MERAFE
RESOURCES



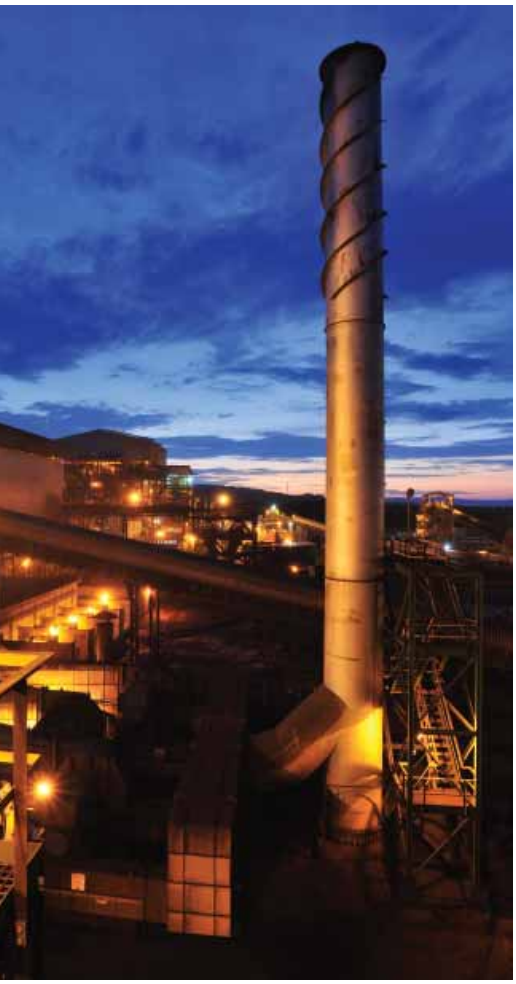
Merafe Resources
Annual Report 2008





MERAFE
RESOURCES

Scope of the report



This report covers the economic, environmental and social performance of the Merafe Group for the 12 month period from 1 January 2008 to 31 December 2008. The financial year of Merafe Resources runs from January to December.

Merafe Resources is committed to reporting its performance using the Global Reporting Initiative's (GRI) G3 Guidelines.

Reporting guidelines

This report has been prepared using the GRI G3 Guidelines and the Mining and Metals Sector Supplement (an addendum to the GRI G3) as a framework.

Accountability, governance and sustainability are three powerful ideas that play 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 the economic, social and environmental performance that make up its triple bottom line.

An independent auditors report on the financial data is presented in this report in terms of International Financial Reporting Standards and this year independent third party assurance has been provided on whether Merafe Resources' self-declared application level of the GRI G3 sustainability reporting guidelines is not materially misstated.

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



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.

The Merafe Group is subject to the effect of changes in commodity prices, currency fluctuations, uncertainty around 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.

The company undertakes no obligation to update publicly or release any revisions to these forward looking statements to reflect events or circumstances after the date of publication of these pages or to reflect the occurrence of unanticipated events.

Our goals

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

To grow our interests in ferrochrome and coal

Our strategy

Organic growth in the ferrochrome industry through expansion

Acquisitive growth in the ferrochrome industry

Growth through diversification

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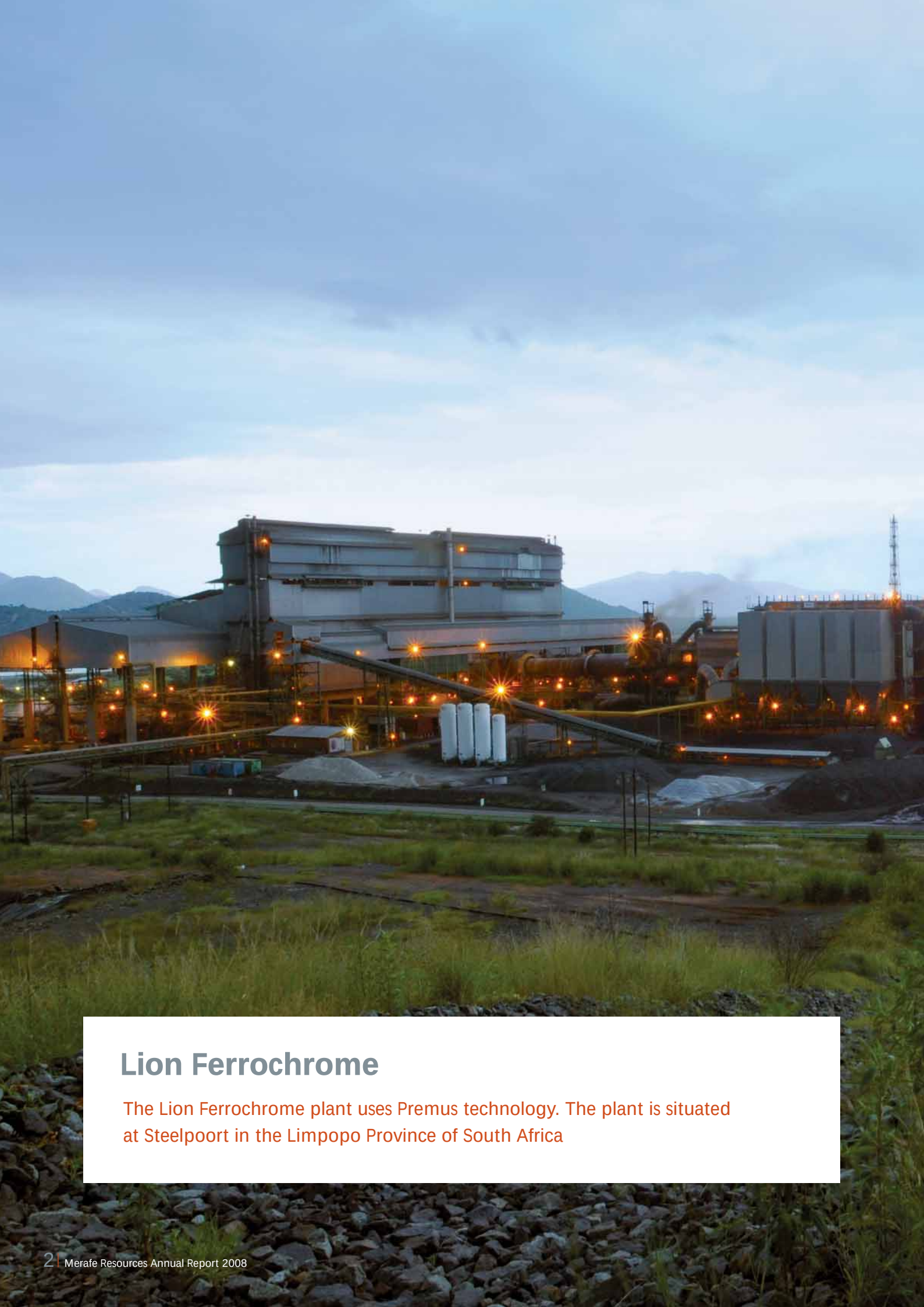


Lion Ferrochrome

The Lion Ferrochrome plant uses Premus technology. The plant is situated at Steelpoort in the Limpopo Province of South Africa



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 group structure is set out below.

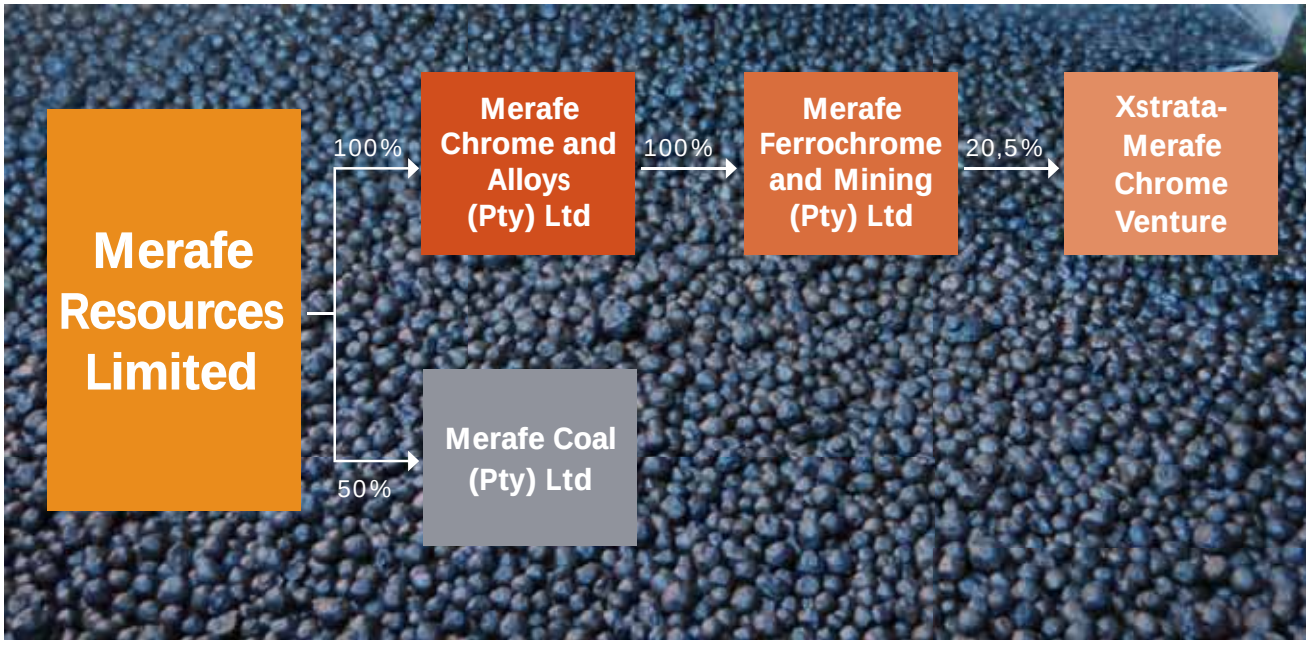
Merafe Resources' interests are in ferrochrome and coal in South Africa. Its main business is the production and sale of ferrochrome to the stainless steel industry through its 20,5% participation in the earnings before interest, tax, depreciation and amortisation (EBITDA) of the Xstrata-Merafe Chrome Venture (the Venture). The Venture, the largest ferrochrome producer in the world, supplies approximately 20% of the world's ferrochrome requirements. It supplies ferrochrome to stainless steel mills primarily in Europe, America and Asia (including China, Japan, Taiwan and Korea)

When Merafe Resources, Merafe Ferrochome and Mining (Pty) Ltd (Merafe or the Merafe Group) and Xstrata South Africa (Pty) Ltd (a wholly-owned subsidiary of Xstrata plc*) established the Venture on 2 July 2004 they agreed to pool their chrome operations (while retaining ownership of their assets) and share in the EBITDA of the Venture. Merafe has the right to increase its interest in the Venture to 26% over time. In 2007 Merafe increased its ferrochrome investment by purchasing a 20,5% interest in the Bokamoso chrome ore pelletising and sintering plant. The plant, which uses Outokumpu technology, has an annual capacity of 1,2 million tonnes. The Venture's operations are set out on page 5.

In 2007 the company established Merafe Coal, a 50/50 joint venture with Sentula Mining, to pursue coal opportunities in South Africa. It introduces a new, but complementary commodity to the business and is in line with the company's strategy of growth through diversification into other commodities.

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

Group structure



The Venture's operations

Smelters	Capacity	Technology	Mines
Western limb			
Wonderkop	553 ktpa FeCr – 6 furnaces 1 200 ktpa – pelletising capacity	Conventional semi-closed furnaces Bokamoso pelletising and sintering plant using Outokumpu technology	Kroondal, Waterval and Marikana
Rustenburg	430 ktpa FeCr – 6 furnaces	Conventional semi-closed furnaces	Kroondal, Waterval and Marikana
Boshoek	240 ktpa FeCr – 2 furnaces 520 ktpa – pelletising capacity	Closed furnaces Pelletising and sintering plant using Outokumpu technology	Horizon, Kroondal, Waterval and Boshoek opencast reserve
Eastern limb			
Lydenburg	396 ktpa FeCr – 4 furnaces	Premus – kilns, 3 closed furnaces and 1 semi-closed furnace	Helena, Thorncliffe and Magareng opencast reserve
Lion	360 ktpa FeCr – 2 furnaces	Premus – kilns and closed furnaces	Helena,Thorncliffe and Magareng opencast reserve
Total	1 979 ktpa production capacity 20 furnaces 5 production sites	3 major technologies Premus technology is proprietary to the Venture – world's lowest cost ferrochrome technology	8 mines Resources to last in excess of 100 years assuming current smelting capacity

The establishment of the Xstrata-Merafe Chrome Venture resulted in Merafe and Xstrata Alloys pooling and sharing their chrome assets. In terms of the Venture, Merafe participates in 20,5% of the Venture's EBITDA and retains ownership of its assets, which are: the Boshoek smelter and pelletising and sintering plant (100%), the Boshoek and Horizon chrome mines (100%), the Kanana UG2 plant (100%), Lion Ferrochrome (20,5%), Wonderkop 5 and 6 furnaces (50%), Bokamoso pelletising and sintering plant (20,5%), Mototolo and EPL UG2 plants (20,5%), Kroondal mine (50%) and Marikana mine (26%).

