 187 655
Merafe Manganese Proprietary Limited**	100	100	100	100	100	*	*
Merafe Coal Proprietary Limited**	100	100	100	100	100	*	*
South African Chrome and Alloys Proprietary Limited**	100	100	100	100	100	*	*
South African Ferrochrome and Mining Proprietary Limited**	100	100	100	100	100	*	*
Indirectly held							
Merafe Ferrochrome	400	100	100	400	400	*	*
PSV Resources Kroondal Proprietary Limited	100	50	50	50	50	–	–
PSV Resources Marikana Proprietary Limited	100	26	26	26	26	–	–

* *Less than R1 000*
** *In the process of deregistration*

The above loans are unsecured, have no fixed terms of repayment but by intent are of a long-term nature and are interest free. The wholly owned subsidiaries are incorporated in the Republic of South Africa.

Interest in the profits of subsidiaries for the year ended 31 December 2012 amounted to R58.4m and interests in the profits of subsidiaries for the year ended 31 December 2011 amounted to R147.2m. Subsidiaries are incorporated in the Republic of South Africa.

Special purpose entities

In accordance with SIC 12 Consolidations – Special Purpose Entities, the following entities are consolidated and considered to be subsidiaries of the Merafe Resources Limited group:

- Horizon Nature Conservation Trust;
- Merafe Kroondal Rehabilitation Trust; and
- Merafe Resources Limited Share Incentive Scheme Trust.

Refer to the related parties Note 22 for further details on investment in subsidiaries and special purpose entities.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
4. Inventories				
Consumables stores	67 775	63 353	–	–
Raw materials	425 081	370 463	–	–
Finished goods	601 419	632 116	–	–
Less: net realisable value write-down	(5 390)	–	–	–
	1 088 885	1 065 932	–	–

The write-down of inventories to net realisable value relates to 10 340 tonnes of finished product that was written down to a net realisable value of R7 128 per tonne. The carrying value of inventories written down to net realisable value was R74m.

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
5. Trade and other receivables				
Net trade receivables	283 846	188 129	–	–
Trade receivables	537 604	356 966	–	–
Trade receivables sold	(253 758)	(168 837)	–	–
Pre-payments	6 215	7 457	–	164
Embedded derivative recognised on sales contracts	(9 605)	(9 201)	–	–
Derivative on foreign exchange exposure	5 529	–	–	–
Other receivables	58 740	76 594	680	1 279
Receivable – Merafe Ferrochrome	–	–	106 424	32 511
	344 725	262 979	107 104	33 954

The group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in Note 20. Trade receivables relating to local sales have an average payment term of 60 days and are non-interest bearing. Trade receivables relating to foreign sales have an average payment term of 90 days and bear interest at US$ LIBOR (London Interbank Offered Rate) + 1.5% on balances that are overdue.

	Group 2012 R'000	Group 2011 R'000
Trade receivables per sales region		
Africa	39 239	46 633
Asia	202 885	134 024
America	110 510	62 794
Europe	184 970	113 515
	537 604	356 966

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
6. Share capital				
Authorised – 3 500 000 000 shares of 1 cent each	35 000	35 000	35 000	35 000
Issued – 2 493 221 394 ordinary shares of 1 cent each				
31 December 2011 – 2 493 221 394 ordinary shares of 1 cent each				
Issued share capital at beginning of year	24 932	24 767	24 932	24 767
Share options exercised	–	165	–	165
Issued share capital at end of year	24 932	24 932	24 932	24 932
7. Share premium				
Balance at beginning of year	1 262 481	1 253 568	1 262 481	1 253 568
Arising from share options exercised	–	8 956	–	8 956
Share issue expenses arising from share options exercised	–	(43)	–	(43)
Balance at end of year	1 262 481	1 262 481	1 262 481	1 262 481

10% of the authorised but unissued share capital is under the control of the directors, subject to the Companies Act and the JSE Limited Listings Requirements, until the next annual general meeting. Note 8 sets out the details of the share option scheme.

8. Equity-settled share-based payment reserve

8.1 Share option schemes

On 14 December 1999 a share incentive scheme was approved by shareholders as an incentive to employees (including executive directors) of the company and its subsidiaries to identify themselves more closely with the activities of the company and to promote its continued growth by giving them an opportunity of acquiring shares therein. Management has applied the provisions of IFRS 2: Share-based Payment in accounting for and disclosing all share options granted, except for share options granted before 7 November 2002, or share options granted after this date, but which had vested prior to 1 January 2005.

On 13 April 2010, a new incentive scheme was approved by shareholders. Share options and share grants were issued during 2010, 2011 and 2012 under the new incentive scheme. Refer to Note 8.2 for details regarding the share grants.

Reconciliation of share-based payment reserve

	Group		Company	
	2012 R'000	**2011** R'000	**2012** R'000	**2011** R'000
Balance at beginning of year	31 759	24 391	31 759	24 391
Expensed during the current year	2 088	7 368	2 088	7 368
Balance at end of year	33 847	31 759	33 847	31 759

The terms and conditions of the grants are listed below and all options are settled by physical delivery of shares against receipt of payment of the option price:

Grant date	Number of options	Vesting conditions
Options granted prior to 7 November 2002	950 000	One-third per year over the period 31 December 2004 to 31 December 2006
Options granted to senior employees on 1 August 2003	833 333	One-third per year over the period 31 December 2006 to 31 December 2008
Options granted to key management on 1 December 2005	4 481 138	One-third per year over the period 31 December 2008 to 31 December 2010
Options granted to key management on 30 June 2006	1 884 216	One-third per year over the period 30 June 2009 to 30 June 2011
Options granted to senior employees on 27 July 2006	916 667	One-third per year over the period 30 June 2009 to 30 June 2011
Options granted to key management on 1 March 2008	4 873 922	One-third per year over the period 1 March 2011 to 1 March 2013
Options granted to senior employees on 1 March 2008	2 983 415	One-third per year over the period 1 March 2011 to 1 March 2013
Options granted to key management on 9 March 2009	3 000 000	One-third per year over the period 1 April 2012 to 1 April 2014
Options granted to key management on 1 October 2010	2 654 771	One-third per year over the period 1 October 2013 to 1 October 2015
Options granted to key management on 1 October 2010	2 654 771	One-third per year over the period 1 October 2014 to 1 October 2016
	25 232 233	

The options lapse after 10 years if not exercised, while employed within the group. The options are forfeited when an employee resigns from the group and has not exercised his/her options. In the event of an employee leaving the group for a reason approved by the directors or in the event of the employee's death, the employee or his/her estate has 12 and 24 months respectively to exercise and/or implement options granted to that employee.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

8. Equity-settled share-based payment reserve (continued)

8.1 Share option schemes (continued)

The number and weighted average exercise price of share options are as follows:

	2012 Weighted average exercise price in cents per share	2012 Number of options '000	2011 Weighted average exercise price in cents per share	2011 Number of options '000
Outstanding balance at beginning of year	147	32 394	116	48 959
Options granted during the year	–	–	–	–
Options exercised during the year	–	–	55	(16 565)
Options forfeited during the year	211	(7 162)	–	–
Outstanding balance at end of year	128	25 232	147*	32 394
Exercisable at end of year	0.75	3 619	200**	5 746

* *This relates to the weighted average exercise price of all options in issue that have both vested and not vested at year-end.*
** *This relates to the weighted average exercise price of all options that have vested at year-end.*

Share options outstanding at the end of the year have the following exercise price:

	Company 2012 '000	Company 2011 '000
45 cents	950	1 450
55 cents	4 481	4 481
56 cents	884	884
67 cents	1 917	1 917
69 cents	3 000	3 000
73 cents	833	833
98 cents	–	167
136 cents	5 310	5 310
227 cents	7 857	14 352
	25 232	32 394
Share options outstanding at the end of the year have the following exercise dates:		
31 December 2004	283	450
31 December 2005	333	500
31 December 2006	333	500
30 June 2008	–	167
31 December 2008	833	833
30 June 2009	295	295
31 December 2009	1 707	1 706
30 June 2010	295	295
31 December 2010	4 024	4 024
1 March 2011	2 619	4 784
30 June 2011	295	295
31 December 2011	667	667
1 March 2012	2 619	4 784
1 April 2012	1 000	1 000
1 March 2013	2 619	4 784
1 April 2013	1 000	1 000
1 April 2014	1 000	1 000
1 October 2013	885	885
1 October 2014	1 770	1 770
1 October 2015	1 770	1 770
1 October 2016	885	885
	25 232	32 394

