MERAFE
RESOURCES
Registration number 1987/003452/06

• 31 December •

2007

• Annual Report •







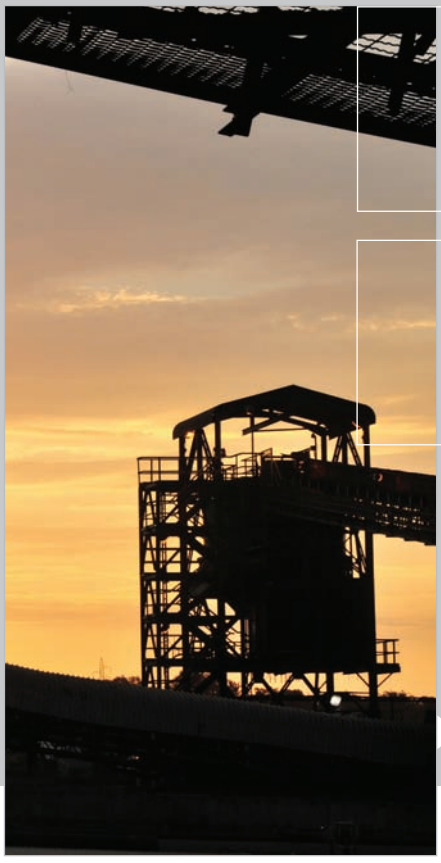


• 31 December •

2007

• Annual Report •

Our goals



- To ensure that our interests in the ferrochrome industry are profitable and sustainable
- To grow our interests in ferrochrome and coal



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 industries 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, uncertainty surrounding the supply of electrical power, the risks involved in mining and smelting operations and the operating procedures of the Xstrata-Merafe Chrome Venture and Merafe Coal.

Our strategy

- Organic growth in the ferrochrome industry through expansion
- Acquisitive growth in the ferrochrome industry
- Growth through diversification into coal





MERAFE
RESOURCES

Table of contents

Group profile	03
Highlights of 2007	04
Reporting scope	07
Chairman's letter to shareholders	08
Chief Executive Officer's review	12
Board of directors	18
Sustainable development report	20
Annual financial statements	43
JSE Limited share statistics	90
Notice of annual general meeting	91
Form of proxy	Inserted

> The main business of the Company is the production and sale of ferrochrome to the stainless steel industry.



Bokamoso pelletising and sintering plant commissioned in July 2007

Group profile

Merafe Resources Limited (Merafe Resources or the Company) is listed on the JSE Limited under the share code "MRF" in the "General Mining" sector.

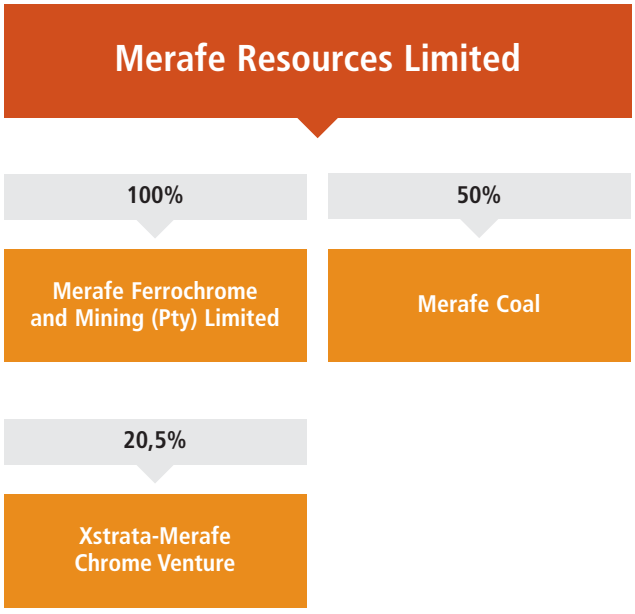
The Company has interests in ferrochrome and coal in South Africa, both commodities that are an essential part of modern life.

The main business of the Company is the production and sale of ferrochrome to the stainless steel industry through its 20,5% participation in the earnings before interest, tax, depreciation and amortisation (EBITDA) of the largest ferrochrome producer in the world: the Xstrata-Merafe Chrome Venture (the Venture). Merafe Resources has the right to increase its interest in the Venture to 26% over time.

The Venture was established on 1 July 2004 when Merafe Resources and Xstrata South Africa (Pty) Limited (a wholly-owned subsidiary of Xstrata plc*) agreed to pool their chrome operations (while retaining ownership of their assets) and share in the EBITDA of the Venture.

The Venture, which supplies over 25% of the world's ferrochrome requirements, is a low cost producer. Its production costs are contained through operational efficiency; developing and employing technology that makes efficient use of power and reduces ore consumption; having operations that are well located from a logistical perspective and which provide low cost chrome ore.

Merafe Group Structure



Xstrata-Merafe Chrome Venture

- Production capacity: 1 960 ktpa
- 20 furnaces
- 6 operating mines
- 2 pelletising and sintering plants
- 5 production sites

Merafe Resources recently increased its investment in ferrochrome by purchasing a 20,5% interest in Bokamoso, a mega chrome ore pelletising and sintering plant using Outokumpu technology, with an annual capacity of 1,2 million tonnes, which went into production in the second half of 2007.

In June 2007 the Company announced the formation of a 50/50 joint venture with Sentula Mining Limited (formerly Scharrig Mining Limited), called Merafe Coal. This venture, which introduces a new commodity to the business, is in accordance with the Company's strategy of growing through diversification into other commodities.

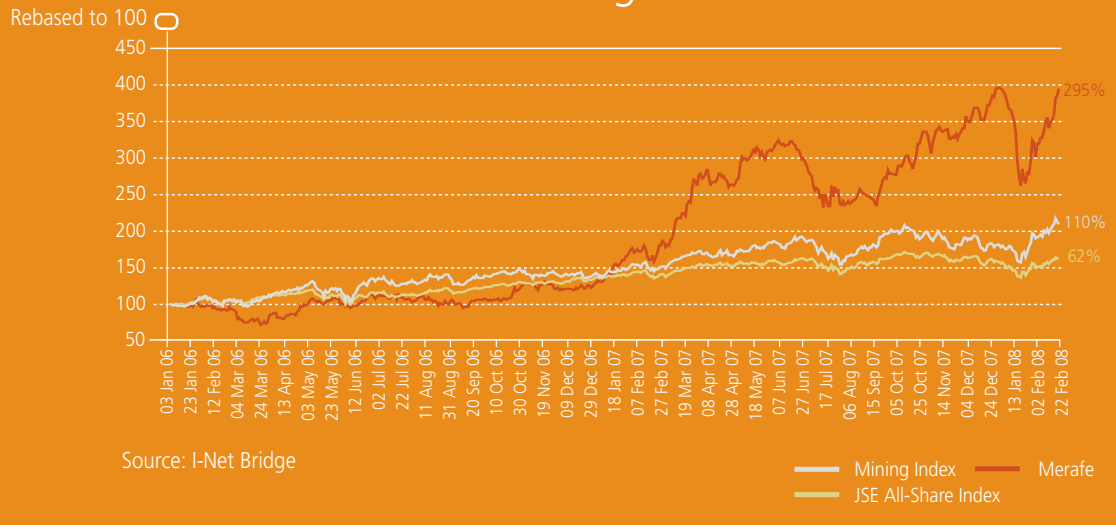
The assets of Merafe Coal include three development projects with resources amounting to 11,35 million tonnes (mt).

**Xstrata plc is a diversified mining group listed on the London and Swiss stock exchanges*

Highlights of 2007

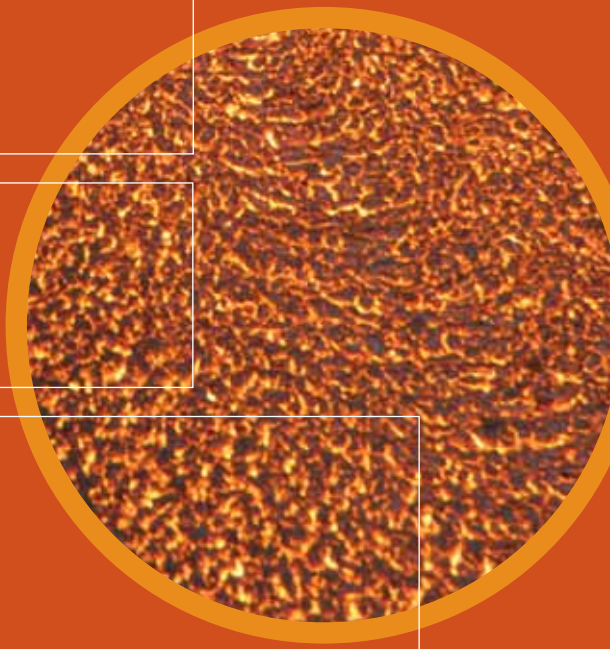
- EBITDA up to a record of R465 million, an increase of 160%
- Net profit after tax up 73% to R240 million
- Share price up 212% year-on-year, outperforming both the JSE All-Share Index and the Mining Index during 2007
- Earnings per share up 67% to 10 cents
- R228 million of debt repaid
- Purchased 20,5% share in Bokamoso, a mega chrome ore pelletising and sintering plant
- Merafe Coal joint venture with Sentula Mining Limited (previously Scharrig Mining Limited) announced in June 2007
- Listed among Top 14 Best Performers on the JSE SRI Index
- Placed in the top 10 in the Resources Sector of the 2007 Financial Mail Top Empowerment Company survey
- Created American Depositary Receipt (ADR) programme with Deutsche Bank

Merafe Resources relative to the JSE All-Share Index and Mining Index



Source: I-Net Bridge







The Venture's attributable saleable production of ferrochrome increased this year to

1,4 million tonnes

> Mining at Merafe Coal's three development projects is expected to commence in 2009.



Merafe Coal's current resources amount to

11,35 mt

Reporting scope

Our objective is to achieve transparency, inclusiveness and high standards of reporting.

The financial year of Merafe Resources runs from January to December. This report reviews the results for the calendar and financial year ended 31 December 2007.

The Company's 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 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 economic, environmental and social performance. This framework has been designed to provide comprehensive information to stakeholders of an organisation on 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.

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

Chairman's letter to shareholders

> This year, Merafe Resources put the building blocks in place to achieve its strategic objective of growth through diversification, when it formed Merafe Coal.







• Chris Molefe, Chairman •

Dear Shareholders,

I am delighted to advise you that Merafe Resources, which derived its income from its 20,5% share in the Xstrata-Merafe Chrome Venture (the Venture) during the period under review, achieved record earnings before interest, tax, depreciation and amortisation (EBITDA) of R465 million, an increase of 160%. Higher ferrochrome prices, a comparatively weaker rand and an increase in the Venture's production of saleable ferrochrome, were the major contributors to this increase. The average base ferrochrome price increased from 70 USc/lb in 2006 to 89 USc/lb in 2007 (an increase of 27% year-on-year) and Merafe Resources' revenue rose by 61% to R1,7 billion.

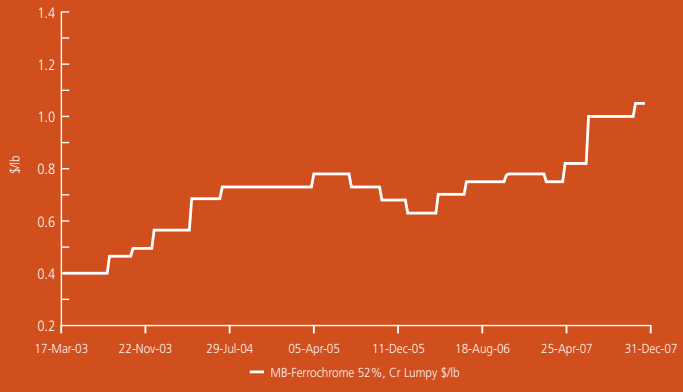
Profit after tax, for the year ended 31 December 2007, increased 73% to R240 million and earnings per share increased 67% to 10 cents per share.

During the year under review the Company reduced its gearing by repaying R228 million of its borrowings. It aims to achieve a debt : equity ratio of 20% in the near future.

Xstrata-Merafe Chrome Venture

The excellent financial results recorded by Merafe Resources in 2007 are proof of the very positive impact the Venture, formed by the pooling and sharing of the ferrochrome assets of Xstrata and Merafe Resources in 2004, has had on its performance.

Charge Chrome prices for the past 5 years



Source: Datastream







Merafe Resources' after tax profits increased

73% in 2007

Chairman's letter *continued*

The Lion Ferrochrome plant's ramp up to full production has been slower than expected, but it is expected to reach its design capacity of 360 000 tonnes per annum in the second quarter of 2008.

The pelletising and sintering plant erected at the Merafe Resources' Boshoek plant, which uses Outokumpu technology, has proved to be cost effective and energy efficient. As a result of the experience gained at this plant the Venture decided to employ the same technology in its Bokamoso plant, which went into production in the second half of the year. This plant, which is the largest of its kind in the world, will allow the Venture to make substantial energy savings at a time when this is essential in South Africa.

Merafe Coal

Merafe Resources announced the formation of a 50/50 joint venture with Sentula Mining Limited (formerly Scharrig Mining Limited) called Merafe Coal. Merafe Coal will mine the venture's existing coal resources in the Mpumalanga Province. Mining is expected to commence during 2009. At the same time the venture will continue to seek out growth opportunities in the coal mining sector.

Performance against strategy

The Company continues to perform well in terms of its strategic objectives:

- organic growth in the ferrochrome industry through expansion;
- acquisitive growth in the ferrochrome industry; and
- growth through diversification.

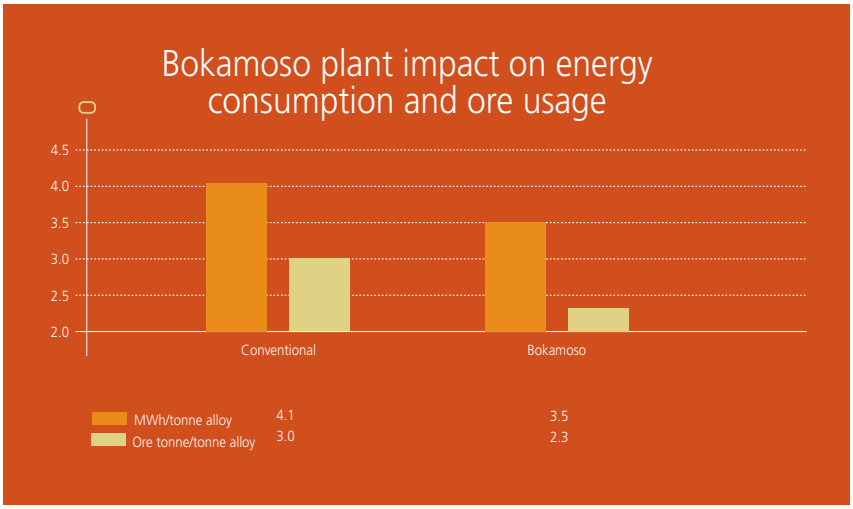
Organic growth was achieved through the construction of the Bokamoso pelletising and sintering plant, in which Merafe Resources has a 20,5% interest.

This year, after careful assessment of a number of opportunities, Merafe Resources put the building blocks in place to achieve its strategic objective of growth through diversification, when it formed Merafe Coal.

Legislative environment

The Venture has made submissions 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. To date all applications for New Order Mining and Prospecting Rights, including 50% of Mining Rights Conversion applications, have been granted by the Minister of Minerals and Energy. The Venture expects the process to be completed by the end of 2008.

This year also saw the introduction into South Africa of the Broad-based BEE Codes of Good Practice developed by the Department of Trade and Industry, which passed into law in February 2007. These codes came with a refined broad-based BEE scorecard and they allowed for a 12-month transition period. The new scorecard will come into full effect in 2008. The score-card looks at ownership, management and governance, employment equity, skills and training and procurement. While Merafe Resources has scored exceptionally well in both the JSE SRI Index and the Top Empowerment Companies Survey, which applied the codes of good practice, it intends benchmarking its policies and practices and ensure it meets all international and South African standards.



Recognition of commitment to BEE, sustainability and good corporate governance

Not only was the Company once again invited to participate in the FTSE/JSE SRI (Socially Responsible Investment) Index in 2007, but it was also recognised as one of the top 14 best performers in the Index. In order to qualify to participate in the Index, companies must meet a rigorous set of criteria in respect of economic, environmental and social sustainability and corporate governance. Every year since the inception of the Index in 2003 Merafe Resources has met these criteria and been invited to participate in it.

In addition Merafe Resources has been placed in the top 10 in the Resources Sector of the 2007 Financial Mail Top Empowerment Company survey.

Beneficiation

The South African government has stated that it wants to see a decrease in the export of chrome ore and an increase in the export of beneficiated chrome ore in the form of ferrochrome. The Venture's contribution to the beneficiation of South African chrome ore into attributable saleable production increased this year to 1,4 million tonnes of ferrochrome.

The year ahead

Merafe Resources forecasts that ferrochrome prices will continue to rise in 2008. This is in line with forecasts of increased stainless melt production and increased ferrochrome demand. Ferrochrome demand is also being positively affected by the increased production of ferritic grade stainless steel. The production of ferritic

grade material requires more virgin chrome units compared to nickel-bearing austenitic grades.

The uncertainty surrounding the supply of electrical power is likely to impact South African ferrochrome production during 2008.

Directorate and staff

We were pleased to welcome to the board of directors Mzila Mthenjane of Royal Bafokeng Holdings and Meryl Mamathuba of the Industrial Development Corporation of South Africa Limited, who joined the board as non-executive directors in 2007. They have both made a valuable contribution to our deliberations during the year.

We also welcome Dr Con Fauconnier who joined the board as an independent non-executive director in March 2008. We look forward to his contribution to our deliberations.

The support and advice provided by the board of Merafe Resources to the Company's management team has been most helpful and I thank them for their commitment to their responsibilities as members of the board.

Sadly, we have to say goodbye to one of the original members of the Company's management team, Technical Director, Zed van der Walt, who is taking a well-deserved retirement. My thanks to Zed for the outstanding contribution he has made to the Company over the past seven years. His technical expertise and wisdom have been invaluable as we took the business from start-up to its current position. Dr Jurgens Zaayman, who was the managing director of Merafe Ferrochrome before the Venture with Xstrata was established, has been appointed General Manager in the Merafe chrome business. He has been seconded to the Venture to look after Merafe's interests in the Venture.

Lebo Mogotsi, an independent non-executive director, who joined the board in 2005, resigned as a director of Merafe Resources with effect from 28 February 2008. The board thanks her for her contribution over the past three years.

My thanks, and the thanks of the board, go to the management team and the staff of Merafe Resources for their endeavours during another successful year for the Company.

The board would also like to express its appreciation to all its stakeholders and in particular its partners in the Xstrata-Merafe Chrome Venture and Merafe Coal.



Chris Molefe
Non-Executive Chairman

Chief Executive Officer's review





• Steve Phiri, Chief Executive Officer •

Financial review

Favourable trading conditions in 2007 resulted in the Company achieving an increase in after tax profits of 73% amounting to R240 million. The major contributors to this growth were increases during the year in the average base price of ferrochrome from 70 USc/lb in 2006 to 89 USc/lb in 2007 and the Merafe Resources share of the saleable ferrochrome production of the Xstrata-Merafe Chrome Venture (the Venture) increasing from 239 000 tonnes in 2006 to 284 000 tonnes in 2007. The restarting of furnaces that were temporarily suspended and the ramp up towards full production of the Lion Ferrochrome plant contributed to the increase in ferrochrome production.

Merafe Resources' share of the EBITDA of the Venture (20,5%) for the 12 months ended 31 December 2007 was R497 million. After accounting for corporate costs of R27 million and a share-based payment expense of R5 million, the Group's EBITDA was R465 million. This reflects an increase in EBITDA of 160% year-on-year. The Lion Ferrochrome plant was depreciated for the full 12 months and the Bokamoso plant was depreciated for the last three months of the year. This contributed to a year-on-year increase in depreciation costs of R21 million. An increase in net finance costs of R15 million is mainly a result of finance costs relating to the Lion Ferrochrome plant, which were capitalised in 2006, being accounted for through the income statement in 2007.

