Merafe Resources Limited

Annual Report: 31 December 2006









MERAFE
RESOURCES

1987/003452/06

our goals

- **To ensure that our interests in the ferrochrome industry are profitable and sustainable**
- **To grow our interests in ferrochrome**
- **To diversify into other commodities**

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forward looking statements

Certain statements in this report constitute 'forward looking statements'.

Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performances, objectives or achievements of Merafe Resources Limited and its subsidiary companies, as well as the industry in which it operates, to be materially different from future results, performances, objectives or achievements expressed or implied by these forward looking statements.

Merafe Resources Limited is subject to the effect of changes in commodity prices, currency fluctuations, the risks involved in mining and smelting operations and the operating procedures and policies of the Xstrata-Merafe Chrome Venture.





Tapping at the new Lion Ferrochrome plant in Limpopo Province

highlights of 2006

: Merafe Resources increased its share in the Venture to 20.5%

: Successful start-up of the Lion Ferrochrome plant on time and on budget

: Net profit after tax up 234% to R139 million

: Earnings per share up 100% to 6 cents

: Revenue up 68% to R1,030 million

: EBITDA up 62% to R179 million





Hot metal ladle

reporting scope

The financial year of Merafe Resources Limited (Merafe Resources or the Company) runs from January to December. This report reviews the results for the calendar and financial year ended 31 December 2006.

Merafe Resources aim with this annual report is to report on its financial, environmental and social performance.

Reporting guidelines

This report has been prepared using the Global Reporting Initiatives (GRI) Guidelines and the Mining and Metals Sector Supplement (Pilot Version 1.0) as a framework.

Accountability, governance and sustainability are three powerful ideas that are playing a pivotal role in how organisations operate in the 21st century. They reflect the new view of business as a prime mover in determining economic, environmental and social well-being, with responsibilities that extend beyond its shareholders to people and places both near and far.

The GRI, an independent international institution, has developed an international framework for defining, measuring and rigorously reporting on the economic, environmental and social performance. This framework has been designed to provide comprehensive information to stakeholders of an organisation on the economic, social and environmental performance that make up its triple bottom line.

Independent auditors report on the financial data presented in terms of International Financial Reporting Standards (see page 49).

For additional information on the report contact Lindiwe Montshiwagae (lindiwe@meraferesources.co.za)





Ferrochrome

chairman's letter to shareholders





Two-and-a-half years later the very positive impact the Venture has had on the performance of Merafe Resources is apparent from its results.

Dear Shareholders,

The 2006 financial year ended on a high note for Merafe Resources, which derives its income from its share in the Xstrata-Merafe Chrome Venture (the Venture). After a disappointing first quarter, during which primary stainless steel production and prices for ferrochrome continued to be weak, the sharp increase in stainless steel melt in the second quarter supported a substantial increase in the ferrochrome base price. This increase in the base price continued into the third and fourth quarters, resulting in a 19% price increase during the year. As a result of the base price increase, an 83% attributable increase in sales in the second half of the year, a weaker rand and the Venture's industry-leading performance in containing costs, the Company made record profits for the period ended 31 December 2006.

Profits after tax were up 234% to R139 million year on year. During the first six months of the year Merafe Resources' share of the earnings before interest, tax, depreciation and amortisation (EBITDA) of the Venture was 17%. From 1 July 2006 its share increased to 20.5%.

The Xstrata-Merafe Chrome Venture

The Venture, which resulted from the pooling and sharing of the ferrochrome assets of Xstrata and Merafe Resources, came into being on 1 July 2004. Two-and-a-half years later the very positive impact the Venture has had on the performance of Merafe Resources is apparent from its results.

The sharing within the Venture of operational expertise and technological diversity can be seen in the Bokamoso pelletising and sintering project, which is to be retrofitted to the Wonderkop smelter, which will use the Outokumpu pelletising and sintering process. This process proved to be effective and cost efficient when employed at the Merafe Resources Boshoek plant.



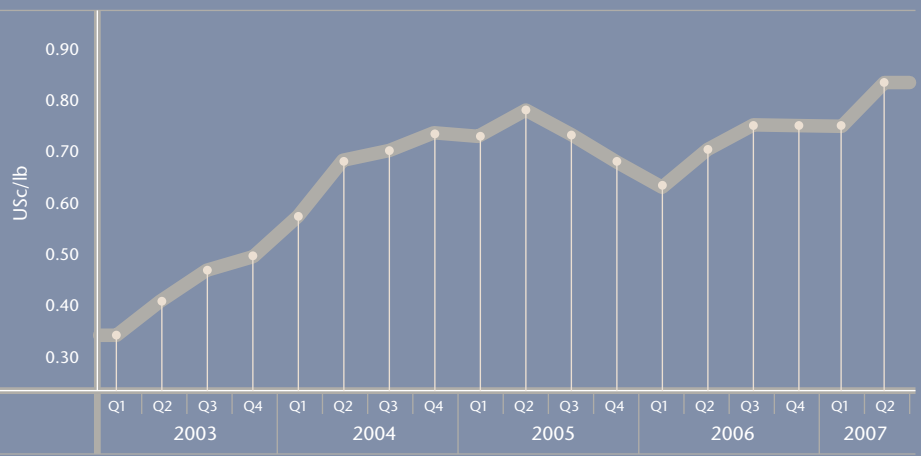
One of the kilns under construction at the Bokamoso pelletising and sintering plant in North West Province

Strong growth forecast to 2008
78% of world stainless steel growth to occur in China

	% World stainless output growth, % y-o-y
2005	+0.2%
2006	+10.0%
2007f	+7.5%
2008f	+7.0%
2009f	+2.1%
2010f	+5.9%

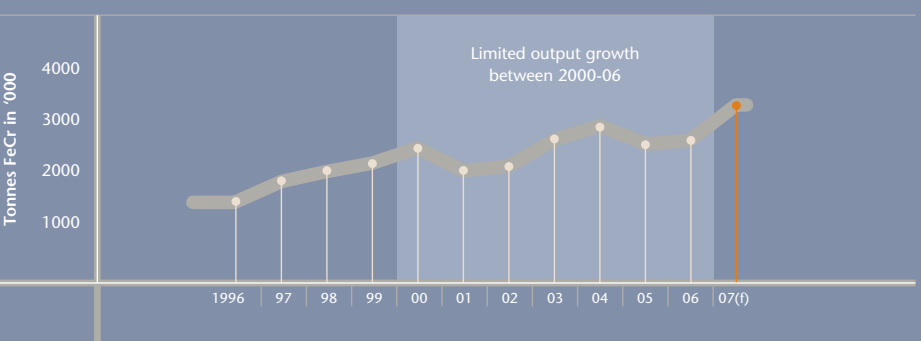
Data: CRU

Charge chrome prices



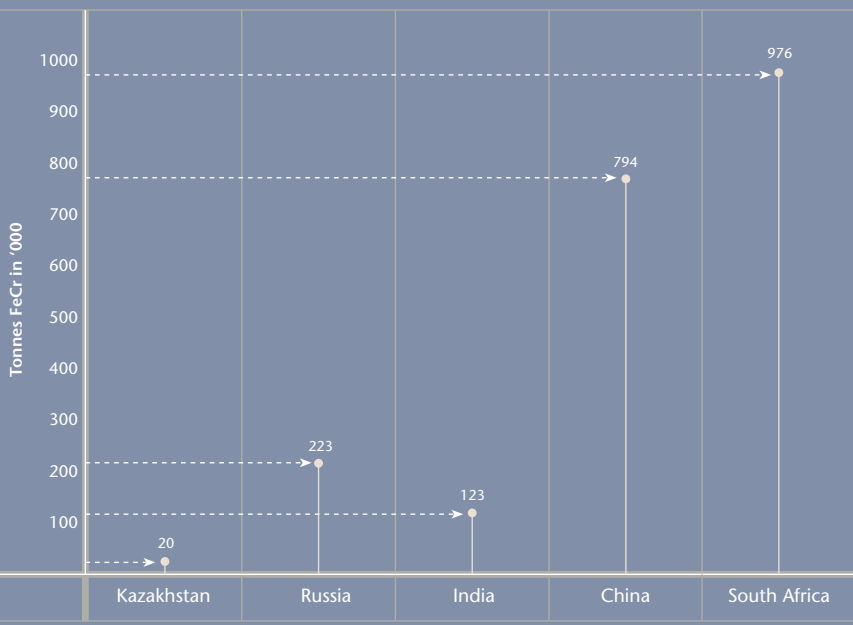
Data: Heinz H. Pariser

South African output set to surge in 2007 after years of stagnation
South African production of charge chrome, 1996-2007



Data: CRU

South Africa to be main contributor to growth in years to 2011
Growth in charge chrome production by region, 2005-2011



Data: CRU

The Venture's operations

Smelters	Capacity	Technology	Mines
Wonderkop	520 kt FeCr-6 furnaces	Pelletiser - semi-closed furnaces	Kroondal, Waterval and Marikana
Rustenburg	440 kt FeCr-6 furnaces	Pelletiser - semi-closed furnaces	Kroondal, Waterval and Marikana
Lydenburg	400 kt FeCr-4 furnaces	Premus - kilns, 3 closed furnaces & 1 semi-closed furnace	Helena and Thorncliffe
Boshoek	240 kt FeCr-2 furnaces	Outokumpu sinter plant, closed furnaces	Horizon and Boshoek
Lion	360 kt FeCr-2 furnaces	Premus - kilns & closed furnaces	Helena and Thorncliffe
Total	: 1 960 kt in production capacity : 5 smelter sites : 20 furnaces	: 4 major technologies : Premus is proprietary to the Venture - world's lowest cost ferro-chrome technology	: 7 mines : Resources to last in excess of 100 years assuming current smelting capacities

The successful use of UG2 as feedstock in the Boshoek pelletising and sintering plant has also been adopted to provide feedstock for pelletisers at the Lion Ferrochrome plant. A UG2 beneficiation plant has been established at Mototolo for this purpose. It utilises UG2 concentrate produced by the Mototolo platinum mine.

Performance against strategy

The Company has performed well in terms of its strategic objectives: organic growth in the ferrochrome industry through expansion and acquisitive growth in the ferrochrome industry through the acquisition of going concerns. The management team continues to pursue its third strategy of growth through diversification. It has assessed a number of opportunities over the past two years and will continue to seek out and assess opportunities. When assessing these opportunities management bears in mind commodity cycles and the need to reduce the Company's current levels of gearing.

Legislative environment

Good progress is being made with the Venture's submission to the Department of Minerals and Energy for New Order Prospecting and Mining rights and the conversion of Old Order Mining and Prospecting Rights under the Minerals and Petroleum Resources Development Act of 2002. We anticipate the process to be successfully completed during the 2007 financial year.

Ongoing recognition of our commitment to Black Economic Empowerment, sustainability and good corporate governance

The Company continues to participate in the FTSE/JSE SRI (Socially Responsible Investment) Index. The Index measures the policies, performance and reporting of companies in relation to the three elements that make up the triple bottom line: environmental, economic and social sustainability.

Its empowerment credentials placed Merafe Resources sixth in the Resources Sector of the Financial Mail's Top Empowerment Company Survey 2007.

Beneficiation

Government has expressed its concern regarding the export of unbeneficiated chrome ore from South Africa. The Venture's commitment to beneficiation is manifested in its beneficiation to saleable ferrochrome of three million tonnes of chrome ore during the 2006 financial year. This tonnage will increase substantially during the 2007 financial year.

The year ahead

The fundamental outlook for base metal prices is positive with analysts pointing to rising prices. Despite the underperformance of the US economy, the rapidly industrialising economies of China and India, combined with the satisfactory performance of the older Asian economies and that of the European Union, will continue to drive the growing demand for metals and energy.

Directorate and staff

We were pleased to welcome Mr Tlamelo Ramantsi, of the Industrial Development Corporation (IDC), to the Board of Merafe Resources in November. We look forward to his contribution to our deliberations during 2007.

I thank my fellow members of the Board of Merafe Resources for the advice and support they have given the management team throughout the year.

During the year the capacity of the Merafe Resources' financial team was strengthened by the welcome addition of Financial Controller, Veronica Venter.

My thanks also go to the management and staff of Merafe Resources whose endeavours over the past six years have taken the Company from a project phase to its current position where it owns a 20.5% interest in the world's largest ferrochrome business with attributable ferrochrome capacity of over 400 000 tonnes.