8. Equity-settled share-based payment reserve (continued)

8.1 Share option schemes (continued)

The following share options were outstanding at 31 December 2012 in favour of key management personnel of the company:

	ZJ Matlala	B McBride	K Bissessor	A Mahendranath
Average exercise price (cents)	136	113	69	147
	000's	000's	000's	000's
Exercisable on 30 June 2009	–	295	–	333
Exercisable on 31 December 2009	–	1 124	–	–
Exercisable on 30 June 2010	–	295	–	333
Exercisable on 31 December 2010	–	3 357	–	–
Exercisable on 1 March 2011	–	1 407	–	217
Exercisable on 30 June 2011	–	295	–	333
Exercisable on 1 March 2012	–	1 407	–	217
Exercisable on 1 March 2013	–	1 407	–	217
Exercisable on 1 April 2012	–	–	1 000	–
Exercisable on 1 April 2013	–	–	1 000	–
Exercisable on 1 April 2014	–	–	1 000	–
Exercisable on 1 October 2013	885	–	–	–
Exercisable on 1 October 2014	1 770	–	–	–
Exercisable on 1 October 2015	1 770	–	–	–
Exercisable on 1 October 2016	885	–	–	–
	5 310	9 587	3 000	1 650

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black-Scholes-Merton model, with the following inputs:

	Key management personnel			
	2012 Share grants	**2012** Share options	**2011** Share grants	**2011** Share options
Weighted average option value (cents)	118	74	146	79
Weighted average grant price (cents)	130	167	162	180
Exercise price in cents (weighted average)	0	167*	0	180*
Expected volatility	48%	43%	50%	41%
Option life (expected weighted average)	4.08 years	5 years	4.14 years	5 years
Expected dividends	1.23%	1.10%	1.42%	1.02%
Risk-free interest rate	7.43%	8.48%	7.95%	8.82%
Weighted average share price of options exercised (in cents)	–	–	–	98

** This relates to the weighted average exercise price of options that have not yet vested at year-end*

	Senior and other personnel			
	2012 Share grants	**2012** Share options	**2011** Share grants	**2011** Share options
Weighted average option value (cents)	118	98	124	98
Weighted average grant price (cents)	128	227	134	227
Exercise price in cents (weighted average)	0	227*	0	227*
Expected volatility	49%	35%	50%	35%
Option life (expected weighted average)	4.01 years	5 years	4.01 years	5 years
Expected dividends	1.57%	1.03%	1.68%	1.03%
Risk-free interest rate	7.54%	9.89%	7.67%	9.89%
Weighted average share price of options exercised (in cents)	–	–	–	–

** This relates to the weighted average exercise price of options that have not yet vested at year-end*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

8. Equity-settled share-based payment reserve (continued)

8.2 Share grants

The new share incentive scheme was approved by shareholders on 13 April 2010. During 2010, 2011 and 2012, share grants and share options were issued to directors and employees of the company.

The purpose of the share incentive scheme is to serve as an incentive and reward to employees (including executive directors) of the company and its subsidiaries for services rendered and to be rendered, aimed at promoting the continued growth of the company by giving employees an opportunity to acquire shares in the company and to serve as a retention mechanism for employees whose services are regarded by the company to be crucial to the future growth and sustainability of the company's business. Share options and share grants are granted by the board of directors of the company on the recommendation of the Remuneration Committee.

The Black-Scholes-Merton option pricing model was used to determine the fair value of the share grants. This valuation methodology is consistent with previous valuation calculations.

The share grants are split between portions being subject to performance conditions and portions with no performance conditions. 50% of the share grants to directors are subject to performance conditions and 50% are not subject to performance conditions. 20% of the share grants to employees are subject to performance conditions and 80% are not subject to performance conditions.

The following market and non-market conditions relate to 50% of the share grants granted to directors and 20% of the share grants granted to employees.

			Probability of achievement		
Vesting condition	Type	Weighting %	Three-year option %	Four-year option %	Five-year option %
Capacity growth*	Non-market	25	100	100	100
Assets under management**	Non-market	25	100	100	100
JSE SRI Index***	Non-market	25	100	100	100
JSE Small Capitalisation Index and Mining Index	Market	25	–	–	–

* *The target is to grow ferrochrome capacity cumulatively by 3% (first hurdle), 6% (second hurdle) or 9% (third hurdle)*

** *The target is to grow total assets under management cumulatively by 6% (first hurdle), 12% (second hurdle) or 18% (third hurdle)*

*** *There are no hurdles. The index must be maintained for full incentives or if lost then there is no incentive on this measure. The areas measured under this index relate to environmental sustainability, economic sustainability, social sustainability and corporate governance*

Note: The capacity growth and assets under management target have three hurdles at which differing amounts of the share grants are earned. If the first hurdle is met then 50% of the share grants are earned. If the second hurdle is met then 75% of the share grants are earned and if the third hurdle is met then 100% of the share grants are earned.

The performance conditions include 75% of non-market conditions and 25% of market conditions. The probabilities relating to non-market conditions are estimated by management and will be adjusted each year. Market conditions of outperformance of either the mining index or the JSE small capitalisation index are incorporated using the probability of 62.5% into the initial valuation and are not subsequently adjusted for in accordance with IFRS 2: Share-based Payment.

8. Equity-settled share-based payment reserve (continued)

8.2 Share grants (continued)

The following assumptions were used in the valuation model:

Assumption	Weighted average
Risk-free rate	7.45%
Expected volatility	48%
Expected dividend yield	1.29%
Expected life	4.07
Vesting periods (years)	3, 4 and 5
Average exercise price	–
Average grant price (Rands)	1.29
Average option value (Rands)	1.18

The following share grants relating to key management were outstanding at 31 December 2012:

Share grant dates	Number	Vesting conditions
Shares granted on 29 April 2010	836 833	Vesting 29 April 2013
	836 833	Vesting 29 April 2014
	836 833	Vesting 29 April 2015
Shares granted on 1 October 2010	457 094	Vesting 1 October 2013
	914 190	Vesting 1 October 2014
	914 190	Vesting 1 October 2015
	457 094	Vesting 1 October 2016
Shares granted on 1 April 2011	375 711	Vesting 1 April 2014
	375 711	Vesting 1 April 2015
	375 711	Vesting 1 April 2016
Shares granted on 4 May 2012	440 276	Vesting 4 May 2015
	440 276	Vesting 4 May 2016
	440 276	Vesting 4 May 2017
Shares granted on 13 June 2012	1 488 583	Vesting 13 June 2015
	1 488 583	Vesting 13 June 2016
	1 488 583	Vesting 13 June 2017
Total key management share grants	12 166 777	

	ZJ Matlala
Exercisable on 1 October 2013	457 094
Exercisable on 1 October 2014	914 190
Exercisable on 1 October 2015	914 190
Exercisable on 1 October 2016	457 094
Exercisable on 1 April 2014	139 650
Exercisable on 1 April 2015	139 650
Exercisable on 1 April 2016	139 650
Exercisable on 4 May 2015	183 950
Exercisable on 4 May 2016	183 951
Exercisable on 4 May 2017	183 951
Exercisable on 4 June 2015	1 488 583
Exercisable on 4 June 2016	1 488 583
Exercisable on 4 June 2017	1 488 583
Total	8 179 119

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
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8. Equity-settled share-based payment reserve (continued)

8.2 Share grants (continued)

	B McBride
Exercisable on 29 April 2013	553 333
Exercisable on 29 April 2014	553 333
Exercisable on 29 April 2015	553 333
Exercisable on 1 April 2014	121 050
Exercisable on 1 April 2015	121 050
Exercisable on 1 April 2016	121 050
Exercisable on 4 May 2015	159 452
Exercisable on 4 May 2016	159 452
Exercisable on 4 May 2017	159 451
Total	2 501 504