The deferred tax expense of R121 million is mainly attributable to the net portion of the profits generated by the Group being offset against unredeemed capital expenditure. The balance of unredeemed capital expenditure is estimated to be R1,2 billion at 31 December 2007.

During the financial year Merafe Resources repaid R228 million of debt, relating to preference shares, the Lion Ferrochrome plant loan and monies owing to Xstrata. The Company's net debt at 31 December 2007 of R617 million comprised preference shares of R120 million, the Lion Ferrochrome plant loan of R255 million, the Bokamoso plant loan of R95 million, and R147 million owing to Xstrata, which is included in trade and other payables. Merafe Resources' 20,5% interest in the Bokamoso plant cost R182 million. This was funded by means of a general issue of shares for cash of R66 million, debt of R100 million and cash flows of R16 million.

Merafe Resources is converting R350 million of its amortising debt into a five-year debt facility with a local bank. This will allow the Company to focus on repaying the R120 million in preference shares and R147 million owing to Xstrata during 2008.

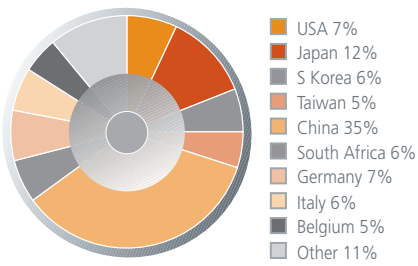
The Company's market capitalisation rose 217% to R5,7 billion at 31 December 2007 and its share price increased 212% year-on-year. It outperformed both the JSE All-Share Index and the Mining Index.

Review of operations

Xstrata-Merafe Chrome Venture

This has been a record year for Merafe Resources and the Venture. The Venture produced more ferrochrome than ever before and ferrochrome prices were at their highest

Demand by major ferrochrome consuming countries increased by 19,8% in 2007 compared to 2006 to 7,4 million tonnes



> This year the Venture produced more ferrochrome than ever before and ferrochrome prices were at their highest ever.



Merafe Resources share of the EBITDA of the Venture (20,5%) for the year under review was

R497 million

Molten ferrochrome at the Lion Ferrochrome plant

Chief Executive Officer's review *continued*

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

ever. The main driver of prices was the robust global demand for ferrochrome.

Smelters

To meet the increased demand for ferrochrome during the first half of the year, the Venture resumed production at five of the seven furnaces that were temporarily suspended during 2006. By the end of the year all of the Venture's 20 furnaces were in production.

Production ramp up at the Lion Ferrochrome plant was slower than expected. This delay was largely due to equipment failure, which the Venture is monitoring very closely. Components are currently on order that will improve furnace availability and additional engineering and operational staff have been allocated to the operation. To facilitate the implementation of improvements at Lion Ferrochrome, the furnaces will be temporarily suspended during the second quarter of 2008. Once these improvements have been made, it is expected that production at full design capacity will be sustainable at the Lion Ferrochrome plant.

The Bokamoso pelletising and sintering plant, which uses Outokumpu technology, was successfully commissioned in the second half of 2007, within budget and on time. By December 2007, production at the plant was already at 80% of its designed capacity and production costs were below budget. It is now on track to achieve its full operating capacity of 1,2 million tonnes a year by the end of the first quarter of 2008.

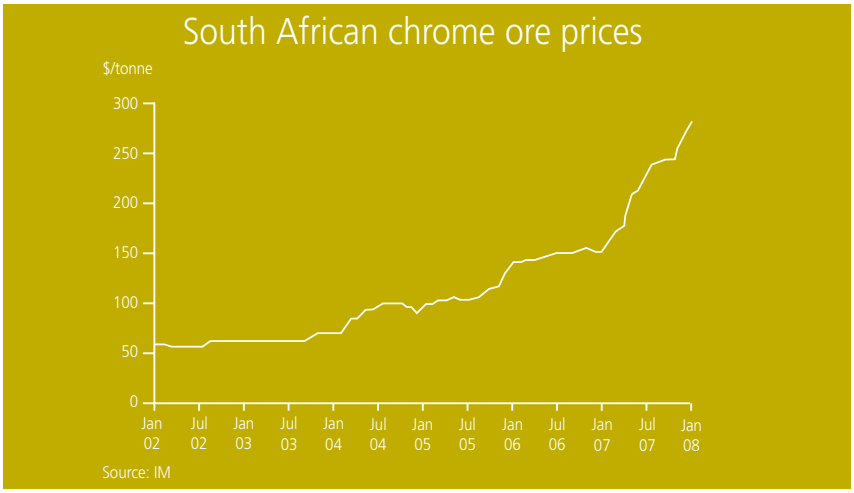
Bokamoso's ability to agglomerate ore fines into pellets means all the ore fines from chrome mining operations, including the UG2 chrome ore recovered from platinum mining, can be agglomerated in this plant and consumed by the furnaces on the Venture's Western Limb. In addition, far less mined ore production will be required in furnaces using pellets from the Bokamoso plant.

Mines

To meet the increased needs of the Venture's smelters for additional chromite ore, production was increased at the Thorncliffe, Helena and Waterval mines and the opencast reserves at Boshoek were also developed. The UG2 chrome ore recovery plants at Eastern Platinum Mines and Mototolo Platinum were commissioned during 2007, which provided an additional source of the ore.

The Venture's Operations

Smelters	Capacity	Technology	Mines
Western Limb Wonderkop	520 ktpa FeCr – 6 furnaces 1 200 ktpa – pelletising capacity	Semi-closed furnaces Bokamoso pelletiser and sintering plant using Outokumpu technology	Kroondal, Waterval and Marikana
Rustenburg	440 ktpa FeCr – 6 furnaces	Semi-closed furnaces Adapted Premus pre-reduction kiln	Kroondal, Waterval and Marikana
Boshoek	240 ktpa FeCr – 2 furnaces 520 ktpa – pelletising capacity	Closed furnaces Pelletiser and sintering plant using Outokumpu technology	Horizon, Kroondal, Waterval and Thorncliffe
Eastern Limb Lydenburg	400 ktpa FeCr – 4 furnaces	Premus – kilns and closed furnaces	Helena and Thorncliffe
Lion	360 ktpa FeCr – 2 furnaces	Premus – kilns and closed furnaces	Helena and Thorncliffe
Total	• 1 960 ktpa production capacity • 20 furnaces • 5 production sites	• 3 major technologies • Premus technology is proprietary to the Venture – world's lowest cost ferrochrome technology	• 6 operating mines • Resources to last in excess of 100 years assuming current smelting capacity



Operating costs

Containing costs in the current environment of high mining sector inflation remains a challenge. Increased production volumes impacted positively on fixed costs during the year and partially offset higher variable costs, including higher electricity and coke costs, as well as higher finished product delivery costs.

However, in 2008 increases in production costs are expected to put pressure on earnings. These include: Eskom plans to increase electricity charges by at least 15%; labour costs across the mining industry increasing; coke prices increasing; and rising transport costs. In addition chrome ore prices will be exposed to high mining sector inflation.

Ferrochrome production has significant energy requirements and the increase in production at the Venture's smelters has, of course, resulted in an increase in energy requirements. Prior to the energy shortages that arose in early 2008 the Venture participated in Eskom's demand market programme. This allows the Venture to assist Eskom in managing demand on the national grid while at the same time achieving a financial benefit for the Venture.

The Lion Ferrochrome plant, which uses Premus technology developed by Xstrata, has the lowest average power input per tonne of ferrochrome (2,6MWh/t in comparison with the 4 MWh/t average power input of conventional ferrochrome smelters). This constitutes a greater than 10% saving in production costs.

The Bokamoso plant is expected to provide a cost saving of more than R200 million a year across the Venture. In addition, the ferrochrome produced in furnaces using the pellets from the Bokamoso plant will have an improved chrome content.

On 25 January 2008, in response to a request from Eskom, the Venture reduced the electricity load across all its furnaces to the minimum possible. At a meeting between Eskom and its key customers held on 29 January 2008, Eskom committed to supplying 90% of the operations' electricity demand. The Venture's operations are currently operating at 90% electricity load and it remains uncertain when the remaining 10% will be restored. Restoration of full power supply depends on the success of a nationwide recovery plan.

The Venture has declared a *force majeure* with its customers as a precautionary measure, should it be unable to meet its delivery commitments as a result of the electricity shortage.

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

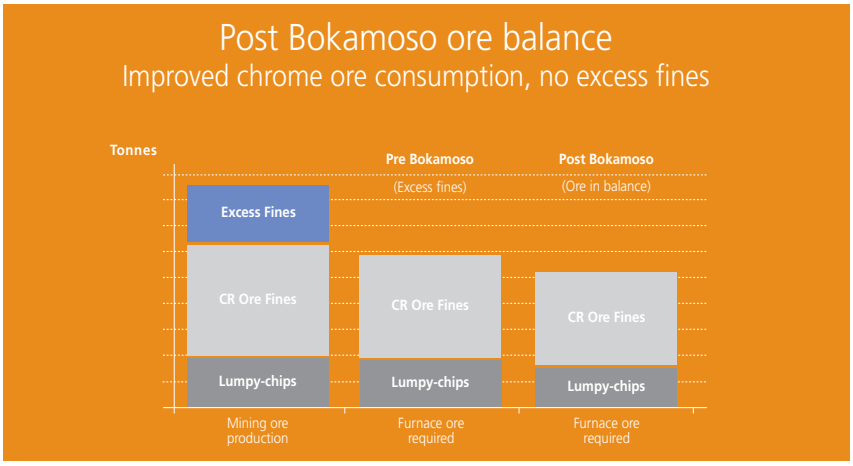
HSEC issues are covered in detail in the sustainable development report which forms part of this annual report. We deeply regret that the Venture had two fatalities during the year. Mr Tshepo Pharamela was struck by the trailer of an articulated truck at Boshoek Mine in July and Mr Aarone Mkhawane was struck by a rock fall at the mining face in the Thorncliffe Mine in November. The board and management extend their condolences to their families and friends.

Over the past six years the Venture has achieved a steady reduction in lost time injury frequency rates (LTIFR) from 10,62 in 2002 to 1,83 in 2007 and a reduction in total recorded injury frequency rates (TRIFR) from 33,91 in 2002 to 6,91 in 2007.

Merafe Coal

The assets of Merafe Coal (a 50/50 joint venture with Sentula Mining) include three development projects with resources amounting to 11,35 million tonnes (mt).

These are Schoongezicht (5,7 mt), which will produce coal suitable for supply to Eskom, Driefontein (1,95 mt), the production of which will require washing before being supplied to Eskom, and Bankfontein (3,7 mt), which will also produce coal suitable for supply to Eskom.



Chief Executive Officer's review *continued*

Production at these three mines is expected to commence during 2009.

Legislation

The proposed Mineral and Petroleum Resources Royalty Bill, which is the fiscal outgrowth of the Mineral and Petroleum Resources Development Act (MPRDA), was introduced in first draft form in March 2003. After extensive consultations with the industry the second draft Bill was released in October 2006. After receiving 27 submissions from the mining industry in January 2007 the National Treasury debated the main policy issues emanating from these submissions at a workshop in May 2007. This was followed up by smaller meetings and the consultation process was completed by June 2007. A third, and final, revised draft Bill was released on 6 December 2007.

In terms of the third draft Bill the revised tax base will be equal to gross sales less allowable beneficiation related expenses and transport expenses between the seller and the buyer of the final product.

The deadline for public comment on the third draft of the Bill was set for 29 February 2008. As a result of concerns raised by both the private sector and labour a review of the third draft bill may be required. This legislation is due to become effective in May 2009.

Global markets

The first half of 2007 saw strong growth in stainless steel production. This was particularly the case in Asia, where Chinese stainless steel melt production growth was 20% greater than for the same period in 2006.

As a result of the high nickel prices prevailing during the first half of 2007, numerous stainless steel producers increased their production of ferritic grade stainless steel, which uses a higher proportion of virgin chrome units, compared to the nickel-bearing austenitic grades.

However, in the second half of the year, producers in Europe and the United States of America cut production and delayed their purchase of nickel in response to declining nickel prices. These production cuts resulted in stainless steel melt production in the second half of the year remaining at a similar level to that of the second half of 2006. Despite these cutbacks the switch to ferritic grade stainless steel production meant that the demand for ferrochrome remained robust throughout the year.



Responding to stronger demand, South African ferrochrome producers restarted all available idle capacity. Despite the significant increase in China's ferrochrome production to 1,2 million tonnes in 2007, the country remains a net importer of ferrochrome.

The export duty of US$44 per tonne (recently increased to US$77) that the Indian government has imposed on chrome ore exports from India and the increased consumption of chrome ore by ferrochrome producers, especially in South Africa, have resulted in higher traded chrome ore prices. This has decreased the cost competitiveness of the Chinese ferrochrome industry, which depends entirely on imported ore and resulted in Chinese stainless steel producers increasing their imports of ferrochrome to meet their demand for this product.

The robust market fundamentals supported a strong ferrochrome base price throughout the year resulting in an average base of 89 USc/lb, which is 27% higher than the average price in 2006.

Outlook for the future

The forecast for ongoing growth in demand for ferrochrome of 9% in 2008 bodes well for the future of Merafe Resources. This is supported by strong stainless melt production and stainless steel producers continuing to produce a higher proportion of ferritic grades (which require more virgin chrome units) than was the case historically. The outlook for ferrochrome prices in 2008 remains positive. Stainless melt is forecast to increase by approximately 10% to 32 million tonnes in 2008.

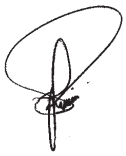
Production cuts in China during the first quarter of 2008 are set to slow down stainless steel production. However, Chinese production is expected to recover during the course of the

year and increase by approximately 12% over 2007 levels. European and American demand for stainless steel started to recover in the first quarter of 2008, albeit at a slower rate than in 2007.

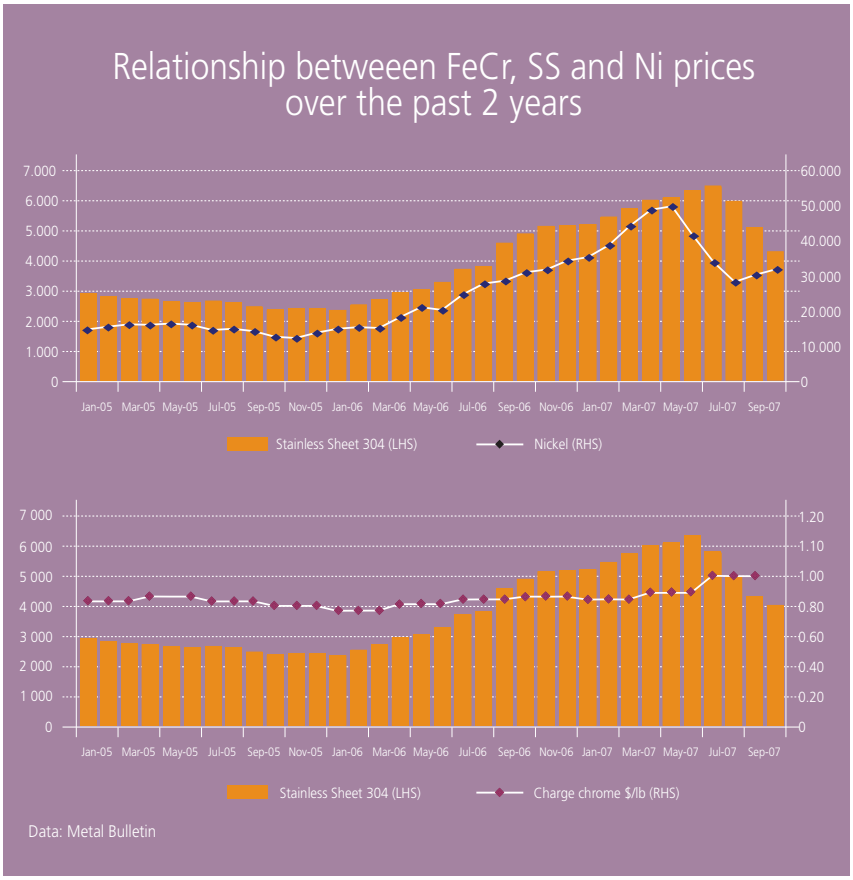
Supply-side constraints on South African producers, resulting from energy supply shortages, are likely to result in producers not being able to meet production targets during 2008. The first quarter of 2008 saw the base price for ferrochrome set at 121 USc/lb. Merafe Resources expects this price to increase further during 2008.

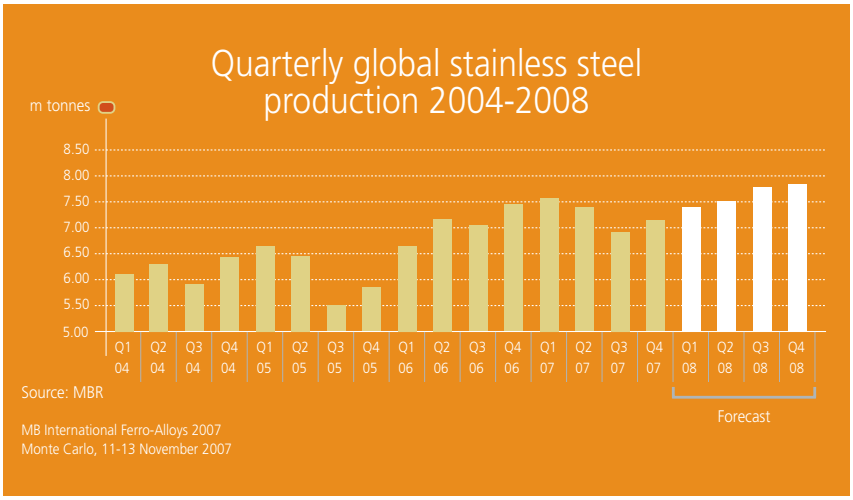
Thanks

My thanks to the management and staff at Merafe Resources and our partners in the Xstrata-Merafe Chrome Venture and Merafe Coal for their efforts this year. Their dedication and commitment has allowed us to have a very successful year. My thanks also go to the board for its continued support and guidance.



Steve Phiri
Chief Executive Officer





Board of directors

as at 20 March 2008

Non-executive directors



Chris Molefe

Chairman

BCom, Post-graduate Diploma in Property Development

Chris (59) has chaired the Merafe Resources board for the past four and a half years. He has extensive experience in mining and resources, merchant banking and transformation strategy development. He gained his experience while working for Mobil Oil, Union Carbide, Chase Manhattan Bank, Transnet and Royal Bafokeng Resources, where he held the position of chief executive officer.



Meryl Mamathuba

BProc LLB

Meryl (35) joined the Merafe Resources board in June 2007. She heads up the Corporate Funding Department at the Industrial Development Corporation of South Africa Limited (IDC). Prior to joining the IDC in 2002 she was an associate of Kunene Inc from 1998.



Zanele Matlala

BCompt (Hons), CA (SA)

Zanele (44) joined the Merafe Resources board in 2005. She has extensive financial experience, acquired as Group Financial Director of Kagiso Investments (Pty) Limited (her current position), Chief Financial Officer of the Development Bank of Southern Africa (DBSA), having previously served the DBSA as Executive Manager: Private Sector and International, head of Wholesale Venture Capital Funds for the IDC and an Audit Supervisor at Arthur Anderson & Co.



Mzila Mthenjane

BSc (Mining Eng), SMDP

Mzila (37) 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.



Tlamelo Ramantsi

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

Tlamelo (33) was appointed to the Merafe Resources board in November 2006. He is currently a senior account manager with the IDC – Project and Structured Finance. Prior to joining the IDC, Tlamelo was an investment associate with Tri-linear Specialised Finance (Pty) Limited, an associate at African Harvest Capital and an audit manager at Gobodo Incorporated.