I would also like to take this opportunity, on behalf of the Board of Merafe Resources, to express our appreciation to our partners in the Xstrata-Merafe Chrome Venture who are the recognised leaders in the ferrochrome industry and to all our stakeholders.



Chris Molefe
Non-Executive Chairman





Casting molten ferrochrome at the Lydenburg plant in Mpumalanga Province

chief executive officer's review





The Venture had a fatality-free year.

The forecast for ongoing growth in demand for ferrochrome bodes well for the future of the Venture.

Financial review

The 2006 financial year was one of two very different halves for Merafe Resources. Trading conditions in the first half of the year contributed to the Company incurring a loss (R27,8 million) and the turnaround in these conditions during the second half of the year contributed to it recording a healthy net profit after tax of R166.9 million (an earnings per share of seven cents) for the six months to December, after taking into account the recognition of a deferred tax asset of R28.8 million. In order to comply with International Accounting Standards IAS 12, Merafe Resources raised this deferred tax asset for deductible temporary differences because it is likely that in future sufficient taxable income will be generated against which these temporary differences can be used. These results represent an increase in profit after tax of 234% and an increase in earnings per share of 100% for the year. Revenue for the 2006 financial year increased by 68% to R1,030 million and EBITDA increased by 62% to R179 million.

Merafe Resources' 17% share of the Venture's EBITDA in the first half of the year and its 20.5% share of its EBITDA from 1 July 2006 translated into attributable saleable ferrochrome production of 239,742 tonnes. The EBITDA included corporate costs of R22 million.

During the year redeemable preference shares worth R100 million were redeemed. This reduced the balance of preference shares to R225 million at year-end. The Company borrowed an additional R300 million to finance its participation in the Lion Ferrochrome project.

Review of operations

The commissioning of the Lion Ferrochrome plant, on schedule and within budget, in the third quarter of 2006, increased the number of the Venture's furnaces to 20 with a production capacity of 1.96 million tonnes. As a result of the weak market conditions in the earlier part of the year the opportunity was taken to suspend production from seven of these furnaces for varying periods of time for maintenance. This reduced the Venture's saleable ferrochrome production for 2006 to 1.2 million tonnes, which was 7% lower than in the previous year. However, sales volumes for the year were only marginally lower than those for the previous year. Stockpiled material was used to supplement sales volumes.



Operating costs

Operating costs were well contained in 2006, despite the standing charges associated with idled capacity and the impact of ongoing mining sector inflation. Cost savings of some R58 million made a substantial contribution to the Venture's earnings. These savings were achieved from more stable reductant prices, improved metallurgical performance and sound energy management.

The commissioning of the Lion Ferrochrome plant which, with its use of Premus technology, has the lowest average power input per tonne of ferrochrome (2.6 MWh/t in comparison with the 4 MWh/t average power input of conventional ferrochrome smelters) is expected to further reduce energy costs. This constitutes in itself more than a 10% saving in production costs.

Plants

In addition to the seven of the Venture's 20 furnaces that were idle for varying periods during 2006, routine maintenance stoppages also took place at a number of other furnaces during the South African winter. At the end of 2006 four furnaces were still idle, two of which were returned to production in the first quarter of 2007.

The Venture is very proud of the achievement of the project team working on the Lion Ferrochrome project which completed the project on time and within budget in September 2006.

Currently, the Premus technology developed by Xstrata is employed at the Venture's Lydenburg plant (where the process was developed) and the Lion Ferrochrome plant in Limpopo Province. Its Boshoek plant in the North West Province employs Outokumpu technology to produce the sintered pellets used in its furnaces. The 1.2 million tonne Bokamoso pelletising and sintering plant, which is under construction, also employs Outokumpu technology. Its production of pellets will be used in the Venture's Rustenburg and Wonderkop smelters.

Construction of the Bokamoso pelletising and sintering plant (adjacent to the Wonderkop smelter), which began in May 2006, remains within budget and on schedule and is due for completion in the third quarter of 2007.

Health, safety, the environment and the community (HSEC)

While HSEC issues are covered in detail in the Environmental Sustainability section of this report I am delighted to be able to advise you that the Venture recorded a fatality free year in 2006. In addition, over the past five years it has achieved a steady reduction in lost time injury frequency rates (LTIFR) from 10.62 to 2.22 and a reduction in total recorded injury frequency rates (TRIFR) from 33.91 in 2002 to 8.04 in 2006.

Legislation

In 2002 the South African Government introduced the Mineral and Petroleum Resources Development Act (MPRDA) which created a new dispensation for holders of mineral rights within South Africa. The proposed Mineral and Petroleum Resources Royalty Bill is the fiscal outgrowth of the MPRDA. The proposed royalty will take effect in May 2009 when the conversion of old order to new order rights is complete. The first draft of the Royalty Bill was introduced in March 2003. After extensive consultations with industry the second draft bill was released in October 2006. Closing dates for comments was set at 31 January 2007. After receiving 27 submissions from the mining industry the National Treasury debated the main policy issues emanating from these submissions at a workshop on 17 May 2007, to be followed up with a few smaller meetings. It plans to complete the consultation process by the end of June 2007 and envisages that the draft bill will be ready for parliamentary review by October 2007.





Global markets

Primary stainless steel production, which drives ferrochrome demand, declined in 2005 and continued to be weak in the early part of the year. This weakness resulted in a further 5 US cents drop in the base price for ferrochrome from 68 US cents at year end to 63 US cents in the first quarter of 2006.

The second quarter saw a turnaround for ferrochrome when stainless production increased rapidly to meet growing demand, particularly in Europe. The base price for ferrochrome increased by 11% to reach the price of 70 US cents per pound.

The base price for ferrochrome continued its rise to 75 US cents for the third and fourth quarter of 2006. The ferrochrome price increase was driven by the demand for stainless steel which accounts for over 80% of global demand for ferrochrome. Most major European, American, Asian and Chinese stainless mills operated at full capacity from the second quarter of 2006.

The global demand for ferrochrome in 2006 increased by an estimated 10% to 6,3 million tonnes, while the global demand for stainless for 2006 is estimated to have increased some 14% to 28 million tonnes. The lower growth in ferrochrome demand compared to stainless steel demand is partly due to the increased production of high carbon ferrochrome which has a higher chrome content and the use of chrome-bearing nickel pig iron by Chinese producers to cushion the impact of high nickel prices. On the other hand the shortage of stainless steel scrap used in Austenitic stainless production supported the demand for ferrochrome. The ratio of stainless steel scrap in Austenitic stainless melt declined by 1% to 42% in 2006.

China is now by far the largest stainless steel producer. Its stainless production in 2006 was approximately 5.6 million tonnes. It also remains the most important driver of the growth in demand for stainless steel. Global demand for stainless is expected to continue to increase in 2007. China is expected to increase its stainless production to approximately 6.5 million tonnes in 2007. The long term forecast of an annual growth in stainless steel demand of approximately 6% should result in a similar growth in the global demand for ferrochrome, i.e. more than a new Lion project is required every year to satisfy demand.

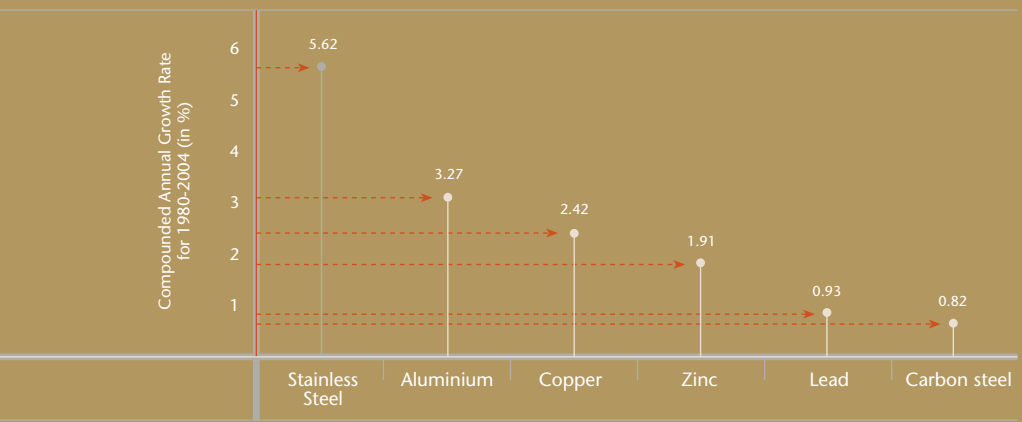
Reporting standards

This report has been prepared using the Global Reporting Initiative (GRI) Guidelines as a framework. Our objective is to achieve transparency, inclusiveness and high standards of reporting. The GRI was established to provide a common framework for sustainability reporting worldwide that would elevate sustainability reporting to the same level of rigour, comparability, credibility and verifiability as that expected of financial reporting.



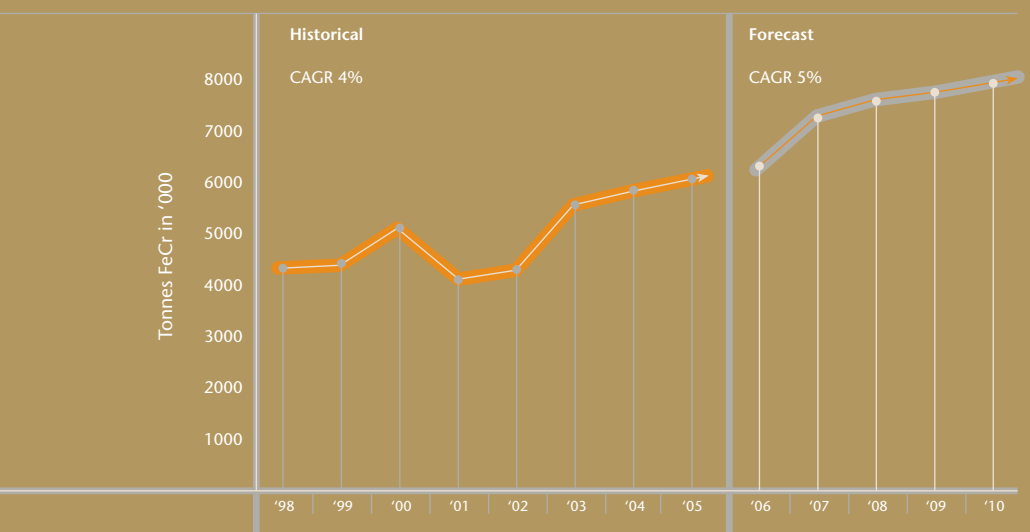
Construction at Bokamoso pelletising and sintering plant in North West Province

Strong end-market growth
Stainless steel outperformed growth of most metals (1980-2004 in %)



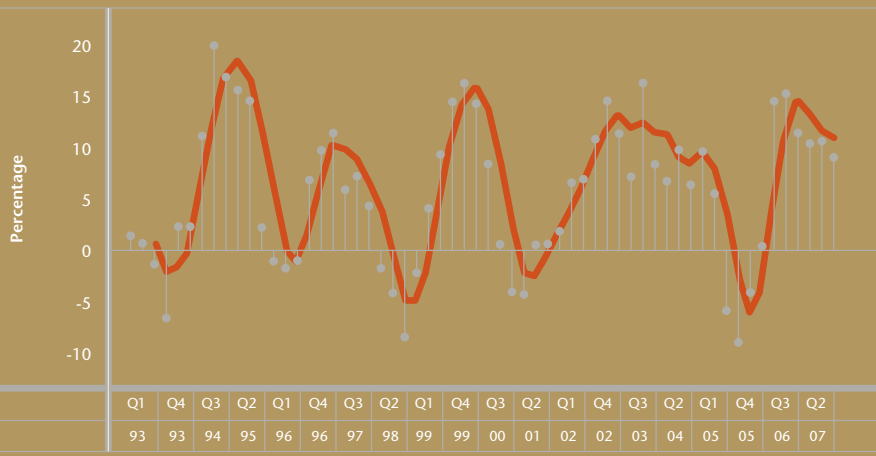
Data: ISSF

FeCr Production 1998 - 2010 (Graph prepared 2006)
World ferrochrome production to rise by 5% year on year



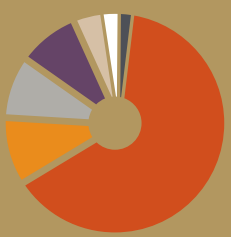
Data: CRU

Global stainless melted production, quarterly year on year % change and moving average