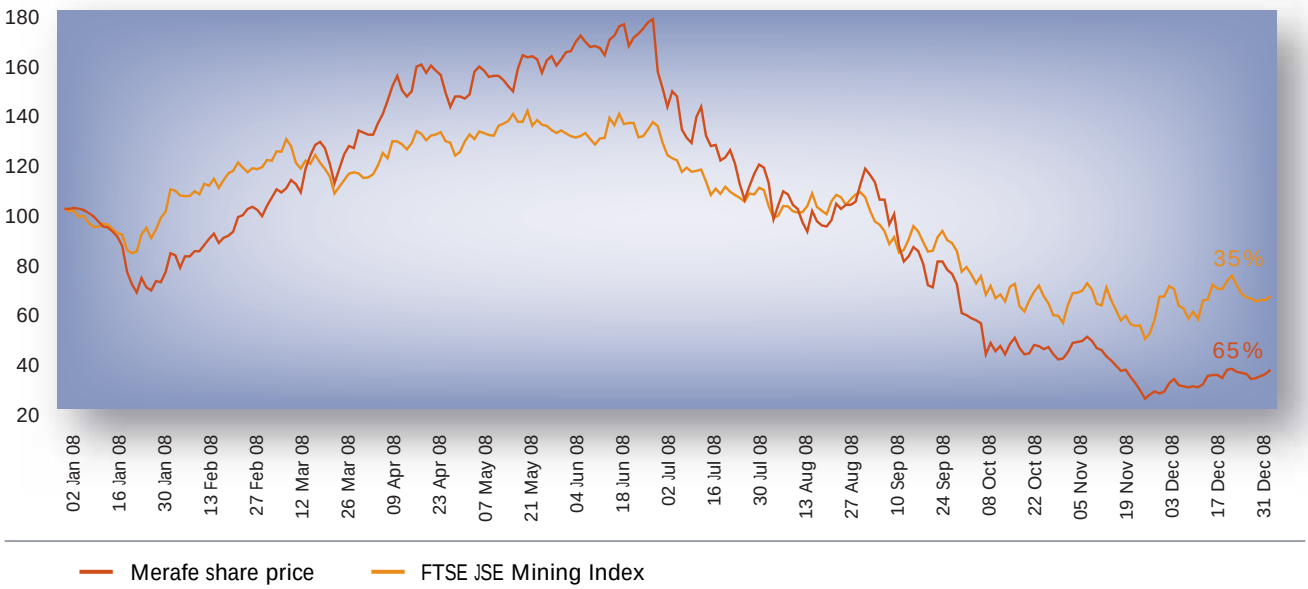


Above: Bokamoso pelletising and sintering plant, Wonderkop plant, North West Province

Highlights of the year

- EBITDA a record **R1,6 billion**, an increase of **247%**
- Net profit after tax up **328%** to **R1 billion**
- Market capitalisation reached a **record level** of **R10 billion**
- The ferrochrome price reached a **record US$2,05/lb**
- Merafe's **debt reduced** from R825 million to R367 million
- Cash balance at year end of **R540 million**
- Second most empowered company on the JSE in the Financial Mail's Top Empowerment Company Survey 2008 and **most empowered company in the mining industry**
- Listed as one of **top 21 best performers** on the JSE Socially Responsible Investment (SRI) Index
- Xstrata-Merafe Chrome Venture's energy efficiency acknowledged when it was awarded the Eskom *eta* **special mining sector energy efficiency award** sponsored by the National Business Initiative

Merafe's share price performance relative to the FTSE JSE Mining Index

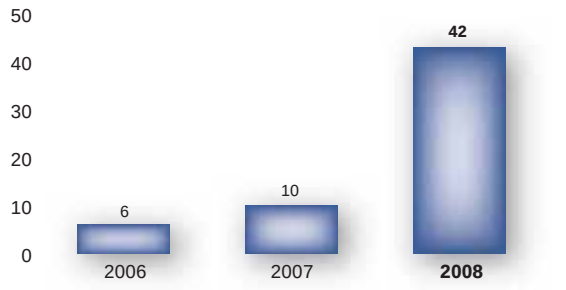


Source: I-Net Bridge

Merafe Resources' financial highlights

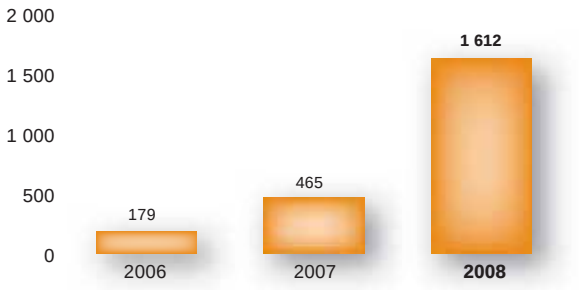
	2008	2007
Financial results (Rm)		
Revenue	2 781	1 656
EBITDA	1 612	465
Net profit after tax	1 028	240

Earnings per share (cents)



Merafe Resources' earnings per share for the past three years

EBITDA (Rm)



Merafe Resources' earnings before interest, tax, depreciation and amortisation (EBITDA) for the past three years

Board of directors

Non-executive directors



Chris Molefe

Chairman

BCom, Post-graduate Diploma in Property Development

Chris (60) has chaired the Merafe Resources board for the past five 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 Holdings (Pty) Ltd, where he held the position of Chief Executive Officer. He is currently Executive Chairman of Nishati Oil and Energy Consulting (Pty) Ltd. He is a non-executive director of Jubilee Platinum plc and Kiwara plc.



Con Fauconnier

DSc (hc), DEng, MBA, MSc (Eng), BSc Hons (Eng), BSc (Eng)

Con (61) 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. Prior to this appointment he was appointed Managing Director of Iscor Mining in 1999. He worked for the Anglo American Corporation, Gencor Limited and JCI Limited before joining Iscor in 1995, as General Manager Business Development.



Belese Majova

BCompt

Belese (34) joined the Merafe Resources board in January 2009. She is currently CEO of Zeleb Holding (Pty) Ltd, a business consultancy specialising in financial management capacity building interventions, business process mapping and supply chain management integration. Previously she was Financial Director of City of Johannesburg Housing and Financial Manager and acting Chief Financial Officer of SAEDF. After completing her Articles she gained audit experience as the Internal Audit Manager for Transnet.



Mzila Mthenjane

BSc (Eng), SMDP

Mzila (38) 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) Ltd from 2004 to 2006 and Senior Manager Corporate Development at Gold Fields Limited from 2002 to 2004.



Meryl Mamathuba

BProc, LLB

Meryl (36) 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.

Executive directors



Tlamelo Ramantsi

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

Tlamelo (34) 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) Ltd, an associate at African Harvest Capital and an Audit Manager at Gobodo Incorporated.



Zanele Matlala

BCompt (Hons), CA (SA)

Zanele (45) joined the Merafe Resources board in 2005. She has extensive financial experience, acquired as Group Financial Director of Kagiso Investments (Pty) Ltd (her current position) and Chief Financial Officer of the Development Bank of Southern Africa (DBSA). She previously served the DBSA as Executive Manager: Private Sector and International, the IDC as head of Wholesale Venture Capital Funds and was an Audit Supervisor at Arthur Andersen & Co.



Steve Phiri

Chief Executive Officer

BJuris, LLB, LLM, HDip Co Law

Steve (53) 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. 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 the South African Diamond and Precious Metals Regulator, a non-executive director of Royal Bafokeng Holdings (Pty) Ltd, Impala Platinum Limited and Zurich Insurance Company SA.



Stuart Elliot

Chief Financial Officer

CA (SA), H Dip Co Law

Stuart (45) 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) Ltd for three years prior to joining Merafe Resources.



Bruce McBride

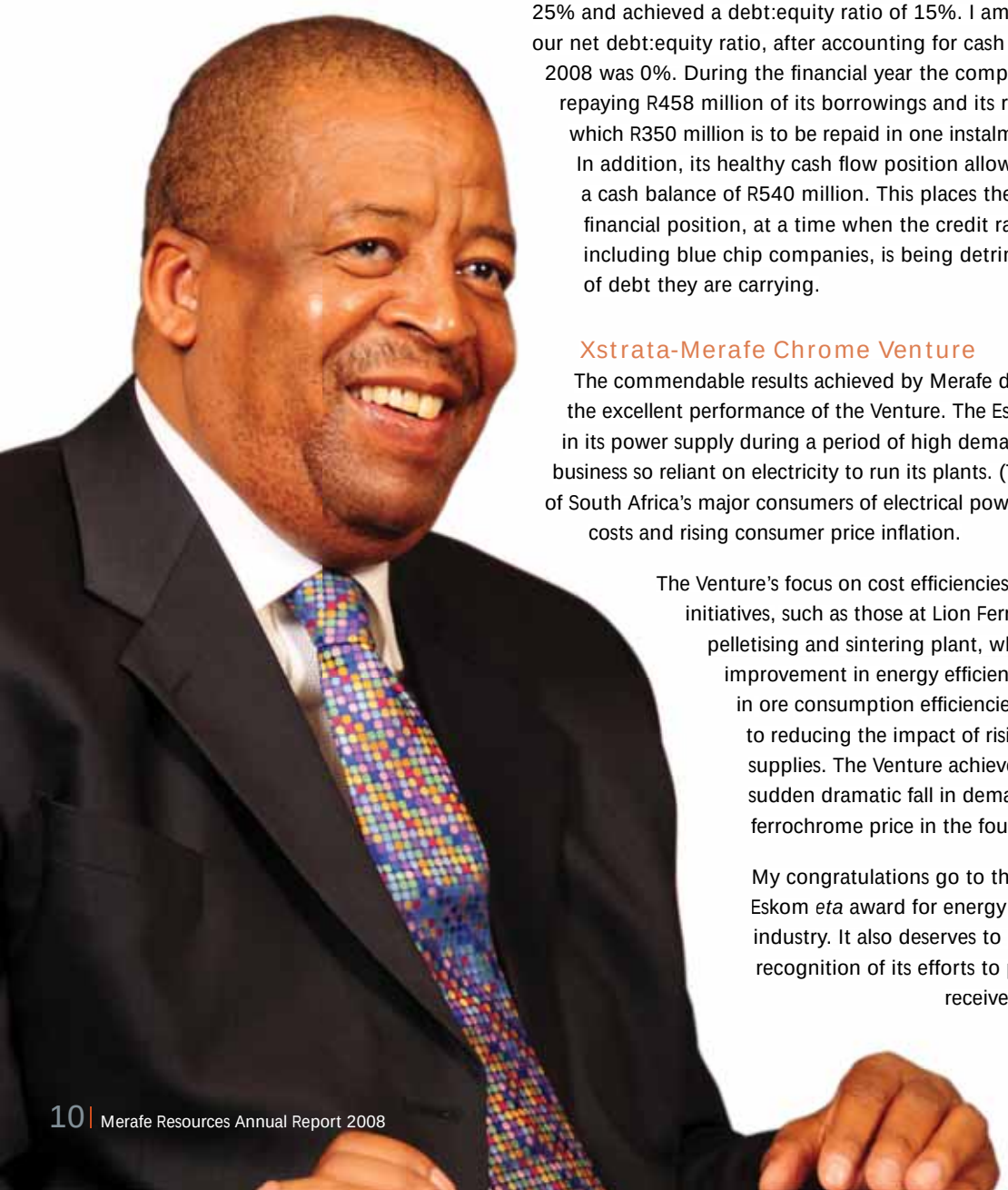
Commercial Director

BA, LLB, Dip Advanced Banking, MBA, PhD

Bruce (49) 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.

Chairman's statement

Chris Molefe
Chairman



At a time when there is a dearth of good news in the corporate world I am very pleased to be able to inform you that Merafe has broken all previous records to achieve a 328% increase in net profit after tax for the year under review. You will recall that our performance in the previous financial year also resulted in a record 73% increase in net profit after tax for the year.

Earnings per share increased to 42 cents for the year ended 31 December 2008, in comparison with earnings per share of 10 cents in 2007.

Merafe currently derives its income from a 20,5% interest in the Xstrata-Merafe Chrome Venture (the Venture). As a result its profitability is affected by the performance of the ferrochrome price and the performance of the Venture. This year's increase in profitability is attributable to record ferrochrome prices during the year, effective cost control in the Venture and a weakening Rand against the US dollar.

Last year we set ourselves the target of reducing our debt:equity ratio to below 25% and achieved a debt:equity ratio of 15%. I am pleased to be able to tell you our net debt:equity ratio, after accounting for cash balances, as at 31 December 2008 was 0%. During the financial year the company reduced its gearing by repaying R458 million of its borrowings and its remaining debt is R367 million of which R350 million is to be repaid in one instalment due on 31 December 2012. In addition, its healthy cash flow position allowed Merafe to end the year with a cash balance of R540 million. This places the company in a very healthy financial position, at a time when the credit rating of many companies, including blue chip companies, is being detrimentally affected by the amount of debt they are carrying.

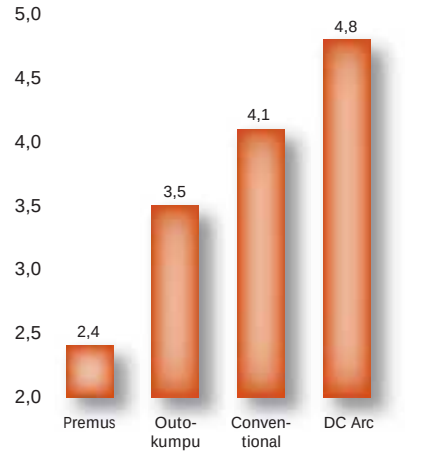
Xstrata-Merafe Chrome Venture

The commendable results achieved by Merafe during this financial year reflect the excellent performance of the Venture. The Eskom imposed 10% reduction in its power supply during a period of high demand was a major challenge for a business so reliant on electricity to run its plants. (The ferrochrome industry is one of South Africa's major consumers of electrical power.) It also faced rising mining costs and rising consumer price inflation.

The Venture's focus on cost efficiencies and its ongoing improvement initiatives, such as those at Lion Ferrochrome and the Bokamoso pelletising and sintering plant, which achieved a 13% improvement in energy efficiencies and a 9% improvement in ore consumption efficiencies per annum, all contributed to reducing the impact of rising costs and reduced energy supplies. The Venture achieved a record year despite the sudden dramatic fall in demand and the softening of the ferrochrome price in the fourth quarter of 2008.

My congratulations go to the Venture for receiving the Eskom *eta* award for energy efficiency in the mining industry. It also deserves to be congratulated on the recognition of its efforts to promote sustainability which received a Nedbank Green Award.

Specific energy consumption (MWh/T)



Source: Xstrata-Merafe

Merafe Coal

Merafe Coal, a 50/50 joint venture with Sentula Mining Limited, has submitted applications for new order mining rights to the Department of Minerals and Energy. Once these are granted we intend to immediately start developing the Schoongezicht and Bankfontein coal deposits. These deposits are well positioned to supply both export quality coal and coal suitable for consumption by Eskom, South Africa's power utility.

Performance against strategy

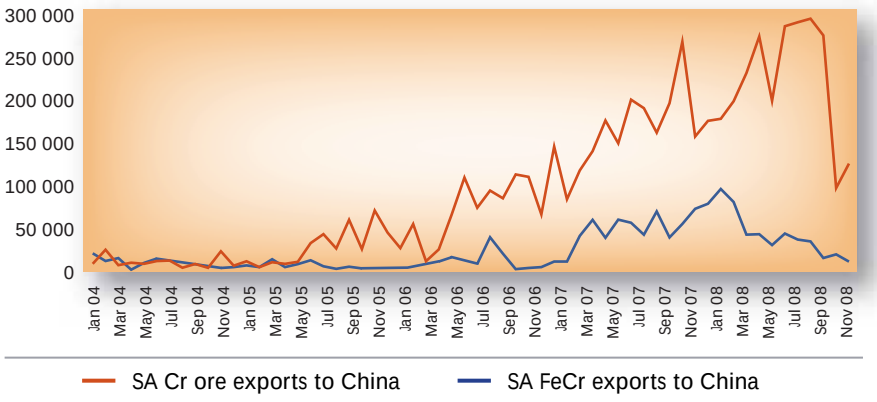
While this financial year was a period during which the company consolidated its ferrochrome interests within the Venture, the company continues to look at opportunities to grow its ferrochrome interests through acquisition, organic growth, or by increasing its interest in the Venture.