Dr Con Fauconnier

MSc, PhD Engineering, PhD Science (hc)

Con (60) joined the Merafe Resources board in March 2008. He heads up Fauconnier Consulting, a mining consulting business; having retired as Chief Executive Officer of Exxaro in August 2007. From 2001 to 2006 he was the chief executive of Kumba Resources Limited having previously been appointed Managing Director of Iscor from 1999. He worked for the Anglo American Corporation, BHP Billiton and JCI Limited before joining Iscor in 1995 as General Manager Business Development.

Executive directors and management team



Steve Phiri
Chief Executive Officer
BJuris, LLB, LLM, H Dip Co Law

Steve (52) 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. He is a member of the Minerals and Mining Development Board and Chairman of the South African Diamond Board. He is a non-executive director of Royal Bafokeng Resources Holdings (Pty) Limited, Impala Platinum Limited and SA Eagle Limited.



Stuart Elliot
Chief Financial Officer
CA (SA), H Dip Co Law

Stuart (44) 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 prior to joining Merafe Resources.



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

Bruce (48) 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.



Amritha Mahendranath
Company Secretary
BCom

Amritha (40) joined Merafe Resources in 2003 as its Financial Manager. In March 2004 she was appointed Company Secretary. She is currently completing the ICSA Board examinations for Chartered Secretaries.



Lindiwe Montshiwagae
Corporate Finance and Investor Relations Manager
BCompt (Hons)

Lindi (36) joined the Merafe Resources management team during 2005. She completed her articles with PricewaterhouseCoopers in 1999 and joined Nedbank in 2000 as a financial accountant, before moving to its corporate finance division in 2001.



Veronica Venter
Financial Controller
BCompt (Hons), CA(SA)

Veronica (34) was appointed by Merafe Resources in May 2006. Before joining the Company she was a senior manager at KPMG.

Sustainable development report

Energy efficiency has long been a key driver in all the Venture's operations. This has resulted in it achieving the environmental benefit of reducing greenhouse gas emissions and the financial benefit of reducing energy consumption. We are reviewing energy efficiency levels in an effort to assist Eskom in achieving its medium-term demand reduction strategy.

This is the fifth sustainable development report released by Merafe Resources as part of its annual report. Its objective is to provide the Company's stakeholders with information on how the many non-financial issues, risks and opportunities that present themselves have been managed by Merafe Resources and its partners in the Xstrata-Merafe Chrome Venture. We will not be reporting on sustainability issues in Merafe Coal because this joint venture was not in operation during the 2007 financial year.

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.

Merafe Resources works in partnership with the stakeholders on which its business impacts.

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 that offers real benefits to all South Africans and proudly reflects the promise of a non-racial South Africa.

Merafe Resources believes 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 its efforts to address these issues.

Report scope

This report covers the economic, environmental and social performance of Merafe Resources for the 12 month period from 1 January to 31 December 2007.

Evolution in reporting

The previous Sustainability Report was published in June 2007 and covered the period 1 January to 31 December 2006. Each year, the structure, content and style of the Company's reporting evolves using feedback received from external and internal stakeholders as a guide.

Defining materiality

The report has been prepared in accordance with the principles of materiality, completeness, stakeholder inclusiveness and sustainability context. In defining materiality, traditional financial parameters are often too narrow or inappropriate for non-financial performance. In determining which issues or topics are material to Merafe Resources for inclusion in this report, we have considered the following:

- Merafe Resources' core principles, values, policies and procedures;
- Management's assessment of the critical factors for the successful fulfilment of the Company's strategy and strategic objectives;
- An assessment of the key risks that may impact the successful fulfilment of Merafe Resources' strategy;
- Merafe Resources' view of key material issues for its business;
- Feedback from employees, contractors, business partners;
- Industry or company-specific issues raised by external stakeholders such as NGOs, investors, etc, either directly with the company or indirectly, e.g. through the media or other channels;
- GRI G3 guidelines (including the Guidance on defining report content) and best practice guidelines; and
- A review of the key topics and future industry challenges reported by peer companies and raised by industry groups, such as ICMM.

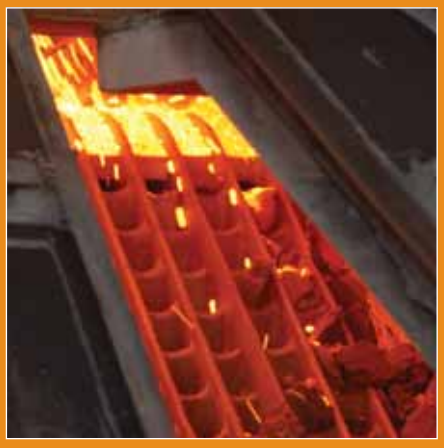
This report covers the Merafe Resources Group and the Xstrata-Merafe Chrome Venture.

Data presentation

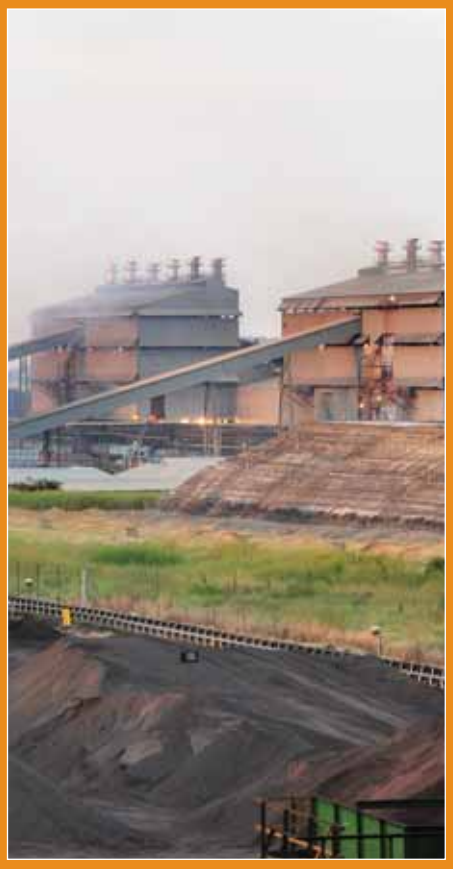
The narrative and quantitative information in the Sustainability Report covers Merafe Resources and the operations within the Xstrata-Merafe Chrome Venture.



Steve Phiri
Chief Executive Officer







Merafe Resources was one of the 14 Top Best Performers on the JSE SRI Index in

2007

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 five years ago, Merafe Resources has met these criteria and has been invited to participate in it. In 2007 Merafe Resources was one of the top 14 best performers on the JSE SRI Index.

Empowerment credentials

Merafe Resources has been placed in the top 10 in the Resources Sector of the *Financial Mail*'s Top Empowerment Companies Survey for the past two years. Companies participating in the survey are assessed by economic empowerment rating agency Empowerdex, which rates companies according to the Department of Trade and Industry's balanced scorecard, which looks at ownership, management, employment equity, skills development, procurement, enterprise development and socio-economic development.

Governance and management systems

Merafe Resources is committed to best practice in corporate governance. It recognises that there is a direct link between strong and accountable governance and a company's ability to manage risk and ensure optimal performance.

Its directors endorse the Code of Corporate Practices and Conduct set out in the King II Report and the Revised Companies Act. 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.

Board and sub-committee membership

Merafe Resources continues to make good progress towards the King Report recommendations on the composition of boards. At 31 December 2007 the board was composed of six non-executive directors (of which three were independent[+]) and four executive directors.

In accordance with the recommendations of the Code of Corporate Practices and Conduct, the majority of the members of the Merafe Resources board are non-executive directors.

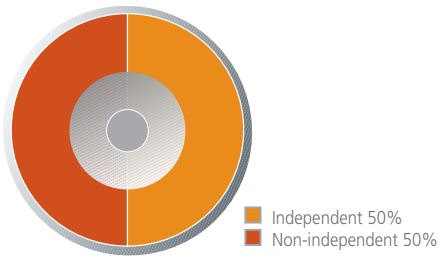
The racial and gender composition of the board

At 31 December 2007, in line with the country's demographics, the majority of the board's directors were black. In addition, three of the board members were black women.

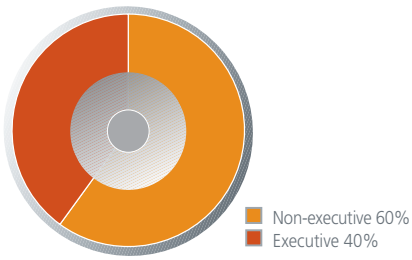
[+]Definition of an independent director

These are the criteria that Merafe Resources uses to define an independent director. He/she is: not a representative of a shareholder who has the ability to control or significantly influence management; has not been employed by the Company in any executive capacity in the three preceding financial years; is not a professional advisor to the Company other than in a director capacity; is not a significant supplier to, or

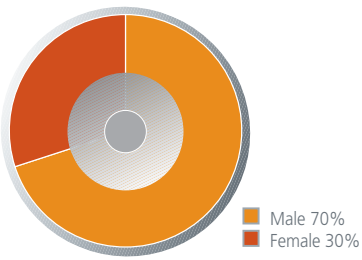
Level of independence of Merafe Resources non-executive directors as at 31 December 2007



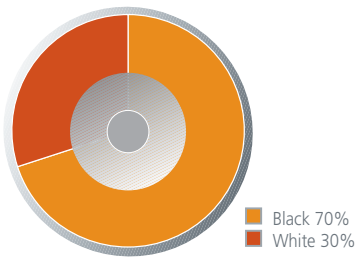
Board composition as at 31 December 2007



Board gender composition as at 31 December 2007



Board racial composition as at 31 December 2007



customer of the Company and is free from any business or other relationship which could be seen to materially interfere with the individual's capacity to act in an independent manner.

Non-executive directors as at 31 December 2007
Chris Molefe (59) *Chairman – Independent*
Z Matlala (44) – *Independent*
L Mogotsi (36) – *Independent*
M Mthenjane (37)
T Ramantsi (33)
M Mamathuba (35)

Executive directors
Steve Phiri (52) – *Chief Executive Officer*
Bruce McBride (48)
Stuart Elliot (44)
Zed van der Walt (63)

Company Secretary
Ami Mahendranath (40)

Attendance at the Merafe Resources board meetings during 2007
Four board meetings were held during the financial year ended 31 December 2007.

Board member	Number of meetings attended
Non-executive directors	
C Molefe *(Chairman)*	4
Z Matlala	4
L Mogotsi	4
M Mthenjane (joined the board in March 2007)	3
T Ramantsi	2
M Mamathuba (joined the board in June 2007)	2
Executive directors	
S Phiri *(Chief Executive Officer)*	4
S Elliot	4
B McBride	4
Z van der Walt	4

Board sub-committee membership at 31 December 2007
All sub-committees are chaired by independent non-executive directors.

Remuneration and nomination committee	Audit and risk committee[1]	Transformation committee
C Molefe *(Chairperson)*	Z Matlala *(Chairperson)*	L Mogotsi *(Chairperson)*
Z Matlala	S Elliot*	M Mamathuba
L Mogotsi	M Mthenjane	B McBride
M Mthenjane	C Molefe	M Mthenjane
T Ramantsi	S Phiri*	L Montshiwagae**
S Phiri*	T Ramantsi	T Moseki **
	Z van der Walt*	S Phiri

Attendance at board sub-committees during 2007

Name	Remuneration and nomination committee	Audit and risk committee[1]	Transformation committee
Non-executive directors			
C Molefe *(Chairperson)*	3	4	n/a
Z Matlala	2	5	n/a
L Mogotsi	3	1	2
M Mamathuba	n/a	n/a	2
M Mthenjane	1	3	1
T Ramantsi	n/a	2	n/a
Executives and other invitees*			
S Phiri*	3	3	2
S Elliot*	n/a	4	n/a
B McBride*	n/a	n/a	2
L Montshiwagae**	n/a	n/a	2
T Moseki**	n/a	n/a	2
Z van der Walt*	n/a	2	n/a
Total number of meetings held during the year	3	Two audit committee meetings held before consolidation of the two committees and one risk committee meeting held before consolidation; two audit and risk committee meetings held after consolidation	2

**Executives that only attend board sub-committees by invitation*
*** Not a board member*
[1] The audit and risk committees were separate committees prior to August 2007, when they were combined

Governance and management systems
continued

In terms of the Merafe Resources 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.

The board's corporate governance role
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, 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.

Board expertise
The expertise of the board members is set out on pages 18 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.

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; presentations; the annual general meeting; press announcements of the interim and year end results; SENS announcements; 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 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 by the remuneration and nomination committee. Instructed by the board it investigates whether or not potential board members have the necessary skills 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 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.

Governance and management systems
continued

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 and nomination committee	Audit and risk committee	Transformation committee
Roles and responsibilities	**Roles and responsibilities**	**Roles and responsibilities**	**Roles and responsibilities**
Recommends policies and strategies; monitors and coordinates 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 are appointed to ensure 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. Assesses the Company's share incentive scheme. Establishes policy governing appointment of directors and considers suitable nominations for appointment to the board and makes appropriate recommendations to the board.	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. 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 transformation to ensure compliance with the requirements of the Employment Equity Act and the Mining Charter. A Corporate Social Investment (CSI) committee has been established to manage Merafe Resources' CSI policies and programme. This committee is a sub-committee of the Transformation committee. Its membership is made up of a chairperson who, in terms of the committee's terms of reference, will always be a non-executive director of the board and three executive directors.

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); Chief Financial Officer (Stuart Elliot); and Commercial Director (Bruce McBride).

Venture board members attend the following monthly meetings: Executive Committee, Treasury, Audit Committee and Transformation Committee.

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). During 2007 Merafe Resources' representative to the Venture at operational level was Technical Director, Zed van der Walt.

Operational risk management
Currently, the main operational risk to which Merafe Resources is exposed is that of the Venture.

The objective of the Venture's approach to risk management is to develop and protect its people, assets, environment and reputation. To achieve this it carries out a comprehensive annual risk review, including running risk workshops which are attended by internal audit and external advisers. Risk registers for each site, and the Venture as a whole, are updated regularly. This includes financial, HSEC and operational risks.

Business plan objectives are aligned with a summary of the key risks, internal controls and accountabilities. Planned mitigating actions are also included in the business plan and regularly reviewed. Risk profile reporting allows management to gain a better perspective of how, and the extent to which, key risks are being managed and monitored.

Progress against plans, any significant changes in the business risk profile and actions taken to address controls and mitigate risks are reported on quarterly.

The Venture's Health, Safety, Environment and Community (HSEC) resources are focused at site level. In order to manage the HSEC risks the Venture's HSEC manager assists sites to develop HSEC frameworks and management systems that are aligned with the Venture's policies and standards. Independent of the Venture, Merafe Resources' Audit and Risk Committee assesses risks faced by the Company.

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 2007 public and institutional shareholders held 48,3% of the Company's shares. Included in this, Royal Bafokeng Resources Holdings (Pty) Limited held 29,4% of its shares and the Industrial Development Corporation (IDC) held 22,3% of the Company's shares.	•• Merafe Resources' returns to shareholders and potential for future returns. •• Financial and non-financial risk management. •• Governance. •• Performance against strategy. •• Sustainability.	During the year the Company communicated with its shareholders through: •• Road shows to investors in South Africa, London, New York and Boston; •• Presentations at the Nedcor Securities Mid-Cap conference and the Mining Indaba JSE showcase; •• Site visits to Bokamoso plant and Lion Ferrochrome plant for investors; •• Half-year and year-end presentations to shareholders; •• Its annual general meeting; •• Press announcements of its interim and year end results; •• SENS announcements; •• Its annual report to shareholders; and •• The Company's website.
Providers of debt	•• Ability of the Company to repay borrowings. •• 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. •• Contract and delivery terms. •• Reliability of supply.	Glencore International AG (Glencore) markets the majority of the Venture's production. While Glencore 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 attends global ferrochrome conferences where delegates include producers and customers.

> Before construction began on the Lion Ferrochrome plant, red data (endangered) plant species were collected and temporarily relocated. They have since been used to revegetate the site.

This year the HDSA percentage of the Venture's total procurement was

50%



Lion Ferrochrome plant showing some of the plant species used to revegetate the site

Social sustainability *continued*

Stakeholder	Key areas of interest	Engagement
Employees As at 31 December 2007 Merafe Resources had 11 employees, while the Venture (which includes employees of Merafe Ferrochrome and Mining) had 5 340 employees.	•• Remuneration, benefits and workers' rights. •• Recruitment, skills development, training, career development and opportunities. •• Operational practices (e.g. health and safety initiatives). •• Community issues (health – including HIV/AIDS, education, housing, and job creation). •• Sustainability.	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	•• Requirements regarding HDSA procurement and procurement policies. •• Requirements regarding supplier HSEC standards. •• 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 percentage of the total procurement spend was 50% 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%.

Stakeholder	Key areas of interest	Engagement
Communities	• Environmental impacts and management systems of operations. • Social infrastructure and development including education, health, youth development, sports and culture. • Enterprise development. • Job creation. • Support for community initiatives. • Social impacts of operations. • Protection of traditional rights, cultural heritage, sacred sites and protected areas. • 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 executive committee, is responsible for reviewing community engagement and feedback processes within the Venture. Through 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. • 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 smelter 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 black economic empowerment. He is also a member of the Government's Minerals and Mining Development Board.

Social sustainability *continued*

Stakeholder	Key areas of interest	Engagement
Business partners	•• New acquisitions and developments. •• Financial returns. •• Risk management. •• Regulatory and policy compliance. •• Sustainability.	Merafe Resources engages with its partners in the Venture, Xstrata South Africa (Pty) Limited, through regular joint board meetings, the Venture's executive committee and regular contact on operational issues. It also holds regular meetings with its partners in the Merafe Coal joint venture.

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% women participation in the mining industry, also within five years.

For the past two years Merafe Resources' efforts towards socio-economic empowerment have been recognised in the *Financial Mail's* Top Empowerment Companies Survey. The survey is conducted by the Empowerdex Economic Empowerment Rating Agency using the generic broad-based black economic empowerment (BEE) scorecard which accompanies the broad-based BEE codes of good practice that were passed into law in February 2007, but only come into full effect in 2008. The areas with empowerment potential on which the participants are measured are: ownership, management, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

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 at the Venture are 82,6% at ABET level 3 and 78,8% 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.

Scorecard items	Progress made towards target
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. In the employment equity plans prepared by all operations, annual progress towards the Venture's targets is reported. These plans are 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 is working towards its target of 50% HDSA participation in management. HDSA participation in Merafe Resources' head office management team remains at 57%.
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 in this table.
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 9,45%.
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.

Social sustainability *continued*

Scorecard items	Progress made towards target
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.







The Venture has embarked on a supplier transformation process aimed at encouraging non-HDSA suppliers to transform

Social sustainability *continued*

Scorecard items	Progress made towards target
Has the company identified the current level of procurement from historically disadvantaged South African companies in terms of capital goods, consumables and services?	Yes. After not achieving its procurement target in 2006 the Venture revised its original target for 2007 of 55% BEE procurement spend on capital goods, consumables and services. The revised target for 2007 was 50%. This target, which amounted to R2,87 billion, was achieved by 31 December 2007. The Venture's BEE procurement target for 2008 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 one (2004) the Venture had a BEE procurement target of 25%. In year two (2005) its target by year end was 35%, which was achieved. In year three (2006) its target was 45% BEE procurement and 43% was achieved. In year four (2007) the target of 50% was achieved, and in year five it is set at 55%.
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 2014. As at 31 December 2007 Royal Bafokeng Resources Holdings (Pty) Limited owns a 29,41% 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 chrome ore into ferrochrome across 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 it has as indicated above.
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.

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.