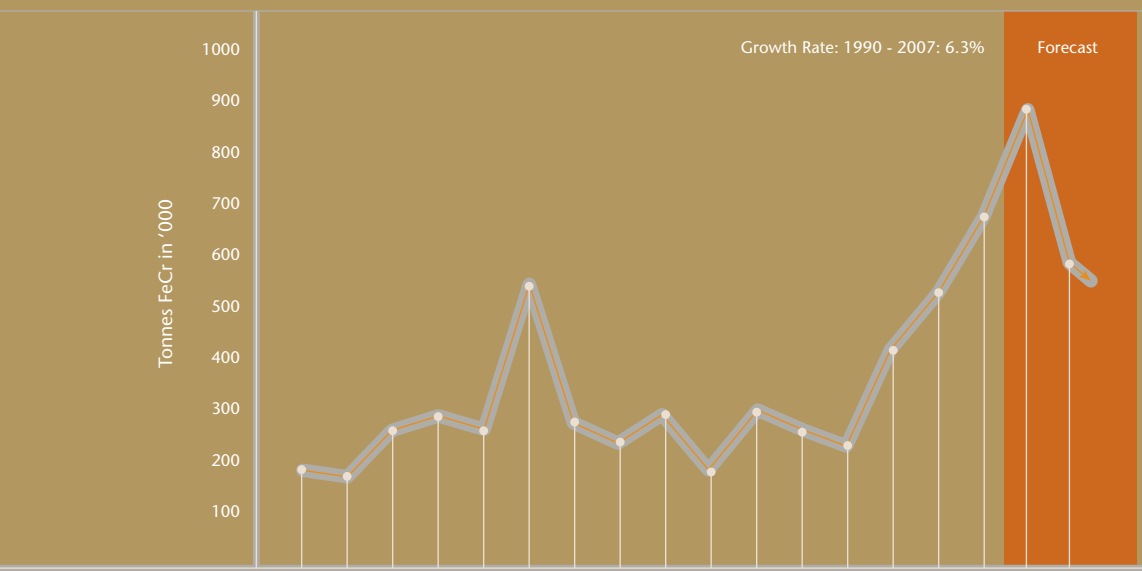
Data: CRU

World resources of chrome ore = 648m tonnes contained chromium, 2006



Data: CRU

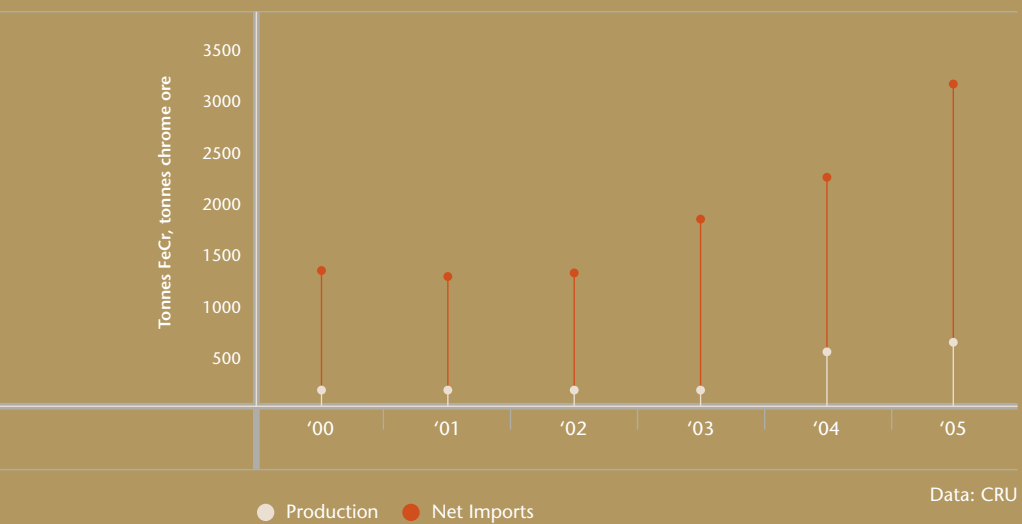
China HC FeCr production



	1990	'91	'92	'93	'94	'95	'96	'97	'98	'99	'00	'01	'02	'03	'04	'05	'06p	'07e
Production	194	181	266	291	265	541	282	249	296	193	300	262	231	423	532	676	890	590

Data: CRU

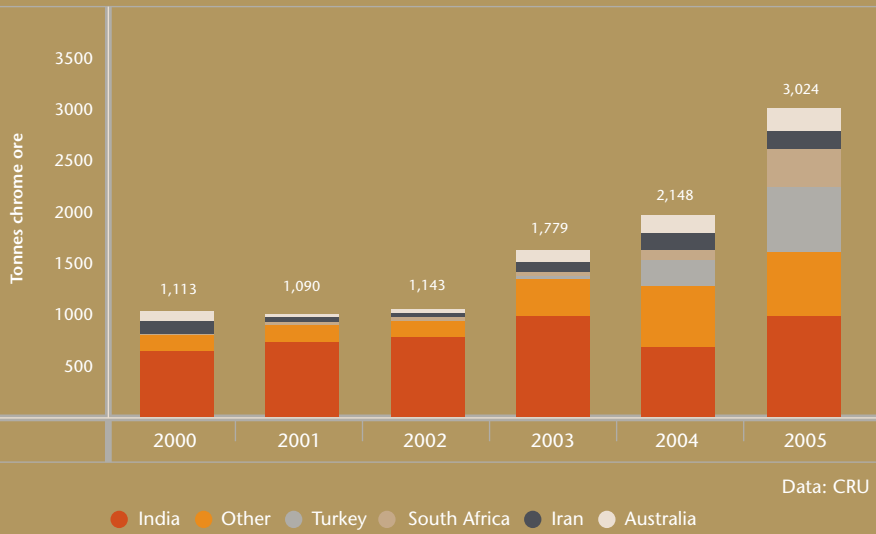
Chinese production and net imports of chrome ore, '000t



Data: CRU

Origin of Chinese imports, 2000-2005, '000 tonnes chrome ore

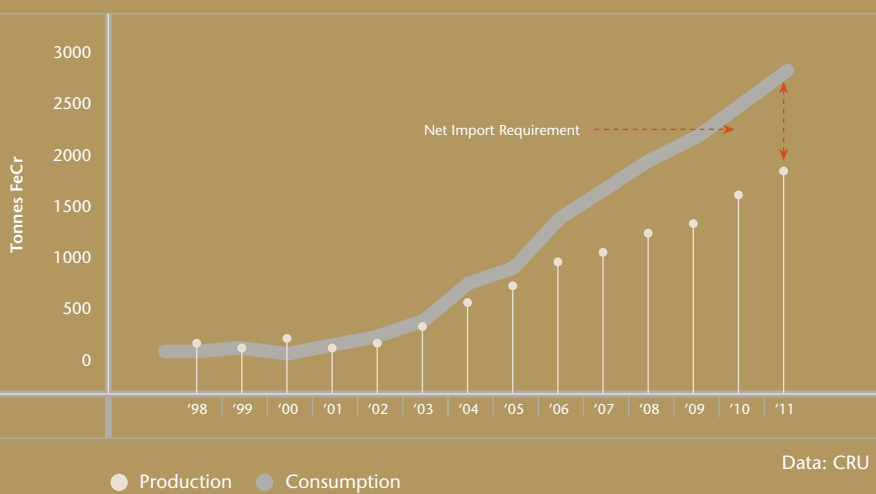
Majority of increase has come from Turkey & Others in recent years



Data: CRU

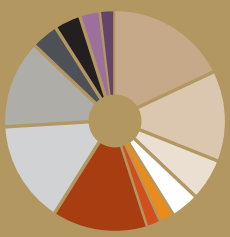
Chinese production and net imports to expand

Chinese consumption and production of HC FeCr, '000t



Data: CRU

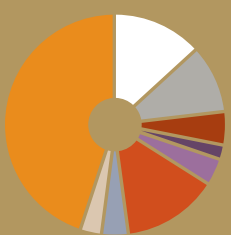
Ferrochrome market share by company, 2006



- Xstrata-Merafe Venture, South Africa 18%
- Kazchrome, Kazakhstan 13%
- Hernic Ferrochrome, South Africa 6%
- Outokumpu Stainless (AvestaPolarit), Finland 4%
- Vargon Alloys, Sweden 2%
- Asea SA Metals, South Africa 2%
- Others 14%
- China Various, China 15%
- Kermas Group, South Africa 13%
- Chelyabinsk 4%
- Assmang Chrome, South Africa 4%
- Zimasco, Zimbabwe 3%
- Ferbasa, Brazil 2%

Data: CRU

Ferrochrome producers by country



- South Africa 45%
- Brazil 3%
- Finland 4%
- China 14%
- Zimbabwe 4%
- Sweden 2%
- Russia 5%
- India 10%
- Kazakhstan 13%

Data: Heinz Pariser



The Merafe Resources management team: (l-r) Bruce McBride, Zed van der Walt, Ami Mahendranath, Stuart Elliot, Steve Phiri, Veronica Venter and Lindiwe Montshiwagae

Outlook for the future

The 2007 financial year will be the first time that Merafe Resources will be sharing in 20.5% of the Venture's EBITDA for a full 12 months.

The forecast for ongoing growth in demand for ferrochrome bodes well for the future of the Company, which will be reporting sales from the Lion Ferrochrome plant for the first time.

In addition, there are opportunities for the Venture to increase its sales of ferrochrome in China. In the past the Venture sold only 1% of its production into China. China's own ferrochrome production peaked in 2006. It has limited chrome ore resources and its sourcing of chrome ore from elsewhere is being limited. Both the Indian and South African governments are discouraging the export of chrome ore. The Indian government has imposed an export duty of US$ 44 a tonne on chrome ore, which will make Chinese ferrochrome producers using Indian ore uncompetitive. The South African Department of Minerals and Energy has warned that it also plans to discourage chrome ore exports. In addition, the Chinese government has recently reduced the import duty on ferrochrome to 1% and is applying pressure on industries that are environmentally unfriendly and energy intensive, to close down. As a result analysts are predicting that Chinese imports of ferrochrome could exceed one million tonnes in 2007.

The cashflow the Company is receiving from its share in the EBITDA of the Venture allows it to continue to reduce its gearing.

It also has at its disposal unredeemed capex in excess of R1 billion. In addition, the re-rating of its share price provides an opportunity for the Company to implement its diversification strategy.

Thanks

My thanks go to both the team at Merafe Resources and the Venture. It is their hard work, dedication and commitment, which has made the success of the Company and the Venture possible. My thanks also go to the Board for its support and guidance.



Steve Phiri
Chief Executive Officer



(l-r) Stuart Elliot, Zed van der Walt, Lebo Mogotsi, Bruce McBride, Chris Molefe, Steve Phiri and Zanele Matlala

directorate

Non-executive directors

Chairman
Chris Molefe
BCom, Post-graduate Diploma in Property Development

Chris (58), has chaired the Merafe Resources Board for the past three and a half years. He has extensive experience in mining and resources, merchant banking and transformation strategy development, which he gained while working for Mobil Oil, Union Carbide, Chase Manhattan Bank, Transnet and Royal Bafokeng Resources, where he held the position of chief executive officer.

Zanele Matlala
BCom, BCompt (Hons), CA (SA)

Zanele (43), joined the Merafe Resources Board in 2005. She is the Group Financial Director of Kagiso Trust Investments (Pty) Limited. She was Chief Financial Officer of the Development Bank of Southern Africa (DBSA), having previously served the DBSA as Executive Manager: Private Sector and International. Before joining the Bank she headed up Wholesale Venture Capital Funds for the Industrial Development Corporation and was an Audit Supervisor at Arthur Anderson & Co.

Lebo Mogotsi
BCom, SMDP

Lebo (35), joined the Merafe Resources Board in 2005. She has considerable experience in beneficiation and the development of markets for products of the beneficiation process, which she gained as Marketing Manager of AngloGold Ashanti. Lebo is also a director of Lebone Resources (Pty) Limited, a women's empowerment mining company focusing on mining, beneficiation and consulting and a shareholder and executive director of Petmin Limited a junior mining company listed on the JSE and on AIM.