	A Mahendranath
Exercisable on 29 April 2013	100 000
Exercisable on 29 April 2014	100 000
Exercisable on 29 April 2015	100 000
Exercisable on 1 April 2014	33 020
Exercisable on 1 April 2015	33 020
Exercisable on 1 April 2016	33 020
Exercisable on 4 May 2015	26 120
Exercisable on 4 May 2016	26 120
Exercisable on 4 May 2017	26 119
Total	477 419

	K Bissessor
Exercisable on 29 April 2013	183 500
Exercisable on 29 April 2014	183 500
Exercisable on 29 April 2015	183 500
Exercisable on 1 April 2014	81 991
Exercisable on 1 April 2015	81 991
Exercisable on 1 April 2016	81 991
Exercisable on 4 May 2015	70 754
Exercisable on 4 May 2016	70 754
Exercisable on 4 May 2017	70 754
Total	1 008 735
Total key management share grants	12 166 777

8. Equity-settled share-based payment reserve (continued)

8.2 Share grants (continued)

The following share grants relating to senior employees were outstanding at 31 December 2012:

Share grant dates	Number	Vesting conditions
Shares granted on 29 April 2010 to senior employees	358 333	Vesting 29 April 2013
	358 333	Vesting 29 April 2014
	358 334	Vesting 29 April 2015
Shares granted on 1 September 2010 to senior employee	116 667	Vesting 1 September 2013
	116 667	Vesting 1 September 2014
	116 667	Vesting 1 September 2015
Shares granted on 1 April 2011 to senior employees	73 138	Vesting 1 April 2014
	73 138	Vesting 1 April 2015
	73 138	Vesting 1 April 2016
Shares granted on 25 November 2011 to senior employees	91 996	Vesting 25 November 2014
	91 996	Vesting 25 November 2015
	91 996	Vesting 25 November 2016
Shares granted on 1 December 2011 to senior employee	313 443	Vesting 1 December 2014
	313 443	Vesting 1 December 2015
	313 442	Vesting 1 December 2016
Shares granted on 4 May 2012 to senior employees	156 813	Vesting 4 May 2015
	156 812	Vesting 4 May 2016
	156 812	Vesting 4 May 2017
Total	3 331 168	

	Key management and prescribed officers Number of grants	Senior employees Number of grants	Total
2012			
Share grants outstanding at beginning of year	9 765 786	2 860 731	12 626 517
Share grants granted during the year	6 571 103	470 437	7 041 540
Share grants forfeited during the year	(4 170 112)*	–	(4 170 112)
Share grants outstanding at end of year	12 166 777	3 331 168	15 497 945
Exercisable at end of year	–	–	–
2011			
Share grants outstanding at beginning of year	8 043 066	1 425 000	9 468 066
Share grants granted during the year	1 722 720	1 435 731	3 158 451
Share grants outstanding at end of year	9 765 786	2 860 731	12 626 517
Exercisable at end of year	–	–	–

** Relates to share grants forfeited on resignation of the CEO, SP Elliot, on 31 May 2012.*

Expected volatility

The monthly and daily volatility was calculated based on the company's share price over a one, two, three, four and five year period in which the volatilities range from 17% to 57%. The volatility calculations are as per the Financial Risk Service ("FRS") of the JSE prepared by UCT and Cadiz as at March 2012 for the industrial metals index. The FRS calculates volatility on a monthly basis over a five-year period. Based on the publications, the industrial metals index volatility was 33.7% in March.

Based on the mining index and the calculations for the company, a volatility of 45% was used in the valuations. This was slightly below volatilities used in prior valuations.

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for the year ended 31 December 2012

		Group		Company	
		2012 R'000	**2011** R'000	**2012** R'000	**2011** R'000
9.	**Loans and borrowings**				
9.1	Finance leases – property, plant and equipment	12 396	12 786	120	–
9.2	ABSA Capital	512 112	300 500	–	–
9.3	Horizon Nature Conservation Trust	–	–	1 697	1 608
9.4	Xstrata	10 495	15 076	–	–
	Total loans and borrowings	535 003	328 362	1 817	1 608
	Current portion of loans and borrowings				
	– Xstrata (refer to Note 13)	(10 495)	(15 076)	–	–
	– finance leases	(636)	(508)	(50)	–
	Non-current portion of loans and borrowings	523 872	312 778	1 767	1 608

9.1 Finance leases – property, plant and equipment

These loans are secured by finance leases over plant and equipment with a carrying value of R33m (31 December 2011: R37m) as per Note 2.2. The loans are repayable in monthly instalments averaging R189 391 (31 December 2011: R189 391) on all finance leases excluding the company's head office. Interest is payable at an average of 14.5% (31 December 2011: 14.5%) per annum on all finance leases, excluding the company's head office. The finance lease relating to the company's head office is repayable in monthly instalments of R5 000 and interest is payable at 10%.

In accordance with the agreement with the Venture, Merafe Ferrochrome receives 20.5% of the Venture's EBITDA while retaining ownership of its assets. The finance lease obligations in the group's statement of financial position represent 20.5% of the Venture's total obligations whereas the carrying values of assets that secure the finance leases, relate to the assets that are controlled by the group and are reflected in the group statement of financial position.

9.2 ABSA Capital

During December 2011, management renegotiated its debt facility with ABSA Capital. The ABSA Capital facility is a long-term loan with a termination date that does not extend beyond 31 December 2017. R400m of the facility is a Term Facility (TF) and R400m is a Revolving Credit Facility (RCF). Merafe Ferrochrome is obliged to provide ABSA Capital at 30 September each year with written notice that the termination date of the RCF should be extended for a period of twelve months. Management have received notification from ABSA Capital that the termination date of the RCF was extended to 31 December 2014.

The TF bears interest at the Johannesburg Interbank Agreed Rate (JIBAR) plus a margin of 2.7%. The RCF bears interest at JIBAR plus 1.5%. At 31 December 2012 JIBAR was 5%. At 31 December 2012, R512m of the total ABSA Capital facility of R800m was utilised.

The loan is secured by the following:

- A general notarial bond over movable plant and equipment;
- A cession of rights, title and interest of Merafe Ferrochrome's participation interest under the Pooling and Sharing Agreement with Xstrata;
- A cession of rights, title and interest of the Wonderkop assets, Bokamoso assets, Lion I and Lion II assets; and
- A cession of bank accounts.

Further to the above security, there is a negative pledge in place over all Merafe Ferrochrome's assets.

The financial covenants relating to the loan are as follows:

- The group's gearing ratio should not be more than 35%; and
- The group's pre-agreed minimum liquidity amount should not be less than R50m.

Based on budgets for the year ahead, management are satisfied that the financial covenants will be complied with on the applicable measurement dates during 2013.

9. Loans and borrowings (continued)

9.3 Horizon Nature Conservation Trust

This loan is unsecured, interest free, has no fixed repayment terms but by intent is of a long-term nature.

9.4 Xstrata

The Xstrata loan is unsecured and interest free with no fixed terms of repayment.

Minimum finance lease repayments:

	Capital R'000	Interest R'000	Total R'000
2012			
Repayable within the next year	636	1 774	2 410
Repayable later than one year but not later than five years	3 014	7 512	10 526
Repayable greater than five years	8 746	7 560	16 306
	12 396	16 846	29 242
2011			
Repayable within the next year	508	1 821	2 329
Repayable later than one year but not later than five years	2 125	6 513	8 638
Repayable greater than five years	10 153	10 318	20 471
	12 786	18 652	31 438

10. Provision for closure and restoration costs

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Balance at beginning of year	48 396	39 439	–	–
Utilised during the year	(8 015)	(1 686)	–	–
Provisions made during the year	14 873	8 022	–	–
Unwinding of discount	3 363	2 621	–	–
Transfer to liabitlities held for sale	(725)	–	–	–
Balance at end of year	57 892	48 396	–	–

The provision is for a liability for the rehabilitation of land involved in any prospecting or mining operations of the group and to discharge any liability which may arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation that may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture.