Management of human resources

The Venture is fully resourced to manage its human resource requirements according to the policies and procedures in place for this purpose. Remuneration, performance appraisal, career development, succession planning, recruitment, human resources management and policy within the Venture are aligned with international best practice.

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

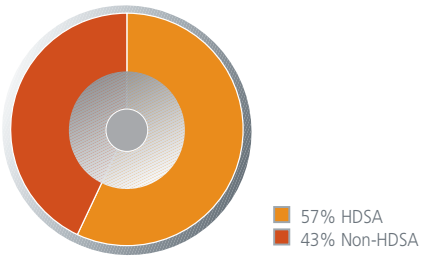
All the operations within the Venture publish employment equity plans and report annually on their progress towards achieving their targets. In addition, each operation in the Venture is monitored monthly by management and the employment equity committees in place at each operation. The Venture's board 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, which were reviewed and revised during 2007, 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.

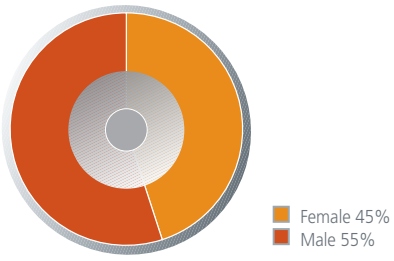
Merafe Resources

Merafe Resources management team
as at 31 December 2007

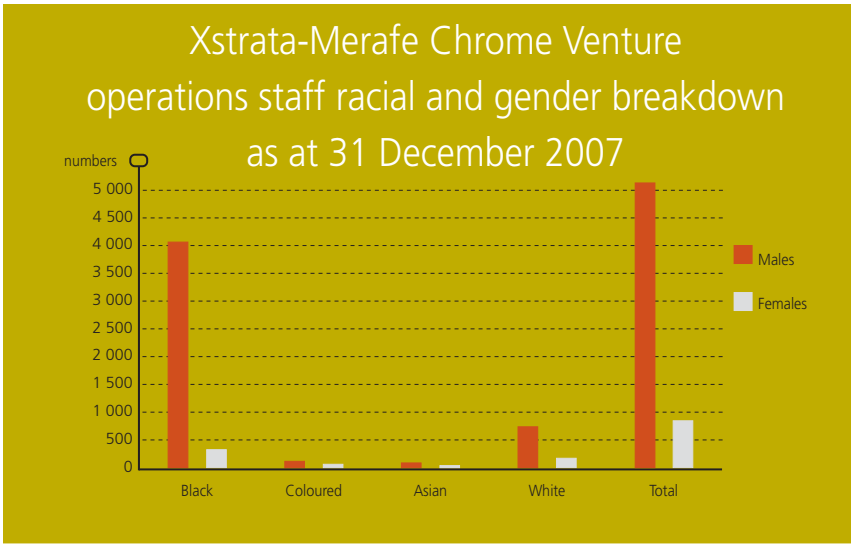


Merafe Resources

Female staff members
as at 31 December 2007



Social sustainability *continued*



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

Recruitment, development and retention of employees are critical to the success of the business. In South Africa the mining houses compete for skilled mining employees and the retention of talented employees is a key issue. The Venture created 44 new positions during the year, of which 34 were awarded to members of the communities in which we operate. A total of 504 employees left the employ of the Venture, and 1 503 new employees were recruited during the year.

The Venture, which had in its employ 5 340 people on 31 December 2007, 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.

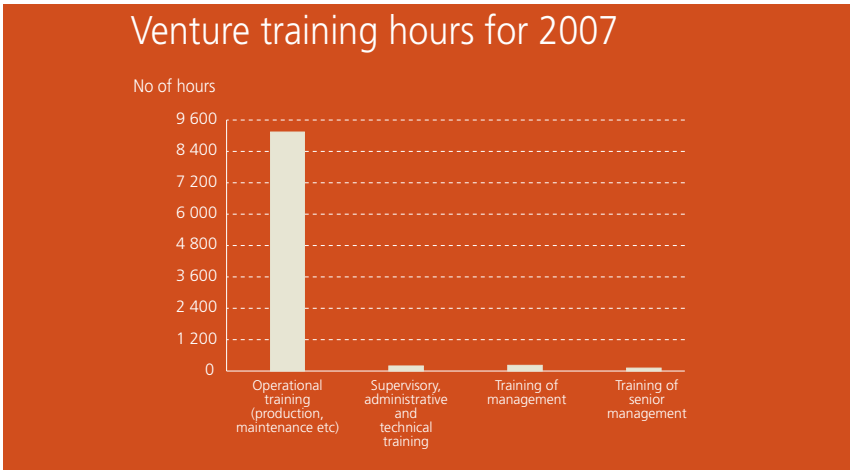
In terms of the South African Skills Development Act all the Venture's operations have a workplace skills plan in place. During the year the average number of training days per employee was 11.

Community and social development

During the year Merafe Resources established its own Corporate Social Investment (CSI) programme, which is in addition to the contributions it makes via the Venture's CSI programme. The principal objective of the Merafe Resources programme is to uplift the communities in which it operates. This will be achieved by addressing skills shortages, low levels of education and healthcare issues (particularly in the area of HIV/AIDS). A CSI policy has been developed for the programme, a committee has been established to oversee the programme, a CSI co-ordinator has been appointed and external consultants have been contracted to assist with the identification and management of projects. The programme will be funded by the equivalent of 1% of the Company's annual post tax profits.

Developing sustainable communities

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 builds capacity and enables 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.

Although the Venture works closely with local communities, it recognises that sometimes it does not satisfy their expectations. As a result there is a documented process in place that community members can use to contact its 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. During the year the Venture received nine community complaints, the majority of which were about dust. These complaints were addressed in accordance with the process described.

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 investment 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.

Health, safety, environment and community (HSEC)

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

- Leadership, strategy and accountability;
- Planning and resources;
- Behaviour, awareness and competency;
- Communication and engagement;
- Risk and change management;
- Catastrophic hazards;
- Legal compliance and document control;
- Operational integrity;
- Health and occupational hygiene;
- Environment, biodiversity and landscape functions;
- Contractors, suppliers and partners;
- Social and community;
- Lifestyle management, projects and operations;
- Product stewardship;

Case study

In 2006 a local company, Phadima Construction, decided to bid for a materials handling tender issued by the Lion Ferrochrome plant.

It was a young, inexperienced company, which lacked infrastructure and capacity. These were all factors that should have counted against it in the tender adjudication process. Instead, because the Venture is committed to developing small businesses, the Lion Ferrochrome team decided to ring-fence part of the tender for Phadima. Through its enterprise development programme (EDP) it helped the company secure finance.

Phadima's lack of workshop facilities and tools still needed to be addressed. The Venture commissioned Oosthuizen's Transport, the contractor who won the main contract for a Lion Ferrochrome materials handling tender, to mentor Phadima and to give it access to workshops and tools for a six-month start-up period.

This gave Phadima the opportunity to develop its own facilities and infrastructure. The Phadima team seized this opportunity and the company now has its own facilities and tools.

Social sustainability *continued*

- 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 based on their performance. Currently all of the operations have scored above 80%, and as a result an external audit is conducted every third year. Risk based audits are conducted annually by the Venture. 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.

Health

The health and wellbeing of its employees, contractors and the communities in which the Venture operates, are critical to the success of its 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 is in the process of developing a proactive and comprehensive wellness programme.

The Venture estimates that around 17% of its workforce is 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 and external healthcare providers. There are also site level wellness steering committees, which include union representatives, HR managers, the general manager of the operation and peer educators.

The Venture has engaged with traditional healers and community outreach champions to

Case study

Addressing confidentiality in testing for chronic diseases

The general lack of trust and openness between employees and management, combined with the stigma surrounding HIV, has led to an unwillingness on the part of the workforce to be tested for chronic diseases such as HIV.

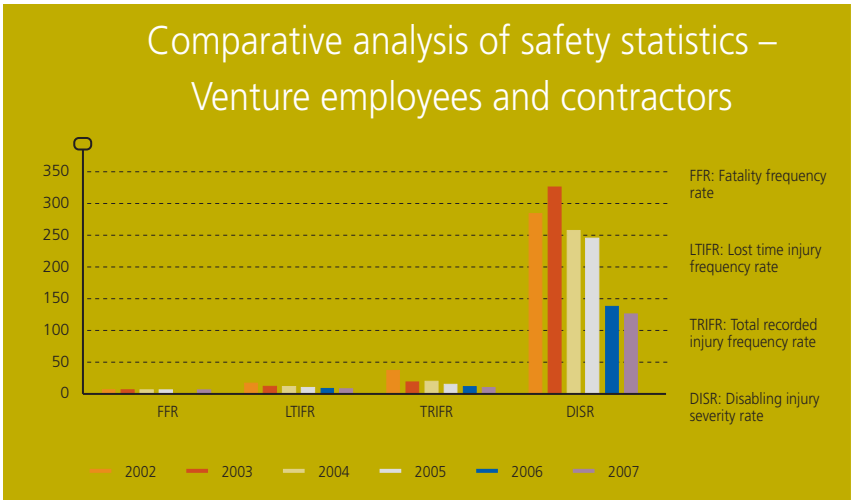
To address this, first of all the Venture's Wellness Steering Committee was trained on confidentiality aspects and the chronic disease policy was updated. This was followed by a management, supervisor and union training programme, which covered a number of issues including testing and treatment of chronic illnesses such as HIV and diseases such as tuberculosis. Then wellness champions (peer educators) were identified and trained. They will assist with the running of the Health Action Campaign which will be offered to Venture employees and the communities surrounding its operations. This campaign offers wellness training and onsite health screening together with voluntary counselling and testing (VCT) and health risk assessments.

An awareness programme, support groups and Talk Topic campaigns are being used to help alleviate the stigma attached to HIV.

There is also a lack of treatment centres in the areas surrounding the Venture's operations. To address this, the Venture is constructing clinics and upgrading clinics in partnership with government and other agencies.

promote safe sex, voluntary testing and treatment. It is working with government, non-governmental organisations (NGOs), specialists and other companies to expand the impact of its efforts and ensure the long-term sustainability of its HIV programmes.

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. Noise-induced hearing loss typically manifests over time. As a result the majority of noise-induced hearing loss cases reported in 2007 were from long-standing employees of older operations. Current noise mitigation strategies are expected to achieve a decline in the number of new cases of noise-induced hearing loss in the future.

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 chromium.

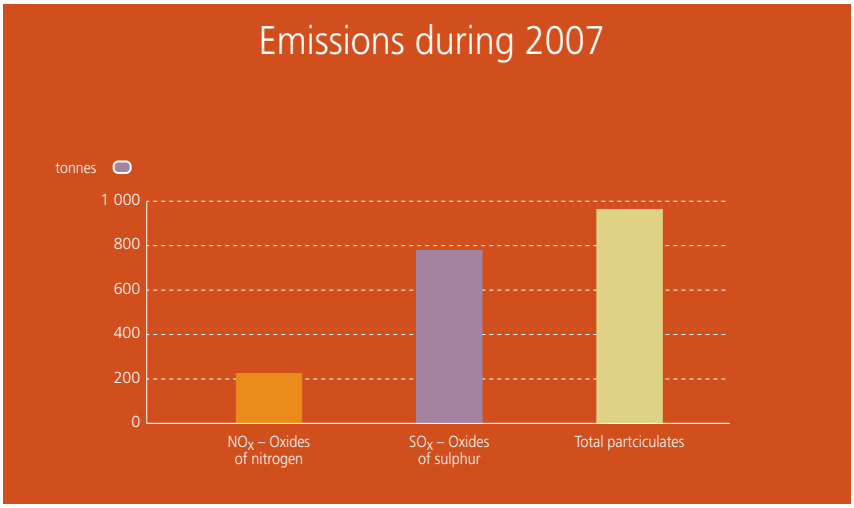
Safety

It is the Venture's aim to operate an injury, illness and fatality-free business. It has made significant improvements in safety 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 ISO 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.

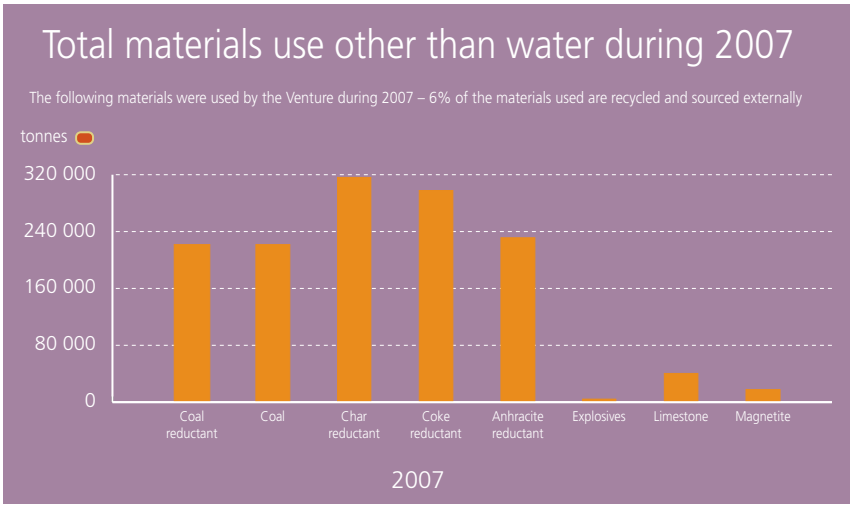
Social sustainability *continued*

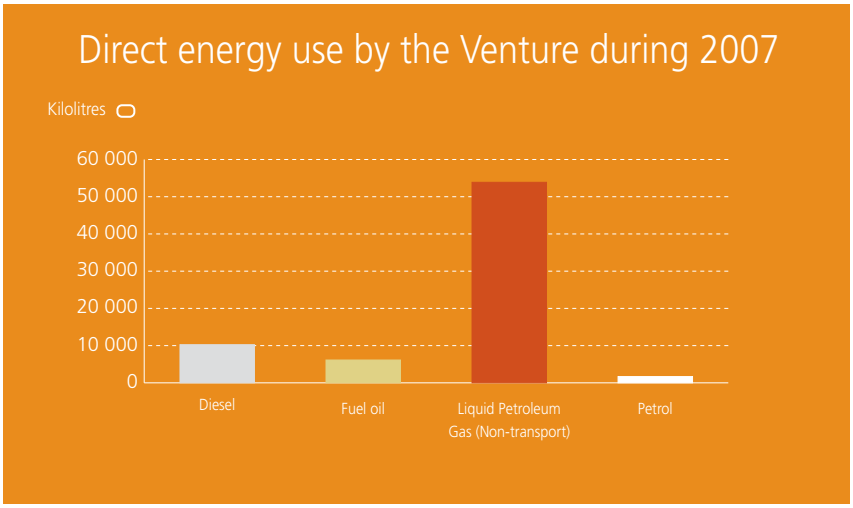


greenhouse gas emissions. Our challenge is to improve energy efficiency while recognising that other sustainability objectives, such as increasing recycling, maximising metal recovery from declining ore grades and reducing S02 emissions, require increased energy input.

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

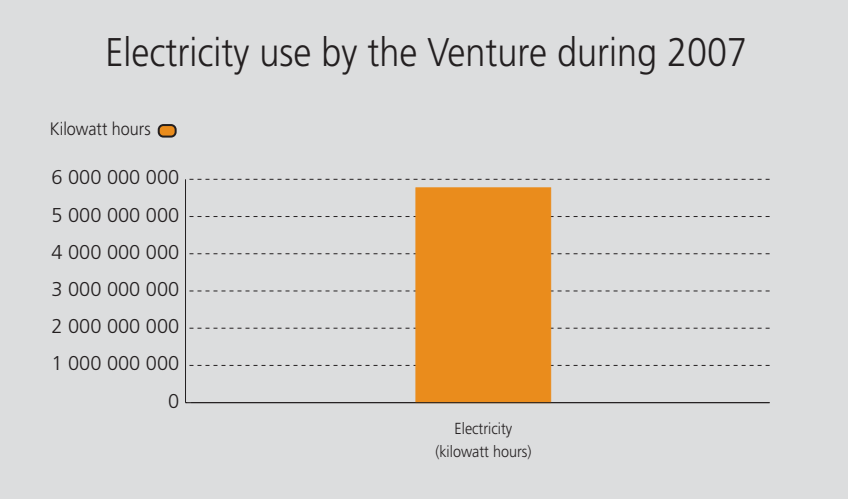
To provide employees and contractors with a practical tool which they can use to minimise risk, a series of Golden Rules have been developed for each hazard. An interactive simulated training programme is used to teach hazard identification and corrective actions. ICAM (the recognised incident, cause, 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. 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. 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's operations impact on climate change through energy consumption and



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 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

The Venture's operations have all been independently audited against the Biodiversity and Land Management Standard and were assessed to identify sites located in or adjacent to biodiversity-rich habitats and sensitive areas.

The Venture's Thorncliffe and Helena mines have endemic 'red list' species within or adjacent to the lease area. The Venture actively conserves biodiversity and integrates biodiversity conservation plans into its environmental impact assessment and management plans at each stage of the life cycle of its operations.

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. 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 during the reporting period was 93,4 hectares. The land owned, leased and managed by the Venture that has not been disturbed is 5 125,69 hectares. Land rehabilitated during the year by the Venture is 32,00 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 greenhouse 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).

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

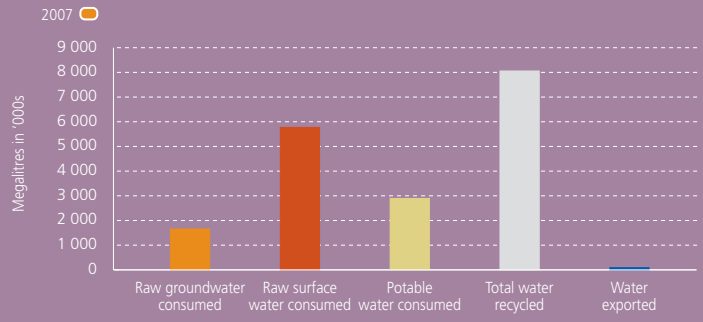
Social sustainability *continued*

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.

Resource conservation and management
Venture's water usage during 2007



MERAFE
RESOURCES

Annual financial statements

and other information

Table of contents

Directors' responsibility and approval of the annual financial statements	44
Company Secretary's certification	44
Report of the independent auditors	45
Report of the Audit Committee	46
Our reporting commitment	46
Directors' report	47
Income statements	50
Balance sheets	51
Statements of changes in shareholders' equity	52
Statements of cash flows	53
Significant accounting policies	54
Notes to the annual financial statements	63
Shareholder information	89
JSE Limited share statistics	90
Notice of annual general meeting	91
Form of proxy	Inserted

Directors' responsibility and approval of annual financial statements

for the year ended 31 December 2007

The Company's directors are responsible for the preparation and fair presentation of the Group and Company annual financial statements, comprising the balance sheets at 31 December 2007; the income statements; the statements of changes in shareholders' equity; statements of cash flows and the notes to the financial statements for the year then ended, which include a summary of significant accounting policies and other explanatory notes and the directors' report in accordance with International Financial Reporting Standards (IFRS) and in the manner required by the Companies Act of South Africa.

The directors' responsibilities include: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

The directors' responsibilities also include maintaining adequate accounting records and an effective system of risk management as well as the preparation of supplementary schedules included in these financial statements.

The directors have made an assessment of the Group's and Company's ability to continue as a going concern and there is 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 Group annual financial statements and separate Company annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of Group and Company annual financial statements
The Group and Company annual financial statements were approved by the board of directors on 28 February 2008 and signed on its behalf by:



Chris Molefe
Non-executive Chairman
28 February 2008



Steve Phiri
Chief Executive Officer
28 February 2008

Company Secretary's certification

for the year ended 31 December 2007

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 268 G (d) of the Companies Act 61 of 1973 as amended, and that all such returns are true, correct and up to date.