Tlamelo Ramantsi
BCom (Accountancy), BCompt (Hons), CA (SA), HDip Tax Law

Tlamelo (31), was appointed to the Merafe Resources Board in November 2006. He is currently a senior account manager with the Industrial Development Corporation - Project and Structured Finance. Prior to joining the IDC Tlamelo was an investment associate with Trilinear Specialised Finance (Pty) Limited, an associate at African Harvest Capital and an audit manager at Gobodo Incorporated.

Mzila Mthenjane
BSc (Eng), SMDP

Mzila (35), was appointed to the Merafe Resources Board in March 2007. He is currently Investment Manager for the mining assets of Royal Bafokeng Holdings. Prior to this he was Vice President, Global Corporate Finance at Deutsche Securities SA (Pty) Limited from 2004 to 2006 and Senior Manager Corporate Development at Gold Fields Limited from 2002 to 2004.





Pipelines and conveyors running between the Premus pelletiser and the furnaces at the Lion Ferrochrome plant in Limpopo Province

Executive directors

Chief Executive Officer
Steve Phiri
BJuris, LLB, LLM, HDip Co Law

Steve (51), joined Merafe Resources as its Chief Executive Officer in May 2003. Before joining Merafe Resources he headed up Corporate and Legal Affairs for the Royal Bafokeng Nation (RBN) and led the negotiating team that successfully resolved the dispute between the RBN and Impala Platinum Limited. In this role he also negotiated the RBN investment in Merafe Resources and the Nation's joint venture with Anglo Platinum Limited.

Steve is a member of the Mineral and Mining Board, which was established in terms of the Minerals and Petroleum Development Act. He is a non-executive director of Royal Bafokeng Resources Holdings (Pty) Limited, Impala Platinum Limited and SA Eagle Limited.

Technical Director
Zed van der Walt
PrEng, BSc Engineering (MET), MBA, DPLR

Zed (62), has over 40 years experience in the ferroalloy industry, which includes operational and executive management experience, feasibility studies, process design, construction and commissioning. He joined Merafe Resources in 2001.

Commercial Director
Bruce McBride
BA, LLB, Dip Advanced Banking, MBA, PhD

Bruce (47), was a senior partner at law firm Bell, Dewar and Hall before joining Merafe Resources in 2001 as Commercial Director. During his time in law he specialised in commercial litigation, banking and mining law. He is a non-executive director of Mundane World Leaders Fund Limited.

Finance and New Business Director
Stuart Elliot
CA (SA), HDip Co Law

Stuart (43), had gained extensive experience in the accounting and corporate finance fields before joining Merafe Resources in 2001. He was an audit manager at KPMG and a senior manager at FirstCorp Merchant Bank. As a project finance consultant with Gencor in London he worked exclusively on Gencor's acquisition of Billiton plc from Royal Dutch Shell. Stuart was also an associate director with Deutsche Bank and a director of the Corner House (Pty) Limited for three years.

Company Secretary
Amritha Mahendranath
BCom

Amritha (39), joined Merafe Resources in 2003 as its Financial Manager. In March 2004 she was appointed Company Secretary. Amritha's previous financial experience includes working for Mondi Limited.





Construction work on the Bokamoso pelletising and sintering plant being constructed adjacent to the Wonderkop plant in North West Province

sustainable development report

Energy efficiency is a key driver in all the Venture's operations. It has the dual benefit of reducing greenhouse gas emissions and the financial benefit in reduced energy consumption.

This report is the fourth sustainable development report released by Merafe Resources as part of its annual report. Its objective is to provide our stakeholders with information on how the many important non-financial issues, risks and opportunities that present themselves have been managed by Merafe Resources and by the Xstrata-Merafe Chrome Venture (the Venture).

Merafe Resources recognises that the key to its long-term prospects is its sustainability and that to achieve sustainability requires integrating economic activity with environmental integrity, social concerns and an effective governance system.

The Company seeks to achieve the high standards of business conduct set out in its Board Charter and Code of Ethics.

Through its investments Merafe Resources is creating value for its shareholders. The efficient management standards in place in its investments also contribute to a sustainable environment because they result in the efficient use of resources and the provision of a safe and healthy working environment.

We work in partnership with our stakeholders on which our business impacts with the aim of achieving results from our activities.

Merafe Resources is committed to the achievement of the vision of the legislation governing the mining industry in South Africa, which is to develop a globally competitive mining industry, which uses the human and financial resources of all South Africa's people, offers real benefits to all South Africans and proudly reflects the promise of a non-racial South Africa.

We believe that poverty alleviation, capacity building and skills training, gender equity, job creation and governance are the critical issues that need to be addressed if progress towards sustainability is to be achieved in southern Africa. This report describes our efforts to address these issues.



Steve Phiri
Chief Executive Officer



governance and management systems

Reporting guidelines

Merafe Resources has adopted the Global Reporting Initiative (GRI) Index guidelines for sustainability reporting as the framework for the preparation of this report. The use of this framework allows the Company to present and analyse its performance in economic, environmental and social terms – the crucial determinants of sustainability and the triple bottom line.

Recognition of the Company's socially responsible approach to business

Prompted by the growing body of evidence suggesting an inter-relationship between socially responsible practices and long-term shareholder value, the JSE Limited established the FTSE/JSE SRI (Socially Responsible Investment) Index in 2003. The Index showcases listed companies who qualify to participate in it. Qualifying companies must meet a rigorous set of criteria in respect of corporate governance and economic, environmental and social sustainability. Every year since the inception of the Index in 2003 Merafe Resources has met these criteria and has been invited to participate in the JSE SRI Index.

Empowerment credentials

Merafe Resources was placed sixth in the Resources Sector of the Financial Mail's Top Empowerment Companies Survey in 2007. Companies participating in the survey are assessed by economic empowerment rating agency Empowerdex, which rates the BEE elements of ownership, management, employment equity, skills development, procurement, enterprise development and corporate social investment.

Governance and management systems

Merafe Resources is committed to best practice in corporate governance. It recognises that strong and accountable governance is directly linked to a company's ability to manage risk and ensure optimal performance and conducts its business accordingly.

Its directors endorse the Code of Corporate Practices and Conduct set out in the King II Report and the Board takes the necessary steps to ensure these recommendations are applied throughout the Company.

To ensure a balance of power and authority there is a clear division of responsibilities among the Company's directors.

In accordance with the recommendations of the King II Report the directors' contracts do not exceed three years.

The Board of directors

The Board, at 31 December 2006, comprised four executive directors and five non-executive directors.

Non-executive directors
Chris Molefe (58) - Chairman
Qinisani Mbatha (29)
Zanele Matlala (43) - Independent
Lebo Mogotsi (35) - Independent
Tlamelo Ramantsi (31)

Executive directors
Steve Phiri (51) - Chief Executive Officer
Bruce McBride (47)
Stuart Elliot (43)
Zed van der Walt (62)

Company Secretary
Amritha Mahendranath (39)

Attendance at the Merafe Resources Board meetings during 2006
Five Board meetings were held during the financial year ended 31 December 2006.

Board Member	No of meetings attended
Non-executive directors	
C Molefe (Chairman) Z Matlala Q Mbatha L Mogotsi T Ramantsi (appointed to the board at the last board meeting of the year)	5 4 5 5 0
Executive directors	
S Phiri (Chief Executive Officer) S Elliot B McBride Z van der Walt	4 5 5 5

Attendance at the Merafe Resources Board sub-committees

Name	Remuneration Committee	Audit Committee	Risk Committee	Transformation Committee	Nomination Committee
Non-executive directors					
C Molefe Q Mbatha J Matlala L Mogotsi	3 2 3 3	3 2	 3 3 3	 2 2	3 2 3 3
Executives and invitees					
S Phiri S Elliot B McBride Z van der Walt L Montshiwagae T Moseki	3	3 3	 3	2 2 1 2	3
Total number of meetings held during the year	3	3	3	2	3



Construction at Bokamoso pelletising and sintering plant in North West Province



The Bokamoso pelletising and sintering plant under construction in North West Province

We continue to make progress towards the King Report recommendations on the composition of boards. The Board's composition is now more in line with the recommendations of the King II Report. There is a balance of executive and non-executive directors. Further, in line with King II the racial and gender composition of the Board is also now more in line with the demographics of the country.

The Board's role, duties and responsibilities in respect of corporate governance, strategic planning and performance, board appointments, compliance with regulations, risk management, accounting and financial compliance, its responsibilities to shareholders and the delegation of operational matters, are set out in the Board Charter. Through its Charter the Board commits itself to openness, integrity and accountability and the provision of timeous, relevant and meaningful reporting to all stakeholders.

In terms of the Board Charter no individual has unfettered powers of decision-making. The Board is ultimately responsible for setting the Company's strategic objectives and establishing key policies. It is also responsible for monitoring their implementation.

The Board retains overall accountability and full and effective control of the Company. Decisions regarding matters that could have a material effect on the business are reserved for the Board. These include the Company's financial and operational results, the strategic direction of the business, major acquisitions and disposals and approval of major capital expenditure.

Mechanisms for shareholder communication with the Board

The formal mechanisms in place for communication with shareholders include roadshows to investors; site visits by institutional investors to the operations of the Xstrata-Merafe Chrome Venture; presentations; the Annual General Meeting; press announcements of the interim and preliminary results; the Company's website and the Annual Report to shareholders.



The Company Secretary

It is the responsibility of the Company Secretary to ensure the Company complies with the JSE Limited Listings Requirements and all statutory requirements. She is also responsible for ensuring that the proceedings and affairs of the directorate, the Company itself and, where appropriate, owners of securities in the Company, are properly administered in accordance with the pertinent laws. It is her responsibility to provide the Board as a whole, and directors individually, with detailed guidance as to how their responsibilities should be properly discharged in the best interests of the Company.

Directors have access to her at all times. Directors and officers of the Company keep her advised about all dealings in Company securities.

Retirement and appointment of directors

To ensure Board continuity, a programme of staggered retirement of directors by rotation at the annual general meeting is in place.

The procedures for appointing directors to the Board are formal and transparent. The Board is assisted, where appropriate, by the Nomination Committee. The Nomination Committee, instructed by the Board, investigates whether or not potential Board members have the necessary skill and experience to make judgments independent of management, on issues of strategy, performance, resources, transformation, employment equity, standards of conduct and evaluation of performance. The Nomination Committee also ensures that potential new directors are fit and proper and not disqualified from being directors. It presents its findings to the Board in order that it may make informed decisions on the appointment of directors.

Dealing in securities

In accordance with the JSE Limited Listings Requirements the Company has adopted a code of conduct for dealing in the Company's securities. During a closed period directors and designated employees are prohibited from dealing in the Company's securities.



The Lydenburg plant in Mpumalanga Province



Board level processes for overseeing, identifying and managing economic, environmental and social risks and opportunities

The roles and responsibilities of the sub-committees that report to the Board on the key issues identified by the Board are set out in the following table, as are the roles and responsibilities of the Executive Committee. The sub-committees meet in accordance with King II recommendations and when necessary.

Executive committee	Remuneration committee	Audit committee
Roles and responsibilities	Roles and responsibilities	Roles and responsibilities
Recommends policies and strategies; monitors and co-ordinates implementation; deals with all executive management business; and is responsible for all material matters that are not the responsibility of the Board.	Establishes the overall principles of remuneration; considers, reviews and approves the Company's policy on executive and non-executive remuneration. From time to time independent external consultants determine that remuneration is in line with industry standards. Bonuses for executive directors are performance-based and are only paid if the Company makes a profit. They are capped at 2.5% of profits and are also restricted to one times annual salary. The Remuneration Committee, together with the Company's auditors, are reviewing the appropriateness of the current share incentive scheme, as many commentators are suggesting alternative performance-based schemes.	Monitors the adequacy of financial controls and reporting; reviews the audit plans of the external auditors and adherence to these plans; considers the extent of non-audit services undertaken by external auditors; ensures that financial reporting complies with IFRS and the Companies Act; reviews and recommends on all financial matters.
Composition of Board committees as at 31 December 2006		
S Phiri+ B McBride S Elliot Z van der Walt	C Molefe+ L Mogotsi J Matlala Q Mbatha S Phiri x	J Matlala+ S Elliot x C Molefe S Phiri

Board expertise

The expertise of the Board members is set out on page 17 and 19 of this report. The directors have a wide range of expertise, including financial, commercial and technical expertise, which they are able to contribute to the Board's deliberations. The independent non-executive directors contribute valuable independent perspectives and judgment.