Merafe Resources also continues to seek growth opportunities in the coal mining sector and expects to achieve its strategic objectives of growth through diversification into coal.

Legislative environment

I reported to you last year that the Venture had made submissions to the Department of Minerals and Energy (DME) for new order prospecting and mining rights under South Africa's Mineral and Petroleum Resources Development Act. I am pleased to say that excellent progress has been made. The Venture submitted nine applications for new order prospecting and mining rights (not classified as old order) under South Africa's Mineral and Petroleum Resources Development Act. All of these applications have been granted to the Venture. In addition, the Venture has successfully converted one old order prospecting right to a new order prospecting right. Of the eleven applications made to convert existing old order mining rights into new order mining rights, nine have been granted and notarially executed. The two outstanding conversions are being processed and actively pursued with the DME.

SA chrome ore exports to China vs. SA FeCr exports to China (tonnes)



Source: CRU

Recognition of commitment to BEE, sustainability and good corporate governance

Merafe Resources' commitment to black economic empowerment (BEE) saw it rated the second most empowered company on the JSE in 2008 and the most empowered company in the mining sector in the Financial Mail's Top Empowerment Companies survey for 2008.

The company's commitment to doing business in a sustainable manner was recognised by the JSE when it was listed as one of the top 21 best performers on the JSE Socially Responsible Investment (SRI) Index.

Beneficiation

The power crisis that hit the South African mining industry during 2008 constrained the domestic beneficiation of chrome ore and resulted in a further increase in the export of chrome ore, which is contrary to the South African government's stated beneficiation objectives. Merafe Resources, through its

Chairman's statement *continued*

participation in the Venture, continues to contribute to the beneficiation of South African chrome ore into ferrochrome. The Venture's production of ferrochrome in the 2008 financial year were 1,42 million tonnes (8% lower than its production in 2007 of 1,53 million tonnes).

The year ahead

Merafe Resources expects that after the dramatic fall in demand for ferrochrome at the end of 2008 demand will continue to be weak in 2009. However, in the long term the demand cycle, driven in particular by the move of China and India up the industrialised, urbanised development curve, remains. As a result the outlook for ferrochrome remains robust in the medium to long term. Production cutbacks and the deferral or cancellation of expansion projects will reduce the current oversupply situation. We believe this will ultimately result in a recovery in global demand for ferrochrome which will, in turn, result in a recovery in the ferrochrome price.

Directorate and staff

On behalf of the board I would like to thank the Merafe Resources executive, management and staff for their contribution to the excellent performance of the company during the year under review.

The board extends its appreciation to all its stakeholders and, in particular, to its partners in the Xstrata-Merafe Chrome Venture.

I would also like to thank the members of the board for the support and guidance they have provided the company's management and the commitment they have shown to their responsibilities as board members.

On behalf of the board I welcome Belese Majova who joined the board as a non-executive director in January 2009.



Chris Molefe
Chairman



Above: Ladle with molten ferrochrome at Lion Ferrochrome, Steelpoort, Limpopo Province

Below: The Bokamoso pelletising and sintering plant, Wonderkop plant, North West Province



Management team



Amritha Mahendranath

Company Secretary

BCom

Amritha (41) joined Merafe Resources in 2003 as Financial Manager. In March 2004 she was appointed Company Secretary. She has a corporate governance qualification from the University of Johannesburg and is currently studying for a post-graduate diploma in compliance.



Lindiwe Montshiwagae

Corporate Finance and Investor Relations Manager

BCompt (Hons)

Lindi (37) 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 (35) was appointed by Merafe Resources in May 2006. Before joining the company she was a Senior Manager at KPMG.



Dr Jurg Zaayman

General Manager – Merafe Chrome

BEng, MEng, PhD (Metallurgical Engineering)

Jurg (40) started his career in the ferrochrome industry with Xstrata Alloys in 1997. He joined the Merafe Resources team as Operations Manager during 2001 and later headed up its operations as Managing Director. In 2004 he was seconded to the Xstrata-Merafe Chrome Venture and was the project leader for the Bokamoso pelletising plant project before being appointed to his current position in 2007.

Chief Executive Officer's review

Steve Phiri
Chief Executive Officer



Financial review

A record year for the Xstrata-Merafe Chrome Venture (the Venture) translated into record after tax profits of R1 billion for Merafe. This amounts to a 328% increase year-on-year, and earnings per share of 42 cents for the year ended 31 December 2008. In the previous financial year the company recorded after tax profits of R240 million (a 73% increase on the 2006 financial year) and earnings per share of 10 cents (an increase of 67% on the 2006 financial year).

The company's share of the attributable saleable production of the Venture for the year under review was 223 000 tonnes, which reflects a 21% decrease in annual attributable saleable production.

The record ferrochrome prices achieved during the year were a major contributor to profitability. In the third quarter of 2008 the ferrochrome price reached a record level of $2,05/lb before falling 9,8% in the fourth quarter to $1,85/lb. The average ferrochrome price for 2008 was $1,76/lb compared with an average price for 2007 of $0,89/lb. The Venture's ability to control costs during a period of rising mining inflation played an important part in these record levels of profitability, as did the weakening of the Rand against the US dollar.

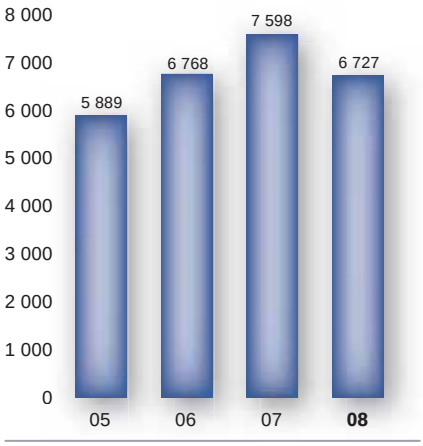
Merafe's EBITDA for the twelve months ended 31 December 2008 was R1,6 billion, after accounting for corporate costs related to 2008 of R36 million, debt restructuring fees of R2,5 million, and a share-based payment expense of R8 million. Depreciation increased year-on-year by R32 million due to the Bokamoso pelletising and sintering plant being depreciated for the full year for the first time and because of significant capital expenditure at the Boshoek smelter. Net financing costs increased by R10 million year-on-year, mainly because of the recognition of the fair value of an interest rate swap entered into during the year.

Merafe is in a tax paying position for the first time and has a current taxation expense of R84 million and a deferred tax expense of R357 million which was mainly attributable to the net portion of the profits generated within the Merafe Group, being offset against unredeemed capital expenditure. The balance of unredeemed capital expenditure at 31 December 2008 is estimated to be R52 million.

During the twelve months ended 31 December 2008, Merafe repaid R458 million in debt, comprising R120 million relating to preference shares, R147 million owing to Xstrata and R191 million in respect of the bank overdraft. The remaining debt at 31 December 2008 is R367 million, of which R350 million is due to be repaid in one instalment on 31 December 2012 and R17 million relates to finance leases. Strong cash flows generated during the year have resulted in Merafe having a cash balance of R540 million at 31 December 2008.

The company is well-positioned financially at the start of what is likely to be a very challenging year for all businesses in 2009.

World consumption of ferrochrome per annum ('000 tonnes, gross weight)



Source: CRU

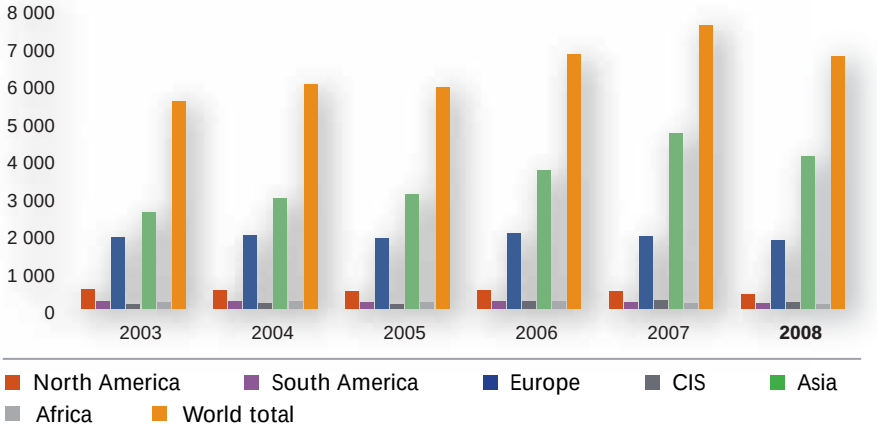
During the year the company's market capitalisation reached a record R10 billion. The impact the financial crisis and the dramatic fall in demand for commodities had on share prices reduced its market capitalisation to R2 billion by 31 December 2008.

Review of operations

Xstrata-Merafe Chrome Venture

In the first half of 2008 the demand for ferrochrome increased steadily, driven by high stainless steel melt production. The Venture, faced with power restrictions imposed by Eskom, South Africa's power utility, was unable to take advantage of the increased capacity it had achieved through the ramp up of the new energy efficient Lion Ferrochrome smelter and the return to production of previously idle capacity. In the second half of the year, responding rapidly to a dramatic fall in demand for ferrochrome, the Venture suspended six furnaces in November and a further five furnaces in December 2008. As market conditions worsened, the Venture suspended the operation of a further six furnaces, leaving only three of its 20 ferrochrome furnaces operating by January 2009.

World consumption of ferrochrome by region per annum ('000 tonnes, gross weight)



Source: CRU

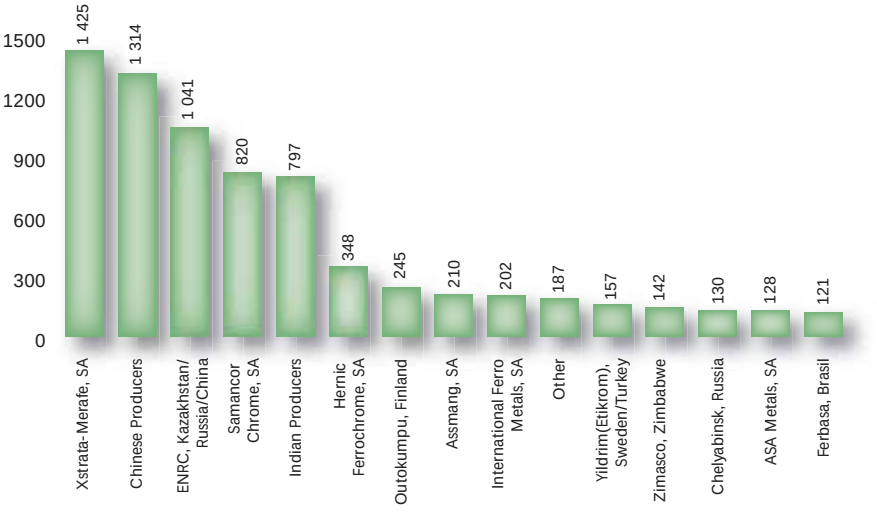
It is estimated that the ferrochrome industry worldwide has cut ferrochrome production by approximately 66%. Some producers have suspended all their operations until market conditions improve.

While the Venture has reduced its complement of contract workers to contain costs during this period, it has retained its permanent employees in an effort to ensure it maintains its skill levels.

Smelters

While conditions during the year under review prevented the Venture fully utilising its increased capacity after the ramp up to full design capacity of the Lion Ferrochrome plant, it is now well positioned to take advantage of any recovery of global demand for ferrochrome. In addition, the production of low silicon ferrochrome, as produced at Lion Ferrochrome and the Lydenburg plant, is a key element of competitiveness in the Chinese market.

Ferrochrome production for 2008 ('000 tonnes, gross weight)



Source: CRU

Chief Executive Officer's review *continued*

The combination of the lower cost capacity at Lion Ferrochrome and the Bokamoso pelletising and sintering plant resulted in a 13% improvement in energy efficiencies and a 9% improvement in ore consumption efficiencies at full capacity. The additional agglomeration capacity provided by these new operations made it possible to use increased volumes of fine UG2 chrome ore and reduce the use of costly metallurgical coking coal.

The Bokamoso pelletising and sintering plant reached and exceeded design capacity by 15% for three consecutive months during 2008. As well as improving ore and by power consumption efficiencies, the use of the pellets produced by the Bokamoso plant prevents excess fine ore build-up at the mines and increases ferrochrome production, all of which reduce production costs.

Mines

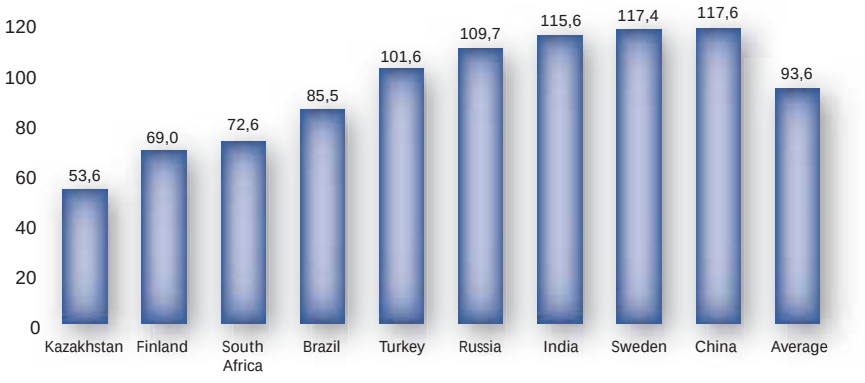
The Boshoek opencast reserves and mine in the Western limb have been successfully developed and are now in operation at a sustainable level. The development of the Magareng opencast reserves in the Eastern limb was completed during 2008 to supplement chromite ore supplies to Lion Ferrochrome and the Lydenburg plant.

A 20% increase in production of UG2 was achieved during the year. The optimisation of the UG2 concentrating plants and the additional production from the Mototolo and Eland concentration plants made this possible.

Operating costs

The Venture has been successful at containing and controlling costs in a very challenging cost environment where companies are faced with high Consumer Price Index (CPI) inflation and rising mining costs. One of its most successful cost containment initiatives (Bokamoso pelletising and sintering plant and the Premus technology at Lion Ferrochrome) received an Eskom *eta* award recognising energy efficiency in the mining sector in 2008. The electricity and coke consumed in the ferrochrome smelting process are among the Venture's major expenses. A 13% improvement in energy efficiencies and a 9% improvement in ore consumption efficiencies through the lower cost capacity at Lion Ferrochrome and the Bokamoso pelletising and sintering plant resulted in significant cost savings. The ferrochrome produced in furnaces, using pellets from the Bokamoso plant, has an improved chrome content. These technologies also allow some replacement of metallurgical grade coke with lower priced reductants such as anthracite, thereby mitigating the impact of a year-on-year increase of 71% in the average prices of metallurgical grade coke and char.