Amritha Mahendranath
Company Secretary
Sandton
28 February 2008

Independent auditor's report to the members of Merafe Resources Limited and its subsidiaries

for the year ended 31 December 2007

Report on the financial statements

We have audited the Group annual financial statements and the annual financial statements of Merafe Resources Limited which comprise the consolidated balance sheets at 31 December 2007 and the consolidated income statements; the consolidated statements of changes in shareholders' equity and the consolidated cash flow statements for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 47 to 88.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable under the circumstances.

Auditor's 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 the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 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 2007, 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 in the manner required by the Companies Act of South Africa.



KPMG Inc
Registered Auditor

Per Ian Kramer
Chartered Accountant (SA)
Registered Auditor
Director
28 February 2008

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Report of the Audit Committee

for the year ended 31 December 2007

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

The Audit 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 during 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.

The Audit Committee has evaluated the annual financial statements of the Merafe Group for the year ended 31 December 2007 and based on the information provided to the Audit Committee, considers that it complies, in all material respects, with the requirements of the various Acts governing disclosure and reporting in the annual financial statements. The Audit Committee has evaluated the independence of the external auditors and the Audit Committee is satisfied that the external auditors have remained independent. The Audit Committee therefore recommends the adoption of the annual financial statements by the board.



Zanele Matlala
Chairperson – Audit and Risk Committee
28 February 2008

Our reporting commitment

for the year ended 31 December 2007

We take a long-term and responsible approach to our business and are committed to the vision of the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry, which is to develop a globally competitive mining industry that draws on the human and financial resources of South Africa's people, offers real benefits to all South Africans and proudly reflects the promise of a non-racial South Africa.

We are also committed to providing access to relevant, high quality information on the economic, environmental and social aspects of the Company's activities, which allows assessment of the organisation's sustainability. This is in keeping with the global reform of corporate governance reflected in the King II report and the Global Reporting Initiative Framework.

The Scorecard for the Broad-Based Socio-Economic Empowerment Charter for the South African Mining Industry was released by Government in February 2003. The objective of this scorecard, which is divided into nine monitoring areas, is to measure the progress by stakeholders in achieving the aims of the Charter. In the corporate governance section preceding the annual financial statements we have measured ourselves against both the specific targets set in the scorecard and the targets that we have set for ourselves.

Directors' report

for the year ended 31 December 2007

Nature of business
Merafe Resources Limited (Merafe Resources), through the Xstrata-Merafe Chrome Venture (the Venture), participates in chrome mining and the beneficiation of chrome ore into ferrochrome. Currently its major assets consist of the Kenana UG2 beneficiation plant, a ferrochrome smelter at Boshoek in the North West Province of South Africa at which chrome ore is beneficiated into ferrochrome and the Horizon chrome mine, which produces chrome ore. Its assets also include a 50% interest in the Kroondal resources; a 26% interest in the Marikana resources; a 20,5% interest in the Lion Ferrochrome smelting complex and the Mototolo UG2 plant situated in the Mpumalanga Province of South Africa; a 20,5% interest in the EPL UG2 plant and the Rustenburg pelletiser in the North West Province and a 20,5% interest in the Bokamoso pelletising and sintering plant. The ferrochrome output of the Venture is marketed to the stainless steel industry.

Group financial results
The financial statements set out the financial results of the Group on pages 50 to 88. These financial statements have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards, supported by reasonable and prudent judgments where required.

Merafe Resources' share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Xstrata-Merafe Chrome Venture is accounted for at 20,5%.

In addition to Merafe Resources' share of EBITDA, corporate expenses, interest on debt and depreciation on assets of Merafe Resources are deducted to determine earnings before taxation. No transfer of assets to the Venture occurred and these assets are depreciated and amortised as described in the accounting policies.

Borrowing powers
Subject to articles 130 and 132 of the constitution governing the board of Merafe Resources, the directors may from time to time, at their discretion, raise, borrow or secure the payment of any sum or sums of money for the purposes of the Group as they see fit.

Going concern
The directors believe that Merafe Resources has sufficient resources and expected cash flows to continue as a going concern.

Dividend policy
The Group's dividend policy will be determined after taking into consideration the Group's need to retain capital for the purposes of development, expansion and growth, repayment of its long-term debt and prevailing market circumstances.

Ordinary dividends
No ordinary dividends were declared or paid during the year (31 December 2006: nil).

Share capital
Full details of the authorised and issued share capital of the Company are set out in note 13 to the annual financial statements. During 2007, the Company's authorised share capital was increased from 2 750 000 000 to 3 500 000 000. During the year to 31 December 2007 the following shares were issued for the purpose stated:

Directors' report *continued*

for the year ended 31 December 2007

- 18 114 275 ordinary shares issued to ThyssenKrupp Metallurgie GmbH as payment for an investigation receipt more fully described under note 16.
- 40 000 000 ordinary shares issued in a private placement to raise R66 million which was paid towards the settlement of the purchase price of the Bokamoso pelletising and sintering plant.
- 49 713 381 ordinary shares were issued to employees exercising their share options.

Directorate

In March 2007, Mzila Mthenjane joined the board as a non-executive director and in June 2007, Meryl Mamathuba joined the board as a non-executive director. Qinisani Mbatha resigned as a non-executive director in March 2007.

Payment for attendance at board meetings forms part of the fees of non-executive directors, who are remunerated for the meetings they attend. Executive directors do not receive board fees in addition to their remuneration under their employment contracts with the Company.

Details of the current board of directors are set out on pages 18 and 19 of this annual report. A detailed report on directors' emoluments has been prepared in accordance with the JSE Limited Listings Requirements and appears in note 22.2 to the annual financial statements.

Major shareholders

The following shareholders were the registered holders of five per cent or more of the issued ordinary shares in the Company at 31 December 2007:

- Royal Bafokeng Resources Holdings (Pty) Limited – 29,4%
- The Industrial Development Corporation of South Africa Limited – 22,3%
- Allan Gray Asset Management – 5,56%.

Directors' interests in Merafe Resources Limited

As at 31 December 2007 the directors of the Group are beneficially interested (directly and indirectly) in 10 687 362 shares (31 December 2006: 1 897 112).

	2007		2006	
	Direct	**Indirect**	Direct	Indirect
Steve Phiri	**62 000**	**–**	62 000	–
Bruce McBride	**–**	**600 000**	–	600 000
Stuart Elliot	**10 025 362**	**–**	1 165 112	70 000
Total	**10 087 362**	**600 000**	1 227 112	670 000

Directors' report *continued*

for the year ended 31 December 2007

Details of investments in subsidiaries

	Issued share capital	Percentage holdings		Shares at cost		Loans (from)/to subsidiaries	
		2007	2006	**2007**	2006	**2007**	2006
	R	**%**	%	**R**	R	**R'000**	R'000
Directly held							
Southwits Mining Company (Pty) Limited	100	100	100	100	100	(102)	(102)
Merafe Chrome & Alloys (Pty) Limited	200	100	100	200	200	947 830	849 463
Indirectly held							
Merafe Ferrochrome & Mining (Pty) Limited	400	100	100	400	400	–	–

Interest in the profits of subsidiaries for the year ended 31 December 2007 amounts to R240,1 million (31 December 2006: R139,2 million). Subsidiaries are incorporated in the Republic of South Africa.

Investments in joint venture
The Group holds a 50% interest in Merafe Coal (Pty) Limited, a joint venture with Sentula Mining Limited.

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 under review.

Post balance sheet date events
As from 1 February 2008, Eskom has committed to supplying 90% of the operation's electricity demand. Restoration of the remaining 10% will depend entirely on the success of a nationwide recovery plan presented to major industrial and local government users.

The Venture has declared *force majeure* with its customers as a precautionary measure should the Venture be unable to supply the required quantities of ferrochrome due to the reduction in the operation's electricity supply.

The directors acknowledge that the Corporate Laws Amendment Act was issued on 14 December 2007 and is effective for financial years beginning on or after this date. The Group is required to comply with this Act in the year ended 31 December 2008.

In his 2008 budget speech, the Minister of Finance announced a reduction in the company taxation rate from 29% to 28%. This will affect the financial results for the year ended 31 December 2008.

No other material fact or circumstance has occurred after the balance sheet date, being 31 December 2007, and the date of this report.

Income statements

for the year ended 31 December 2007

	Notes	GROUP 2007 R'000	GROUP 2006 R'000	COMPANY 2007 R'000	COMPANY 2006 R'000
Revenue	2	**1 655 803**	1 030 486	**–**	–
Cost of sales*		**(1 237 026)**	(877 169)	**(32 603)**	(22 989)
Gross profit/(loss)		**418 777**	153 317	**(32 603)**	(22 989)
Other operating income		**124**	24	**33 466**	22 353
Operating profit/(loss) before net finance (costs)/income	4	**418 901**	153 341	**863**	(636)
Net finance (costs)/income	5	**(54 394)**	(39 189)	**510**	636
Finance cost		**(55 075)**	(39 915)	**(23)**	(29)
Finance income		**681**	726	**533**	665
Profit before taxation		**364 507**	114 152	**1 373**	–
Income tax (expense)/income	6	**(124 394)**	24 991	**(1 373)**	(88)
Profit/(loss) for the year		**240 113**	139 143	**–**	(88)
Basic earnings per share (cents)	7.1	**10**	6		
Diluted earnings per share (cents)	7.3	**10**	6		
*Includes depreciation and amortisation amounts as follows:		**(46 239)**	(25 303)	**(234)**	(198)

Balance sheets

for the year ended 31 December 2007

	Notes	GROUP 2007 R'000	GROUP 2006 R'000	COMPANY 2007 R'000	COMPANY 2006 R'000
ASSETS					
Non-current assets		**1 800 793**	1 494 910	**952 286**	854 145
Property, plant and equipment	8	**1 800 793**	1 465 739	**4 558**	4 784
Deferred tax	9	**–**	28 825	**–**	–
Investments	10	**–**	346	**947 728**	849 361
Current assets		**785 409**	612 540	**11 297**	14 057
Inventories	11	**496 877**	319 356	**–**	–
Trade and other receivables	12	**251 064**	273 708	**1 197**	980
Bank and cash	21.2	**37 468**	19 476	**10 100**	13 077
Total assets		**2 586 202**	2 107 450	**963 583**	868 202
EQUITY AND LIABILITIES					
Capital and reserves		**1 438 526**	1 105 989	**958 305**	865 881
Issued share capital	13	**24 494**	23 416	**24 494**	23 416
Share premium	14	**1 238 643**	1 142 887	**1 238 643**	1 142 887
Equity-settled share-based payment	15	**7 993**	3 300	**7 993**	3 300
Non-distributable reserve	16	**–**	9 103	**–**	9 103
Retained earnings/(accumulated loss)		**167 396**	(72 717)	**(312 825)**	(312 825)
Non-current liabilities		**518 094**	424 753	**1 253**	–
Non-current borrowings	17	**400 948**	413 799	**1 253**	–
Provision for closure and restoration costs	18	**25 161**	10 954	**–**	–
Deferred tax	9	**91 985**	–	**–**	–
Current liabilities		**629 582**	576 708	**4 025**	2 321
Trade and other payables	19	**352 340**	316 194	**4 025**	2 314
Current portion of non-current borrowings	17	**86 305**	153 371	**–**	7
Bank overdraft	21.2	**190 937**	107 143	**–**	–
Total equity and liabilities		**2 586 202**	2 107 450	**963 583**	868 202

Statements of changes in shareholders' equity

for the year ended 31 December 2007

	Notes	GROUP 2007 R'000	GROUP 2006 R'000	COMPANY 2007 R'000	COMPANY 2006 R'000
Issued share capital – ordinary shares	13	**24 494**	23 416	**24 494**	23 416
Balance at beginning of year		**23 416**	22 475	**23 416**	22 475
New shares issued during the year		**1 078**	941	**1 078**	941
Share premium – ordinary shares	14	**1 238 643**	1 142 887	**1 238 643**	1 142 887
Balance at beginning of year		**1 142 887**	1 091 743	**1 142 887**	1 091 743
Premium on new shares issued during the year		**95 756**	51 144	**95 756**	51 144
Equity-settled share-based payment	15	**7 993**	3 300	**7 993**	3 300
Balance at beginning of year		**3 300**	2 510	**3 300**	2 510
Share-based payment		**4 693**	790	**4 693**	790
Non-distributable reserve	16	**–**	9 103	**–**	9 103
Balance at beginning of year		**9 103**	–	**9 103**	–
Downstream project		**(9 103)**	9 103	**(9 103)**	9 103
Retained earnings/(accumulated loss)		**167 396**	(72 717)	**(312 825)**	(312 825)
Balance at beginning of year		**(72 717)**	(211 860)	**(312 825)**	(312 737)
Net profit/(loss) for the year		**240 113**	139 143	**–**	(88)
Total equity at end of year		**1 438 526**	1 105 989	**958 305**	865 881

Statements of cash flows

for the year ended 31 December 2007

	Notes	GROUP 2007 R'000	GROUP 2006 R'000	COMPANY 2007 R'000	COMPANY 2006 R'000
Cash generated by/(utilised in) operations	21.1	**361 225**	(56 702)	**5 962**	356
Finance cost	5	**(55 075)**	(39 915)	**(23)**	(29)
Finance income	5	**681**	726	**533**	665
Taxation paid	6	**(2 211)**	(3 746)	**–**	–
Cash flows from operating activities		**304 620**	(99 637)	**6 472**	992
Cash flows from investing activities		**(380 998)**	(166 589)	**(98 426)**	(124 660)
Movement in subsidiary loan account				**(98 367)**	(123 896)
Acquisition of property, plant and equipment – maintenance		**(182 196)**	(15 390)	**(59)**	(764)
Acquisition of property, plant and equipment – expansionary		**(199 148)**	(151 199)	**–**	–
Proceeds from disposal of investment		**346**	–	**–**	–
Cash flows from financing activities		**7 814**	294 375	**88 977**	52 038
Proceeds from issue of shares		**87 731**	52 085	**87 731**	52 085
Loans raised during the year		**95 000**	343 583	**1 253**	–
Loans repaid during the year		**(174 917)**	(101 293)	**(7)**	(47)
Net (decrease)/increase in cash and cash equivalents		**(68 564)**	28 149	**(2 977)**	(71 630)
Cash and cash equivalents at beginning of year		**(87 667)**	(87 427)	**13 077**	84 707
Effect of exchange rate fluctuations on cash held	21.3	**2 762**	(28 389)	**–**	–
Cash and cash equivalents at end of year	21.2	**(153 469)**	(87 667)	**10 100**	13 077

Significant accounting policies

for the year ended 31 December 2007

1.1 Reporting entity

Merafe Resources Limited (the Company) is a company 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 2007 comprise the Company and its subsidiaries (together referred to as the Group and individually as Group entities). The Group is primarily involved in the mining and beneficiation of chrome ore into ferrochrome.

1.2 Basis of preparation

1.2.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) and in the manner required by the Companies Act of South Africa.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following:

- assets and liabilities which are stated at their fair value;
- financial instruments held for trading;
- financial instruments classified as available-for-sale; and
- equity-settled share-based payments.

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.

1.2.4 Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and 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 judgments 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 if the revision affects only that period or in the period of the revision and future period if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments 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	Depreciation and amortisation of property, plant and equipment
Note 1.7.1	Provision for closure and restoration costs
Note 1.10.3	Share-based payment transactions
Note 1.14	Income tax

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

1.2.4 Use of estimates and judgments continued

There are Standards and Interpretations in issue that are not yet effective. These include the following Standards that are applicable to the business of the entity and may have an impact on future financial statements.

- IAS 1 Presentation of financial statements (revised)
- IFRS 8 Operating segments

The effect of these Standards has not been determined.

The following statements have been issued but do not appear to have a material effect on the annual financial statements:

- IFRIC 12 Service concession arrangements
- IAS 23 (Amended) Borrowing costs
- IFRIC 8 Scope of IFRS 2
- IFRIC 11 IFRS 2 – Group and treasury share transaction

The accounting policies have been applied consistently by Group entities.

1.3 Basis of consolidation

1.3.1 Subsidiaries

Subsidiaries are entities controlled by the Company. 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 commences until the date that control ceases. In the Company financial statements, subsidiaries are stated at cost less accumulated impairment losses.

1.3.2 Transactions eliminated on consolidation

Intragroup balances and transactions and any unrealised income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

1.3.3 Transactions with Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and Merafe Resources pooling and sharing their ferrochrome assets. Accounting policy 1.11.1 describes the accounting of the Group's share of revenue generated by the Venture, while note 22.3 contains details of the Group's share of the working capital and EBITDA of the Venture.

1.4 Foreign currency

1.4.1 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 transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to 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 currencies 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.

Significant accounting policies *continued*

for the year ended 31 December 2007

1.5 Property, plant and equipment

1.5.1 Recognition and measurement

1.5.1.1 Mining assets

Mining assets, including mine development costs and mine plant facilities are stated at cost less accumulated depreciation 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 impairment losses. When there is little likelihood of a mineral right being exploited, or the value of mineral rights have diminished below cost, an impairment loss is raised against income in the period that such determination is made.

1.5.1.3 Non-mining assets

Land is shown at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are shown at cost less accumulated depreciation and 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 and restoring the site on which they are located and an appropriate proportion of production overheads.

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 "other income" in profit or loss. When revalued assets are sold, the amounts included in the revaluation surplus reserve are transferred to retained earnings.

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.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

1.5.3 Depreciation and amortisation

Assets are depreciated and amortised using the methods disclosed below to their respective residual values.

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

Residual values are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation and amortisation charges.

Significant accounting policies *continued*

for the year ended 31 December 2007

1.5.3.1 Mine development costs

Mine development costs are amortised using the units-of-production method, based on estimated proven and probable ore reserves. Proven and probable ore reserves reflect estimated quantities of economically recoverable reserves, which can be recovered in future from known mineral deposits. These reserves are reassessed annually.

1.5.3.2 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. Where the reserves are not determinable, due to their scattered nature, the straight-line method is applied. Mineral rights that are not being depleted are not amortised. Mineral rights that have no commercial value are impaired in full.

1.5.3.3 Mining assets

Mining equipment, structures and plant and equipment are depreciated using the lesser of their estimated useful lives and the units-of-production method based on estimated proven and probable ore reserves. Where ore reserves are not determinable, because of their scattered nature, the straight-line method of depreciation is applied.

1.5.3.4 Non-mining assets

Non-mining assets are depreciated on a straight-line basis method over their current estimated useful lives as follows:

- Motor vehicles 20%
- Furniture and equipment 20%

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 1.12. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership at the end of the lease term.

Other leases are operating leases and are not recognised on the Group's balance sheet.

1.6. Financial instruments

1.6.1 Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, trade and other receivables are measured at amortised cost using the effective interest method, less any impairment losses. Cash and cash equivalents, loans and borrowings and trade and other payables are measured at amortised cost using the effective interest method.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Accounting for finance income and costs is discussed in note 1.13.

Significant accounting policies *continued*

for the year ended 31 December 2007

1.6.2 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.

Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon approval by the Group's shareholders.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. Dividends thereon are recognised as interest expense in profit or loss as accrued.

1.7 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation and it is probable that an outflow of resources embodying 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, where appropriate, the risks specific to the liability.

1.7.1 Provision for closure and restoration costs

Long-term environmental obligations are based on the Group environmental management plans, 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. 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.

The amounts contributed to this trust fund are included under investments. Income earned on monies paid to rehabilitation trust funds is accrued on an annual basis and is recorded as interest income.

1.8 Inventories

Inventories are stated 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 and work-in-progress 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.

Significant accounting policies *continued*

for the year ended 31 December 2007

1.9 Impairment

1.9.1 Non-financial assets

The carrying amount of the Group's 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.

1.9.2 Reversals of impairment

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.

1.10 Employee benefits

1.10.1 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.