Overall governance of the Xstrata-Merafe Chrome Venture

A joint board oversees the operations of the Venture, comprising three representatives from each company. Merafe Resources is represented by its Chief Executive Officer (Steve Phiri); Commercial Director, (Bruce McBride); and Finance and New Business Director (Stuart Elliot). Xstrata is represented by the Chief Executive of Xstrata South Africa (Pty) Limited, Peet Nienaber, who is currently also Chairman of the joint board, Mark Moffett (Chief Financial Officer) and Deon Dreyer (Managing Director Alloys). Merafe Resources' representative to the Xstrata-Merafe Chrome Venture (the Venture) at operational level is Technical Director, Zed van der Walt.

	Risk committee	Transformation committee	Nomination committee
	Roles and responsibilities	Roles and responsibilities	Roles and responsibilities
	Assists the Board in the identification of all material risks and sustainability issues to which the Company is exposed. Ensures that the requisite risk management culture, practices, policies, resources and systems are being implemented and are functioning effectively.	Reviews and manages the Company's commitment to social sustainability, the requirements of the Employment Equity Act and the Mining Charter.	Establishes policy governing appointment of directors and considers suitable nominations for appointment to the Board and makes appropriate recommendations to the Board.
	Composition of Board committees as at 31 December 2006		
	Q Mbatha+ L Mogotsi J Matlala Z van der Walt[x]	L Mogotsi+ Q Mbatha B McBride S Phiri L Montshiwagae (not a Board member) T Moseki (not a Board member)	C Molefe+ L Mogotsi J Matlala Q Mbatha S Phiri[x]

+ Committee chairperson x By invitation



The Mototolo UG2 beneficiation plant in Limpopo Province



social sustainability

Our stakeholders

Merafe Resources identifies its stakeholders by assessing its involvement with them, or potential impact on them. Its engagement with stakeholders is as diverse as the various stakeholders in its business.

Stakeholder	Key areas of interest	Engagement
Shareholders and the investment community Merafe Resources has a simple shareholder structure. At 31 December 2006 public and institutional shareholders held 68.6% of the Company's shares. Included in this, Royal Bafokeng Resources Holdings (Pty) Limited held 30.76% of its shares and the Industrial Development Corporation (IDC) held 23.35% of the Company's shares.	: Merafe Resources' returns to shareholders and potential for future returns; : Financial and non-financial risk management; : Governance; and : Performance against strategy.	During the year the Company communicated with its shareholders through: : Roadshows to investors; : Site visits by institutional investors to the operations of the Xstrata-Merafe Chrome Venture; : Presentation at the Nedcor Securities mid-cap conference; : Annual JSE Mining Companies Showcase presentation; : Presentation to Metal Bulletin's 7th Asian Ferro Alloys Conference; : Annual General Meeting; : Press announcements of its interim and preliminary results; : Annual Report to shareholders; and : The Company's website.
Providers of capital	: Ability of the Company to repay borrowings; and : Risk management.	The Company borrows from South African banks. Regular meetings are held with its bankers. Details of its bankers are to be found on the inside back cover of this report.
Customers Our customers are stainless steel mills in South Africa, Europe, the Far East and the Americas. They set the specifications for the product we produce and we produce according to these specifications.	: Product quality; and : Contract and delivery terms.	Glencore International AG markets the majority of the Venture's production. While Glencore International AG and the Venture's marketing team are responsible for maintaining its customer relationships, Merafe Resources continues to interact with customers of the Venture. It also continues to attend global ferrochrome conferences attended by producers and customers.



	Employees As at 31 December 2006 Merafe Resources had 11 employees while the Venture (which includes employees of Merafe Ferrochrome and Mining) had 5 400 employees.	: Remuneration, benefits and workers' rights; : Recruitment, training, career development and opportunities; : Operational practices (e.g. health and safety initiatives); and : Community issues (health, education, housing, education and job creation).	Communication with employees includes: : Site specific newsletters; : Management and team meetings; : A communication forum at each operation; : Trade Unions; : Skills development committees; : Employment equity committees; : HSEC Group newsletter; : Ethics line; : Cultural surveys; and : Helpline.
	Suppliers	: Venture's requirements regarding HDSA procurement and procurement policies; : Venture's requirements regarding HSEC standards; and : Contract terms and delivery.	All purchasing for the Venture's operations is handled by the Venture. A procurement committee awards tenders and supply contracts. All potential suppliers are required to provide details of the HDSA shareholding/participation in their businesses. A scorecard has been established and the Venture's current level of procurement has been identified and recorded. The HDSA percentages of the total procurement spend was 43% during the financial year. The definitions of HDSA ownership applied by the Venture are as follows: Black Owned – 50% + 1 vote; Black Empowered – between 25.1% and 50%; Black Influenced between 5.1% to 25%.



Communities	: Environmental impacts and management systems of operations; : Social infrastructure and development including education, health, youth development, sports and culture; : Enterprise development and job creation; : Support for community initiatives; : Social impacts of operations; : Protection of traditional rights, cultural heritage, sacred sites and protected areas; and : Sustainable community benefits after closure of operations.	Merafe Resources and the Venture focus on the communities in the immediate vicinity of their operations. The relationship that each operation has with the community within which it operates is managed by the Venture. The Venture's Transformation Manager, who is a member of the Venture's Exco, is responsible for reviewing community engagement and feedback processes within the Venture. Through the Royal Bafokeng Resources Holdings (Pty) Limited, the Royal Bafokeng Nation (RBN), a community of some 300 000 people, is a major shareholder in Merafe Resources and participates in the Company at Board level.
Trade Unions	: Remuneration, benefits and workers' rights; and : Operational practices (e.g. health and safety initiatives).	In terms of the mines and smelters that make up the Venture, mine employees are represented by the National Union of Mineworkers (NUM) and those employed at the furnace operations are members of the National Union of Metal Workers of South Africa (NUMSA). Recognition agreements and union structures are used for the purposes of consultation and communication on union matters.
Government	: Metals and mining industry policy development and regulation; : Royalties and taxes; : Mining rights; : Environmental performance with regard to regulations; and : Management of operations - operational practices including health and safety, environmental practices and community relations.	Merafe Resources regularly interacts with National Government's Department of Minerals and Energy and with the Government of the North West Province in which its operations are based. The Company's Chief Executive Officer participates in Government forums, both in terms of mining issues and BEE. He is also a member of the Government's Minerals and Mining Board.

Business partners	: New acquisitions and developments; : Financial returns; : Risk management; and : Regulatory and policy compliance.	Merafe Resources engages with its partners in the Venture, Xstrata South Africa (Pty) Limited, through regular joint board meetings, the Venture's Exco and regular contact on operational issues.

Externally developed principles, charters and initiatives to which Merafe Resources subscribes.

Merafe Resources is committed to the principles of the Broad-Based Socio-Economic Empowerment Charter (the Charter) for the South African mining industry and the Mining Scorecard established to monitor performance against the Charter. Through the Charter, the mining industry committed to aspiring to a baseline of 40% historically disadvantaged participation in management within five years (2007). To ensure higher levels of inclusiveness and advancement of women they committed to a baseline of 10% of women participation in the mining industry, also within five years.

This year Merafe Resources' efforts towards socio-economic empowerment were recognised in the Financial Mail's 2006 Top Empowerment Companies Survey, which is conducted by the Empowerdex Economic Empowerment Rating Agency. The areas with empowerment potential on which the participants are measured are: ownership, management, employment equity, skills development, preferential procurement, enterprise development and corporate social investment.

Merafe Resources' performance against the Mining Scorecard (this includes the operations of the Xstrata-Merafe Chrome Venture)

Scorecard items	Progress made towards target
Human resources development Every employee offered the opportunity to be functionally literate and numerate by 2005.	All employees were offered the opportunity to be functionally literate and numerate by 2005. Currently, the literacy levels are 85.28% at ABET level 3 and 75.8% at ABET level 4. In addition to offering ABET training to all its employees, the Venture has established ABET Centres that offer skills training to the unemployed in some of the communities where the Venture operates.
Career path and skills development plans implemented for all HDSA employees.	Evaluation interviews are conducted with individual employees to determine their aspirations and qualification levels. Their potential is also assessed. Defined career paths are assigned depending on the candidate's ability and ambition. In instances where it is appropriate further education is offered.
Has the company developed systems through which empowerment groups can be mentored?	The Venture has a mentorship programme in place, which provides policies and procedures for mentorship to ensure the transfer of knowledge and skills from experienced employees, to provide additional career and personal development support and facilitate accelerated development of those selected for mentorship by the organisation.



Employment equity Has the company published its employment equity plan and reported on its annual progress in meeting that plan?	Yes. An employment equity plan, in which annual progress towards meeting the plan's targets is reported, is published every year.
Has the company established a plan to achieve a target for HDSA participation in management of 40% within the five years (2007) and is it implementing the plan?	The Venture has established a plan to achieve a target of 53% HDSA participation in management in the Xstrata-Merafe Chrome Venture by 2007. HDSA participation in the Merafe Resources head office management team in 2006 was 57%. HDSA participation in management in the Venture's operations during 2006 was 44%.
Has the company identified a talent pool and is it fast tracking it?	Yes. The Venture's fast track prospects receive international exposure through extended technical visits to Xstrata's overseas operations. High potential HDSAs participate in a mentorship and coaching programme described under Human resources development on page 31.
Has the company established a plan to achieve the target for women participating in mining of 10% within the five years (2007) and is it implementing the plan?	Yes. The percentage of women employed at Merafe Resources is 45%. The percentage of women employed in the Venture is currently 8%. A plan is in place to ensure the target of 10% is achieved throughout the Venture by 2007.
Migrant labour Has the company subscribed to government and industry agreements to ensure non-discrimination against foreign migrant labour?	Yes. In addition, the policies and procedures of the Venture comply with foreign and local treaties and agreements on migrant labour and are aimed at ensuring that all employees are treated fairly, without bias or discrimination. The operations that fall within the Venture do not use foreign migrant labour.
Mine community and rural development Has the company co-operated in the formulation of integrated development plans and is the company co-operating with government in the implementation of these plans for communities where mining takes place and for major labour sending areas? Has there been effort on the side of the company to engage the local mine community and major labour sending area communities (companies will be required to cite a pattern of consultation, indicate money expenditures and show a plan)?	The Venture plays a central role in the communities that exist alongside its operations. It works closely with the relevant local governments, Local Economic Development forums and other regional business bodies to facilitate and help meet their needs outlined in the Integrated Development Plans (IDP). Details of the programmes in place are provided in the Social Impact section of this Sustainability Report.
Housing and living conditions For company-provided housing has the mine, in consultation with stakeholders, established measures for improving the standard of housing, including the upgrading of hostels, conversion of hostels to family units and promoted home ownership options for mine employees?	The Venture's employees are local to its operations. A funding programme has been introduced to help employees buy or rent a home near their place of work. This programme has enabled families to live together and has resulted in small communities developing near the Venture's operations.

Has the company established measures for improving the nutrition of employees? Companies will be required to indicate what they have done to improve nutrition and show a plan to progress the issue over time and implementation of this plan.	The Company does not provide meals for its staff unless they are at work for longer than eight hours.
Procurement Has the company given historically disadvantaged South African's preferred supplier status?	Yes. The Venture has embarked on a supplier transformation process aimed at encouraging non-HDSA suppliers to transform. It is fast-tracking BEE procurement and through its enterprise development programme is supporting the development of HDSA SMMEs.
Has the Company identified the current level of procurement from historically disadvantaged South African companies in terms of capital goods, consumables and services?	Yes. The Venture had a target for 2006 of 45% HDSA procurement spend on capital goods, consumables and services. It fell slightly short, achieving a 43% HDSA spend by 31 December 2006 which amounted to R 1,5 billion. The Venture's HDSA procurement target for 2007 is 55%.
Has the company indicated a commitment to a progression of procurement from historically disadvantaged South African companies over a 3-5 year time frame in terms of capital goods, consumables and services and to what extent has the commitment been implemented?	In year 1 (2004) the Venture had an HDSA procurement target of 25%. In year 2 (2005) its target by year end was 35%, which was achieved. In year 3 (2006) its target was 45% HDSA procurement and 43% was achieved. In year 4 the target is 55% and in year 5 it is 65%.
Ownership and joint ventures Has the company achieved historically disadvantaged South African participation in terms of ownership for equity or attributable units of production of 15% in historically disadvantaged South African hands within five years (2007) and 26% in 10 years (2014)?	The Company has exceeded both the target for 2007 and that for 2012. As at 31 December 2006 Royal Bafokeng Resources Holdings (Pty) Limited owns a 30.76% shareholding in Merafe Resources.
Beneficiation Has the company identified its current level of beneficiation?	Yes. The main business of the Venture, which manages the Company's assets, is the beneficiation of chromite into ferrochrome in 20 furnaces in South Africa.
Has the company established its base line level of beneficiation and indicated the extent that this will have to be grown in order to qualify for an offset?	Yes.
Reporting Has the company reported on an annual basis its progress towards achieving its commitments in its annual report?	Yes. Every year the Company's Annual Report records the Company's progress towards its commitments.