The Venture is in the process of completing a specialist study to assess the impact of liabilities, if any, that may have arisen from possible water contamination. It is anticipated that the study will be completed during 2013. As at the signature date of this report, the quantum of the liability, if any, could not be determined.

For purposes of calculating this provision, management have assumed a long-term inflation rate of 5% and a discount rate of 8% for both the current and prior year. The expected timing of outflows ranges between eight and twenty-five years.

11. Deferred tax (liabilities)/assets

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Recognised deferred tax (liabilities)/assets:				
Property, plant and equipment	(607 228)	(552 495)	(39)	(13)
Provisions and accruals	42 370	36 974	548	641
Finance leases	3 469	3 580	34	–
Tax losses	10 224	5 737	10 224	5 737
	(551 165)	(506 204)	10 767	6 365

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

11. Deferred tax (liabilities)/assets (continued)

Management are of the view that the deferred tax asset is recoverable based on the fact that the management fee and dividends are controlled by the company. In addition, taking into account the board's approved strategy to diversify, this view is deemed appropriate.

Movement in temporary differences during the year – Group

	Balance 1 January 2011 R'000	Recognised in profit or loss 2011 R'000	Balance 31 December 2011 R'000	Recognised in profit or loss in 2012 R'000	Balance before re-classification as held for sale 2012 R'000	Re-classification to liabilities held for sale 2012 R'000	Balance 31 December 2012 R'000
Property, plant and equipment	(506 869)	(45 626)	(552 495)	(69 928)	(622 423)	15 194	(607 229)
Provisions and accruals	29 190	7 784	36 974	5 395	42 369	–	42 369
Finance leases	3 813	(233)	3 580	(109)	3 471	–	3 471
Tax losses	4 332	1 405	5 737	4 487	10 224	–	10 224
	(469 534)	(36 670)	(506 204)	(60 155)	(566 359)	15 194	(551 165)

At at 31 December 2012, the Company had a tax loss of R36m.

Movement in temporary differences during the year – Company

	Balance 1 January **2011** R'000	Recognised in profit or loss **2011** R'000	Balance 31 December **2011** R'000	Recognised in profit or loss **2012** R'000	Balance 31 December **2012** R'000
Property, plant and equipment	(24)	11	(13)	(26)	(39)
Provisions and accruals	707	(66)	641	(93)	548
Finance leases	–	–	–	34	34
Tax losses	4 332	1 405	5 737	4 487	10 224
	5 015	1 350	6 365	4 402	10 767

12. Financial liability

	Group **2012** R'000	Group **2011** R'000	Company **2012** R'000	Company **2011** R'000
Interest rate swap	–	6 098	–	–

The interest rate swap expired on 31 December 2012. The nominal amount of the interest rate swap was R125m. The instrument ensured that the interest rate, before the margin and the bank costs, on the R125m nominal amount, which was part of the ABSA Capital loan, was fixed at 10.61% (31 December 2011: 10.61%). Refer Note 9.2. Refer to Note 20.2 for details regarding liquidity risk.

13. Trade and other payables

	Group **2012** R'000	Group **2011** R'000	Company **2012** R'000	Company **2011** R'000
Trade payables	253 760	199 520	–	44
Employee benefit accruals	68 070	60 426	6 566	10 458
Other payables and accruals*	98 043	100 924	31 841	40 980
Xstrata (refer Note 9.4)	10 495	15 076	–	–
	430 368	375 946	38 407	51 482

* *Includes VAT accruals*

13. Trade and other payables (continued)

Trade payables are non-interest bearing and are normally settled on 30 to 45 day terms. Other payables are non-interest bearing and are normally settled on 30 day terms.

An accrual is recognised for the employee's liability for annual leave and associated costs. The accrual for compensated absences is recognised when the employee renders the service and the accrual is updated on a monthly basis. Employee benefits include an accrual for bonuses in terms of the group's bonus scheme.

The group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

	Group		Company	
	2012 R'000	**2011** R'000	**2012** R'000	**2011** R'000
14. Revenue				
Revenue from sale of ferrochrome	2 212 003	2 083 956	–	–
Revenue from sale of chrome ore	329 901	342 774	–	–
Management fees	80	25	13 472	22 090
	2 541 984	2 426 755	13 472	22 090

Geographical areas of ferrochrome sales

The majority of customers are stainless steel mills located at the following revenue destinations:

	2012		**2011**	
Revenue destination	Revenue R'000	% of revenue in relation to total ferrochrome revenue	Revenue R'000	% of revenue in relation to total ferrochrome revenue
Africa*	159 900	7	72 015	3
Americas**	312 402	14	219 097	11
Asia***	990 446	45	1 130 878	54
Australia	27	–	341	–
Europe****	749 228	34	661 625	32
Total	2 212 003	100	2 083 956	100

Geographical areas of chrome ore sales

	2012		**2011**	
Revenue destination	Revenue R'000	% of revenue in relation to total chrome revenue	Revenue R'000	% of revenue in relation to total chrome revenue
Africa*	113 187	34	97 292	28
Asia***	216 714	66	245 482	72
Total	329 901	100	342 774	100

* *Includes South Africa and Morocco*
** *Includes Canada and USA*
*** *Includes China, Japan, Korea, Singapore, Taiwan and Thailand*
**** *Includes UK, Austria, Belgium, France, Germany, Italy, Netherlands, Slovenia, Spain and Sweden*

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

14. Revenue (continued)

Sales to the following customers individually comprise more than 10% of total sales:

Ferrochrome	2012 Revenue R'000	2012 % of revenue in relation to total revenue	2011 Revenue R'000	2011 % of revenue in relation to total revenue
Customer A	373 629	17	434 757	21
Customer B	260 512	12	211 269	10
Customer C	218 207	10	217 073	10
Customer H	223 132	10	156 776	8
Customer I	250 269	11	179 950	9
Total	1 325 749	60	1 199 825	58

Chrome ore	2012 Revenue R'000	2012 % of revenue in relation to total revenue	2011 Revenue R'000	2011 % of revenue in relation to total revenue
Customer D	26 127	8	44 405	13
Customer E	75 434	23	92 022	27
Customer F	59 853	18	61 582	18
Customer G	42 700	13	12 168	4
Customer J	53 379	16	22 848	7
Total	257 493	78	233 025	69

Note: The marketing agent, Glencore, accepts 60% of the risk related to non-payment of credit sales of ferrochrome and 100% of the risk related to non-payment of credit sales of chrome ore.

15. Results from operating activities

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
The following items have been taken into account in arriving at results from operating activities:				
Dividend income	–	–	–	49 533
Embedded derivative recognised on sales contracts	(9 605)	(9 201)	–	–
Derivative on foreign exchange exposure	5 529	–	–	–
Consulting fees	(8 834)	(15 841)	(2 390)	(5 629)
Increase in provision for closure and restoration	(5 691)	(8 687)	–	–
Operating lease expenses	(6 735)	(5 997)	(334)	(1 081)
Personnel expenses	(422 644)	(454 667)	(9991)	(19 048)
– Salaries and wages	(342 259)	(373 803)	(2 156)	(3 251)
– Defined contribution expense – provident fund	(37 439)	(34 730)	(1 198)	(1 908)
– Defined contribution expense – medical aid	(35 989)	(30 169)	(312)	(411)
– Equity-settled share-based payment expense	(2 088)	(7 368)	(2 088)	(7 368)
– Increase in accrual for leave pay	(93)	(2 813)	(88)	(326)
– Increase in accrual for bonuses	(4 776)	(5 784)	(4 149)	(5 784)

The proportion of the group's employees covered by the provident fund is as follows:

	% of employees covered by the plan 2012	% of employees covered by the plan 2011
The company	100	100
The Venture	100	100