Pension plans are funded through monthly contributions to the Merafe Resources Provident Fund, which is governed by the Pension Fund Act, 1956. All employees of Merafe Resources belong to the 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 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 this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

1.10.3 Share-based payment transactions

The share option programme allows qualifying directors and certain employees to receive share options under an employee share option scheme. Share options may be granted to all employees of the Company and of its subsidiaries at the discretion of the directors, subject to the limitations imposed by the share option scheme. The fair value of options is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using the Black-Scholes-Merton model, taking into account the terms and conditions upon

Significant accounting policies *continued*

for the year ended 31 December 2007

1.10.3 Share-based payment transactions *continued*

which the options 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.

1.11 Revenue from mining and smelting operations

1.11.1 Goods sold

The Group accounts for its share of revenue generated by the Xstrata-Merafe Chrome Venture. Revenues associated with sales of commodities are recognised when all significant risks and rewards of ownership of the commodities are transferred to the customer, usually when the commodity is delivered to the shipping agent, when there is no continuing managerial involvement, recovery of the consideration is probable and the amount of revenue can be measured reliably. Revenue usually includes priced cost, insurance and freight (CIF). Revenue from the sales of by-products is also included in revenue.

Revenue is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

1.11.2 Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

1.12 Lease payments

1.12.1 Operating lease payments

Payments made under operating leases are recognised in the income statement 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 costs

1.13.1 Finance income

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest rate method.

1.13.2 Finance costs

Finance costs comprise interest expense on borrowings, using the effective interest rate method.

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.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Significant accounting policies *continued*

for the year ended 31 December 2007

1.14 Income tax

Income tax expense comprises current and deferred tax. Income tax is recognised in the profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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.

Deferred tax is recognised using the balance sheet method, providing for 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, and 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 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.

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend.

1.15 Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. The Group identified only one business segment, being the mining and beneficiation of chrome ore into ferrochrome.

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 granted to employees and a future equity-settled share-based payment set out in note 15.

1.17 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 method. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability. The fair values of financial assets and liabilities are the same as the carrying amounts reflected in the balance sheet.

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.

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. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

Significant accounting policies *continued*

for the year ended 31 December 2007

Share-based payment transactions

The fair value of employee share options 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.

1.18 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 a resources business.

The board of directors is actively pursuing a policy of debt reduction and its objective is to reduce its gearing level to a permanent level of 25% of capital and reserves.

Once this debt level is achieved, the board will focus on balancing the requirement to pay dividends, whilst at the same time ensuring that there is sufficient capital in the business to fund working capital and to fund organic growth opportunities in the business.

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

There were no changes to the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Notes to the annual financial statements

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
2. REVENUE				
Revenue from mining and smelting operations	**1 655 803**	1 030 486	**–**	–
3. PERSONNEL EXPENSES				
Salaries and wages	**(216 963)**	(139 184)	**(17 599)**	(13 299)
Defined contribution expense – Provident Fund	**(16 519)**	(8 601)	**(1 355)**	(1 316)
Defined contribution expense – Medical Aid	**(16 499)**	(16 640)	**(207)**	(174)
Share-based payment expense	**(4 693)**	(790)	**(4 693)**	(790)
(Increase)/decrease in accrual for leave pay and bonuses	**(2 248)**	(25 059)	**11**	(145)
	(256 922)	(190 274)	**(23 843)**	(15 724)

4. OPERATING PROFIT/(LOSS) BEFORE NET FINANCE (COSTS)/INCOME

The following items have been taken into account in arriving at profit/(loss) before net finance (costs)/income:

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
Realised and unrealised foreign exchange losses	**(5 741)**	(23 680)	**–**	–
Management fee – Merafe Ferrochrome and Mining (Pty) Limited	**–**	–	**33 342**	22 329
Disposal of property, plant and equipment	**–**	(6 042)	**–**	(5)
Auditor's remuneration	**(755)**	(876)	**(755)**	(876)
Audit fees – current year	**(324)**	(625)	**(324)**	(625)
Tax services	**(294)**	(108)	**(294)**	(108)
Other services	**(137)**	(143)	**(137)**	(143)
Bad debts written off	**–**	(78)	**–**	(78)
Consulting fees	**(1 053)**	(449)	**(1 016)**	(449)
Depreciation and amortisation of property, plant and equipment	**(46 239)**	(25 303)	**(234)**	(198)
Write-down of inventory to net realisable value	**–**	(1 749)	**–**	–
Impairment of mineral rights	**(51)**	–	**(51)**	–
Increase in accrual for legal and self-insurance	**–**	(107)	**–**	–
Increase in provision for closure and restoration	**(23 279)**	(6 765)	**–**	–
Operating lease expenses	**(861)**	(575)	**(861)**	(575)
Office equipment	**(168)**	(122)	**(168)**	(122)
Buildings	**(693)**	(453)	**(693)**	(453)

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
5. NET FINANCE (COSTS)/INCOME				
Interest paid:	**(55 075)**	(39 915)	**(23)**	(29)
Interest-bearing borrowings	**(36 563)**	(8 777)	**–**	–
Interest accrued during the year	**(36 563)**	(24 893)	**–**	–
Less interest capitalised in property, plant and equipment	**–**	16 116	**–**	–
Dividends on redeemable preference shares	**(18 416)**	(29 967)	**–**	–
Bank	**(96)**	(1 171)	**(23)**	(29)
Finance income	**681**	726	**533**	665
Bank	**659**	687	**511**	626
Other	**22**	39	**22**	39
Net finance (costs)/income	**(54 394)**	(39 189)	**510**	636
6. INCOME TAX (EXPENSE)/INCOME				
Current tax expense	**(1 373)**	(88)	**(1 373)**	(88)
Deferred taxation – current charge	**(109 680)**	28 825	**–**	–
Deferred taxation – adjustment in respect of prior years	**(11 130)**	–	**–**	–
Normal taxation	**(122 183)**	28 737	**(1 373)**	(88)
Secondary tax on companies	**(2 211)**	(3 746)	**–**	–
Total taxation	**(124 394)**	24 991	**(1 373)**	(88)

The Company has unredeemed capital expenditure of R198 637 (31 December 2006: R198 637). The total estimated unredeemed capital expenditure in the Group is R1 288 296 076 (31 December 2006: R1 404 641 123).

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
Reconciliation of effective Group tax rate				
Standard tax rate (%)	**29,00**	29,00	**29,00**	29,00
Taxation on net profit at standard tax rate	**(105 707)**	(33 104)	**–**	–
Taxation effect of non-deductible expenditure	**(24 331)**	(8 878)	**(1 373)**	(580)
Taxation effect of assessed losses and unredeemed capital expenditure utilised	**128 665**	41 894	**–**	492
Recognition of deferred tax (liabilities)/assets	**(120 810)**	28 825	**–**	–
Total normal taxation	**(122 183)**	28 737	**(1 373)**	(88)
Secondary tax on companies	**(2 211)**	(3 746)	**–**	–
Total taxation	**(124 394)**	24 991	**(1 373)**	(88)

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP	
	2007 cents	2006 cents
7. EARNINGS PER SHARE		
7.1 Basic earnings per share		
Basic earnings per share (cents)	**10**	6

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of R240 113 378 (31 December 2006: R139 142 390) and a weighted average number of ordinary shares outstanding during the year of 2 389 076 465 (31 December 2006: 2 296 747 099).

Calculation of weighted average number of shares
31 December 2007

	Number of shares	Number of days adjusted for	Weighted average
Balance at beginning of year	**2 341 569 565**		**2 341 569 565**
Share issue 24 January 2007	**6 961 889**	**341**	**6 504 121**
Share issue 27 February 2007	**2 266 667**	**307**	**1 906 484**
Share issue 5 March 2007	**500 001**	**296**	**405 480**
Share issue 14 March 2007	**9 900 000**	**292**	**7 920 000**
Share issue 28 March 2007	**2 400 000**	**279**	**1 834 521**
Share issue 2 April 2007	**3 434 098**	**273**	**2 568 517**
Share issue 17 May 2007	**1 000 001**	**228**	**624 658**
Share issue 8 June 2007	**18 114 275**	**206**	**10 223 399**
Share issue 19 June 2007	**333 345**	**195**	**178 088**
Share issue 6 July 2007	**1 833 334**	**178**	**894 064**
Share issue 26 September 2007	**3 600 000**	**96**	**946 849**
Share issue 27 September 2007	**40 000 000**	**95**	**10 410 959**
Share issue 17 October 2007	**1 666 667**	**75**	**342 466**
Share issue 25 October 2007	**10 358 695**	**67**	**1 901 459**
Share issue 2 November 2007	**4 792 028**	**59**	**774 602**
Share issue 22 November 2007	**666 667**	**39**	**71 233**
	2 449 397 232		**2 389 076 465**

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	Number of shares	Number of days adjusted for	Weighted average
7. EARNINGS PER SHARE continued			
7.1 Basic earnings per share continued			
Calculation of weighted average number of shares 31 December 2006			
Balance at beginning of year	2 247 490 793		2 247 490 793
Share issue 3 February 2006	2 328 556	332	2 118 029
Share issue 10 March 2006	333 333	296	270 319
Share issue 23 June 2006	40 178 572	191	21 024 951
Share issue 28 June 2006	48 243 089	186	24 584 149
Share issue 6 July 2006	2 328 556	178	1 135 570
Share issue 9 October 2006	333 333	83	75 799
Share issue 9 November 2006	333 333	52	47 489
	2 341 569 565		2 296 747 099

	GROUP	
	2007 cents	2006 cents
7.2 Headline earnings per share		
Headline earnings per share	**10**	6

The calculation of headline earnings per share is based on profit attributable to ordinary shareholders of R240 113 378 (31 December 2006: R145 183 885) and a weighted average number of shares outstanding during the year of 2 389 076 465 (31 December 2006: 2 296 747 099). Headline earnings are calculated as follows:

	GROUP	
	2007 R	2006 R
Net profit for the year	**240 113 378**	139 142 390
Disposal of property, plant and equipment	**–**	6 041 495
Headline earnings	**240 113 378**	145 183 885

	GROUP	
	2007 cents	2006 cents
7.3 Diluted earnings per share		
Diluted earnings per share	**10**	6

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of R240 113 378 (31 December 2006: R145 183 885) and a weighted average number of shares outstanding during the year of 2 423 805 128 (31 December 2006: 2 328 678 892).

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP	
	2007 cents	2006 cents
7. EARNINGS PER SHARE continued		
Diluted headline earnings per share	**10**	6

The calculation of diluted headline earnings per share is based on profit attributable to ordinary shareholders of R240 113 378 (31 December 2006: R145 183 885) and a weighted average number of shares outstanding during the year of 2 423 805 128 (31 December 2006: 2 328 678 892).

	2007 Number of shares	2006 Number of shares
Calculation of weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	**2 389 076 460**	2 296 747 099
Deemed issue of ordinary shares in respect of share options	**34 728 668**	16 795 207
Thyssenkrupp in respect of the Downstream Project	**–**	15 136 586
Weighted average number of ordinary shares used in calculating diluted earnings per share	**2 423 805 128**	2 328 678 892

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8. PROPERTY, PLANT AND EQUIPMENT				
8.1 Fixed property and mineral rights				
Carrying value at beginning of year	**121 275**	120 462	**4 074**	3 816
Land and mineral rights at cost	**133 783**	126 882	**4 074**	3 816
Accumulated depreciation	**(12 508)**	(6 420)	**–**	–
Additions	**3 874**	–	**–**	–
Reclassification	**–**	5 495	**–**	258
Impairment	**(51)**	–	**(51)**	–
Depreciation charge for the year	**(5 683)**	(4 682)	**–**	–
Carrying value at end of year	**119 415**	121 275	**4 023**	4 074
Land and mineral rights at cost	**137 606**	133 783	**4 023**	4 074
Accumulated depreciation	**(18 191)**	(12 508)	**–**	–

A register of the mineral rights and title deeds is available for inspection at the registered office of the Company.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8. PROPERTY, PLANT AND EQUIPMENT continued				
8.2 Boshoek smelter				
Carrying value at beginning of year	**713 672**	698 687	**–**	–
Cost	**730 871**	706 580	**–**	–
Accumulated depreciation	**(17 199)**	(7 893)	**–**	–
Additions	**90 773**	5 198	**–**	–
Reclassifications	**(1 093)**	17 502	**–**	–
Depreciation charge for the year	**(13 965)**	(9 403)	**–**	–
Transfer from capital work in progress	**1 235**	1 688	**–**	–
Carrying value at end of year	**790 622**	713 672	**–**	–
Cost	**817 377**	730 871	**–**	–
Accumulated depreciation	**(26 755)**	(17 199)	**–**	–
8.3 Horizon Mine				
Carrying value at beginning of year	**37 916**	39 396	**–**	–
Cost	**43 643**	43 643	**–**	–
Accumulated depreciation	**(5 727)**	(4 247)	**–**	–
Additions	**563**	–	**–**	–
Reclassification	**–**	(9)	**–**	–
Depreciation charge for the year	**(1 474)**	(1 471)	**–**	–
Carrying value at end of year	**37 005**	37 916	**–**	–
Cost	**44 206**	43 643	**–**	–
Accumulated depreciation	**(7 201)**	(5 727)	**–**	–
8.4 Mining equipment and structures				
Carrying value at beginning of year	**21 984**	37 785	**–**	–
Cost	**24 660**	41 599	**–**	–
Accumulated depreciation	**(2 676)**	(3 814)	**–**	–
Additions	**1 436**	7 316	**–**	–
Reclassifications	**(13 153)**	(22 731)	**–**	–
Depreciation charge for the year	**(1)**	(386)	**–**	–
Carrying value at end of year	**10 266**	21 984	**–**	–
Cost	**12 943**	24 660	**–**	–
Accumulated depreciation	**(2 677)**	(2 676)	**–**	–

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8. PROPERTY, PLANT AND EQUIPMENT continued				
8.5 Plant and equipment				
Carrying value at beginning of year	**392**	462	**–**	3
Cost	**2 187**	2 187	**94**	94
Accumulated depreciation	**(1 795)**	(1 725)	**(94)**	(91)
Additions	**184**	–	**–**	–
Depreciation charge for the year	**(12)**	(70)	**–**	(3)
Carrying value at end of year	**564**	392	**–**	–
Cost	**2 371**	2 187	**94**	94
Accumulated depreciation	**(1 807)**	(1 795)	**(94)**	(94)
8.6 Motor vehicles				
Carrying value at beginning of year	**35**	93	**32**	60
Cost	**392**	392	**138**	138
Accumulated depreciation	**(357)**	(299)	**(106)**	(78)
Additions	**408**	–	**–**	–
Depreciation charge for the year	**(43)**	(58)	**(27)**	(28)
Carrying value at end of year	**400**	35	**5**	32
Cost	**800**	392	**138**	138
Accumulated depreciation	**(400)**	(357)	**(133)**	(106)
8.7 Office furniture and equipment				
Carrying value at beginning of year	**1 668**	863	**678**	86
Cost	**4 032**	2 678	**1 121**	462
Accumulated depreciation	**(2 364)**	(1 815)	**(443)**	(376)
Additions	**19 605**	1 459	**58**	764
Reclassifications	**(474)**	–	**–**	–
Disposals at carrying value	**–**	(5)	**–**	(5)
Depreciation charge for the year	**(1 919)**	(649)	**(206)**	(167)
Carrying value at end of year	**18 880**	1 668	**530**	678
Cost	**23 148**	4 032	**1 179**	1 121
Accumulated depreciation	**(4 268)**	(2 364)	**(649)**	(443)

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8. PROPERTY, PLANT AND EQUIPMENT continued				
8.8 Wonderkop smelter				
Carrying value at beginning of year	**190 441**	202 727	**–**	–
Cost	**198 656**	202 727	**–**	–
Accumulated depreciation	**(8 215)**	–	**–**	–
Additions	**1 425**	183	**–**	–
Disposals at carrying value	**–**	(4 254)	**–**	–
Depreciation charge for the year	**(7 052)**	(8 215)	**–**	–
Carrying value at end of year	**184 814**	190 441	**–**	–
Cost	**200 081**	198 656	**–**	–
Accumulated depreciation	**(15 267)**	(8 215)	**–**	–
8.9 Wonderkop mine				
Carrying value at beginning of year	**29 186**	29 186	**–**	–
Cost	**29 186**	29 186	**–**	–
Accumulated depreciation	**–**	–	**–**	–
Additions	**–**	–	**–**	–
Disposals at carrying value	**–**	–	**–**	–
Depreciation charge for the year	**(2 213)**	–	**–**	–
Carrying value at end of year	**26 973**	29 186	**–**	–
Cost	**29 186**	29 186	**–**	–
Accumulated depreciation	**(2 213)**	–	**–**	–

The Wonderkop assets are encumbered by a loan more fully described under note 17.3.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8.10 Lion Ferrochrome smelter				
Carrying value at beginning of year	**302 229**	153 181	**–**	–
Cost	**302 598**	153 181	**–**	–
Accumulated depreciation	**(369)**	–	**–**	–
Additions	**19 102**	151 199	**–**	–
Reclassification	**14 720**	–	**–**	–
Disposals at carrying value	**–**	(1 782)	**–**	–
Depreciation charge for the year	**(10 219)**	(369)	**–**	–
Carrying value at end of year	**325 832**	302 229	**–**	–
Cost	**336 420**	302 598	**–**	–
Accumulated depreciation	**(10 588)**	(369)	**–**	–

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8. PROPERTY, PLANT AND EQUIPMENT continued				
8.11 Helena mine				
Carrying value at beginning of year	**45 706**	45 706	**–**	–
Cost	**45 706**	45 706	**–**	–
Accumulated depreciation	**–**	–	**–**	–
Additions	**3 282**	–	**–**	–
Depreciation charge for the year	**(3 241)**	–	**–**	–
Carrying value at end of year	**45 747**	45 706	**–**	–
Cost	**48 988**	45 706	**–**	–
Accumulated depreciation	**(3 241)**	–	**–**	–

The carrying value for the year ended 31 December 2006 in respect of the Lion Ferrochrome smelter include capitalised borrowing costs of R16 116 350.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8.12 Bokamoso plant				
Carrying value at beginning of year	**–**	–	**–**	–
Cost	**–**	–	**–**	–
Accumulated depreciation	**–**	–	**–**	–
Additions	**108 689**	–	**–**	–
Depreciation charge for the year	**(417)**	–	**–**	–
Carrying value at end of year	**108 272**	–	**–**	–
Cost	**108 689**	–	**–**	–
Accumulated depreciation	**(417)**	–	**–**	–
8.13 Capital work-in-progress				
Costs capitalised to date*	**132 003**	1 235	**–**	–
Total carrying value at end of year	**1 800 793**	1 465 739	**4 558**	4 784
Cost	**1 893 818**	1 516 949	**5 434**	5 427
Accumulated depreciation	**(93 025)**	(51 210)	**(876)**	(643)

** Costs capitalised to date for the year ended 31 December 2007 include costs relating to the Bokamoso pelletising and sintering plant of R68,2 million.*

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

8. PROPERTY, PLANT AND EQUIPMENT continued

8.14 Capitalised finance leases

The following leased assets where the Company is the lessee are included in 8.6 Motor vehicles and 8.2 Boshoek smelter.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
8.14.1 Motor vehicles				
Cost	**–**	138	**–**	138
Accumulated depreciation	**–**	(106)	**–**	(106)
Carrying value at end of year	**–**	32	**–**	32
8.14.2 Plant and equipment				
Cost	**27 273**	12 497	**–**	–
Accumulated depreciation	**(703)**	–	**–**	–
Carrying value at end of year	**26 570**	12 497	**–**	–

9. DEFERRED TAX (LIABILITIES)/ASSETS

Recognised deferred tax (liabilities)/assets				
Property, plant and equipment	**(107 755)**	19 063	**–**	–
Provisions and accruals	**15 770**	9 762	**–**	–
	(91 985)	28 825	**–**	–

Movement in temporary differences during the year ended 31 December 2007

	Balance 1 January 2007	Recognised in income	Balance 31 December 2007
Property, plant and equipment	**19 063**	**(126 818)**	**(107 755)**
Provisions and accruals	**9 762**	**6 008**	**15 770**
	28 825	**(120 810)**	**(91 985)**

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
10. INVESTMENTS				
10.1 Wholly-owned subsidiaries				
Southwits Mining Company (Pty) Limited			**(102)**	(102)
Shares at cost			*	*
Loan from subsidiary			**(102)**	(102)
Merafe Chrome & Alloys (Pty) Limited			**947 830**	849 463
Shares at cost			*	*
Loan to subsidiary			**947 830**	849 463
Loan at cost			**1 238 775**	1 140 408
Provision for impairment			**(290 945)**	(290 945)
Total wholly-owned subsidiaries			**947 728**	849 361
** Amount is less than one thousand*				
10.2 Flexidowment policy				
Available-for-sale – Flexidowment policy	**–**	346	**–**	–
This Flexidowment policy was managed by Old Mutual and matured on 1 April 2005. This policy had been ceded to the Horizon Nature Conservation Trust and formed part of the Trust's accumulated rehabilitation funds. The policy was cashed in on 16 March 2007.				
Total investments	**–**	346	**947 728**	849 361
11. INVENTORIES				
Consumables stores	**36 904**	32 459	**–**	–
Raw materials and work-in-progress	**111 074**	73 703	**–**	–
Finished goods	**348 899**	213 194	**–**	–
Carrying value	**348 899**	214 943	**–**	–
Write-down of inventory to net realisable value	**–**	(1 749)	**–**	–
	496 877	319 356	**–**	–

The net realisable value adjustment in 2006 represents the write-down of a stockpile of 1 829 tonnes of finished goods.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
12. TRADE AND OTHER RECEIVABLES				
Trade receivables	**235 205**	268 107	**864**	433
Prepayments	**3 389**	1 631	**159**	141
Other receivables	**12 470**	3 970	**174**	406
	251 064	273 708	**1 197**	980
13. SHARE CAPITAL				
Authorised – 3 500 000 000 (31 December 2006: 2 750 000 000) ordinary shares of 1 cent each	**35 000**	27 500	**35 000**	27 500
Issued – 2 449 397 232 (31 December 2006: 2 341 569 565) ordinary shares of 1 cent each	**24 494**	23 416	**24 494**	23 416
14. SHARE PREMIUM				
Balance at beginning of year	**1 142 887**	1 091 743	**1 142 887**	1 091 743
Arising from issue of new shares	**95 952**	51 239	**95 952**	51 239
Share issue expenses	**(196)**	(95)	**(196)**	(95)
Balance at end of year	**1 238 643**	1 142 887	**1 238 643**	1 142 887

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. The directors' report and note 15 set out the details in respect of the share option scheme.

15. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE

On 1 August 2000, the Group established a share option programme that entitles key management personnel and senior employees to acquire shares in the Company. Management has applied the provisions of IFRS 2 – Share-based payments 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.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
Reconciliation of share-based payment				
Balance at beginning of year	**3 300**	2 510	**3 300**	2 510
Fair value movement during the current year	**4 693**	790	**4 693**	790
Balance at end of year	**7 993**	3 300	**7 993**	3 300

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

15. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

The terms and conditions of the grants are listed below and all options are settled by physical delivery of shares:

Grant date/employees entitled	Number of instruments	Vesting conditions
Options granted prior to 7 November 2002	1 517 472	
Options granted to senior employees on 1 February 2003	333 333	One third per year over the period 30 June 2006 to 30 June 2008
Options granted to senior employees on 1 March 2003	500 000	One third per year over the period 30 June 2006 to 30 June 2008
Options granted to key management on 30 April 2003	10 034 098	One third per year over the period 30 June 2006 to 30 June 2008
Options granted to senior employees on 1 August 2003	1 666 667	One third per year over the period 31 December 2006 to 31 December 2008
Options granted to senior employees on 1 August 2005	2 000 000	One third per year over the period 31 December 2008 to 31 December 2010
Options granted to key management on 1 December 2005	35 253 396	One third per year over the period 31 December 2008 to 31 December 2010
Options granted to senior employees on 12 June 2006	3 000 000	One third per year over the period 30 June 2009 to 30 June 2011
Options granted to key management on 30 June 2006	3 094 756	One third per year over the period 30 June 2009 to 30 June 2011
Options granted to senior employees on 27 July 2006	2 000 000	One third per year over the period 31 December 2009 to 31 December 2011

The options are granted to employees and lapse after 10 years if not implemented while employed within the Group. The options are forfeited when an employee resigns from the Group and does not exercise his/her options. In the event of an employee leaving the Group for a reason approved of 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 due to that employee. Once contractually granted by the Company, the trustees of the scheme administer the scheme and determine the rights and obligations *vis-à-vis* the scheme and employees.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

15. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

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

	2007		2006	
	Weighted average exercise price in cents per share	**Number of options '000**	Weighted average exercise price in cents per share	Number of options '000
Outstanding balance at the beginning of the year	**49**	**70 765**	46	79 608
Options granted during the year	**–**	**–**	63	5 000
Options exercised during the year	**45**	**(49 713)**	39	(5 657)
Options forfeited during the year	**–**	**–**	37	(8 186)
Options granted in terms of 2005 rights offer	**55**	**35 253**	–	–
Options granted in terms of issue of shares for cash in 2006	**57**	**3 095**	–	–
Outstanding balance at the end of year	**56**	**59 400**	49	70 765
Exercisable at the end of the year		**9 374**		54 380

Share options outstanding at the end of the year have the following terms:

	COMPANY	
	2007 R'000	2006 R'000
Exercise price:		
35 cents	**–**	5 329
39 cents	**–**	3 300
40 cents	**–**	5 994
45 cents	**1 517**	35 108
54 cents	**10 034**	10 034
55 cents	**35 254**	–
56 cents	**3 095**	–
60 cents	**5 000**	5 000
67 cents	**2 000**	2 000
73 cents	**1 667**	2 500
82 cents	**500**	500
98 cents	**333**	1 000
	59 400	70 765
Exercise dates:		
31 December 2003	**–**	9 987
30 June 2004	**–**	15
31 December 2004	**500**	13 326
30 June 2005	**–**	15
31 December 2005	**500**	15 352
30 June 2006	**3 511**	3 860
31 December 2006	**500**	11 825
30 June 2007	**3 511**	3 845
31 December 2007	**851**	860
30 June 2008	**3 845**	3 845
31 December 2008	**13 251**	1 500
30 June 2009	**2 032**	1 667
31 December 2009	**13 084**	667
30 June 2010	**2 032**	1 667
31 December 2010	**13 084**	667
30 June 2011	**2 032**	1 667
31 December 2011	**667**	–
	59 400	70 765

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

15. EQUITY-SETTLED SHARE-BASED PAYMENT RESERVE continued

The following share options were outstanding at 31 December 2007 in favour of directors of the Company:

	Z van der Walt	SP Elliot	B McBride	DS Phiri
Average exercise price (cents)	55	55	55	55
	000's	**000's**	**000's**	**000's**
Exercisable on 30 June 2006	–	–	–	3 345
Exercisable on 30 June 2007	–	–	–	3 345
Exercisable on 31 December 2007	–	9	9	–
Exercisable on 30 June 2008	–	–	–	3 345
Exercisable on 31 December 2008	1 679	3 357	3 357	3 357
Exercisable on 30 June 2009	147	295	295	295
Exercisable on 31 December 2009	1 679	3 357	3 357	3 357
Exercisable on 30 June 2010	147	295	295	295
Exercisable on 31 December 2010	1 679	3 357	3 357	3 357
Exercisable on 30 June 2011	147	295	295	295
Total	5 478	10 965	10 965	20 991

As reported last year, the Remuneration Committee was reviewing the appropriateness of the existing share incentive scheme, as many commentators were suggesting alternate reward systems for employees as a result of changes brought about by IFRS 2 and the movement to performance based schemes. This review has been completed. The review determined that it is preferable for the existing scheme to remain in place and that this would be used in conjunction with performance based contracts and the scheme can still be used to retain and recruit staff. Any rights to share options which employees had under the existing share option scheme shall remain and be dealt with under the scheme.

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		Senior and other employees	
	2007	2006	**2007**	2006
Fair value at grant date in cents	**20**	22	**24**	26
Share price in cents (weighted average)	**55**	54	**66**	70
Exercise price in cents (weighted average)	**55**	54	**66**	70
Expected volatility	**34%**	23%	**33%**	30%
Option life (expected weighted average)	**5,08 years**	6 years	**5,18 years**	5,39 years
Expected dividends	**2,24%**	1,33%	**2,45%**	2,15%
Risk free interest rate	**8,02%**	10,51%	**8,47%**	8,95%

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

16. NON-DISTRIBUTABLE RESERVE

The non-distributable reserve relates to a feasibility study and investigation into a Downstream Project at Boshoek which was being undertaken by Merafe Resources. In terms of this agreement, an amount of R9 103 403 (one million Euros at the date of transaction) was advanced to Merafe Resources by ThyssenKrupp Metallurgie GmbH (Thyssen) in respect of this project. On 8 June 2007, Merafe Resources issued 18 114 275 shares to Thyssen for the amount of R9 103 403 for this investigation receipt. The number of Merafe Resources shares was the investigation receipt divided by the issue price (weighted average price of Merafe Resources shares traded on the JSE Limited thirty days before the payment date being the earlier of thirty days after the Downstream Project is "hot commissioned" and/or 1 April 2006).

		GROUP		COMPANY	
		2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
17.	**NON-CURRENT BORROWINGS**				
17.1	Finance leases – motor vehicles	**–**	7	**–**	7
17.2	Preference shares	**118 580**	223 580	**–**	–
17.3	ABSA Bank Limited	**106 250**	125 000	**–**	–
17.4	ABSA Bank Limited	**148 750**	175 000	**–**	–
17.5	Xstrata South Africa (Pty) Limited	**–**	16 862	**–**	–
	Balance of loan account	**–**	65 134	**–**	–
	EBITDA due for the year	**–**	(48 272)	**–**	–
17.6	Xstrata South Africa (Pty) Limited	**–**	14 224	**–**	–
17.7	Finance leases – property, plant and equipment	**18 673**	12 497	**–**	–
17.8	ABSA Bank Limited	**95 000**	–	**1 253**	–
	Balance at end of year	**487 253**	567 170	**1 253**	7
	Current portion of non-current borrowings	**(86 305)**	(153 371)	**–**	(7)
		400 948	413 799	**1 253**	–
	Minimum lease payments:				
	Repayable within the next year	**1 305**	3 364	**–**	7
	Repayable later than 1 year but not later than 5 years	**5 085**	9 133	**–**	–
	Greater than 5 years	**12 283**	–	**–**	–
		18 673	12 497	**–**	7

17.1 This loan was secured by finance lease agreements over a motor vehicle with a book value at 31 December 2006 of R32 113 as per note 8.14.1. This loan was repayable in monthly instalments of R4 116 and bore interest at the prime overdraft rate.

17.2 These redeemable preference shares, held by ABSA Bank Limited, have a fixed preference dividend rate of 8,89% (2006: 9,95%), payable quarterly. In terms of the agreement, capital will be redeemed as follows: 2008: R85 000 000, 2009: R33 580 000.

17.3 This loan is secured by cession of claims in respect of the participation interest in the Pooling and Sharing Agreement attributable to Wonderkop and in respect of the Wonderkop assets. Additional security has been provided in the form of guarantees from Xstrata South Africa (Pty) Limited and Merafe Ferrochrome and Mining (Pty) Limited. The loan is repayable bi-annually with the final payment due on 31 December 2010. Interest including bank costs is fixed at 10,54% (31 December 2006: 10,50%) per annum. This loan will be incorporated into a revolving credit facility with ABSA Bank Limited. This facility will be repayable in full on 31 December 2012. Interest will be repayable at the three month Johannesburg Interbank Rate plus 1,3% plus bank costs.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

17. NON-CURRENT BORROWINGS continued

17.4 This loan is secured by cession of claims in respect of the participation interest in the Pooling and Sharing Agreement attributable to Project Lion and guarantees from Xstrata South Africa (Pty) Limited and Merafe Ferrochrome and Mining (Pty) Limited. Interest including bank costs is charged at the three month Johannesburg Interbank Rate plus 1,45% per annum. The rate at year end was 12,59% per annum. This loan will be incorporated into a revolving credit facility with ABSA Bank Limited. This facility will be repayable in full on 31 December 2012. Interest will be payable at the three month Johannesburg Interbank Rate plus 1,3% plus bank costs.

17.5 This loan was unsecured and had no fixed repayment terms. Interest was charged at the prime overdraft rate.

17.6 This loan was unsecured and had no fixed repayment terms. Interest was charged at the prime overdraft rate less 1% per annum.

17.7 These loans are secured by finance leases over plant and equipment with a book value of R26 570 240 (31 December 2006: R12 495 782) as per note 8.14.2. The loans are repayable in monthly instalments averaging R187 181 (31 December 2006: R293 355) per month. Interest is payable at an average of 14,59% per annum.

17.8 This loan is unsecured and bears interest at a fixed rate of 12,59% per annum. This loan will be incorporated into a revolving credit facility with ABSA Bank Limited, repayable in full on 31 December 2012. Interest will be payable at the three month Johannesburg Interbank Rate plus 1,3% plus bank costs.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
18. PROVISION FOR CLOSURE AND RESTORATION COSTS				
Balance at beginning of year	**10 954**	7 592	**–**	–
Utilised during the year	**(9 072)**	(3 403)	**–**	–
Charge for the year	**23 279**	6 765	**–**	–
Balance at end of year	**25 161**	10 954	**–**	–
19. TRADE AND OTHER PAYABLES				
Trade payables	**322 671**	290 146	**1 272**	923
South African Revenue Services	**1 461**	88	**1 461**	88
Leave pay accrual	**28 208**	25 960	**1 292**	1 303
	352 340	316 194	**4 025**	2 314

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

20. FINANCIAL INSTRUMENTS

Overview

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

- Credit risk
- Liquidity risk
- Market risk
- Interest rate 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 the Audit and Risk Management Committee, which is responsible for developing and 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.

The Group Audit and Risk Management 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 Management Committee is assisted in its oversight role at operations level by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit and Risk Management Committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

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.

The Group sells the majority of its ferrochrome to a broad range of international customers in terms of the Xstrata-Merafe Chrome 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 accepts 60% of the risk related to non-payment of credit sales of ferrochrome. The Group has a policy to monitor its exposure to credit risk on a monthly basis. At year end, the maximum exposure to credit risk is represented by the carrying amount of each financial asset.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

20. FINANCIAL INSTRUMENTS continued

Investments

The Group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions.

Guarantees

The Group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2007, no guarantees were outstanding (31 December 2006: none).

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:

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
Available-for-sale financial instrument	**–**	346	**–**	–
Investments and receivables	**251 064**	273 708	**948 925**	850 341
Bank and cash	**37 468**	19 476	**10 100**	13 077
	288 532	293 530	**959 025**	863 418
Impairment losses				
The ageing of trade and other receivables at the reporting date was:				
Not past due	**245 583**	259 626	**948 061**	849 958
Past due 0 – 30 days	**89**	4 716	**481**	–
Past due 31 – 120 days	**5 009**	2 659	**–**	383
Past due 121 – 210 days	**–**	3 338	**–**	–
More than one year	**383**	3 369	**383**	–
	251 064	273 708	**948 925**	850 341

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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 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 lines of credit:

- R15 million primary lending banking facility and/or customer foreign currency account facility. Interest would be payable at the prime overdraft rate
- R5 million daylight limit.
- R37 million standby facility. Interest would be payable at the prime overdraft rate.
- R20,2 million financial guarantee facility.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

20. FINANCIAL INSTRUMENTS continued

Liquidity risk continued

- R0,5 million credit card facility. Interest would be payable at the prime lending rate.
- R70 million foreign exchange contracts
- R1,9 million foreign exchange settlement
- R106,3 million term loan facility. Interest is payable at a fixed rate of 10,54% per annum.
- R148,8 million term loan facility. Interest is payable at the three month Johannesburg Interbank Rate plus a fixed margin of 1,25% and bank costs. The rate at year end was 12,59% per annum.
- R118,6 million preference shares. Preference dividends are payable at 8.89% per annum.
- R100 million primary lending banking facilities. Interest is payable at a fixed rate of 12,6%.
- R85,3 million foreign currency overdraft account. Interest is payable at the London Interbank Offered Rate plus 0,5%, currently 4,9%.
- R189,2 million debtors discounting facility. Interest is payable at the London Interbank Offered Rate plus 0,70%, currently 5,10%.
- R28,1 million debtors discounting facility. Interest is payable at the London Interbank Offered Rate plus 0,75%, currently 5,15%.

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

	Year ended 31 December 2008	Year ended 31 December 2009	Year ended 31 December 2010	Year ended 31 December 2011	Year ended 31 December 2012
Preference shares	93 682	35 767	–	–	–
ABSA Bank Limited	39 365	39 302	39 302	39 302	389 302

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. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return. The Group does not hedge its foreign currency exposure on US$ revenue, however, ferrochrome prices are fixed quarterly which provides the Group with the ability to negotiate price adjustment taking into account both macro and micro ferrochrome market developments.

Currency risk

Foreign currency and commodity price risk

In the normal course of business, the Group enters into transactions denominated in foreign currencies (primarily US$). In addition the Group had liabilities in US$. As a result, the Group was subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The Group does not hedge its foreign currency exposure to the ferrochrome price fluctuation risk or Rand: US$ exchange rate. The Group endeavours to ensure that their US$ denominated assets equal their US$ denominated liabilities by actively managing any distributions from and to these accounts. These assets and liabilities serve as a natural hedge to reduce the risk of foreign exchange losses.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

20. FINANCIAL INSTRUMENTS continued

Exposure to currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	31 December 2007	31 December 2006
	USD	USD
Trade receivables	**22 575**	39 608
CFC account	**(27 822)**	(15 221)
Net exposure	**(5 247)**	24 387

The following exchange rate applied during the year:

	Average rate		**Reporting date spot rate**	
	2007	2006	**2007**	2006
United States Dollar	**7,04**	6,77	**6,86**	7,01

Sensitivity analysis

A 10 percent (strengthening)/weakening of the Rand against the US$ would have (decreased) /increased equity and profit or loss after tax by R92 million. This analysis assumes that all other variables, in particular interest rates, remain constant.

Interest rate risk

The Group adopts a policy of ensuring that between 40 and 60 percent 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.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

20. FINANCIAL INSTRUMENTS continued

Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	2007		2006	
	Average interest rate %	**Carrying amount R'000**	Average interest rate %	Carrying amount R'000
Fixed rate instruments				
Preference shares	**8,89**	**(118 580)**	9,95	(223 580)
ABSA Bank Limited	**10,54**	**(106 250)**	10,54	(125 000)
ABSA Bank Limited	**12,59**	**(95 000)**	–	–
		(319 830)	–	(348 580)
Variable rate instruments				
Finance lease motor vehicles	**–**	**–**	12,50	(7)
ABSA Bank Limited	**12,63**	**(148 750)**	10,54	(175 000)
Xstrata South Africa (Pty) Limited	**–**	**–**	11,08	(16 862)
Xstrata South Africa (Pty) Limited	**–**	**–**	10,08	(14 224)
Finance leases – plant and equipment	**15,01**	**(18 673)**	12,39	(12 497)
Bank overdraft (US Dollar account)	**4,90**	**(190 937)**	5,77	(107 143)
Cash and cash equivalents	**5,7**	**37 468**	6,69	19 476
		(320 892)		(306 257)

Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. A change in interest rates would therefore not affect profit or loss.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased or decreased equity and profit or loss by R2 million. The analysis assumes that all other variables remain constant.