Preparing for a tap at the Lydenburg plant

Social performance

The 10 principles of the UN Global Compact, which are a set of core values in the areas of human rights, labour standards, the environment and anti-corruption, are applied in the Venture's operations. Our partner, Xstrata, is a signatory to this Compact.

Net employment creation during the year was 1 415 positions and a total of 287 employees left the employ of the Venture, which resulted in a 5% turnover of staff during the year. The total number of people on the Venture's workforce as at 31 December 2006 was 5 400.

Employee representation

Merafe Resources and the Venture recognise the right of their employees and contractors to freely associate and join trade unions. Potential employees are advised of this. The percentage of Venture employees represented by independent trade unions is over 60%. The Venture has a collective agreement in place regarding consultation and negotiation with employees over changes in its operations. In addition there are various forums in place which provide formal worker and management representation in decision making around issues.

Employee benefits

In addition to the legally mandated employment benefits, Merafe Resources and the Venture offer their staff retirement benefits in the form of provident funds. In addition both Merafe Resources and the Venture offer their staff medical aid benefits.

Employment equity

All the operations within the Venture publish employment equity plans and report annually on their progress towards achieving their targets. In addition, each operation in the Venture is monitored monthly by management and the employment equity committees in place at each operation. The Venture's Board also regularly receives an employment equity progress report.

The Venture has programmes and processes in place aimed at providing a work environment and terms and conditions of employment that are free from discrimination. Discrimination is not tolerated in the workplace. All employees receive the Venture's Statement of Business Principles in their first language. These Principles are an integral part of the induction process for new employees and contractors.

Policies reinforced through contracts of employment, induction, tool box talks and ongoing training are the Venture's Employment Policy, Fair Treatment at Work Policy, Equal Employment Opportunity Policy, Sexual Harassment Policy, Data Protection and Private Policy, Risk Management Policy and Fraud Control Policy. A grievance policy and procedure is in place. A toll-free confidential ethics line, operated independently by KPMG, allows employees to report any breach of the Business Principles. All suppliers, contractors (including security personnel) and business partners are provided with the Venture's Statement of Business Principles. In addition there are a number of systems and forums including management briefings in place that encourage employee feedback.

The Venture supports the Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work is set out in the Business Principles. It also upholds the elimination of all forms of forced and compulsory labour and excludes the use of child labour. All operations report the age of their youngest employees and are audited through the internal audit and risk management programme.

Recruitment and training

The Venture, which had in its employ 5 400 people on 31 December 2006, views employing and providing opportunities for the self-realisation of any disadvantaged group as a priority. It has a gender-specific recruitment programme and 50% of its bursaries go to women.

A full time mentorship and coaching programme is in place at all Venture operations for employees receiving educational assistance, employees that have entered into learnership agreements, fast-tracked employees and those on the Venture's list for accelerated development.

In terms of the South African skills Development Act all the Venture's operations have a workplace skills plan in place. During the year the average number of training days per employee was 15.

Community and social development

The Venture works with local communities to contribute to the development of sustainable communities.

All the Venture's operations are required to plan, design, operate and close operations in a manner that will enhance sustainable development. The Venture's community relations plans and activities are complemented by corporate social involvement plans that cover each operation and which are developed in consultation with local communities. Social impact assessments identify the key risks and potential impacts and strategies are implemented to address these.

The Venture employs local people in its operations wherever possible. An example of an initiative to support education and training, which will build capacity and enable increased local employment at the Venture's operations and elsewhere, is the training centre established near the Lion Ferrochrome plant in the Limpopo Province where there is a high concentration of unskilled, unemployed people.



Helena mine at the Thorncliffe mining complex in Limpopo Province



Miners using a chairlift to descend into the Helena mine at the Thorncliffe mining complex in Limpopo Province

The Venture works with local communities to contribute to the development of sustainable communities. We uphold human rights and respect local interests, cultures and customs.

Although the Venture works closely with its local communities it recognises that sometimes it does not satisfy their expectations. As a result there is a documented process in place which community members can use to contact our operations directly to make enquiries or to complain. Each inquiry or complaint is assessed and the necessary steps are taken to address the concerns raised. Feedback is given to the person/community making contact and, if relevant, the outcome is discussed at a community meeting.

The Venture complies with the South African Constitution and the Mineral and Petroleum Resources Development Act (MPRDA), which govern and protect local communities' land and customary rights.

The Venture's corporate social involvement programme supports a wide range of initiatives including enterprise and job creation, with the key social involvement being in education and health. Employment equity planning to comply with the Mining Charter is supported by bursaries and development schemes at universities.

It does not support political parties; individuals or church/religious activities that are exclusive to a one faith community.

The Venture has made considerable progress in the area of enterprise development and job creation. The Supplier Park and Business Linkage Centres the Venture plans to establish in the North West, Limpopo and Mpumalanga provinces are intended to correct imbalances that have been identified. Currently 80% of the procurement spend of the operations is spent outside the provinces in which they are located, because of the lack of infrastructure, capacity, resources and skills in these provinces. Establishing supplier parks designed to accommodate suppliers to industry sectors close to mining and smelting operations will give local communities ownership opportunities in joint ventures, it will create employment opportunities and allow for preferential procurement from local BEE suppliers. It will also stimulate socio-economic growth and development in these provinces.

From the Venture's point of view (and that of other mining and smelting operations) it will mean that operations can decrease their stockholdings because suppliers will hold the stock in close proximity to the operations. Also, instead of the operations managing inventories, locally based vendors can take over this responsibility. Local supplier parks will also shrink delivery lead times and distance cycles.

environmental sustainability



The Lion Ferrochrome plant in Limpopo Province with the berm wall built to reduce noise from the plant in the foreground

Health

The health and well-being of its employees, contractors and the communities in which the Venture operates, are critical to the success of our business. The Venture's occupational health and hygiene programmes include the identification of health hazards, assessment of exposure with reference to internationally recognised monitoring standards, implementation of controls to eliminate or minimise exposure to the hazards, and the provision of personal protective equipment where controls do not effectively reduce the risk of exposure.

All employees complete medical examinations before they join the Venture to assess fitness for their function and regular relevant medical examinations are conducted during employment. The frequency of medical examinations varies depending on the nature of an employee's role, their age and general health and the presence of pre-existing conditions. Medicals are also conducted when employees leave the business.

Health risk assessments are carried out regularly for each function and employees and contractors are monitored in accordance with the risk assessment for their function.

No Venture operation was fined or prosecuted for occupational health-related issues during the year.

The Venture's management recognises that the health of its employees depends on more than freedom from occupational illnesses but also encompasses their broader wellbeing. As a result it has introduced a wellness programme which incorporates an award-winning HIV/AIDS programme.

HIV/AIDS

Based on the operations tested it is estimated that around one in five employees and contractors are HIV positive, which makes HIV/AIDS the most significant health issue facing the Venture. It has developed a business-wide sustainable development strategy which makes specific provision for HIV/AIDS impact studies and programmes to address education, testing, treatment and training.

The Venture has a steering committee dedicated to managing HIV/AIDS issues. The committee includes senior management, union representatives, government representatives, the Venture's medical officer and external healthcare providers. There are also site level HIV/AIDS steering committees, which include union representatives, HR managers, the general manager of the operation and peer educators. In addition to HIV/AIDS prevention, testing and treatment programmes for employees and contractors, the Venture is attempting to address some of the far reaching social, cultural and financial implications and causes of the pandemic through its community initiatives.

Noise

The key occupational health risk associated with the Venture's operations is hearing loss. It is the primary cause of new occupational illnesses reported each year. The elimination of noise-induced hearing loss (NIHL) is a key priority in the Venture's occupational hygiene programmes. It mitigates the risk, wherever possible, by monitoring employees' exposure and reducing noise at the source to below the recommended international standards. Where this is not possible the Venture has comprehensive hearing conservation programmes in place and provides personal protective equipment (PPE) as an interim measure until noise level risks are mitigated to an acceptable level.

Audiometric testing and baseline assessments are carried out at every operation. In addition, measures to eliminate or minimise noise include 'buy quiet' procurement policies and equipment design criteria; sound maps (noise contour maps), risk assessments to determine the most at risk areas in each operation and the addition of soundproofing materials or the construction of enclosures to contain noise.



The Wonderkop plant in the North West Province

Hexavalent chromium

Under certain conditions during the production process of ferrochrome, very low concentrations of hexavalent chromium, a known carcinogen, may be produced. The Venture researched ways to improve the accuracy of sampling for this unstable compound and, together with scientific and academic experts, has developed a standard for sampling and analysis at its operations. Health risk assessments are conducted to manage this issue. Non-invasive biological monitoring for hexavalent chromium is undertaken for all exposed employees.

All the Venture's operations have air quality management programmes that include fume extraction hoods for all furnaces, comprehensive sampling and analysis of all waste streams including ambient air and water and biological monitoring for hexavalent chrome.

Safety

It is the Venture's aim to operate an injury, illness and fatality-free business. It has made significant improvements in safety improvements by implementing baselines, critical and issue-based risk assessments and action plans, job hazard analyses, planned task and behavioural observations and planned inspections.

All operations have comprehensive safety management systems, which are fully aligned to the international Occupational Health and Safety (OH&S) management standards OHSAS 18001 and AS/NZS 4801. The Lydenburg smelter is externally certified to OHSAS 18001 and the management systems at Rustenburg, Wonderkop and Boshoek smelters are certified to IS0 9001.

An analysis of fatal and high potential incidents since 2002 shows that the three principal causes of critical incidents are falls of ground, mobile equipment and interaction of people and plant/machinery. Safety leadership is essential to managing major hazards and needs to be enhanced at supervisory level.

To provide employees and contractors with a practical tool which they can use to minimise risk a series of Golden Rules has been developed for each hazard. An interactive simulated training programme is used to teach hazard identification and corrective actions. ICAM (the recognised incident, cause, analysis method of incident investigation) has been introduced to investigate all lost time, restricted work and high potential risk incidents. A detailed Trigger Action Response Plan (TARP) system has been developed for major risks. The TARP system goes hand in hand with Major Hazard Management Plans which evaluate leading and lagging indicators.

(l-r) Samuel Radingwana, Trevor Sepudumo, Davies Marebane, Karabo Modipi, Simon Sebulela and Elias Ntsodi who are being trained as mechanical fitters in the workshop of the skills development centre established at the Lion Ferrochrome plant to train artisans and increase the skills base of the local community.



The fact that the Venture had a fatality-free year in 2006 seems to indicate that the intensive fatality prevention programmes introduced at its operations during 2005, to tackle the key causes of fatal incidents and to address the challenges the analysis had identified is proving effective.

The Venture has a complete crisis management manual held at its Head Office and there are emergency preparedness manuals at all its operations. Crisis management teams have been developed. During 2006 emergency drills took place at the Wonderkop, Boshoek, Rustenburg and Lydenburg smelters. The Wonderkop and Lydenburg drills were elevated to include the Crisis Management Teams at Head Office. The emergency preparedness procedures in place allow the operations to identify, prepare and respond to emergency situations affecting employees, communities or the environment and address the requirements to ensure business continuity.

Environment

The Venture is committed to limiting the environmental impacts of its operations through efficient use of natural resources, the reduction of input of materials and waste; contributing to the conservation of biodiversity; planning, designing, operating and closing operations in a manner that enhances sustainable development; and continually improving its Health, Safety, Environment and Community (HSEC) performance by measuring and reviewing the effectiveness of, and compliance to, its HSEC management systems.