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
16. Net finance (expense)/income recognised in profit or loss				
Finance expense	(29 302)	(32 853)	(12)	(4 383)
Finance expense on financial liabilities measured at amortised cost	(27 406)	(28 471)	(12)	(1)
Interest on loans and borrowings	(27 361)	(28 470)	–	–
Finance expense on bank overdraft and finance lease	(45)	(1)	(12)	(1)
Finance expense on VAT, PAYE and income tax	(1 896)	(4 382)	–	(4 382)
Finance income	9 642	11 288	3 314	5 010
Interest income on bank deposits	981	4 729	751	4 205
Dividend income	2 539	1 609	2 539	805
Interest income on PAYE	24	–	24	
Fair value adjustment on interest rate swap	6 098	4 950	–	–
Net finance (expense)/income	(19 660)	(21 565)	3 302	627
Net finance (expense)/income per financial instrument category				
Loans and receivables	3 475	6 337	3 278	5 009
Interest income on bank deposits	981	4 729	751	4 205
Dividend income	2 539	1 609	2 539	805
Finance expense on bank overdraft and finance lease	(45)	(1)	(12)	(1)
Financial liabilities measured at amortised cost	(29 233)	(32 852)	24	(4 382)
Interest expense on borrowings	(27 361)	(28 470)	–	–
Finance expense on income tax	(1 896)	–	–	–
Finance income/(expense) on VAT and PAYE	24	(4 382)	24	(4 382)
Financial liabilities at fair value through profit or loss	6 098	4 950	–	–
Fair value adjustment on interest rate swap	6 098	4 950	–	–
	(19 660)	(21 565)	3 302	627
17. Income tax				
Normal taxation	(27 476)	(83 886)	4 402	1 192
Current tax	32 679	(47 216)	–	(158)
– current year	(306)	(29 433)	–	–
– prior years' over/(under) provision	32 985	(17 783)	–	(158)
Deferred tax	(60 155)	(36 670)	4 402	1 350
Deferred taxation – current charge	(60 155)	(36 670)	4 402	1 350
Secondary tax on companies (STC)	–	(4 511)	–	(4 511)
Total taxation	(27 476)	(88 397)	4 402	(3 319)

At 31 December 2012, the total estimated unredeemed capital expenditure in the group was R446m which was taken into account in determining the deferred tax liability (31 December 2011: R271m).

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

	Group 2012	Group 2011	Company 2012	Company 2011
17. Income tax (continued)				
Profit/(loss) before income tax R'000	76 349	205 147	(13 954)	(12 098)
	%	%	%	%
Taxation on profit before taxation at standard rate	28.0	28.0	(28.0)	(28.0)
Taxation effect of non-deductible expenditure	2.9	6.5	(9.2)	122.8
Taxation effect of non-taxable income	(2.7)	(0.1)	12.8	(116.5)
Taxation effect of unrecognised temporary differences	52.3	(2.1)	–	10.5
Prior years' overprovision	(44.5)	–	–	–
Prior years' underprovision	–	8.7	(7.2)	1.3
Secondary taxation on companies	–	2.2	–	37.3
Effective tax rate	36.0	43.2	(31.6)	27.4

18. Earnings per share

	2012 cents	2011 cents
18.1 Basic earnings per share	2	5

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of R49m for the year ended 31 December 2012, profit attributable to ordinary shareholders of R117m for the year ended 31 December 2011, and a weighted average number of ordinary shares outstanding during the year of 2 493 221 394 (31 December 2011: 2 478 541 751).

18.1 Calculation of weighted average number of shares	Number of shares 2012	Number of shares 2011
Issued ordinary shares at 1 January	2 493 221 394	2 476 656 043
Effect of share options exercised	–	1 885 708
Weighted average number of shares at 31 December	2 493 221 394	2 478 541 751

	2012 cents	2011 cents
18.2 Headline earnings per share	5	6

The calculation of headline earnings per share is based on profit attributable to ordinary shareholders of R126m for the year ended 31 December 2012, profit attributable to ordinary shareholders of R158m for the year ended 31 December 2011 and a weighted average number of shares outstanding during the year of 2 493 221 394 (31 December 2011: 2 478 541 751).

	2012 R	2011 R
Headline earnings is calculated as follows:		
Total comprehensive income for the year	48 873 000	116 750 000
Impairments (refer note 2.1)	77 497 000	41 410 000
Headline earnings	126 370 000	158 160 000

	2012 (cents)	2011 (cents)

18. Earnings per share (continued)

18.3 Diluted earnings per share

	2012 (cents)	2011 (cents)
Diluted earnings per share	2	5

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of R49m for the year ended 31 December 2012, profit attributable to ordinary shareholders of R117m for the year ended 31 December 2011 and a weighted average number of shares outstanding during the year of 2 500 172 742 (31 December 2011: 2 486 859 923).

	Number of shares 2012	2011
Calculation of weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	2 493 221 394	2 478 541 751
Deemed issue of ordinary shares in respect of share options and share grants	6 951 348	8 318 172
Weighted average number of ordinary shares used in calculating diluted earnings per share	2 500 172 742	2 486 859 923

18.4 Diluted headline earnings per share

	2012 (cents)	2011 (cents)
Diluted headline earnings per share	5	6

The calculation of diluted headline earnings per share is based on profit attributable to ordinary shareholders of R126m for the year ended 31 December 2012, profit attributable to ordinary shareholders of R158m for the year ended 31 December 2011 and a weighted average number of shares outstanding during the year of 2 500 172 742 (31 December 2011: 2 486 859 923).

19. Cash generated from/(utilised in) operating activities

	Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
Profit/(loss) before tax		76 349	205 147	(13 954)	(12 098)
Adjustments for:					
Depreciation and impairment		217 641	153 113	3 750	437
Finance income	16	(9 642)	(11 288)	(3 314)	(5 010)
Finance expense	16	29 302	32 853	12	4 383
Equity-settled share-based payment expense		2 088	7 368	2 088	7 368
Provision for closure and restoration		9 496	8 957	–	–
Fair value adjustment on interest rate swap		(6 098)	(4 950)	–	–
Effect of exchange rate fluctuations on cash held during the year		2 746	(53 993)	–	–
		321 882	337 207	(11 418)	(4 920)
Change in inventories [a]		(18 633)	(214 353)	–	–
Change in trade and other receivables [b]		(81 746)	173 441	(73 150)	(32 891)
Change in trade and other payables [c]		59 132	47 785	(13 025)	36 841
Change in liabilities held for sale		3 356	–	–	–
Cash generated from/(utilised in) operating activities		283 991	344 080	(97 593)	(970)

a Net of depreciation capitalised of R4m (2011: R14m)
b Net of interest accrual of Rnil (2011: R1m)
c Net movement in loan account with the Venture of R5m (2011: R85m), net of loans and borrowings of R0,1m (2011: R0.3m) and net of interest accruals of Rnil (2011: R4m)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

		Notes	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
19.1	**Cash and cash equivalents**					
	Bank balance		75 915	108 827	19 692	9 054
	Call deposits		6 639	111 613	6 492	111 520
	Cash on hand		89	19	1	1
	Cash and cash equivalents in statement of cash flows		82 643	220 459	26 185	120 575
	Reconciliation of cash in the group					
	Cash in the Venture		58 362	93 074		
	Cash in Merafe Ferrochrome, the company and Merafe Kroondal Rehabilitation Trust		24 281	127 385		
	Total		82 643	220 459		
	Cash at bank earns interest at a floating rate based on daily bank deposit rates. Call deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the group, and earn interest/dividends at the respective call deposit rates.					
	The group's exposure to interest rate risk and sensitivity analysis for financial assets and financial liabilities are disclosed in Note 20.					
19.2	**Taxation paid**					
	Income tax		(7 285)	(30 157)	–	(158)
	Total taxation paid		(7 285)	(30 157)	–	(158)

20. Financial instruments

Principles of risk management

The group has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has established a group Audit and Risk Committee, which is responsible for monitoring the group's risk management policies. The committee reports directly to the board of directors on its activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the group's activities. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

20. Financial instruments (continued)

Principles of risk management (continued)

The group Audit and Risk Committee oversees how management monitors compliance with the group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the group. The group Audit and Risk Committee is assisted in the oversight role at operations level by internal audit. Internal audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the result of which are reported to the group Audit and Risk Committee.