Ferrochrome production costs by country (US¢/lb), delivered



Source: CRU

A further gain achieved by these savings is a significant reduction in the emission of greenhouse gasses. Based on its statistical data on power generation, Eskom would have emitted a further 811 000 tonnes of CO_2 and 7 000 tonnes of SO_2 if the Venture had not made this energy saving. These emission savings are high because Eskom uses coal-fired power stations to generate about 93% of South Africa's total electricity supply.

To contain operating costs in the year ahead the Venture will be focusing on containing its energy consumption and using lower-priced reductants. All capital expenditure on expansionary projects has been deferred and only unavoidable and sustaining capital expenditure will be undertaken during the year ahead.

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

The sustainable development report, which forms part of this annual report, covers HSEC issues in detail. This year an outstanding safety performance in our operations was marred by the death of a security guard, Mr E Nengwenani on 11 October 2008. At the time of his death Mr Nengwenani was responsible for ensuring personnel were kept away from a demolition site. He took shelter from the sun in the shaft entrance that was being demolished from the opposite end. The structure collapsed on him.

The Venture always investigates the causes of accidents and take steps to ensure they do not occur again.

It is encouraging that the Venture's strenuous efforts to improve safety in

its operations have been successful in that there were no deaths in the mining and smelting operations.

The Presidential Mine Health and Safety Audit Report was released in February 2009. The Venture is studying the report and will take action if necessary. One of the aspects that the report looked at was the number of people working in a particular sector of the mining industry in 2007, what percentage of the total labour force in the mining industry this represented, what the fatality rate was in that sector and what percentage of the overall mining industry fatalities occurred in that sector. The figures for the chrome industry are set out below:

Fatality rate in chrome mines in 2007

Type of mines	People employed in sector	Percentage of total workforce employed in the SA mining industry	Fatalities	Percentage of fatalities in mining industry in 2007
Chrome	9 723	2%	4	1,8%

Excerpt from Presidential Mine Health and Safety Audit Report

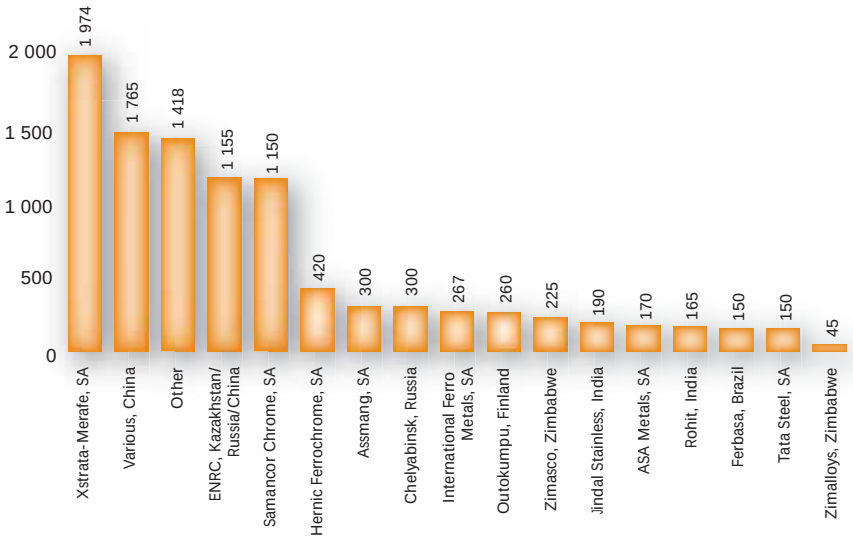
Over the past seven years the Venture has achieved a steady reduction in lost time injury frequency rates (LTIFR) from 10,62 in 2002 to 1,09 in 2008 and a reduction in total recorded injury frequency rates (TRIFR) from 33,91 in 2002 to 4,93 in 2008.

Merafe Coal

As soon as the Department of Minerals and Energy has approved Merafe Coal's application for new order mining rights, the company plans to start mining at Schoongezicht and Bankfontein. These deposits, of approximately 10 million tonnes, are well positioned to supply both export quality coal and coal suitable for consumption by Eskom, South Africa's power utility.

Merafe Coal continues to consider other coal opportunities in South Africa.

Ferrochrome production capacity by company ('000 tonnes, gross weight)



Total: 10 104 000 tonnes

Source: CRU

Legislation

The mining industry received a reprieve when it was announced that the implementation of South Africa's Mineral and Petroleum Resources Royalty Act will be delayed until March 2010.

The Act, which was finalised during 2008, was scheduled to be implemented in May this year. Falling demand and price decreases have already threatened the existence of some mining companies. The government decided that implementing the Act in this economic climate could result in further job losses.

Treasury, which proposed the implementation delay in the 2009 budget, estimates that the delay will result in gross savings of about R1,8 billion for mining companies in 2009/10.

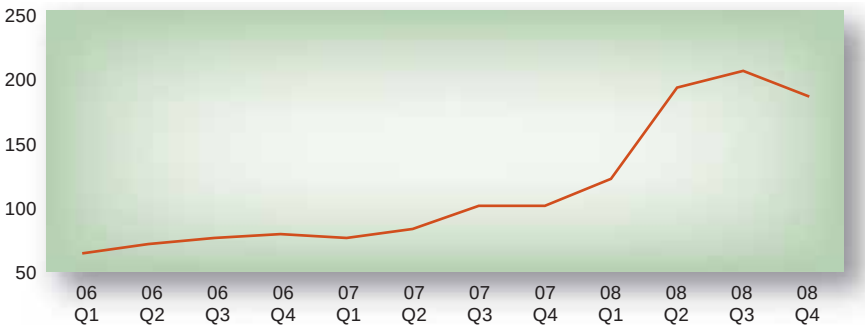
Our Chairman has already reported in his statement on the status and excellent progress made in respect of the Venture's applications for new order mining rights, prospecting rights and conversions of old order rights to new order rights under the Mineral and Petroleum Resources Development Act.

Global markets

The roller coaster conditions experienced in the global ferrochrome market during 2008 have already been touched on. The first half of 2008 saw robust supply-demand fundamentals, which were driven by steadily increasing stainless steel melt production. On the other hand, there were supply side cutbacks as a result of the power restrictions being imposed by Eskom. These conditions saw the European benchmark ferrochrome price soar to $2,05/lb for the third quarter of 2008, resulting in an average European benchmark price for 2008 of $1,76/lb (an increase of 97% over 2007 prices). In the first half of the year global

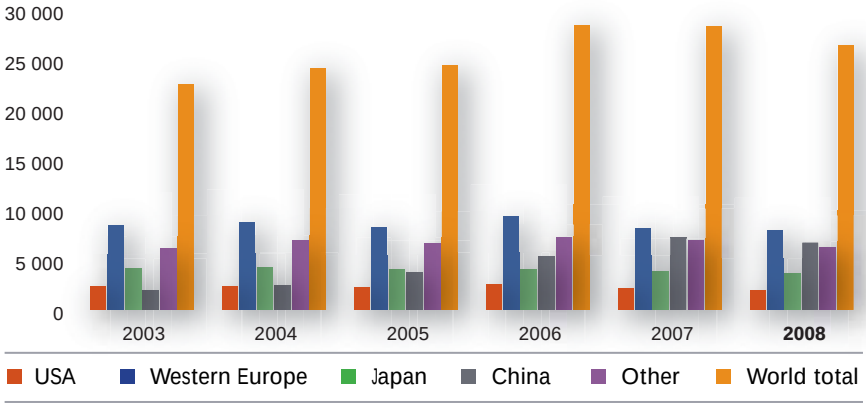
Chief Executive Officer's review *continued*

Nominal ferrochrome prices (US cents/lb)



Source: CRU

World stainless steel production by region per annum ('000 tonnes)



Source: CRU

ferrochrome production reached two million tonnes per quarter for the first time. This was 6% higher than for the same period in 2007.

Contrary to the South African government's call for increased beneficiation of South Africa's mineral wealth, exports of chrome ore from South Africa increased significantly during 2008. This increased the availability of chrome ore and, combined with robust ferrochrome prices, made it viable for various regions, including China and India, to restart smelters that had previously been uneconomical. This was also to influence what happened to the ferrochrome price in the second half of the year.

The combination of a typically slow third quarter, exacerbated by lower stainless steel production in China as a result of earthquakes, floods, power issues and closures during the Olympic Games, resulted in a build-up of surplus stocks of ferrochrome and chrome ore at plants and South African and Chinese ports. Demand levels were further affected by marginal producers dumping ferrochrome on the spot market.

Add to this situation the tsunami-like impact of the global financial crisis and the inevitable result was a dramatic fall in ferrochrome demand in the fourth quarter and a drop in the European benchmark ferrochrome price for the first quarter of 2009 to $0,79/lb (57% down from the $1,85/lb in the fourth quarter of 2008 and almost a return to the price achieved in the first quarter of 2007.

Outlook for the future

The outlook for ferrochrome remains robust in the medium to long term because, in the long term, the pace of the demand cycle, driven mainly by the move up the industrial and urban development curve of China and India, will resume, as will stainless steel production. Historically, the destocking process in the stainless steel industry has taken six to nine months. While we anticipate that demand will continue to be limited in 2009, stainless steel producers are not carrying a lot of stainless steel inventory. Stainless melt production, which drives ferrochrome demand, is expected to decrease by approximately 2% in 2009 to 26 million tonnes. Merafe expects that the strong focus on the production of ferritic stainless steel will continue.

As global demand recovers, the existing oversupply of ferrochrome will be absorbed and, the effect of production cutbacks and the deferral or cancellation of expansion projects will be to put upward pressure on ferrochrome prices and the demand for ferrochrome.

However, it is essential that the Venture continues to manage costs and the constraints it is likely to experience as a result of anticipated power supply shortages over the next five years, when new energy generating capacity comes on line. The Venture has set up a task team to investigate short, medium and long-term generation alternatives.

The outlook for coal demand in 2009 remains stable. Its competitiveness with alternative fuels is expected to continue to underpin its position as a

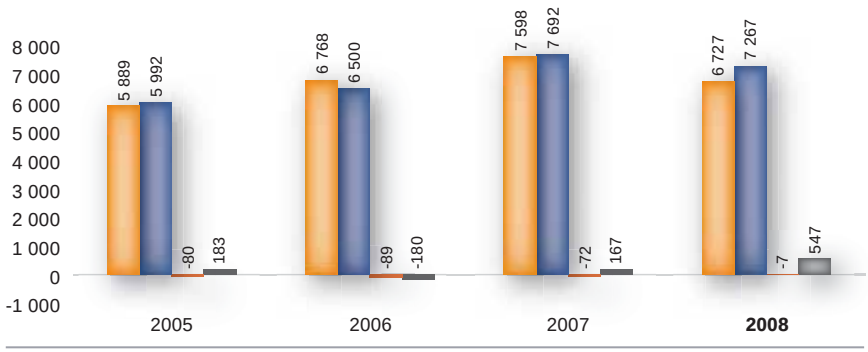
Right: Testing under way in one of the Venture's laboratories





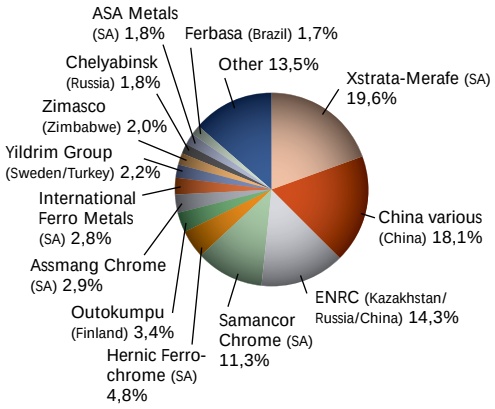
Left: The Mototolo UG2 plant, Limpopo Province

The world supply/demand balance in ferrochrome 2005 – 2008 ('000 tonnes, gross weight)



Source: CRU

Ferrochrome market share by company



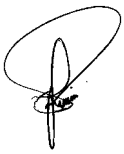
Source: CRU

base load fuel for power generation, notwithstanding the effects of the global economic crisis on overall energy demand.

Thanks

The efforts of the management and staff of Merafe Resources and our partner in the Xstrata-Merafe Chrome Venture made it possible for Merafe Resources to enjoy a most successful year. Thank you for your efforts.

To the board of Merafe Resources I also extend my thanks for your continued support and guidance.



Steve Phiri
Chief Executive Officer



Sustainability report 2008



Sustainability report contents

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Governance, ethics and engagement	24	Environment	51
Social sustainability	36	Independent assurance statement	59

Statement from the Chief Executive Officer

We are committed to delivering operational excellence in a safe and responsible way and adding value for investors, employees, government and the communities in which we operate.

This is the sixth sustainability report released by Merafe Resources as part of its annual report. In line with our strategy of continually improving our standards of reporting, our reporting this year has been prepared using the Global Reporting Initiative (GRI) Guidelines and the Mining and Metals Sector Supplement (an addendum to the GRI G3) as a framework. This year the report has been subject to third party independent assurance. A brief description of the assurance process and the signed assurance statement are provided on page 59 of this report. The GRI indicators are published on the company's website, as is an annotated copy of the annual report and sustainability report.

The purpose of this report 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 and its partners in the Xstrata-Merafe Chrome Venture (the Venture). We will not be reporting on sustainability issues in Merafe Coal as this joint venture is not operational.

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

Through its investments, Merafe Resources has created value for its shareholders. The commitment of the Venture's operations to delivering operational excellence in a safe and responsible way adds value for investors, employees, government and the communities in which it operates. It also contributes to a sustainable environment through its efficient use of resources and the provision of a safe and healthy working environment.

Challenges and opportunities

The challenges facing the Venture, based on their actual impact or potential for impact on its sustainability, include:

- climate change;
- biodiversity conservation and land management;
- water use and quality;
- energy use and availability;
- workplace safety and fatality prevention; and
- HIV and AIDS.

We are keenly aware of the energy-intensive nature of the Venture's ferrochrome smelting process and the need to reduce not only the indirect greenhouse gas emissions created in the production of the energy it consumes, but also the quantity of energy it consumes. Its energy efficiency achievements were recognised when the Venture was awarded a special Eskom *eta* mining sector energy efficiency award. The Venture's efforts have resulted in a saving of approximately 12,7% in energy consumption when in full production. Its ferrochrome smelters are some of the most energy efficient in the world.