The Venture works with local communities to contribute to the development of sustainable communities.



The following 17 HSEC management standards are implemented throughout the Venture:

- Leadership, accountability and ethics;
- Planning, resources, objectives and targets;
- Competency and behaviour;
- Communication and engagement;
- Risk and change management;
- Catastrophic hazards;
- Legal compliance and document control;
- Operational integrity;
- Health and occupational hygiene;
- Biodiversity and land management;
- Contractors, suppliers and partners;
- Community;
- Project management;
- Product stewardship;
- Incident management;
- Assessment and reporting; and
- Emergencies, crises and business continuity.

Details of these 17 standards can be found on the Merafe Resources website.

The external 17 standards audits accommodate all the requirements of ISO 14001, 9001 and OHSAS 18001. An external HSEC assurance audit is conducted on each operation every two years. It measures the overall and standard by standard performance of an operation. Each site develops a detailed HSEC improvement plan after the audit. The effectiveness of the process is clear from the improvements in the latest audit results where there was an overall improvement in the audit results of the Venture's operations of around 27% over the previous audit. All the Venture's sites are ISO 14001: 2004 standard certified.

The Venture takes the precautionary approach. As expressed in Principle 15 of the Rio Declaration on environment and development, this requires that “where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation”.

Biodiversity

In 2005 the Venture's operations were all independently audited against the Biodiversity and Management Standard and were assessed to identify sites located in or adjacent to biodiversity-rich habitats and sensitive areas. None of the Venture’s operations are located in biodiversity-rich habitats.

Resource management

Energy efficiency is a key driver in all the Venture's operations. It has the dual benefit of reducing greenhouse gas emissions and the financial benefit of reducing energy consumption.

The increased use of pellets in the Venture's operations has reduced the energy required to run its smelters and once the Bokamoso pelletising and sintering plant comes into production in 2007 the further increase in the use of pellets in its operations is expected to reduce energy use even further. The patented Premus technology used at the new Lion Ferrochrome plant reduces electrical energy consumption by using waste gas and heat. It provides high recoveries of metallic oxides while using low-cost reductants and energy sources such as anthracite and oxygen.

Rehabilitation and mine closure

The Venture's Biodiversity and Land Management Standard requires that all operations rehabilitate disturbed and contaminated land progressively. All operations have procedures in place to ensure that disturbance is minimised and that, once land is disturbed, it is rehabilitated to an agreed land use. Closure plans exist for all Venture operations including detailed closure cost estimates. These plans form the basis of financial planning for closure.

The total amount of land disturbed for production purposes by the Venture in 2006 is 898 hectares. The land owned, leased and managed by the Venture that has not been disturbed is 1 567 hectares. Land rehabilitated during the year by the Venture is 37.5 hectares.

Water management

Effective water management and conservation is critical to the long-term viability of the Venture's operations. Increased recycling of water at the Venture's smelters has helped to contain water usage.

Air quality and emissions

The Venture monitors the air emissions produced from its mining and metal production. It monitors and manages sulphur dioxide, oxides of nitrogen, methane, CFCs and carbon dioxide. Around half of the Venture's green house gas emissions are derived from the use of electricity generated predominantly from coal and fossil fuels.

The Venture has programmes in place to reduce dust on dirt roads by water spraying and replacing dust roads with permanent surfaces. Its scheduled activities are controlled by air quality licences as required by the National Environmental Management Air Quality Act, in conjunction with Environmental Impact Assessments (EIA) and Environmental Management Programme Reports (EMPR).



Pellets produced by the Premus process in the Lion Ferrochrome plant in Limpopo Province



The Boshoek plant in North West Province

Level of independence of non-executive directors as at 31 December 2006



- 40% Independent
- 60% Not independent

Board composition as at 31 December 2006



- 56% Non-executive
- 44% Executive

Racial composition as at 31 December 2006



- 67% Black
- 33% White

Gender composition as at 31 December 2006

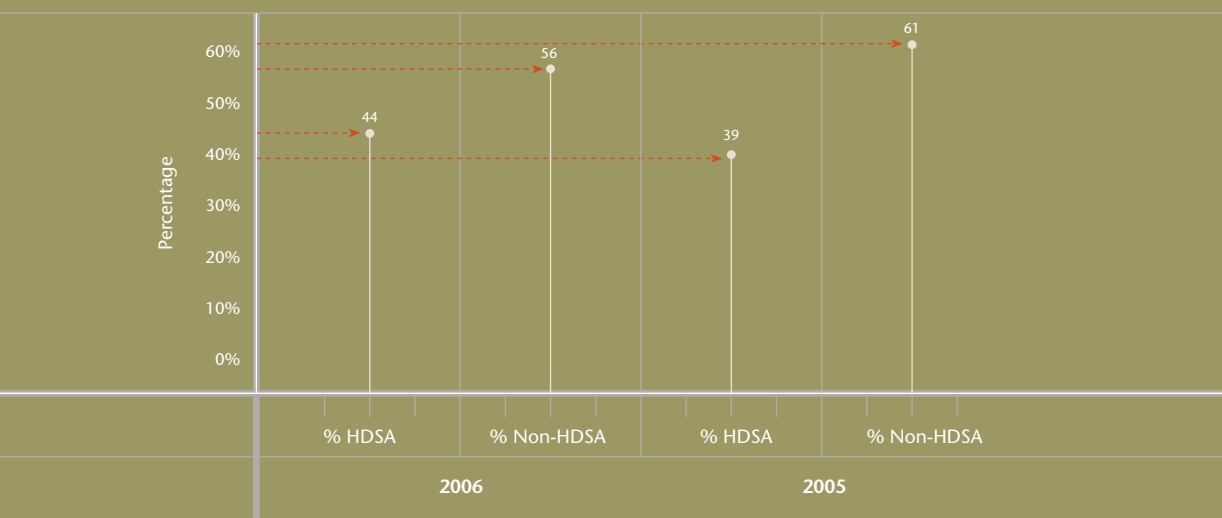


- 22% Female
- 78% Male

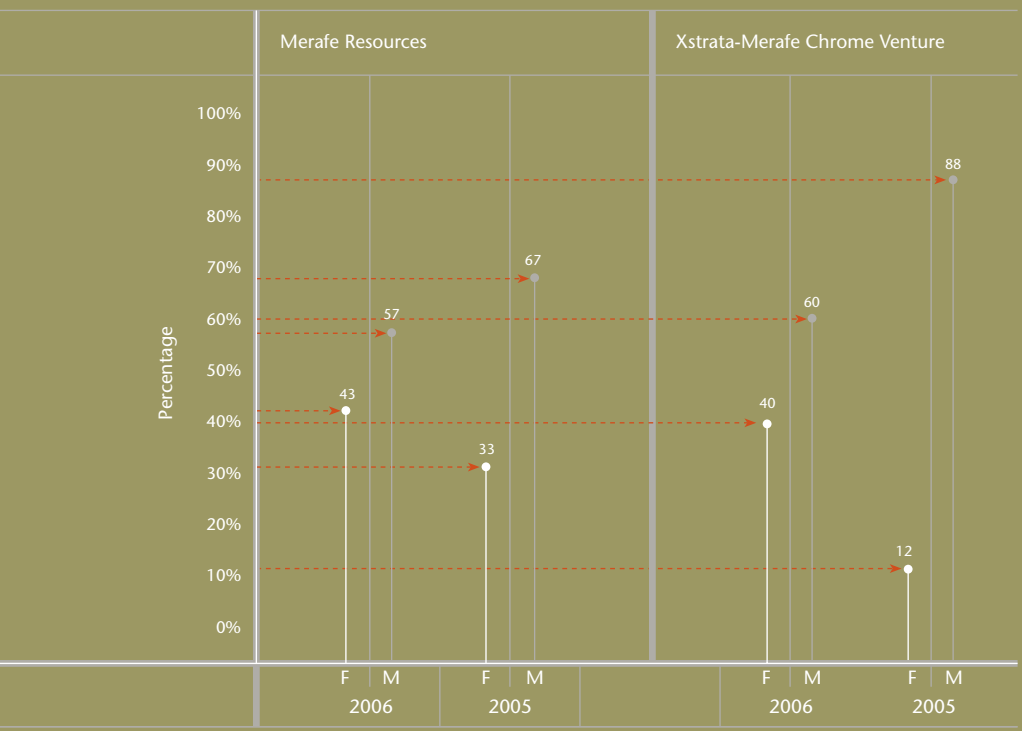
Merafe Resources management team as at 31 December 2006



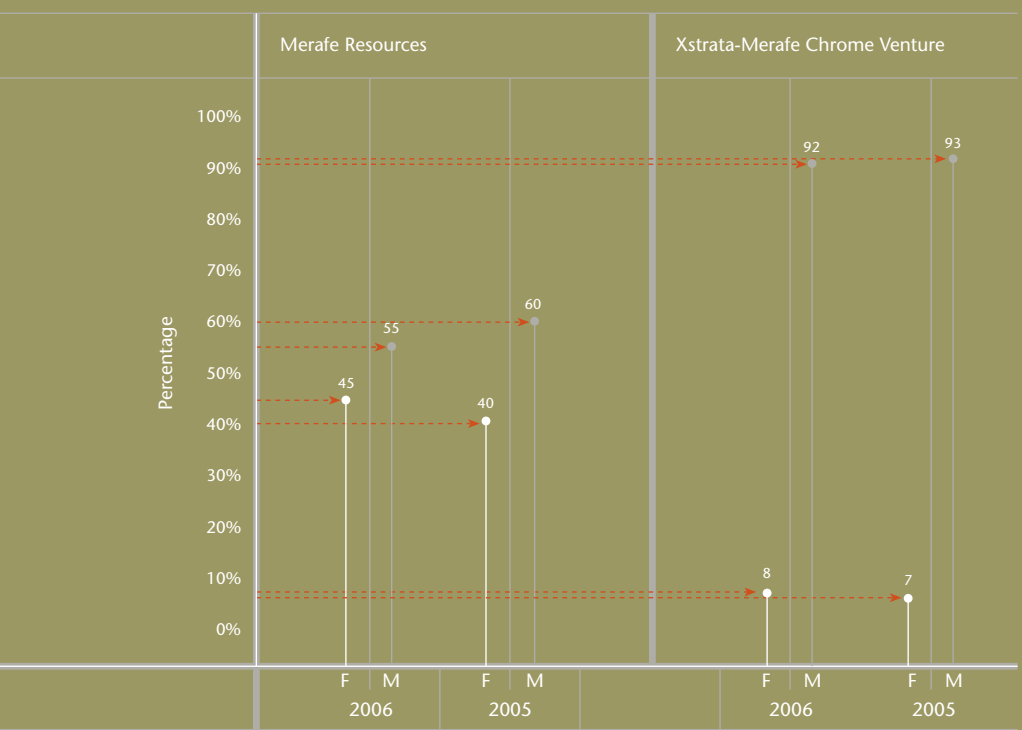
Xstrata-Merafe Chrome Venture management team as at 31 December 2006



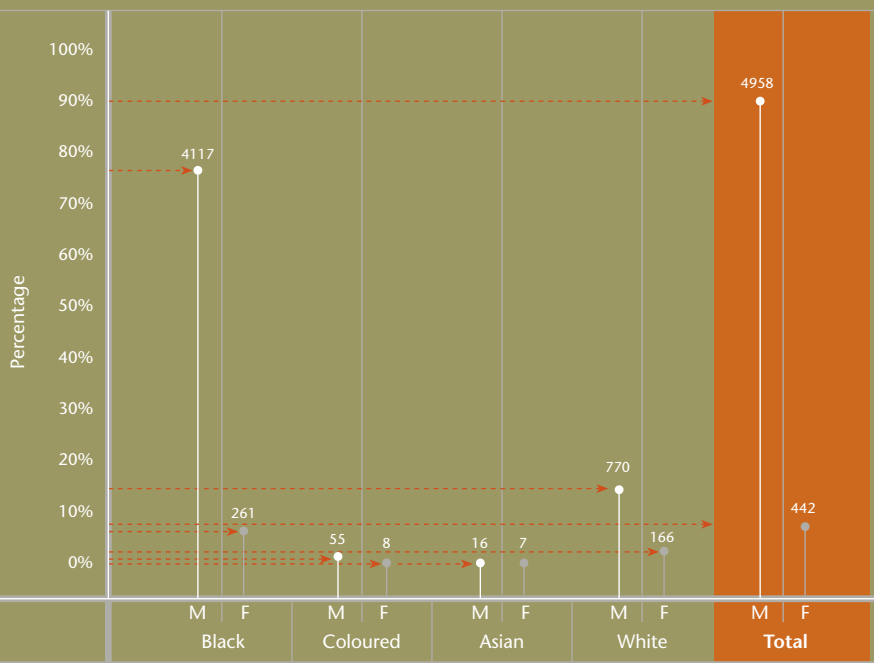
Females in management as at 31 December 2006