While the recommendations are reviewed and approved by the board of directors, the Venture's treasury department is responsible for implementing these recommendations at the Venture level.

The overall objective of the Venture's treasury department is to effectively manage credit risk, liquidity risk and market risks in accordance with the group's strategy. Other responsibilities of the Venture's treasury department include management of the group's cash resources, approval of counter-parties and relevant transaction limits and the monitoring of all significant treasury activities undertaken by the group. The group uses both conventional financial instruments and derivative financial instruments to manage these risks.

The Venture's treasury department prepares monthly treasury reports which monitor all significant treasury activities undertaken by the Venture. The report also benchmarks significant treasury activities and monitors key banking risks to ensure continued effectiveness.

The group's significant financial instruments comprise loans and receivables, cash and cash equivalents and financial liabilities measured at amortised cost. The main purpose of these financial instruments is to finance the group's acquisitions and ongoing operations.

20.1 Credit risk

Credit risk is the risk of financial loss to the group if a customer or counter-party to a financial instrument fails to meet its contractual obligation.

Exposure to credit risk arises as a result of transactions in the group's ordinary course of business and is applicable to all financial assets. Counter-parties are assessed both prior to, during and after conclusion of transactions to ensure exposure to credit risk is limited to an acceptable level.

Cash and cash equivalents

The group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions. The group's cash balances are in the form of short-term deposits in both local and foreign currency.

Trade and other receivables

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the group's customer base, including the default risk of the industry and country in which the customers operate, has less of an influence on credit risk. Management have considered recoverability of trade and other receivables and no impairment losses are expected.

The group sells the majority of its ferrochrome to a broad range of international customers in terms of the Venture agreement. As a result, the group believes that no concentration of credit risk exists with regard to sales to these customers.

The marketing agent, Glencore, which is a related party to the Xstrata group, accepts 60% of the risk related to non-payment of credit sales of ferrochrome and 100% of the risk of non-payment of credit sales of chrome ore. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the group to a wide variety of customers. These sales are governed by various sales, marketing and distribution agreements. As these agreements have been in place for a number of years and the group has not been exposed to significant unrecoverable amounts, the group does not believe that these arrangements expose it to unacceptable credit risks.

Where concentrations of credit risk exist, management closely monitors the receivable and ensures appropriate controls are in place to ensure recovery. The group does not have netting arrangements with any debtors.

Investments

The company has a loan receivable from Merafe Chrome and Alloys Proprietary Limited, a wholly-owned subsidiary. The recoverability of the loan is assessed periodically.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

	Group 2012 R'000	2011 R'000	Company 2012 R'000	2011 R'000
20. Financial instruments (continued)				
20.1 Credit risk (continued)				
Guarantees				
The group's policy is to provide financial guarantees only to wholly-owned subsidiaries.				
Exposure to credit risk				
The carrying amount of financial assets represents the maximum credit exposure.				
The maximum exposure to credit risk at the reporting date was: (refer Note 20.4)				
Loans to subsidiaries	–	–	1 187 655	1 187 655
Trade and other receivables	288 922	201 359	106 562	33 584
Cash and cash equivalents	82 643	220 459	26 185	120 575
	371 565	421 818	1 320 402	1 341 814
The ageing of trade receivables at the reporting date was:				
Not past due	286 305	192 730	106 562	33 584
Past due 31 – 120 days	2 617	8 629	–	–
	288 922	201 359	106 562	33 584

20.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations on time. The group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the group's reputation.

The Venture's treasury department is responsible for management of liquidity risk, including funding, settlements, related processes and policies. The group manages its liquidity risk on a concentrated basis, utilising various sources of finance to maintain flexibility while ensuring access to cost-effective funds when required. The operational, tax, capital and regulatory requirements and obligations of the group are considered in the management of liquidity risk. In addition, management utilises both short- and long-term cash flow forecasts and other consolidated financial information to manage liquidity risk.

The group uses activity-based costing to cost its products, which assists it in monitoring cash flow requirements and optimising its cash return on investments. Typically the group ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations, this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

In addition, the group maintains the following facilities:

The Company

- ABSA Bank Limited: R1m credit card facilities. Interest is payable at ABSA Bank Limited's prime lending rate. At year end the prime lending rate was 8.5%; and
- ABSA Bank Limited: R0.3m guarantee facility.

Merafe Ferrochrome

- ABSA Bank Limited: R15m general banking facility and/or customer foreign currency account facility. Interest would be payable at the prime overdraft rate;
- ABSA Bank Limited: R20.2m financial guarantee facility;
- ABSA Bank Limited: R0.5m credit card facility. Interest on arrears is payable at the prime overdraft rate plus 4.5%; and
- ABSA Bank Limited: R800m long-term loan.

20. Financial instruments (continued)

20.2 Liquidity risk (continued)

The Venture

- ABSA Bank Limited: US$100m foreign currency overdraft account. Interest is charged at US$ LIBOR plus a margin of 0.3% plus cost of funds that is currently 0.625%.
- Standard Bank debtors factoring facility: US$185m. Interest is charged at US% LIBOR plus a margin of 1.5%.

At year end US$ LIBOR was 0.3% (31 December 2011: 0.3%).

The following guarantee facilities are in place:

	ABSA R'000	Nedbank R'000	Total R'000
31 December 2012			
Facility available	45 343	37 405	82 748
Facility utilised	45 343	37 405	82 748
Eskom	24 845	–	24 845
DMR	18 006	37 405	55 411
Customs and excise	314	–	314
Town councils and water boards	2 178	–	2 178
Percentage utilised	100%	100%	100%
31 December 2011			
Facility available	47 389	8 351	55 740
Facility utilised	47 389	8 351	55 740
Eskom	21 605	–	21 605
DMR	24 105	8 351	32 456
Customs and excise	314	–	314
Town councils and water boards	1 365	–	1 365
Percentage utilised	100%	100%	100%

Note: All of the above guarantees are in the name of Xstrata and relate to the Venture

The following are the contractual maturities of financial liabilities including estimated interest payments and excluding the impact of netting arrangements.

	Year ended 31 December 2013 R'000	Year ended 31 December 2014 R'000	Year ended 31 December 2015 R'000	Year ended 2016 and onwards R'000	Total R'000
Group 2012					
Non-derivative					
ABSA Bank Limited	234 926	(96 880)	(132 831)	(359 560)	(354 345)
Interest	(45 074)	(56 880)	(52 831)	(79 560)	(234 345)
Repayments	–	(40 000)	(80 000)	(280 000)	(400 000)
Drawdown	280 000	–	–	–	280 000
Finance lease liabilities	(2 410)	(2 204)	(2 102)	(22 526)	(29 242)
Trade and other payables	(359 168)	–	–	–	(359 168)
Total	(126 652)	(99 084)	(134 933)	(382 086)	(742 755)
Group 2011					
Non-derivative					
ABSA Bank Limited	22 604	330 582	–	–	353 186
Finance lease liabilities	2 330	2 354	2 144	24 611	31 439
Trade and other payables	312 324	–	–	–	312 324
Derivative					
Interest rate swap	(5 059)	–	–	–	(5 059)
Total	332 199	332 936	2 144	24 611	691 890

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

20. Financial instruments (continued)

20.2 Liquidity risk (continued)

Company 2012

Trade and other payables of R30m mature during the year ended 31 December 2013. The instalments relating to finance leases are R60 000 for 2013, R60 000 for 2014 and R20 000 for 2015.

Company 2011

Trade and other payables of R51m mature during the year ended 31 December 2014.

20.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and ferrochrome prices, will affect the group's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return.

Currency risk

Foreign currency

In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US$). As a result, the group was subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The Venture hedges its foreign currency exposure on the US$ ferrochrome margin in line with the quarterly European Benchmark price of ferrochrome. On a quarterly basis, when the ferrochrome price is agreed, the total Rand expenditure of the Venture is calculated and the equivalent US$ amount is hedged.