There is much that can be done to improve the water efficiency of the Venture's operations which are located in areas which periodically experience water shortages. The Venture is researching ways to minimise its water consumption and improve its water use efficiency. Increased recycling of water at its smelters has helped to contain water usage.

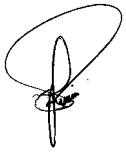
This report covers in detail our efforts to eliminate injuries and fatalities in our operations.

Our new wellness programme has a major focus on HIV and AIDS and includes education, voluntary counselling and testing (VCT) and treatment for those affected by HIV and AIDS. The Venture is making every effort to mitigate the impact HIV and AIDS has on its sustainability.

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. It demonstrates this commitment by complying with the Mining Charter, through the Venture's completion and monitoring of social and labour plans and investing 1% of its profits after tax in community development projects

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

Opportunities available to the Venture for increasing its sustainability and that of South Africa include optimising its use of resources, maximising recycling opportunities, contributing to much needed skills and entrepreneurial development and procuring capital goods and services from local and black empowered businesses.



Steve Phiri
Chief Executive Officer



Left: Martel Marthope and Walter Riba busy undergoing practical electronics training at the Xstrata-Merafe Development Centre, Steelpoort, Limpopo Province



Above: Processing of final product at Lion Ferrochrome, Steelpoort, Limpopo Province

Governance, ethics and engagement

Reporting guidelines

Merafe Resources has adopted the GRI G3 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, governance, environmental and social terms – the crucial determinants of sustainability.

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 (JSE) 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 its inception Merafe Resources has met these criteria and has been invited to participate in the Index. In 2008 Merafe Resources was one of the top 21 best performers on the JSE SRI Index. The commitment of Xstrata plc is demonstrated in the recognition they received from by the Dow Jones Sustainability Index (DJSI) as the Global Super Sector Leader for Basic Resources in its World and STOXX Indexes. This is the second consecutive year that Xstrata has been named as the resources sector leader and the third year that Xstrata has been included in the Dow Jones Sustainability Index of sustainability leaders. In addition, Merafe Resources' partner in the Venture was awarded the Nedbank Green Mining Award 2008 in the sustainability category. This award honours the company which has made a significant effort in converging economics, the environment and society for the benefit of present and future generations to ensure sustainable development of mineral resources and promote environmental, economical and social development. The Eskom *eta* mining sector energy efficiency award also recognised the Venture's socially responsible approach.

Empowerment credentials

This year Merafe Resources' efforts towards socio-economic empowerment were recognised in the Financial Mail's 2008 Top Empowerment Companies Survey. It was ranked the second most empowered company on the JSE and the most empowered company in the Resources Sector of the JSE. The survey is conducted by the Empowerdex Economic Empowerment Rating Agency using the generic broad-based black economic empowerment (BBBEE) scorecard which accompanies the broad-based BEE codes of good practice that were passed into law in South Africa in February 2007, but only came 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.

Governance and management systems

Merafe Resources is committed to best practice corporate governance. It recognises that in order to manage risk and ensure optimal performance a company needs to practise strong and accountable governance.

The directors endorse the Code of Corporate Practices and Conduct set out in the King II Report and the Corporate Laws Amendment 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. The Audit Committee is chaired by an independent non-executive director and, in accordance with the Corporate Laws Amendment Act, all its members are independent non-executive directors. Similarly, the Remuneration and Nomination Committee is chaired by an independent non-executive director and a further two independent non-executive directors are members of the committee. Executive directors are not members of either the Audit or the Remuneration and Nomination Committee.

In accordance with the recommendations of the King II Report the executive 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 2008 the board was composed of six non-executive directors (of which three were independent[+]) and three 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.

+Definition of an independent director

The criteria that Merafe Resources uses to define an independent director are as follows: The director 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 his/her capacity as a director; is not a significant supplier to, or customer of the company and is free from any business or other relationship which could be seen to materially interfere with the director's capacity to act in an independent manner.

The racial and gender composition of the board

At 31 December 2008 the composition of the board was in line with the country's demographics, as recommended by the King II Report. In addition, two of the board members were black women. The appointment of Belese Majova as an independent non-executive director on 2 January 2009 has further improved the gender composition of the board, which now includes three black women.

Non-executive directors as at 31 December 2008

C Molefe (60) – Chairman – Independent
C Fauconnier (61) – Independent
Z Matlala (45) – Independent
M Mamathuba (36)
M Mthenjane (38)
T Ramantsi (34)

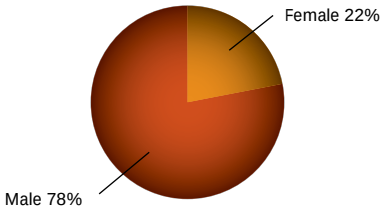
Executive directors

S Phiri (53) – Chief Executive Officer
S Elliot (45) – Chief Financial Officer
B McBride (49) – Commercial Director

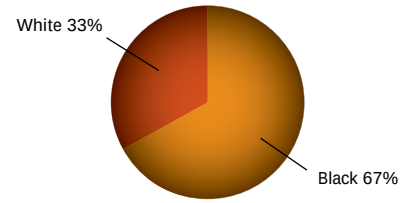
Company Secretary

A Mahendranath (41)

Gender composition of board at 31 December 2008



Racial composition of board at 31 December 2008



Attendance at the Merafe Resources board meetings during 2008

Four board meetings were held during the financial year ended 31 December 2008 (28 February, 29 May, 1 August and 27 November). When board members are unable to attend meetings they are obliged to provide input prior to the meeting (e.g. when Zanele Matlala was unable to attend a meeting because she was in hospital at the time of the meeting, a separate meeting was held with her to obtain her input into both board and sub-committee matters). Our auditors, KPMG Inc, participate in the Audit Committee and, as part of the audit process, they meet separately with the independent non-executive directors.

Governance, ethics and engagement *continued*

Board member	Number of meetings attended
Non-executive directors	
C Molefe (Chairman)	4/4
C Fauconnier	(appointed to board March 2008) 3/4
M Mamathuba	3/4
Z Matlala	3/4
M Mthenjane	3/4
T Ramantsi	3/4
Executive directors	
S Phiri (Chief Executive Officer)	4/4
S Elliot	4/4
B McBride	4/4

Board sub-committee membership at 31 December 2008

The Remuneration and Nomination Committee and the Audit and Risk Committee are chaired by independent non-executive directors and the Transformation and CSI Committee is chaired by a non-executive director.

Remuneration and Nomination Committee	Attendance	Audit and Risk Committee	Attendance	Transformation Committee	Attendance
C Molefe° (Chairperson)	3/3	Z Matlala° (Chairperson)	2/3	M Mamathuba (Chairperson)	2/3
Z Matlala°	3/3	C Molefe°	3/3	M Mthenjane	1/3
M Mthenjane	3/3	M Mthenjane**	3/3	S Phiri	3/3
C Fauconnier° (Appointed to committee in August)	1/3	T Ramantsi**	2/3	B McBride	3/3
S Phiri*	3/3	C Fauconnier° (Appointed to committee in August)	1/3	S Elliot ***	3/3
		S Phiri*	3/3	L Montshiwagae**	3/3
		S Elliot*	3/3	T Moseki+	3/3
		J Zaayman (Appointed to committee in August)**	1/3		

**Executives only attend board sub-committees by invitation*
*** Invitee on the committee*
**** Member for CSI matters*
+Transformation manager of the Xstrata-Merafe Chrome Venture
° Independent directors

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 company develops new strategic plans every two years. These plans are reviewed annually. The board participates in all strategic planning sessions.

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 8 and 9 of the annual 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.

Performance evaluation

In 2008 the company introduced a process for self evaluation of the performance of its board and its individual members, particularly with respect to economic, environmental and social performance.

Mechanisms for shareholder communication with the board

The formal mechanisms in place for communication with shareholders include road shows to investors; site visits by institutional investors; ongoing presentations; the annual general meeting; press announcements of the interim and year end results; the company's website and the annual report to shareholders.

The Company Secretary

It is the responsibility of the Company Secretary to ensure the company complies with the JSE 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 Listings Requirements the company has adopted a code of conduct for dealing in the company's securities. During a closed period directors, management and designated employees are prohibited from dealing in the company's securities.

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.

Governance, ethics and engagement *continued*

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 to the board; monitors and coordinates their 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. Establishes policy governing appointment of directors and considers suitable nominations for appointment to the board and makes appropriate recommendations to the board. Ensures there are no conflicts of interest when recommending the appointment of directors.	The Audit Committee 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. The Risk Committee 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. The committee reviews the risks listed in the company's register at each meeting and is responsible for monitoring environmental risk. The committee complies with the Corporate Laws Amendment Act in terms of having an independent non-executive director as chairperson and members who are independent non-executive directors.	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 monitor and manage Merafe Resources' CSI policies and programmes. This committee is a sub-committee of the Transformation Committee. Its chairperson, in terms of the committee's terms of reference, will always be a non-executive director of the board.

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).

Xstrata is represented by the Chief Executive of Xstrata South Africa (Pty) Ltd, Peet Nienaber, who is currently also Chairman of the joint board, Mark Moffett (Chief Financial Officer) and Deon Dreyer (Managing Director Xstrata Alloys). Merafe Resources' representative to the Venture at operational level is General Manager Merafe Chrome, Dr Jurg Zaayman.

The joint board meets quarterly. Merafe Resources' management also attends monthly Executive Committee meetings (at which the heads of the various operations present their reports) and Treasury, Audit Committee and Transformation Committee meetings.

Operational risk management

Currently, the main operational risk to which Merafe Resources is exposed is that of the Venture. Each operation is required to maintain appropriate controls to manage identified risks, which include the risks and costs inherent in poor environmental management, failing to provide sustainable benefits to host communities and detrimental health or safety standards and performance and the ethical risks posed by bribery and corruption. The adequacy of management controls in the Venture's operations is tested by our partner's internal audit function on a quarterly basis as part of the Venture's risk management processes.

The Venture applies the precautionary principle in its approach to actively managing identified risks without necessarily requiring a scientific consensus about the potential for risk to occur before action is taken.

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, which includes running risk workshops that are attended by internal audit and external advisers. Risk registers for each site, and the Venture as a whole, are updated regularly. This includes health, safety, environmental and community (HSEC), financial 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 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, the Merafe Resources' Audit and Risk Committee assesses risks faced by the company.

Ethics

Merafe Resources' ethics policy (available on its website www.meraferesources.co.za) governs how it does business.

The Business Principles applied in the Venture, which are provided to every employee at the time of their induction, set out its commitment to upholding human rights, supporting free enterprise and operating with the maximum transparency commercially possible, as well as its prohibition of political donations and any form of fraud, bribery or corruption. The Business Principles are available in all the languages spoken by its employees and contractors. Suppliers, contractors and business partners are provided with a copy of the Business Principles before commencing work with the Venture.

Bribery and corruption risks are assessed at all operations. This includes an assessment of the identified level of country and provincial risk, the policies and practices of other companies operating in the area and the honesty and transparency of suppliers, contractors and other business partners. Each operation is required to maintain appropriate controls and to review the risk identification process quarterly, as part of the risk management process. Procurement of goods and services, and interaction with regulators and government, are two higher risk areas for potential bribery and corruption practices.

Ethics Line

The Ethics Line, available to the Venture's employees, contractors, suppliers, customers and business partners, is a confidential whistle blowing facility operated independently by KPMG. The line can be used to report any breaches of the Venture's Business Principles, policies or legislation. A free phone number is provided. Callers remain anonymous. The phone number of the ethics line is available on the back page of the Statement of Business Principles, provided to all employees and service providers.

In 2008, four incidents regarding the Venture were reported through the ethics line. All reported incidents were investigated. The incidents reported and investigated related to:

A case of possible invoice tampering and fraud was investigated by the Venture's internal auditors, but no fraudulent action could be verified. In another incident a fraud case investigated by forensic auditors resulted in a vendor being criminally charged. A further case of fraud involving an attempt to change the banking details of senior plant employees is still under investigation. An attempted case of theft of product by a transport contractor resulted in suspects being arrested and a full investigation involving the South African Police Service was conducted.

Governance, ethics and engagement *continued*

All relevant employees in the Venture are required to complete a competitive and fair trade web-based training programme annually. They must achieve a score in excess of 70%. The programme addresses all major anti-trust and competition issues and uses simulated situations and questions to test employees' understanding of competition law and appropriate behaviour when dealing with customers, competitors, trade associations, suppliers and distributors.

No breaches of policy or competition law occurred in 2008 and no fines were incurred.

Human rights

Merafe Resources' partner in the Venture is a signatory to the UN Global Compact and supports the UN Universal Declaration of Human Rights and the International Labour Organisation Conventions. It has aligned its strategy and operational performance with universally accepted principles in the areas of human rights, labour and anti-corruption. The Venture's Statement of Business Principles upholds the elimination of all forms of forced or compulsory labour and prohibits any form of child labour.

In addition, the Venture complies with South African human rights legislation in the form of its Constitution and Bill of Rights that safeguard the basic human rights of employees in South Africa. The policies of both Merafe Resources and the Venture clearly state that they do not tolerate any form of discrimination. All operations report the age of their youngest employee and are audited through the internal audit and risk management programme.

All the Venture's major suppliers and contractors are required to comply with its Business Principles, including its stand on human rights.

All security personnel employed at the Venture's operations undergo appropriate human rights training to ensure compliance with the Business Principles.

During 2008, 4 255 Venture employees received training in human rights appropriate to its operations.

There were no breaches of human rights reported at any of the Venture's operations during the year nor were any incidents of violations of the rights of indigenous people.

Stakeholder engagement

Merafe Resources and the Venture identify their internal and external stakeholders by assessing their involvement with them, or their potential impact on them, at a corporate office and operational level. Their engagement with stakeholders is as diverse as the various stakeholders in the business. Both Merafe Resources and the Venture are proactive in communicating and engaging with their internal and external stakeholders.

A broad range of methods are used to engage with stakeholders and, wherever possible, dialogue and feedback is encouraged. They include: face-to-face formal or informal meetings (including the Merafe Resources' Annual General Meeting); media and stock exchange announcements; presentations; conference calls; the Merafe Resources website (www.meraferesources.co.za); intranet and xtranet sites available to Venture employees; open days and operational site visits; perception studies and reputation audits; whistle blowing facilities and formal grievance mechanisms; financial and sustainability reports; newsletters, circulars and e-mail updates; community, employee or multi-stakeholder forums and workshops; dedicated e-mail and telephone facilities; regular customer, business partner and supplier meetings; cultural, social and environmental impact assessments; and formal consultation and audit processes.