Fair values

The fair values of financial assets and liabilities are the same as the carrying values reflected in the balance sheet.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
21. CASH FLOW INFORMATION				
21.1 Cash generated by/(utilised in) operations				
Profit for the year before taxation	**364 507**	114 152	**1 373**	–
Adjusted for:				
Depreciation and amortisation	**46 239**	25 303	**234**	198
Write down of inventory to net realisable value	**–**	1 749	**–**	–
Interest received	**(681)**	(726)	**(533)**	(665)
Interest paid	**55 075**	39 915	**23**	29
Equity-settled share-based payment expense	**4 693**	790	**4 693**	790
Movement in leave-pay accruals	**2 248**	25 166	**(11)**	–
Bad debts written off	**–**	78	**–**	–
Adjustment in respect of straight-lining of leases	**12**	24	**12**	–
Provision for closure and restoration	**23 279**	6 765	**–**	–
Payment for closure and restoration	**(9 072)**	(3 403)	**–**	–
Impairment of mineral rights	**51**	–	**51**	**–**
Unrealised foreign currency (gain)/loss on cash held	**(2 762)**	28 389	**–**	–
Disposal of property, plant and equipment	**–**	6 042	**–**	5
Operating profit before working capital changes	**483 589**	244 244	**5 842**	357
Working capital changes	**(122 364)**	(300 946)	**120**	(1)
(Increase)/decrease in inventories	**(177 521)**	3 204	**–**	–
Decrease/(increase) in trade and other receivables	**22 644**	7 663	**(217)**	(90)
Increase/(decrease) in trade and other payables	**32 513**	(311 813)	**337**	89
	361 225	(56 702)	**5 962**	356
21.2 Cash and cash equivalents				
Bank and cash	**37 468**	19 476	**10 100**	13 077
Bank overdraft	**(190 937)**	(107 143)	**–**	–
	(153 469)	(87 667)	**10 100**	13 077

21.3 Reclassification

The effect of unrealised exchange rate fluctuations in cash held at 31 December 2006 were previously included in working capital changes and have subsequently been disclosed separately.

22. RELATED PARTY TRANSACTIONS

22.1 Identity of related parties

The Group has related party relationships with its wholly-owned subsidiaries (refer note 10.1), the Xstrata-Merafe Chrome Venture (refer note 22.3), the Industrial Development Corporation of South Africa Limited (refer note 22.4), Royal Bafokeng Resources Holdings (Pty) Limited (refer note 22.5) and with its directors (refer note 22.2).

22.2 Transactions with its directors

Directors of the Company, and their immediate family (associates) control 0,44% (31 December 2006: 0,08%) of the voting shares of the Company. In addition to their salaries, the Company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf. Executive directors also participate in the Company's share option scheme (refer note 15).

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
22. RELATED PARTY TRANSACTIONS continued				
22.2 Transactions with its directors continued				
Directors' fees				
Non-executive directors				
C Molefe	**(101)**	(115)	**(101)**	(115)
Q Mbatha*	**–**	(94)	**–**	(94)
L Mogotsi	**(76)**	(97)	**(76)**	(97)
J Matlala	**(82)**	–	**(82)**	–
M Mthenjane	**(58)**	(84)	**(58)**	(84)
M Mamathuba	**(33)**	–	**(33)**	–
T Ramantsi	**(33)**	–	**(33)**	–
	(383)	(390)	**(383)**	(390)
** Resigned in March 2007*				
Directors' remuneration				
Executive directors				
S Phiri				
Salary	**(2 162)**	(2 013)	**(2 162)**	(2 013)
Bonus	**(1 825)**	(1 043)	**(1 825)**	(1 043)
Fringe benefits	**(193)**	(101)	**(193)**	(101)
Provident fund contributions	**(291)**	(263)	**(291)**	(263)
	(4 471)	(3 420)	**(4 471)**	(3 420)
SP Elliot				
Salary	**(2 028)**	(1 888)	**(2 028)**	(1 888)
Bonus	**(1 708)**	(1 043)	**(1 708)**	(1 043)
Fringe benefits	**(189)**	(92)	**(189)**	(92)
Provident fund contributions	**(272)**	(251)	**(272)**	(251)
	(4 197)	(3 274)	**(4 197)**	(3 274)
Cost of share options exercised Shares have been retained	**(4 412)**	–	**(4 412)**	–
B McBride				
Salary	**(1 977)**	(1 776)	**(1 977)**	(1 776)
Bonus	**(1 664)**	(1 043)	**(1 664)**	(1 043)
Fringe benefits	**(245)**	(98)	**(245)**	(98)
Provident fund contributions	**(265)**	(244)	**(265)**	(244)
	(4 151)	(3 161)	**(4 151)**	(3 161)
Cost of share options exercised	**(4 412)**	–	**(4 412)**	–
Proceeds on disposal of share options exercised	**15 472**	–	**15 472**	–
Z van der Walt				
Salary	**(1 372)**	(1 298)	**(1 372)**	(1 298)
Bonus	**(1 153)**	(800)	**(1 153)**	(800)
Fringe benefits	**(150)**	(78)	**(150)**	(78)
	(2 675)	(2 176)	**(2 675)**	(2 176)
Cost of share options exercised	**(4 415)**	–	**(4 415)**	–
Proceeds on disposal of share options exercised	**11 187**	–	**11 187**	–

Fringe benefits include a defined contribution expense in respect of medical aid.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

22. RELATED PARTY TRANSACTIONS continued

22.3 Transactions with the Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and Merafe Resources pooling and sharing their ferrochrome assets in July 2004. While Merafe Resources' assets form part of the Xstrata-Merafe Chrome Venture, Merafe Resources retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Executive Committee, joint board and sub-committees formed to oversee the combined operations of both companies. The Group received 11% to 30 June 2005, 14% to 15 November 2005, 17% to 30 June 2006 and 20,5% to 31 December 2007 of the Venture's working capital and EBITDA.

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:

	2007 R'000	2006 R'000
Inventories	**492 797**	315 276
Trade and other receivables	**222 409**	270 019
Bank and cash	**27 325**	5 162
Finance leases	**(17 368)**	–
Provisions	**(25 161)**	(32 618)
Trade and other payables	**(344 663)**	(280 391)
Bank overdraft	**(190 938)**	(107 143)
Net assets	**164 401**	170 305
EBITDA	**497 608**	203 047

22.4 Transactions with the Industrial Development Corporation of South Africa Limited (IDC)

The IDC is considered to be a related party, due to their ability to exercise significant influence over financial and operating decisions of Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 22,3%. No transactions occurred during the year.

22.5 Transaction with Royal Bafokeng Resources Holdings (Pty) Limited (RBR)

The RBR is considered to be a related party due to their ability to exercise significant influence over financial and operating decisions of Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 29,4%. No transactions occurred during the year.

Notes to the annual financial statements *continued*

for the year ended 31 December 2007

23. CONTINGENCIES AND COMMITMENTS

To the best of our knowledge and belief there are no contingent liabilities to third parties and/or contingent assets not set out or referred to in this report which may materially affect the financial position of the Group.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
24. OPERATING LEASES				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	**506**	476	**506**	476
Between one and five years	**437**	718	**437**	718
	943	1 194	**943**	1 194

The Group leases offices and various items of office equipment. The leases typically run for a period of five years. The office equipment lease payment escalates at 15% per annum (31 December 2006: 15%) and the building lease payment escalates at 9% per annum (31 December 2006: 9%).

25. POST BALANCE SHEET DATE EVENTS

As from 1 February 2008, Eskom has committed to supplying 90% of the operation's electricity demand. Restoration of the remaining 10% will depend entirely on the success of a nationwide recovery plan presented to major industrial and local government users.

The Venture has in the meantime declared *force majeure* with its customers as a precautionary measure should the Venture be unable to supply the required quantities of ferrochrome due to the reduction in the operation's electricity supply.

The directors acknowledge that the Corporate Laws Amendment Act was carried on 14 December 2007 and is effective for financial years beginning on or after this date. The Group is required to comply with this Act in the year ended 31 December 2008.

In his 2008 budget speech, the Minister of Finance announced a reduction in the company taxation rate from 29% to 28%. This will affect the financial results for the year ended 31 December 2008.

No other material fact or circumstance has occurred after the balance sheet date, being 31 December 2007, and the date of this report.

	GROUP		COMPANY	
	2007 R'000	2006 R'000	**2007 R'000**	2006 R'000
26. CAPITAL COMMITMENTS				
The Group's capital commitments at year end were:				
• Project Lion	**–**	10 507	**–**	–
• Various projects	**16 373**	–	**–**	–
	16 373	10 507	**–**	–

These commitments are expected to be settled in the following financial year through funds generated from operations.

Shareholder information

Analysis of ordinary shareholders as at 31 December 2007

	Number of shareholders	% of all shareholders	Number of shares held	% of shares issued
ANALYSIS OF SHAREHOLDING				
Range				
1 – 1 000	840	12,29	495 622	0,02
1 001 – 5 000	1 746	25,55	5 515 452	0,23
5 001 – 10 000	1 275	18,65	10 686 829	0,44
10 001 – 100 000	2 360	34,53	83 042 095	3,39
100 001 – 1 000 000	474	6,93	133 638 705	5,45
1 000 001 and more	140	2,05	2 216 018 517	90,47
Totals	**6 835**	**100,00**	**2 449 397 220**	**100,00**
DISTRIBUTION OF SHAREHOLDERS				
Category				
Diluted funds			1 521 075 674	62,10
Pension funds			267 229 237	10,91
Nominees & trusts			245 429 601	10,02
Individuals			225 099 605	9,19
Other corporate bodies			71 032 519	2,90
Private companies			53 886 739	2,20
Banks			24 493 972	1,00
Close corporations			41 149 873	1,68
Totals			**2 449 397 220**	**100,00**
SHAREHOLDERS HOLDING 5% OR MORE OF SHARES IN ISSUE				
Name				
Royal Bafokeng Resources Holdings (Pty) Limited			720 163 887	29,40
Industrial Development Corporation			546 830 100	22,33
Allan Gray Asset Managers			136 221 823	5,56
Totals			**1 403 215 810**	**57,29**
SHAREHOLDER SPREAD				
Public	6 828	99,90	1 165 036 114	47,56
Non-public	7	0,10	1 284 361 106	52,44
Directors	3	0,04	10 687 362	0,44
Associates	2	0,03	6 679 757	0,27
Royal Bafokeng Resources	1	0,015	720 163 887	29,40
Industrial Development Corporation	1	0,015	546 830 100	22,33
Totals	**6 835**	**100,00**	**2 449 397 220**	**100,00**

JSE Limited share statistics

at 31 December 2007

Share price (cents)	
High	240
Low	74
Closing price at 31 December 2007	234
Shares traded	
Volume of shares	1,724 million
Value of shares	R2 813 million
Volume traded as a % of weighted average shares in issue	70%
Market capitalisation	
As at 31 December 2007	R5 732 million
Number of shares in issue	2,449 million

Shareholders' diary

Meetings
Annual general meeting for 2007 to be held in April 2008

Reports
Interim report six months to 30 June 2008 to be released on or around 7 August 2008
Annual results for the 12 months to 31 December 2008 to be released in March 2009
Annual report for the 12 months to 31 December 2008 to be published in April 2009

Notice of annual general meeting

Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration Number 1987/003452/06)
ISIN: ZAE000060000
Share code: MRF
(Merafe Resources or the Company)

Notice is hereby given that the twenty first annual general meeting of members of Merafe Resources Limited will be held at 1st Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton, at 11:00 on Tuesday, 29 April 2008, for the purpose of conducting the following business:

1. To receive, consider and adopt the annual financial statements of the Company for the year ended 31 December 2007, including the directors' report and the report of the auditors thereon.
2. To elect the following directors, who retire by rotation and, being eligible, offer themselves for re-election:
   2.1 Mr Chris Molefe;
   2.2 Mr Steve Phiri; and
   2.3 Mr Tlamelo Ramantsi.
3. To ratify the appointment of Ms Meryl Mamathuba and Dr Con Fauconnier to the board as non-executive directors.
   Brief CVs of the directors are set out on pages 18 and 19 of this annual report.
4. To approve the directors' fees for the year ended 31 December 2007.
5. To re-appoint KPMG Inc. as auditors for the ensuing year.
6. To authorise the directors to determine the auditors' remuneration.
7. To approve the auditors' remuneration.

Ordinary resolution number 1
Control of authorised but unissued shares
"Resolved that 10% of the authorised but unissued share capital of the Company be placed under the control of the directors of the Company until the next annual general meeting, with the authority to allot and issue all or part thereof on such terms and conditions as they may deem fit, subject to the provisions of sections 221 and 222 of the Companies Act, Act 61 of 1973, as amended, the Articles of Association of the Company and the JSE Limited Listings Requirements."

Ordinary resolution number 2
Issue of shares for cash
"Resolved that, subject to meeting the requirements of the JSE Limited, the directors be given general authority to issue all or any of the authorised but unissued ordinary shares of one cent each for cash as and when suitable situations arise, subject to the Companies Act, Act 61 of 1973, as amended, the Articles of Association of the Company, subject to the following conditions:

- that this authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting or the date of the next annual general meeting, whichever is the earlier date;
- that a press announcement giving full details, including the effect on net asset value and earnings per share will be published at the time of any issue representing, on a cumulative basis, within one financial year, 5% of the Company's issued ordinary share capital;
- that issues in the aggregate in any one financial year will not exceed 10% of the Company's issued ordinary share capital, including instruments which are compulsorily convertible into shares of that class;

Notice of annual general meeting *continued*

- that, in determining the price at which an issue of shares will be made in terms of this authority, the maximum discount permitted will be 10% of the weighted average traded price of the shares in question, as determined over the 30 business days prior to the date that the price of the issue is determined or agreed on by the directors; and

- that there will be no restrictions in regard to the persons to whom the shares may be issued, provided that such shares are to be issued to public shareholders as defined by the JSE and not to any related parties."

The approval of a 75% majority of the votes cast by shareholders present or represented by proxy at this meeting is required for ordinary resolution number 2 to become effective.

Voting and attendance at the annual general meeting
Any member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and to vote thereat in his/her stead. The proxy so appointed need not be a member of the Company. Forms of proxy should be forwarded to reach the registered office of the Company's transfer secretaries, or the Company, by no later than 11:00 on Friday, 25 April 2008.

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Forms of proxy should be forwarded to reach the registered office of the Company's transfer secretaries no later than 11:00 on Friday, 25 April 2008.

Members who have dematerialised their shares, other than those members who have dematerialised their shares with own name registration, should contact their Central Securities Depository Participant (CSDP) or broker, in the manner and time stipulated in their agreement:

- to furnish them with their voting instructions; and
- in the event that they wish to attend the meeting, to obtain the necessary authority to do so.

In terms of the JSE Listings Requirements, the Company's ordinary shares held by and registered in the name of Merafe Share Incentive Scheme will not have their votes at annual general meetings taken into account for JSE Listings Requirements resolution approval purposes.

By order of the board



A Mahandrenath
Company Secretary
Sandton
20 March 2008

Form of proxy

Merafe Resources Limited
(Incorporated in the Republic of South Africa)
(Registration Number 1987/003452/06)
ISIN:ZAE000060000
Share code: MRF
(Merafe Resources or the Company)

Only for use by members who have not dematerialised their shares or members who have dematerialised their shares with own name registration. All other dematerialised shareholders must contact their CSDP or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

Form of proxy for the twenty first annual general meeting
I/We (name in block letters)

of (address)

being the holder/s of _____ ordinary shares

in the Company do hereby appoint (see note 1):

1. _____ or failing him/her

2. _____ or failing him/her

3. The chairman of the Company, or failing him, the chairperson of the annual general meeting, as my/our proxy to vote for me/us on my/our behalf at the annual general meeting of the Company to be held at Merafe Resources Limited at 1st Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton, at 11:00 on Tuesday, 29 April 2008, or at any adjournment thereof.

I/We desire to vote as follows (see note 2):

	Number of Votes		
	For	**Against**	**Abstain**
1 To receive, consider and adopt the annual financial statements			
2. To elect the directors who retire by rotation:			
2.1 Mr Chris Molefe;			
2.2 Mr Steve Phiri; and			
2.3 Mr Tlamelo Ramantsi			
3. To ratify the appointment of Ms Meryl Mamathuba to the board as a non-executive director			
4. To ratify the appointment of Dr Con Fauconnier to the board as a non-executive director			
5. To approve the directors' fees			
6. To re-appoint KPMG Inc. as auditors for the ensuing year			
7. To authorise the directors to determine the auditors' remuneration			
8. To approve the auditors' remuneration			
9. Ordinary resolution number 1: to place the unissued shares under the control of the directors			
10. Ordinary resolution number 2: to authorise the Company to issue shares for cash			

Signed at _____ on _____ 2008

Signature (assisted by me – where applicable) _____

Please see notes overleaf

Notes to form of proxy

1. A shareholder may insert the name of a proxy or the names of two alternative proxies of the shareholder's choice in the space(s) provided, with or without deleting 'the chairperson of the general meeting of shareholders', but any such deletion must be initialled by the shareholder. The person whose name stands first on the form of proxy and who is present at the annual general meeting of shareholders will be entitled to act as proxy to the exclusion of those whose names follow.

2. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate box provided. Failure to comply will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting of shareholders as he/she deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or the proxy is not obliged to use all the votes exercisable by the shareholder or by his proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or by the proxy.

3. Forms of proxy must be lodged with, posted or faxed to, the transfer secretaries' registered office: Link Market Services (Pty) Limited, 5th floor, 11, Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000), or +27 11 834 4398, or the Company's registered office: 1st Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton, 2196 (PO Box 652157, Benmore, 2010), or fax: +27 11 783 4789 to be received by no later than 11:00 on Friday, 25 April 2008.

4. The completion and lodging of this form of proxy shall not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so.

5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity (such as power of attorney or other written authority) must be attached to this form or proxy unless previously recorded by Merafe Resources Limited.

6. Any alteration or correction made to this form of proxy must be initialled by the signatory(ies).

7. On a show of hands, every shareholder shall have only one vote, irrespective of the number of share/s he/she holds or represents, provided that a proxy shall, irrespective of the number of shareholders he/she represents, have only one vote.

8. On a poll, every shareholder present in person or represented by proxy shall have one vote for every Merafe Resources share held by such shareholder.

9. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the meeting.

10. If a poll is demanded, the resolution put to the vote shall be decided on a poll.

Corporate information

COMPANY DETAILS
Merafe Resources Limited
Company registration number: 1987/003452/06

BUSINESS ADDRESS AND REGISTERED OFFICE
1st Floor
Block B
Sandton Place
68 Wierda Road East
Wierda Valley
Sandton
2196

Postal address
PO Box 652157
Benmore
2010

Telephone: +27 11 783 4780
Telefax: +27 11 783 4789

COMPANY SECRETARY
A Mahendranath

AUDITORS
KPMG Inc.
85 Empire Road
Parktown
2193
Private Bag 9
Parkview
2122

BANKERS
ABSA Bank Limited
ABSA Towers North
180 Commissioner Street
Johannesburg
2001
PO Box 8054
Johannesburg
2000

ATTORNEYS
Bowman Gilfillan Inc.
165 West Street
Sandton
2196
PO Box 785812
Sandton
2146

Wessels & Smith Inc.
Wessels & Smith Building
26-28 Heeren Street
Welkom
9459
PO Box 721
Welkom
9460

TRANSFER SECRETARIES
Link Market Services (Pty) Limited
5th Floor
11 Diagonal Street
Johannesburg
2001
PO Box 4844
Johannesburg
2000

SPONSOR
Deutsche Securities (SA) (Proprietary) Limited
Registration No. 1995/011798/07
3rd Floor
3 Exchange Square
87 Maude Street
Sandton
2196
Private Bag X9933
Sandton
2146

www.meraferesources.co.za

Designed by motiv
Printed by INCE



MERAFE
RESOURCES

• www.meraferesources.co.za •