	31 December **2012** US$ '000	31 December **2011** US$ '000
Exposure to currency risk		
The group's exposure to foreign currency risk is as follows:		
Trade receivables	62 228	48 541
Trade receivables sold	(30 004)	(20 896)
CFC account	2 326	7 815
Net exposure	34 550	35 460

	Average rate **2012**	**2011**	Reporting date spot rate **2012**	**2011**
The following exchange rates applied during the year				
Rand: United States Dollar	8.2	7.3	8.5	8.1

Sensitivity analysis

A 10 percent (strengthening)/weakening of the rand against the US$ at 31 December 2012 would have (decreased)/increased equity and profit before tax by R29m. A 10 percent (strengthening)/weakening of the rand at 31 December 2011 against the US$ would have (decreased)/increased equity and profit before tax by R29m. This analysis assumes that all other variables, in particular interest rates, remain constant. This sensitivity does not represent the statement of comprehensive income impact that would be expected from a movement in foreign currency exchange rates over the course of a period of time.

20. Financial instruments (continued)

20.3 Market risk (continued)

Interest rate risk

The group adopts a policy of ensuring that between 40% to 60% of the interest rates on borrowings are on a fixed rate basis to minimise its exposure to changes in interest rates. This is achieved by fixing the interest rate with the lender, or through the use of interest rate swaps.

Profile

At the reporting date, the interest rate profile of the group's interest-bearing financial instruments were:

	2012		2011	
	Average interest rate %	Carrying amount R'000	Average interest rate %	Carrying amount R'000
Fixed rate instruments				
ABSA Bank Limited	12.41	(125 000)	12.41	(125 000)
Variable rate instruments				
ABSA Bank Limited	7.1	(387 112)	7.4	(175 500)
Finance leases – plant and equipment	14.50	(12 396)	14.50	(12 786)
Cash and cash equivalents				
– local currency	4.5*	62 971	4.75	157 310
– foreign currency	0.10	19 672	0.14	63 149
		(316 865)		32 173

* *Cash balances in local currency receive interest as follows:*
– The Venture: prime less 4.15%
– The company and Merafe Ferrochrome:
a Call deposits: daily call deposit rates. At year end the call deposit rate was 4.5%
b Current account balances
– favourable: 0.1%
– unfavourable: prime (at year end prime was 8.5%)
c Investec and Nedbank: effective daily rates. The average rate was 4.5%

31 December 2012

An increase or decrease in interest rates of 100 basis points at the reporting date would have had no impact on profit before taxation as the interest rate swap expired on 31 December 2012.

31 December 2011

An increase in interest rates of 100 basis points at the reporting date would have increased profit before taxation and increased equity by R1.2m. A decrease in interest rates of 100 basis points at the reporting date would have decreased profit before taxation and decreased equity by R1.3m. This analysis assumes that all other variables remain constant.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2012

20. Financial instruments (continued)

	Group 2012 R'000	Group 2011 R'000	Company 2012 R'000	Company 2011 R'000
20.4 Financial instruments carrying amounts				
Loans and receivables	371 565	421 818	1 320 402	1 341 814
Investments	–	–	1 187 655	1 187 655
Trade and other receivables (excluding pre-payments and VAT)	288 922	201 359	106 562	33 584
Trade and other receivables (including pre-payments and VAT)	344 725	262 979	107 104	33 954
Pre-payments	(6 215)	(7 457)	–	(164)
VAT	(49 588)	(54 163)	(542)	(206)
Cash and cash equivalents	82 643	220 459	26 185	120 575
Financial liabilities measured at amortised cost	(871 280)	(612 824)	(31 652)	(39 539)
Loans and borrowings (excluding finance lease liabilities)	(512 112)	(300 500)	(1 697)	(1 608)
Loans and borrowings (including finance lease liabilities)	(524 508)	(313 286)	(1 817)	(1 608)
Finance lease liabilities	12 396	12 786	120	–
Trade and other payables (excluding employee benefit accruals and VAT)	(359 168)	(312 324)	(29 955)	(37 931)
Trade and other payables (including employee benefit accruals and VAT)	(430 368)	(375 946)	(38 407)	(51 482)
VAT	3 131	3 196	1 886	3 093
Employee benefit accruals	68 069	60 426	6 566	10 458
Financial liabilities at fair value through profit and loss	–	6 098	–	–
Interest rate swap*	–	6 098	–	–

* *This relates to level 2 hierarchy per IFRS 7: Financial Instruments: Disclosures. The valuation is based on inputs, other than quoted prices, that are observable either directly or indirectly from prices*

The carrying amount of financial assets and financial liabilities reflected in the statements of financial position approximate their fair values.

21. Capital management

The board's policy is to maintain a strong capital base in order to maintain investor, debt providers and the market confidence in the business.

The strong capital base should ensure that any organic or acquisitive growth in the business is sustainable and provides a cushion for the cyclical nature of the resources business.

The board has actively pursued a policy of debt reduction and its objective is to maintain its net gearing level to a maximum of 25% versus equity. At year end, the gearing level excluding cash balances was 19% (31 December 2011: 11%), whereas if cash balances are included, the net gearing is 16% (31 December 2011: 3%).

As the required gearing level has been achieved, the board will focus on balancing the requirement to pay dividends, while at the same time ensuring that there is sufficient capital in the business to see the company through the continued global economic uncertainty, to fund working capital, to fund capital expenditure requirements and to fund other growth opportunities in the business.

21. Capital management (continued)

When analysing growth opportunities, the board seeks to obtain a minimum internal rate of return of 20%.

Neither the company nor any of its subsidiaries are subject to externally imposed capital requirements with the exception of the capital requirements imposed by ABSA Capital (refer Note 9.2).

22. Related parties

Identity of the related party	Relationship	Transactions and balances
Xstrata-Merafe pooling and sharing venture	In July 2004, Xstrata and Merafe Ferrochrome pooled and shared ferrochrome assets to form the Xstrata-Merafe Chrome Venture	Refer Note 22.3 for the amounts that are included in the consolidated financial statements of the group
Merafe Ferrochrome and Mining Proprietary Limited	Merafe Ferrochrome is a wholly-owned subsidiary of Merafe Chrome and Alloys Proprietary Limited	Merafe Resources Limited charges Merafe Ferrochrome a management fee for strategically managing the pooling and sharing venture
Merafe Chrome and Alloys Proprietary Limited	Merafe Chrome and Alloys Proprietary Limited is a wholly owned subsidiary of Merafe Resources Limited	A loan account is recognised with Merafe Resources Limited and Merafe Ferrochrome
Horizon Nature Conservation Trust (SPE)	The Trust, which was registered on 15 July 1998, was established to provide funds for the rehabilitation of land involved in any prospecting or mining operations of Merafe Ferrochrome's Horizon mine and to discharge any liability which may arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation as may be enacted in the future	No transactions occurred during the year
Merafe Coal Proprietary Limited	Merafe Coal Proprietary Limited is a wholly owned subsidiary of Merafe Resources Limited	No transactions occurred during the year
PSV Resources Kroondal Proprietary Limited	Merafe Ferrochrome owns 50% of the issued shares of PSV Resources Kroondal Proprietary Limited	No transactions occurred during the year
PSV Resources Marikana Proprietary Limited	Merafe Ferrochrome owns 26% of the issued shares of PSV Resources Marikana Proprietary Limited	No transactions occurred during the year

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

22. Related parties (continued)

Identity of the related party	Relationship	Transactions and balances
Merafe Kroondal Rehabilitation Trust (SPE)	The Trust, which was registered on 31 May 2006, was established to provide funds for the rehabilitation of land involved in any prospecting or mining operations of Merafe Ferrochrome of the Kroondal mine and to discharge any liability which might arise in terms of the Atmospheric Pollution Prevention Act of 1965, the Environment Conservation Act, No 73 of 1989, the Minerals Act, No 50 of 1991, the Water Act, No 54 of 1956 and any such other legislation as may be enacted in the future. The environmental obligations and corresponding liability remains the sole responsibility of the Venture	No transactions occurred during the year
Merafe Resources Limited Share Incentive Scheme Trust (SPE)	The Trust was established for the purpose of implementing the company's share incentive scheme in 1999. The trust operates and administers any share options which the company may grant to participants	No transactions occurred during the year
Industrial Development Corporation of South Africa Limited (IDC)	The IDC holds 21.9% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of their shareholding	The IDC received the non-executive directors' fees for M Mosweu and M Mamathuba as disclosed in Note 22.1
Royal Bafokeng Resources Holdings Proprietary Limited (RBRH)	RBRH holds 28.9% of the issued share capital of Merafe Resources Limited and has the ability to exercise significant influence over Merafe Resources Limited as a result of their shareholding	No transactions occurred during the year
C Molefe, M Mamathuba, M Mosweu, BN Majova, Z van der Walt, A Mngomezulu, K Nondumo, M Salanje, S Phiri, ZJ Matlala, B McBride, SP Elliot*	Directors of Merafe Resources Limited	Refer to Note 22.1

* *Resigned 31 May 2012*

22. Related parties (continued)

22.1 Transactions with key management personnel

Key management personnel of the company and their immediate families control 0.06% (31 December 2011: 0.65%) of the voting shares of the company (refer Note 22.2). In addition to their salaries, the company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf. Key management personnel also participate in the company's share incentive schemes (refer Note 8).