Stakeholder	Key areas of interest	Engagement
Shareholders and the investor community		
Merafe Resources has a simple shareholder structure. At 31 December 2008 Royal Bafokeng Resources Holdings (Pty) Ltd held 29% of its shares and the Industrial Development Corporation (IDC) held 22% of the company's shares. Public and institutional shareholders held the balance of the shareholding (49%).	• Merafe Resources' returns to shareholders and potential for future returns • Financial and non-financial risk management • Corporate governance including executive remuneration • Performance against strategy • Trends and outlook for commodity markets • Management of environmental and social risks and opportunities • Sustainability	During the year the company communicated with its shareholders and investor community through: • road shows to investors in South Africa, the United Kingdom, Europe and the USA; • presentations at conferences both locally and abroad; • interim and year-end results presentations to shareholders; • its annual general meeting; • press announcements of its interim and year-end results; • SENS announcements via the JSE; • its annual report to shareholders and sustainability report; and • Merafe Resources' 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 annual 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.	• High quality product and stewardship • Contract terms and delivery • Reliability of supply	Glencore International AG (Glencore) markets 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 ferrochrome producers and customers.
Employees		
Merafe Resources, as at 31 December 2008, had 11 employees, while the Venture (which includes employees of Merafe Ferrochrome and Mining) had 5 897 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 and AIDS, education, housing and job creation) • Sustainability • Employment equity and non-discrimination	Communication with employees includes: • quarterly newsletter for all operations and monthly newsletters at each operation; • posters; • digital messaging boards; • industrial theatre; • employee briefings; • a communication forum at each operation; • toolbox talks; • skills development committees; • employment equity committees; • occupational health and safety committees; • ethics line; • cultural surveys; and • helpline.

Governance, ethics and engagement *continued*

Stakeholder	Key areas of interest	Engagement
Suppliers		
	• Requirements regarding HDSA procurement and procurement policies • Requirements regarding supplier HSEC standards, sustainable development policies, practices and procedures • Contract terms and delivery • Technology transfer	All purchasing for the Venture's operations is handled by the Venture, which supports free enterprise and fair competition. A procurement committee awards tenders and supply contracts. All potential suppliers are required to provide details of the Historically Disadvantaged South Africans (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 by the Venture was 49,7% 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%. Human rights awareness training was a further engagement undertaken with suppliers in the Venture. A benchmarking exercise undertaken by Merafe Resources in 2008 identified the need to develop HDSA procurement policies, contracts and delivery terms, for its corporate office that are in line with the Department of Trade and Industry's Codes of Good Practice.
Communities		
	• Consultation on proposed new projects or changes to existing operations • Environmental and social impacts of operations • Consultation to assess community needs and priorities and social involvement planning • Enterprise development • Job opportunities, health, education, community infrastructure • Support for community initiatives • 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. Merafe Resources engages with the Royal Bafokeng Nation, a community of some 300 000 people, which is a major shareholder in Merafe Resources and which participates in the company at board level. The engagement is through Royal Bafokeng Resources Holdings (Pty) Ltd. The Venture also engages with communities through open days held at the various operations which expose members of the community to operational processes and gives them an opportunity to discuss their concerns regarding the operation in their area.
Trade unions		
	• Remuneration, benefits and workers' rights • Operational practices (e.g. health and safety initiatives) • Consultation on forthcoming operational changes	In terms of the mines and smelters that make up the Venture, mine employees are members and are represented by the National Union of Mineworkers (NUM) and those employed at the smelter operations are members and are represented by 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.

Stakeholder	Key areas of interest	Engagement
Government and regulators		
	• Adherence to and development of metals and mining related legislation, including royalties, taxes, licensing, emissions and environmental permitting • Access to natural resources including mineral resources, energy supply and water • Environmental performance with regard to regulations • Job creation and enterprise development • Social development initiatives • Infrastructure and investment opportunities • Operational health and safety, environmental practices and community relations • Broader social issues including human rights and security conditions	Merafe 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. Merafe participates in government forums, in terms of both mining issues and black economic empowerment. The Chief Executive Officer is a member of the government's Minerals and Mining Development Board. The Venture engages with government at a number of levels with regard to issues such as the development of ambient air standards, integrated water and waste management strategies, capacity building within provincial health facilities. It regularly engages with district authorities and local municipalities through various forums and committees.
Business partners		
	• New acquisitions and developments • Financial returns • Risk management • Regulatory and policy compliance • Accountable and transparent corporate governance • Sustainability	Merafe engages with its partners in the Venture, Xstrata South Africa (Pty) Ltd, through regular joint board meetings, the Venture's Executive Committee meetings, sub-committee meetings and regular contact on operational issues. It also holds regular meetings with its partner in the Merafe Coal joint venture.

Externally developed principles, charters and initiatives to which Merafe Resources and the Venture subscribe

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 South Africans' 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.

Merafe's partner in the Venture plays an active role in a number of significant international and national industry organisations and stakeholder groups, through membership, funding, provision of expertise and participation in committees and working groups. Its commitments through these involvements are met in the Venture's operations. They include: the UN Global Compact, the Dow Jones Sustainability Index, the International Council on Mining and Metals (ICMM), the North West Province Air Pollution Control Forum (NAPCOF) and the Ferro Alloys Producers Association (FAPA). NAPCOF and FAPA discuss air quality issues and partner with regulators in setting best practice air quality standards. Their task teams deal with specific air quality issues and also engage with regulators through feedback and advice.

This year Merafe's efforts towards socio-economic empowerment were recognised in the Financial Mail's 2008 Top Empowerment Companies Survey. It was ranked the second most empowered on the JSE and the most empowered company in the Resources Sector of the JSE. The survey is conducted by the Empowerdex Economic Empowerment Rating Agency using the generic broad-based black economic empowerment (BBBEE) scorecard which accompanies the BBBEE codes of good practice that were passed into law in February 2007, but only came 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.

Governance, ethics and engagement *continued*

Merafe Resources has qualified for the 2008 JSE SRI (Socially Responsible Investment) Index and was also identified as one of the 21 best performers on the Index. It has been included in the Index every year since the inception of the Index in 2003.

Xstrata plc was recognised by the Dow Jones Sustainability Index (DJSI) as the Global Super Sector Leader for Basic Resources in its World and STOXX Indexes. This is the second consecutive year that Xstrata has been named as the resources sector leader and the third year that Xstrata has been included in the Dow Jones Sustainability Index of sustainability leaders.

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 at Merafe Resources are functionally literate and numerate. All Venture employees were offered the opportunity to be functionally literate and numerate by 2005. Currently, literacy levels at the Venture are 82,94% at ABET level 3 (numeracy, literacy) and 76,4% at ABET level 4 (numeracy, literacy). In addition to offering ABET training to all its employees, the Venture has established ABET Centres that offer skills training to the unemployed in some of the communities where the Venture operates.
Career path and skills development plans implemented for all HDSA employees.	Evaluation interviews are conducted with individual employees to determine their aspirations and qualification levels. Their potential is also assessed. Defined career paths are assigned depending on the candidate's ability and ambition. In instances where it is appropriate further education is offered.
Has the company developed systems through which empowerment groups can be mentored?	The Venture has a mentorship programme in place, which provides policies and procedures for mentorship to ensure the transfer of knowledge and skills from experienced employees, to provide additional career and personal development support and facilitate accelerated development of those selected for mentorship by the organisation.
Employment equity	
Has the company published its employment equity plan and reported on its annual progress in meeting that plan?	Yes. An employment equity plan is prepared by all operations in which annual progress towards meeting 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 and is it implementing the plan?	HDSA participation in Merafe Resources' corporate office management team in 2008 was 57%. HDSA participation in management in the Venture's operations during 2008 was 42,5%.
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 and is it implementing the plan?	Yes. The percentage of women employed at Merafe Resources' head office is 45%. The percentage of women employed in the Venture is currently 12%. 4,49% of these women work at mining (i.e. they are employed in the Venture's mines and smelters). 43,67% of the women working in mining at the Venture are in management positions.
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.

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 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 mainly 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, because it does not have employees living in hostels.
Procurement	
Has the company given historically disadvantaged South Africans preferred supplier status?	Yes. The Venture has embarked on a supplier transformation process aimed at encouraging non-HDSA suppliers to transform. It is fast tracking BEE procurement and through its enterprise development programme is supporting the development of HDSA SMMEs.
Has the company identified the current level of procurement from historically disadvantaged South African companies in terms of capital goods, consumables and services?	Yes. The Venture's BEE procurement during 2008 was 49,7%. The Venture's ability to increase its BEE procurement spend is hampered by the necessity to make major purchases from white only suppliers (e.g. the purchase of steel and coke).
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 (2008) the target was 55% and the Venture achieved 49,7%.
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 and 26% in 10 years?	The company has exceeded both targets. As at 31 December 2008 Royal Bafokeng Resources Holdings (Pty) Ltd owned a 29% 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 in 20 furnaces in South Africa.
Has the company established its base line level of beneficiation and indicated the extent that this will have to be grown in order to qualify for an offset?	Yes 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 sustainability

The workplace

Employees

Merafe Resources and the Venture comply with the South African legislation governing labour relations and conditions of employment, which is the South African Basic Conditions of Employment Act No 75 of 1997 and the Labour Relations Act No 66 of 1995 as amended. In addition, the Venture is committed to upholding the United Nations Universal Declaration of Human Rights and the International Labour Organisation's Declaration on Fundamental Principles and Rights at Work.

The Business Principles applied in the Venture's operations are based on working ethically and responsibly. Both Merafe Resources and the Venture are committed to providing safe workplaces, based on mutual respect, fairness and integrity. They are also both committed to open and two-way engagement with its employees and employee representatives.

Recruitment and retention of employees

There was no turnover in the Merafe Resources staff complement during 2008. The Merafe Resources and the Venture's recruitment policies address their human resource needs and the Mining Charter's objectives. The shortage of technical skills in South Africa, and in the Venture in particular, is one of the significant risks the business has identified. The Venture is addressing this risk through its retention and recruitment policies and other interventions, including training. It offers excellent opportunities for development of its employees. The Venture believes that entrepreneurial leadership gives it a competitive edge and fosters this style of leadership.

The artisan turnover rate is of particular concern. To reverse this trend the Venture is offering financial incentives and multi-skilling and career development opportunities.

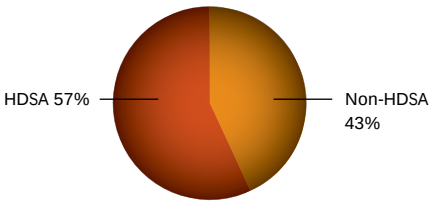
The Venture gives preference to local residents where possible when hiring employees. Senior management vacancies are filled mostly through recruitment agencies and the candidates are drawn from all over the country. However, around 80% of employees can be regarded as local or from local communities.

Despite the reduction in production as a result of the current global economic crisis the Venture, mindful of its future skills needs, plans to continue with its skills retention programme.

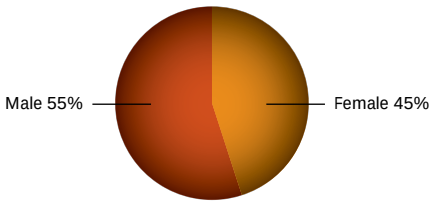
Diversity and equal opportunity

Merafe Resources' diversity as at 31 December 2008

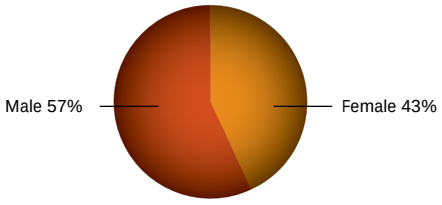
Merafe Resources' management (by HDSA and Non-HDSA)



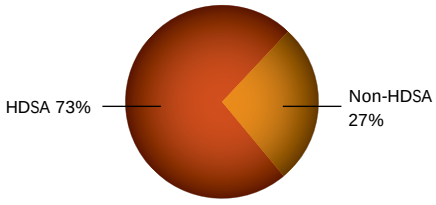
Merafe Resources' employees gender composition



Merafe Resources' management team gender composition

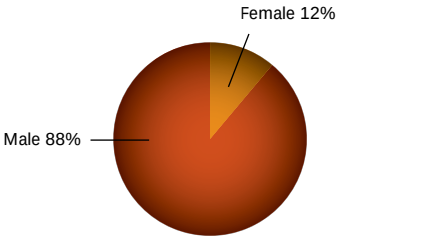


Merafe Resources' employees (by HDSA and Non-HDSA)



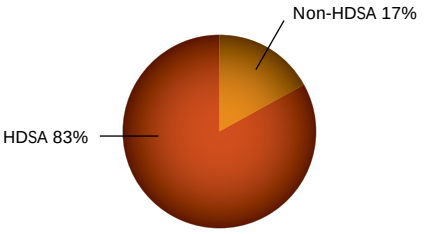
The Venture diversity as at 31 December 2008

Gender breakdown of Venture employees



The Venture has 5 248 male full-time employees and 649 female full-time employees

Venture employees (by HDSA and Non-HDSA)



The Venture has 4 904 HDSA full-time employees and 993 Non-HDSA full-time employees

Total workforce of Xstrata-Merafe Chrome Venture by employment contract as at 31 December 2008

Category	Number of employees
Full-time employees	5 897
Contractors	3 897
Total	9 794

The Venture offers an equal rate of pay to male and female employees of equal experience. Its employment equity policy is based on the following principles:

Provide all potential and existing employees with equal opportunities in terms of recruitment, promotion, transfer, employee benefits, training and conditions of service during their employment without regard to unlawful criteria including race, nationality, ethnic origin, gender, marital status, pregnancy, political conviction, impairment, sexual preference and family responsibilities.

Employee benefits
The benefits that Merafe Resources and the Venture provide their full-time employees, over and above the legally mandated employment benefits, include retirement benefits in the form of provident funds and medical aid benefits. These additional benefits are not offered to temporary or part-time employees.

Employee representation
Merafe Resources and the Venture recognise the right of their employees and contractors to freedom of association to join trade unions. Potential employees are advised of this. Collective agreements are the product of negotiation between the parties.

Union and bargaining forum membership

Union membership (% of workforce)	Bargaining forum (% of workforce)
58%	70%

The trade unions negotiate terms and conditions of employment for their members. The company settles wages with a union based on its mandate on an annual basis for implementation in July.

The company consults with employees in advance of any significant operational changes. Consultations are always done with a view to trying to reach consensus with the union.

Social sustainability *continued*

Employment equity
All 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.

All Venture employees receive a copy of its Statement of Business Principles in their first language. These Principles are an integral part of the induction process for new employees and contractors.

Contracts of employment, induction training, toolbox talks and ongoing training reinforce the Venture's employment policy, its Fair Treatment at Work Policy, Equal Employment Policy, Sexual Harassment Policy, Data Protection and Private Policy, Risk Management Policy and Fraud Control Policy.