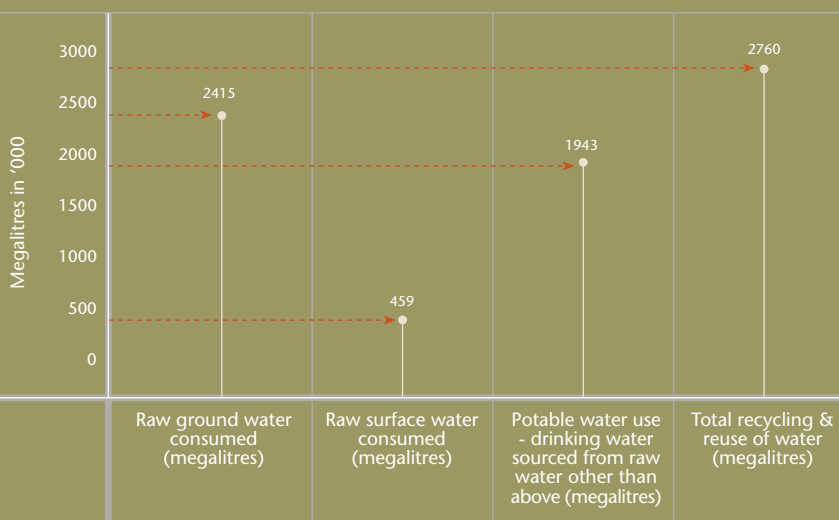
Female staff members as at 31 December 2006



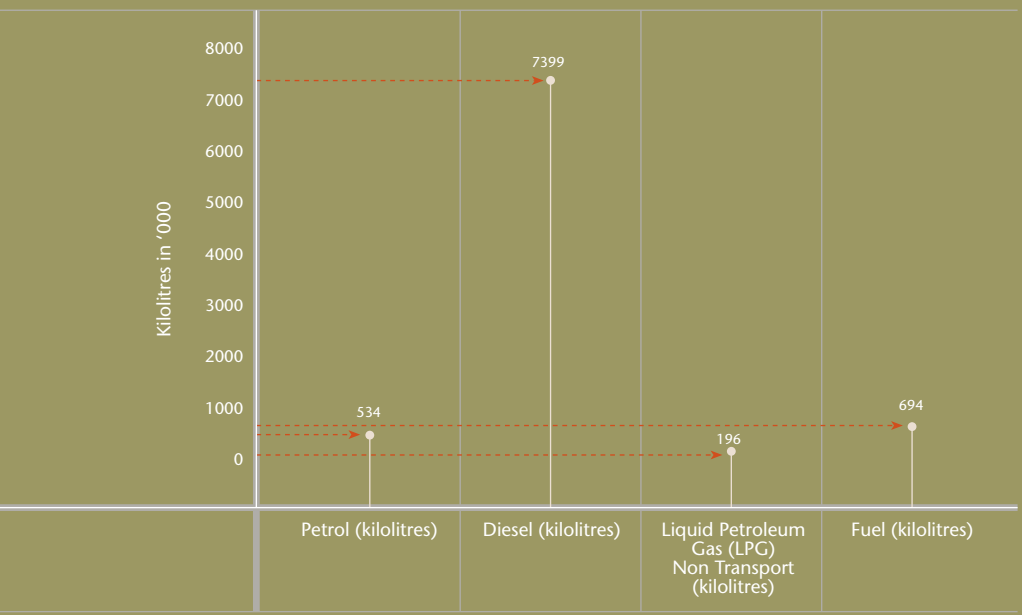
Xstrata-Merafe Chrome Venture staff racial breakdown of operations as at 31 December 2006



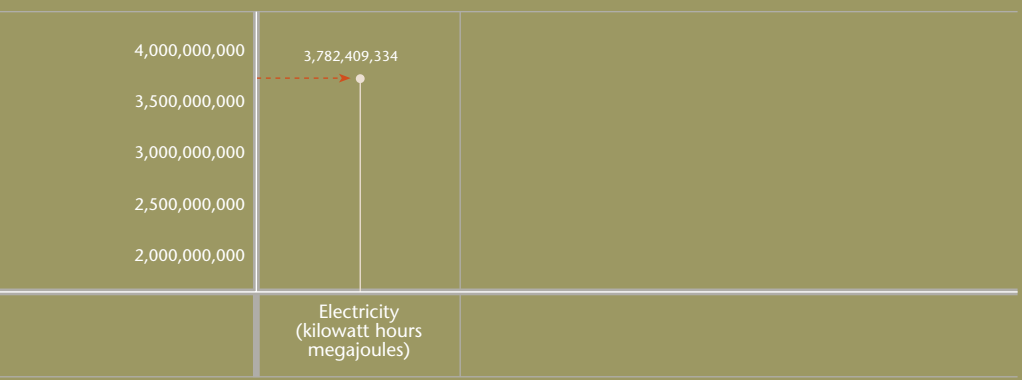
Venture's water usage during 2006



Direct energy use by the Venture during 2006



Electricity use by the Venture during 2006



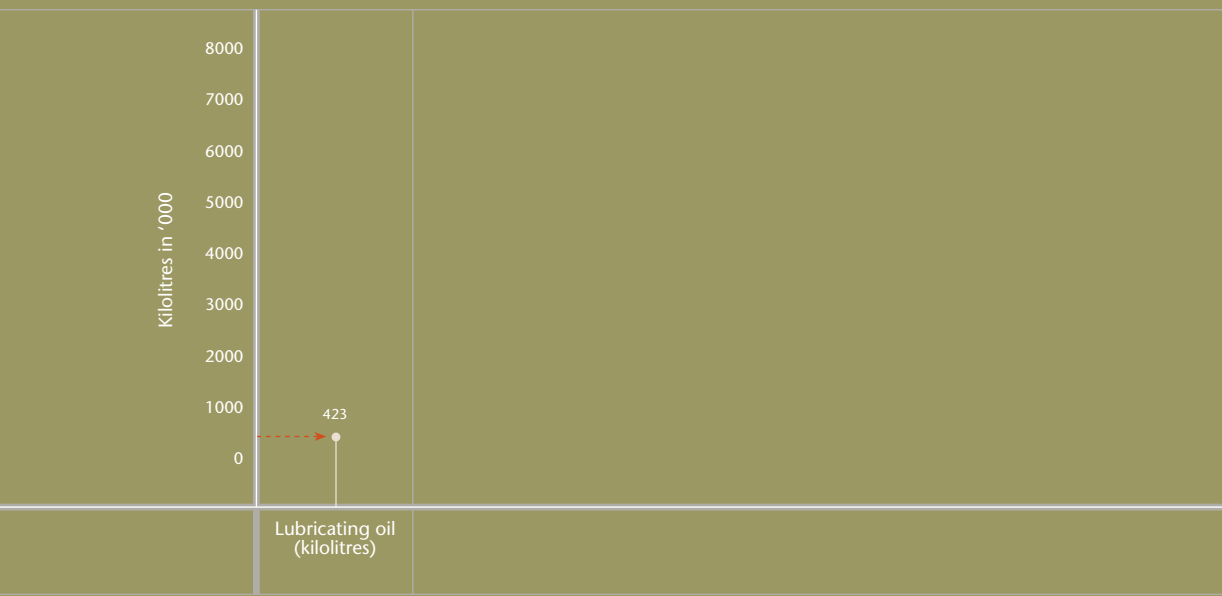
Comparative analysis of safety statistics - Venture Employees & Contractors
2002 - 2006

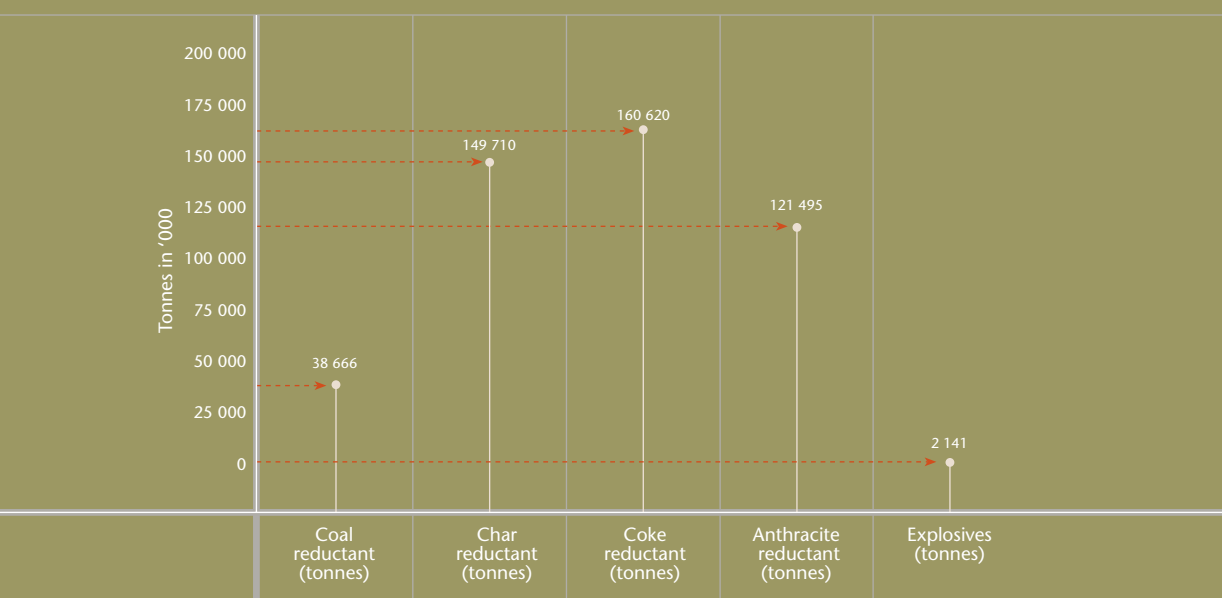
	2002	2003	2004	2005	2006
FFR	0.33	0.23	0.16	0.22	0.00
LTIFR	10.62	5.67	5.39	4.22	2.22
TRIFR	33.91	15.71	16.82	11.41	8.04

FFR: Fatality frequency rate
LTIFR: Lost time injury frequency rate
TRIFR: Total recorded injury frequency rate

Total material use other than water

The following materials were used by the Venture during 2006 - 6% of the materials used are recycled and sourced externally.





Effective water management and conservation is critical to the long-term viability of the Venture's operations. Increased recycling of water at the Venture's smelters has helped to contain water usage.

Environmental fines and penalties

No environmental fines or penalties were issued to any of the Venture's operations during the year.

Product stewardship

Ferrochrome is the final product produced by the Venture. Most of the ferrochrome it produces is used in the manufacture of stainless steel. As stainless steel is a corrosion resistant alloy their life expectancy is usually long. A minimum of maintenance is needed and it offers attractive life-cycle cost benefits over alternatives such as carbon steels.

Stainless steel is easily cleaned and so an obvious choice for food and beverage manufacturing industries and catering equipment. There are no proven health risks from the normal use of stainless steel. Scrap stainless steel is recycled and it is one of the main sources of raw material for making stainless steel. This re-cycling route has been established for many years and the economics of the stainless steel making industry depend on recycling.

The steel is melted electrically and in most cases refined by using inert air distilled gases, such as argon. Great care is taken to minimise fume and dust emissions. Some plants are equipped to re-cycle dust into the steel making process. Most of the steel processing consumable materials, including cooling water, lubricating oils, pickling acids and "inter-leaving" paper are re-cycled in the plant or by specialist contractors. Stainless steel fabricators and processors recycle their scrap arisings and in-process consumables, including "caking" pickling acid residues for recycling. Closure plans exist for all Venture operations including detailed closure cost estimates. These plans form the basis of financial planning for closure.



The Lion Ferrochrome plant in Limpopo Province