	Company	
	2012 R'000	**2011** R'000
Directors' fees		
Non-executive directors		
C Molefe	(549)	(661)
A Mngomezulu	(332)	(384)
M Mamathuba	(231)	(251)
BN Majova	(388)	(476)
M Mosweu	(185)	(248)
Z van der Walt	(334)	(124)
K Nondumo	(378)	(398)
M Salanje	(353)	(444)
	(2 750)	(2 986)
The above fees relate to services rendered as directors. No other services were rendered.		
Executive directors and prescribed officers		
SP Elliot		
Salary	(2 151)	(2 748)
Bonus	–	(1 865)
Fringe benefits	(204)	(310)
Provident fund contributions	(291)	(412)
Exercise of share options	–	(4 875)
	(2 646)	(10 210)
Cost of share options exercised	–	6 043
Proceeds on disposal of share options exercised	–	(10 918)
ZJ Matlala		
Salary	(2 849)	(2 577)
Bonus	(2 085)[a]	(1 544)[b]
Fringe benefits	(270)	(242)
Provident fund contributions	(427)	(387)
	(5 631)	(4 750)
B McBride		
Salary	(2 674)	(2 513)
Bonus	(1 402)[a]	(1 255)[b]
Fringe benefits	(338)	(268)
Provident fund contributions	(401)	(377)
Exercise of share options	–	(2 212)
	(4 815)	(6 625)
Cost of share options exercised	–	3 079
Proceeds on disposal of share options exercised	–	(5 291)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

22. Related parties (continued)

22.1 Transactions with key management personnel (continued)

	Company 2012 R'000	2011 R'000
K Bissessor		
Salary	(1 024)	(952)
Bonus	(551)[a]	(483)[b]
Fringe benefits	(137)	(89)
Provident fund contributions	(141)	(134)
	(1 853)	(1 658)
A Mahendranath		
Salary	(585)	(547)
Bonus	(187)[a]	(168)[b]
Fringe benefits	(109)	(99)
Provident fund contributions	(81)	(76)
	(962)	(890)

a Relates to 2012 financial year. 75% of the bonus will be paid in March 2013 and 25% will be payable in December 2013, provided the employee is still in the employ of the company.

b Relates to 2011 financial year. 75% of the bonus was paid in March 2012 and 25% was paid in December 2012.

Note: Fringe benefits include an expense in respect of medical aid, travel expenses and other employer related contributions.

	2012 R'000	2011 R'000
Total key management personnel remuneration	(18 657)	(24 029)
Short-term employee benefits	(18 657)	(16 942)
Share options	–	(7 087)

There are no fixed term director service contracts and there are no director service contracts with provisions for predetermined compensation on termination of the contracts in excess of one year's salary and benefits.

22.2 Directors' interests in Merafe Resources Limited

As at 31 December 2012, the directors of the company are beneficially interested (directly and indirectly) in 1 516 610 (31 December 2011: 11 417 225) shares in the company.

	2012 Direct	2012 Indirect	2011 Direct	2011 Indirect
Stuart Elliot*	–	–	10 076 115	–
Bruce McBride		1 000 000	–	1 000 000
Zanele Matlala	200 000	–	24 500	–
Steve Phiri	254 000	–	254 000	–
Belese Majova	–	62 610	–	62 610
Total	454 000	1 062 610	10 354 615	1 062 610

** resigned effective 31 May 2012*

22. Related parties (continued)

22.3 Transactions with the Xstrata-Merafe Chrome Venture

The Venture resulted in Xstrata and Merafe Ferrochrome pooling and sharing their ferrochrome assets. While Merafe Ferrochrome's assets form part of the Venture, Merafe Ferrochrome retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Executive Committee, joint board and sub-committees (Treasury, Audit and Risk, Transformation, Sustainable Development and Health and Safety) formed to oversee the combined operation of both companies. The group receives 20.5% of the Venture's earnings before interest, tax, depreciation and amortisation (EBITDA) and owns 20.5% of the Venture's working capital.

Included in the consolidated financial statements are the following items that represent the group's share of the working capital and EBITDA of the Venture:

	Year ended 31 December **2012** R'000	Year ended 31 December **2011** R'000
Inventories	1 094 165	1 075 534
Trade and other receivables	321 364	258 806
Bank and cash	58 363	93 074
Finance leases	(12 275)	(12 786)
Provisions	(58 617)	(48 396)
Trade and other payables	(391 506)	(323 111)
Net assets	1 011 494	1 043 121
Revenue	2 541 904	2 426 755
Foreign exchange (losses)/gains	(3 886)	80 930
Operating expenses: the Venture	(2 188 610)	(2 043 347)
EBITDA	349 408	464 338

23. Contingencies

To the best of our knowledge and belief, other than as set out elsewhere in this report, there are no contingencies which may materially affect the financial position of the group.

	Group		Company	
	2012 R'000	**2011** R'000	**2012** R'000	**2011** R'000
24. Operating leases				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	(1 942)	(1 492)	–	(749)
Between one and five years	(2 761)	(2 345)	–	(1 873)
Greater than five years	(2 493)	(2 737)	–	–
	(7 196)	(6 574)	–	(2 622)
The group leases various items of office equipment, mine properties and buildings. The lease payments escalate between 7% to 10% per annum for both the prior year and current year.				
25. Capital commitments				
The group's capital commitments at year-end were:				
– contracted for but not provided for	245 332	278 187	–	–
– authorised but not contracted for	404 476	793 265	–	–
	649 808	1 071 452	–	–

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for the year ended 31 December 2012

26. Dividends per share

At the board meeting on 25 February 2011, a final dividend of 2 cents per share amounting to R49.5m was approved. The secondary tax on companies (STC) on the dividend amounted to R4.9m, before taking the deferred tax asset into account. A deferred tax asset has not been recognised on unutilised STC credits.

No dividends were declared during 2012.

27. Assets held for sale

Horizon mine is presented as held for sale following the commitment of the group's management during 2012, to a plan to sell the mine. Efforts to sell the mine have commenced, and a sale is expected by 31 December 2013.

An impairment loss of R67m on the remeasurement of the mine to the lower of its carrying amount and its fair value less costs to sell has been included in 'Depreciation and impairment' in the statement of comprehensive income. Refer Note 2.1. The R67m impairment loss is included in the total R77m impairment loss recognised for 2012.

At 31 December 2012, the Horizon mine disposal group comprised the following asset and liabilities:

	Group **2012** R'000
Assets of Horizon mine held for sale	
Property, plant and equipment	72 127
Liabilities of Horizon mine held for sale	
Trade and other payables	2 631
Provision for closure and restoration costs	725
Deferred tax liabilities	15 194
Total	18 550

Cumulative income or expense included in comprehensive income

R2m of revenue, R10m of expenses and R8m of losses before interest, taxation and depreciation are included in other comprehensive income relating to the Horizon Mine.

28. Events after the reporting date

No material facts or circumstances occurred between 31 December 2012 and 28 February 2013 that may require adjustment or disclosure in these annual financial statements.