Non-discrimination
Merafe Resources and the Venture have policies and processes in place aimed at providing a work environment and terms and conditions of employment that are free from discrimination. Both Merafe Resources and the Venture do not tolerate discrimination in the workplace. In 2008 two incidents of discrimination were reported, reviewed and resolved in the Venture. One incident ended in dismissal and the other with a final written warning.

Training and education
The Venture's spend on training during 2008 was R4,4 million.

Breakdown of types of training

Type of training	Number of training interventions
Health issues training	7 764
Safety training	11 285
Human rights issues training	4 255
Environmental training	7 456

Despite the negative impact of the current global economic downturn on the South African mining industry, its members continue to face a shortage of critical skills. As a result, the development and retention of talented employees remains a key focus for the Venture. Its sustainability will depend, among other things, on its ability to develop and retain the skills it needs to grow and create value over the long term.

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

The Venture also offers graduate trainee positions, work placements for students, bursaries and financial assistance and scholarships. The main focus of the bursary and financial assistance scheme is on the communities in which it operates. These schemes go some way to addressing the shortage of mining, engineering and related skills.

Each operation has a workplace skills committee which identifies site-specific training requirements.

Skills training and development
Merafe Resources and the Venture supports the government's accelerated and shared growth initiative for South Africa (ASGISA) and joint initiative on priority skills acquisition (JIPSA) programmes through its commitment to fostering sustainable growth and marketable skills development.



Right: The chairlift that transports miners to and from the surface at Kroondal mine, North West Province



Left: A furnace being tapped at Lion Ferrochrome, Steelpoort, Limpopo Province

In 2006 the Venture established a training centre at Steelpoort in the Limpopo Province, adjacent to the Lion Ferrochrome plant, which has sufficient capacity for 150 learnerships per intake. The centre is accredited by the Mining Qualifications Authority and is ISO 9001 accredited. All service providers to the centre are required to be ISO 9001 accredited. Training records are kept for all employees to ensure compliance with ISO requirements. The centre also provides training for members of the local community which makes it possible for Lion Ferrochrome to maximise its hiring of employees from the local community and which also provides members of the local community with the skills they need to obtain employment at other businesses in the area.

The Venture plans to establish a similar training centre in the North West Province to serve its Western operations.

Leadership development

Members of management that are identified as having leadership potential participate in the Venture's leadership programme. Participants are mentored by senior management and provided with additional training, support and career development opportunities. They may also have the opportunity to be seconded overseas to different parts of the Xstrata group. Approximately 87% of the participants are HDSAs. Training programmes available to the management team in 2008 included: a personal and professional leadership course for supervisors and managers; HIV and AIDS and wellness training; supervisory training (including safety training); people management; experiential Vuka training which addressed transformation issues and diversity management training.

The performance of around 51% of the Venture's employees is reviewed at least annually. This includes all D, E and F band employees, all high flyers and fast trackers and C band employees at some operational units (e.g. the Lydenburg smelter).

Social sustainability *continued*

Occupational health and safety

The Venture's health and safety policy sets out its commitment to eliminating illness, injuries and fatalities from its operations. All operations maintain comprehensive health and safety management systems that are aligned to OHSAS 18001, and are in line with Xstrata's 17 Sustainable Development Standards and international best practice.

Health and safety agreements are in place between the trade unions and the Venture. All operations have health and safety committees that convene once a month to discuss health, safety and community (HSEC) related issues. Management and the workforce are represented on these committees. Monthly departmental HSEC meetings and daily "green time" meetings with all workers contribute to effective health and safety management in the operations.

Safety

The most important consideration when the Venture undertakes any activity is safety. The Venture aims to operate a safe workplace that is injury- and fatality-free and to enhance the well-being of employees, contractors and communities. Sadly, the Venture incurred one fatality during the year when a security guard sheltering under a shaft entrance under demolition was killed when the entrance collapsed on him.

The Venture introduced major hazard management programmes to reduce its incident rate and eliminate fatalities. These programmes continually evolve and respond to dynamic and specific risks. They have been helpful in addressing high potential risk incidents and fatalities including: safety leadership, particularly at supervisory level; hazard awareness and at risk behaviour; and a rigorous process for the identification, management and mitigation of risks.

Its employees and contractors work in hazardous environments including underground and open pit mines and metallurgical operations. They are responsible for their own safety and well-being and for the safety and well-being of others around them in the workplace and in the community.

All incidents are investigated using the Incident Cause Analysis Method (ICAM) process, which investigates and establishes the root causes of incidents, accidents, diseases and near misses and helps determine remedies.

Safety training

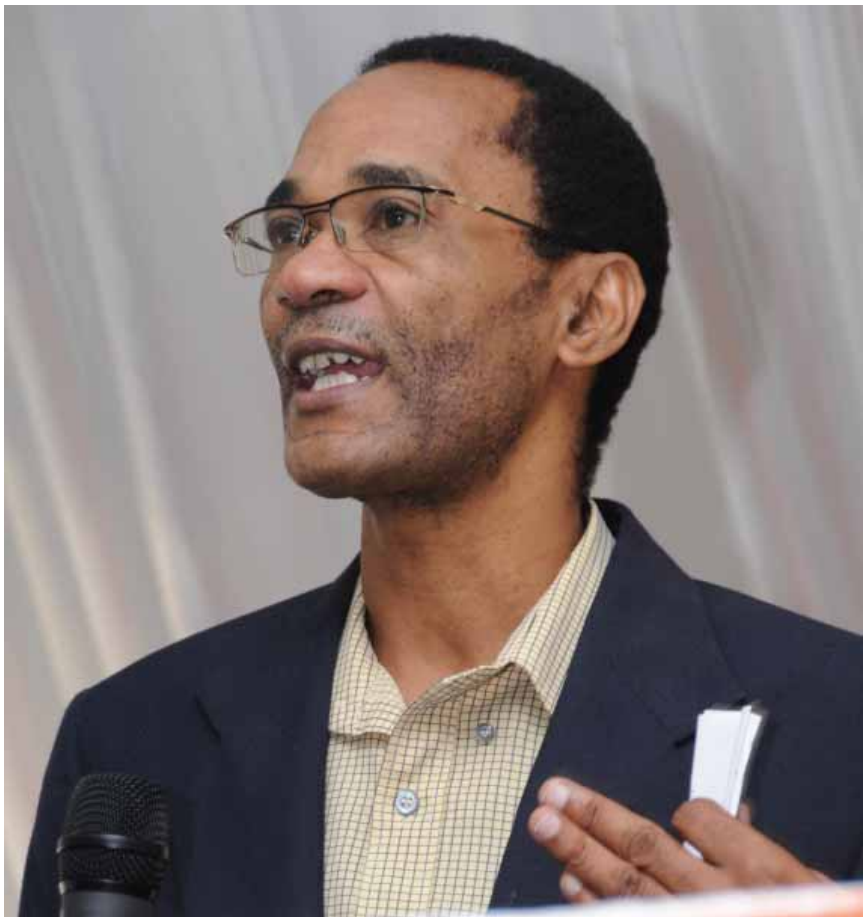
Extensive safety training and a shift to behaviour based safety (BBS), which considers employees' attitudes and behaviour, has helped the Venture achieve its safety targets. The information gathered from maturity studies and cultural surveys undertaken before the introduction of BBS programmes is used to adapt these programmes to suit the needs of each operation. All employees are involved in the BBS process. They also undergo training in ICAM, fire-fighting, crisis management, first-aid, hazard identification and risk assessment for managers and competence-based safety training for all employees and contractors. Health and safety practitioners undergo general health and safety training at an accredited training centre and site specific induction training, covering safety issues relevant to specific departments, is conducted for all employees and contractors.

In addition to the BBS programmes the Venture introduced an interactive virtual reality simulated hazard awareness programme. The virtual experience allows employees to make mistakes and learn from them without suffering the consequences they would have suffered in reality. All employees have undergone training on the programme and regularly have refresher sessions. Simulated hazard awareness training is now part of the induction training for new employees.

A range of safety campaigns aimed at specific safety issues (e.g. hand injury prevention) also supports the Venture's safety training efforts. All operations held emergency evacuation drills during the year. Managers monitor safety behaviour on scheduled walkabouts. To further increase safety levels at the Venture's operations a safety compliance officer regularly audits the operations. Known as "the bulldog", the safety compliance officer compiles photographic reports that identify non-compliance to safety standards and unsafe working conditions. These reports are circulated throughout the Venture's operations. Once the operation at fault has taken corrective action, an updated report showing before-and-after pictures is circulated to all the operations. This process alerts all operations to preventive actions that need to be taken.

Health

In addition to the work done to ensure the workplace is free from significant occupational health and hygiene hazards, the Venture has appointed a Group Wellness Manager and established a comprehensive wellness programme. The objective of the programme is to work proactively with employees, contractors and communities in the vicinity of the Venture's operations to reduce the burden of disease from both communicable and non-communicable diseases and promote healthy living. In 2008 the Venture spent R15 million on its wellness programme, which includes a comprehensive HIV and AIDS programme.



Left: Steve Makgoba, who is responsible for the Venture's Wellness Programme, addresses employees at the programme's launch at the Rustenburg plant, North West Province



Right: The Rustenburg plant choir entertain the audience at the launch of its Wellness Programme

Social sustainability *continued*

CASE STUDY

The launch of a new wellness programme in the Xstrata-Merafe Chrome Venture

Before introducing the wellness programme, which incorporates an HIV and AIDS programme, it was essential that the Venture gain the trust of its employees. A survey undertaken by the Venture had shown that it was a lack of trust that had resulted in a previous HIV and AIDS campaign, aimed at encouraging staff and contractors to know their HIV status, not achieving its targets for voluntary counselling and testing (VCT). (Only 65% of staff and contractors participated in VCT in 2007.) It was therefore essential that the Venture gain the trust of its employees before introducing the wellness programme.

Each site was visited and management and union representatives (including those unions that only have 5% representation) were included in discussion sessions at the operations, the objective of which was to find out how the Venture could regain trust and increase participation in the wellness programme overall and, in particular, in the VCT programme. The information gained during these sessions was used to design the rollout of the wellness programme.

The introduction of the new wellness programme began with a meeting in Rustenburg attended by 70 union representatives and the Venture's management team. The Chairman of the joint board, which oversees the Venture's operations, Peet Nienaber, opened the meeting.

The main aim of this participative session was to share the proposed wellness programme with the union representatives, obtain their input on the programme and its proposed rollout, and their support and co-operation.

The Venture's consultant on wellness and wellness strategy, Dr Tim Tucker, who will also be auditing the programme, addressed the meeting and explained the aims of the wellness programme. Dr Mamela Makiwane, a spokesperson for Aid for AIDS (AFA), which provides medical support to Venture employees, explained the HIV section of the programme. He provided statistics, discussed the treatment programme and the code of confidentiality and ethics that will be applied to the information gathered by the programme.

There were no negative reactions to the proposed wellness programme from the unions. Instead they complimented management on the quality of the proposed programme. The union representatives agreed to support the rollout of the programme and to show their support by participating in the launch of the programme at each operation.

The Venture's new wellness programme was launched in May 2008. At each operation the rollout of the wellness programme begins with three days of intensive training at an offsite venue for the site's wellness champions. These are employees who have volunteered to be wellness champions. Managers, supervisors and union representatives are also briefed before the launch of the programme. Members of management and the local community, which includes doctors and tribal chiefs, are invited to attend training on HIV and living with HIV.

The wellness champions, with the support of the wellness team, run the wellness programme launch at each operation. Every employee participates. This is made possible because the launch programme is run over three days with two sessions every day. Union representatives, not only from the site at which the programme launch is taking place but also from other operations in the Venture, always attend the launch. They participate in the programme at the start of the social mobilisation segment, pledge their support for the programme and urge employees to participate.

The launch programme explains the wellness programme and what it offers employees. The Wellness Manager participates in every launch to ensure that the communication around the programme is always consistent.

Industrial theatre, which is very effective at educating through entertainment, is used to get across the key wellness messages (with particular emphasis on HIV and AIDS).

CASE STUDY (continued)

The launch of a new wellness programme in the Xstrata-Merafe Chrome Venture (continued)

Aids for AIDS (AFA) who undertake the VCT programme and provide ongoing medical support for the Venture's employees, also participate in the launch. They explain the HIV and AIDS segment of the wellness programme, that it is undertaken by an independent body. The confidentiality code and code of ethics to which they adhere regarding patient information is also explained.

Eight nurses are available on site throughout the 10 days of the launch programme. The testing undertaken as part of the wellness programme launch includes checking for hypertension and sugar diabetes. Cholesterol levels are checked as is employees' body mass index (BMI). Employees are also tested for tuberculosis (TB). Once they have been tested employees are given feedback on their wellness status and, where necessary, are provided with a programme that will help them correct health problems. While employees can choose to volunteer for HIV testing, it is compulsory for employees to take the wellness tests mentioned above. Clinic sisters at each operation collect the wellness testing information in a database which will be used to track individual employees' wellness progress and wellness levels and trends throughout the Venture.

AFA independently monitors VCT uptake rates and tracks antiretroviral treatment (ART) uptake and default rates. Following the launch, the nursing team returns to each plant at two to three month intervals for follow up wellness and VCT testing.

At each operation the leadership and wellness champions are the first to volunteer for VCT. Before they are tested for HIV every employee attends a group counselling session and counselling is available after testing. The AFA team spent 10 days at each site offering VCT to all employees and contractors.

Wellness education

The Venture's wellness programme has a strong educational element in which the operations' wellness champions play a major role. This includes educating employees on a different health topic every month.

As part of the wellness education programme, 22 union members and the members of the operations' employee forums attended a two-day National Occupational Safety (NOSA) training course in Pretoria.

Progress towards 100% VCT

By the end of 2008 the wellness programme had been launched to the majority of the Venture's operations. The launch will be completed by May 2009.

The success of the inclusive approach used to launch and maintain the Venture's new wellness programme can be measured by the improvement in the number of employees wanting to know their HIV status and volunteering for VCT. The VCT rate for 2007 was 65% of employees. The target set for 2008 was 80%. In the operations where employees have already been tested (which are the majority of the operations), the average VCT uptake was 90%, an overall improvement at this stage of 25%, which is very encouraging.

The percentage of employees who volunteered for VCT and who tested positive for HIV is between 14% and 15% at the operations that participated in the VCT testing programme during 2008. These employees will be supported by AFA who will monitor their CD4 counts and ensure that they are provided with the ART treatment they need. This ART treatment is facilitated through the Xstrata Medical Aid, which is a comprehensive medical scheme that caters for treatment of all sexually transmitted diseases (STDs) and all HIV-related treatment, including ART.

Hopefully, by the end of 2009 the Venture will have achieved 100% uptake of VCT. This will depend on ensuring that the existing VCT process gives all employees the confidence to trust it sufficiently to volunteer for VCT.

Social sustainability *continued*

Occupational health

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

Health risk assessments are carried out regularly for each function and employees and contractors are monitored according to the risk assessment for their function.

Health risks

Noise

Noise- induced hearing loss

The key occupational health risk associated with the Venture's operations is noise-induced hearing loss (NIHL). All operations have implemented hearing conservation programmes with the aim of reducing and eliminating noise at source, wherever possible, to levels below international recommended standards. This is being achieved through establishing appropriate equipment design criteria and modification and a 'buy quiet' procurement policy.

Audiometric testing and baseline assessments are carried out at every operation. Wherever noise levels may exceed recommended levels suitable Personal Protective Equipment (PPE) is issued. Employees are encouraged to be responsible about their use of PPE in the HSEC information provided to them. They also receive training in the use, maintenance and storage of the variphones issued for personal hearing protection. Typically, noise-induced hearing loss manifests over time. The majority of the NIHL cases recorded at the Venture's operations are long-standing employees employed in older operations.

Noise pollution

Initiatives to reduce noise from the Venture's operations that may affect neighbouring areas include the use of noise curtains, berms and other engineering interventions.

HIV and AIDS

Policy

Employees at the Venture's operations had the opportunity to discuss the draft HIV and AIDS policy and give feedback on its content. The policy was signed off by all of the Venture's operations, and agreed to, before being formally adopted.



Left: Senior tapper, Renic Mahule, wears a carbon dioxide (CO_2) gas monitor that monitors his exposure to carbon dioxide during the tapping process at Lion Ferrochrome, Steelpoort, Limpopo Province

The Venture's HIV and AIDS policy commits it to:

- providing employees and contractors with the knowledge they require to protect themselves and their families from HIV and AIDS through workplace education programmes that explain clearly how HIV and AIDS can be contracted, what can be done to prevent contracting and transferring the HIV virus and what should be done to enhance the quality of life and length of life of those who are HIV positive;
- encouraging employees and contractors to know their HIV status and providing counselling and testing facilities for them;
- running HIV and AIDS campaigns that will involve employees at every level of the organisation;
- ensuring that every employee attends an HIV and AIDS education session during working hours, followed by an individual wellness counselling session with a healthcare provider;
- ensuring that testing for HIV is voluntary and that employees are only tested for HIV and AIDS after providing his/her informed consent;
- guaranteeing the confidentiality of medication information (an HIV and AIDS confidentiality policy is in place to support this). (To be able to provide this guarantee only the employee and members of the site medical team or members of an independent external service provider will have access to an employee's HIV status. Disciplinary action will be taken if there is any breach of this confidentiality.);
- the provision of pre and post test counselling for employees or contractors wishing to be tested for HIV and AIDS;
- forming public/private partnerships with local, provincial and national government to set up joint projects and join forces to fight HIV and AIDS; and
- facilitating the training of peer educators and establishing and training home based care workers through the Venture's corporate social investment programme. The purpose of these programmes will be to assist workers and the members of the community in which the Venture operates to combat HIV and AIDS.

The Venture also has a Counselling and Care Support Policy which defines how employees can choose to receive HIV and AIDS counselling and care support. It confirms that HIV positive employees who are members of the Venture's medical aid, and who are registered with its HIV and AIDS service provider (Aid for AIDS), will receive the treatment they need and the support and education that will allow them to adhere to their antiretroviral treatment programme. The Venture's HIV and AIDS policy is also supported by a medical boarding policy. To ensure the policy is accessible it has been translated and is available in the languages spoken by the Venture's employees.

HIV and AIDS strategy

The Venture's HIV and AIDS strategy, put in place in 2004, is based on the results of a cost benefit analysis which indicated that the cost of doing nothing to prevent the spread of HIV and AIDS is likely to be between 3 and 6% of its annual wage bill. The business benefits of early intervention (including the provision of antiretroviral (ARV) drugs) would include the increased longevity and productivity of HIV positive employees and the slowing of the spread of HIV and AIDS. The cost benefit analysis showed that the benefits of early intervention would be felt within the first three to five years of the start of such an intervention.

The targets set for HIV and AIDS programmes in the Venture's workplace are that 100% of:

- employees and contractors know their HIV status;
- HIV-positive employees and contractors are enrolled in wellness programmes; and
- HIV-positive employees and contractors practice safe behaviour to prevent new infections.

Current HIV/AIDS associated costs and losses to the organisation

To encourage safe sex, condoms are available at all change rooms and clinics throughout the Venture's operations. The workforce is mainly male and there has not as yet been any call for femidoms.

The measurement of total recordable injuries per million hours worked, which includes all injuries, excluding first aid treatment, provides the most comprehensive view of injuries sustained in the workplace.

Economic contribution

Comparative analysis of safety statistics for Venture employees and contractors

	2004	2005	2006	2007	2008	Target for 2008
Fatality frequency rate (FFR)*	0,16	0,11	0,00	0,07	0,04	0,00
Lost time injury frequency rate (LTIFR)*	5,41	3,90	2,31	1,83	4,03	1,74
Total recorded injury frequency rate (TRIFR)*	16,82	11,99	8,39	6,91	5,36	6,19
Disabling injury severity rates (DISR)*	257,53	245,38	137,92	126,03	72,97	118,77

**Rate refers to per one million hours worked*

Occupational illnesses

The Venture had seven cases of occupational illness during 2008. All cases were noise induced hearing loss. Occupational illness cases per million man hours worked in the Venture were one per 3 115 045,42 man hours. The operations in which Merafe Resources has invested generate direct and indirect economic benefits for its stakeholders who include: its employees, contractors, suppliers, government, shareholders and the communities in which it operates.

The development of South Africa's mineral wealth has played an important role in the country's socio-economic development, including contributing to sustainable improvements in health, prosperity and living standards. If the mining industry is to continue to operate and gain access to new resources it needs to help communities unlock the benefits of mining.

The International Council on Mining and Minerals (ICMM) Resource Endowment Initiative aims to identify the factors that are required from government, civil society and mining companies to enable countries and communities to benefit more from mineral wealth while continuing to attract foreign investment in the mining sector. The initiative has already identified a number of key elements required to ensure mineral endowment is translated into sustainable benefits for communities in mining regions. Xstrata, our partner in the Xstrata-Merafe Chrome Venture, has been a member of ICMM since 2006.

The development impact of the Venture's operations and projects is particularly significant in all the communities in which it operates, as they are located in relatively undeveloped areas of a developing country.

Direct economic impacts arising from the activities of Merafe Resources

The Venture generates a range of direct and indirect economic benefits for its stakeholders, which include employees, contractors, suppliers, government, shareholders and the communities in which it operates. These benefits are:

- wages and benefits to employees and contractors;
- royalties and taxes paid to provincial and national government;
- procurement of goods and services, giving preference to local companies and black empowered businesses whenever possible;
- distribution to providers of capital, including returns to shareholders and debt providers;
- training and skills development opportunities for employees and communities;
- corporate social investment programmes to support communities associated with our operations including support for community educational and health programmes;
- providing employment opportunities, in particular for local people;
- improving or contributing to local infrastructure and services; and
- promoting local enterprise development.

Socio-economic development

Procurement

The Venture's procurement policy, which is aligned with the government's Preferential Procurement Policy Framework Act 2000 (PPPFA) and the Mining Charter Scorecard, gives preference to HDSA owned, empowered and controlled businesses for all capital goods, consumables and services. It also gives preference to local suppliers and small, medium and micro-enterprises (SMMEs).

Where appropriate the Venture promotes the number and capacity of HDSA suppliers by providing support, including management training, transfer of skills and other forms of expertise. It also actively encourages its existing non-HDSA suppliers to form partnerships with HDSA companies to supply goods or services where an HDSA company does not currently exist.

The Venture further applies the following criteria to its procurement: the HSEC performance of the organisation; the capital goods, consumables and services must be competitively priced; the quality of goods, consumables and services must be according to the standards set; supply must be timeous; and after sales service must meet the Venture's standard operating practice.

Enterprise development

Enterprise development is an important element of the Venture's investment in the socio-economic capacity of the communities in which it operates. The Venture encourages existing suppliers that are white-owned to partner with local HDSA micro-enterprises with potential and establish black empowered businesses. Established businesses are also encouraged to provide mentorship and skills transfer to HDSA enterprises. The Venture also provides a range of support and assistance from financial support to help with developing business plans, skills training and development. The Venture also encourages other mining houses to use the services of businesses supported by its enterprise development programme.

CASE STUDY

Enterprise development success stories helping black empowered companies get going and grow

The jobs created through the Venture's enterprise development projects provide employment for local community members. An excellent example of such an enterprise is Kwabes Construction, which provides plant cleaning and housekeeping services to the Lion Ferrochrome plant. The company is 100% owned by HDSA members of the local community. The company already employs 55 people and this number is expected to increase as the company expands and secures contracts to provide its services to other mining houses in the area.

Kgasi Trading was established by its black female owner, Daphney Molwana, in 2004, to supply various types of stationery including toners; ribbons; ink cartridges; paper items including fax rolls, thermal paper, etc; office furniture and cleaning materials. Its customers include the South African Post Office, government departments, corporates and the National Lottery.

Daphney wanted to expand the business into manufacturing. She realised there was an opportunity to become a manufacturer of the thermal paper rolls that are used at points of sale when she had the opportunity to tender for supplying till rolls to the South African Post Office.

To become a manufacturer Daphney needed help because the machinery needed to manufacture these rolls is very expensive. She approached the CEO of Merafe Resources for assistance, who referred her to the Venture's enterprise development programme. They studied her proposal and decided it was a good one that deserved the support of the Venture's enterprise development programme. With their support behind her Daphney tendered for the Post Office's business and won the contract.

Kgasi Trading, which employs 13 people, is already supplying the Post Office with till rolls. Their manufacturing equipment has not arrived yet, so in the meantime they have to purchase stock from elsewhere. Once Kgasi Trading becomes Kgasi Manufacturing, the company will be well positioned as a black empowered business to supply thermal paper rolls in all shapes and sizes to a wide variety of industries including the retail industry, government organisations and parastatals.

Below: Driver Kenneth Ditshego lends a hand at Kgasi Trading with the preparation of the parcels he will be delivering to customers





Above: Daphney Molwana, the founder of Kgasi Trading, with her Factory Manager, Stephen Marijena in the stock room at Kgasi Trading

Economic contribution *continued*

Managing the impact of the Venture on communities

The sustainable development standards applied at all the Venture's operations require that their community strategies and social involvement plans focus on enhancing the socio-economic capacity, prosperity and sustainability of the communities in which they operate.

Also, in accordance with these standards, the Venture works to minimise the adverse impact of its operations on the communities in which it operates and to avoid communities becoming solely dependent on its operations, or dependent on its operations after closure.

Social baseline studies and risk assessments, to identify and evaluate the risks and impacts of site and project activities, are undertaken at each stage of an operation's life cycle and before any major modification.

The negative impacts from mining activities that the Venture considers include:

- social impacts from an influx of people into an area, due to either the use of employees from outside the area or the migration of people to the area that have been attracted by the presence of an operation. These impacts can include increased traffic or reduced availability of local services;
- local price inflation affecting land or housing costs, basic goods and services as a result of the higher wages being paid by the operation and increased economic activity;
- crime or social problems may increase;
- environmental impacts that could affect local economic activities, such as agriculture;
- cultural marginalisation of the local community and the possible loss of cultural heritage or practices;
- health and environmental issues, including infectious diseases, emissions, noise and dust;
- resettlement of communities can have a negative impact on livelihoods, access to resources or social capacity, if not managed correctly; and
- impacts from the closure of an operation, particularly if the community becomes dependent on its presence.
- The Venture avoids resettlement wherever possible. Where resettlement is necessary it will adhere to the World Bank Operational Directive on Involuntary Resettlement. A range of culturally appropriate and transparent communication methods would be employed to ensure that the immediate and potential future impact and benefits are understood by those affected. No resettlements are planned.
- The Venture's community engagement and development strategy focuses on creating value for the communities in which it operates. It recognises the need to understand the culture, customs, priorities and needs of local communities if it is to maximise the benefits it can offer the community. One of the processes it uses to help it achieve this is identifying and managing the risks and opportunities in these communities.
- The Venture's risk identification process has found that a lack of consensus between municipalities and traditional leaders is a political risk to a community because it could have negative impacts on community development objectives. It also identified that when community issues and needs are not integrated into a local economic development plan a social risk arises. A third risk it identified was the potentially negative effect a breakdown in communication can have on an organisation's reputation and relationships.
- The Venture identifies appropriate engagement methods and establishes formal engagement mechanisms between itself and the local communities at the inception of a project. These mechanisms help avoid breakdowns in communication. They are used to address complaints, grievances and other issues that may arise.

The establishment by the Venture of the Steelpoort Development Centre is based on data collected during a project phase social baseline study and risk assessment. The Centre was established to train and develop Steelpoort community members as prospective employees of the Venture and other industries operating in the vicinity of the community. It has since become a training resource for other mines in the area and has identified the need to provide community skills programmes and now trains members of the community to become welders, household electricians and plumbers and also provides computer skills training. In the future it will be providing an enterprise development resource facility to assist emerging local businesses and its BEE suppliers.

Right: Divis Mampuru learning how to make jewellery as part of a Venture community development project at the Xstrata-Merafe Development Centre, Steelpoort, Limpopo Province





Left: Johannes Stemela Mametja uses the polishing machine which is part of the facilities provided for a jewellery making community project by the Venture

Corporate social investment

During 2007 Merafe Resources established its own corporate social investment (CSI) programme, in addition to the CSI contributions it makes through the Venture's CSI programme. Merafe Resources contributes the equivalent of one per cent of its annual post tax profits to CSI. It assesses the sustainability of projects before making a decision to invest in them. Thereafter the projects are monitored and evaluated to assess how beneficial they have been.

The principal objective of Merafe Resources' CSI programme is the upliftment of the communities in whose areas it operates. Merafe Resources believes that being a responsible and contributing corporate citizen is a key component of its business strategy. Addressing skills shortages, low levels of education and healthcare issues (particularly in the area of HIV and AIDS) have been identified as the most important areas through which it can empower and uplift disadvantaged communities located in the vicinity of its operations.

Prior to establishing a formal corporate social investment programme Merafe Resources supported the Batlhako-Ba-Leema community in the vicinity of its Horizon Mine in the North West Province. The Batlhako-Ba-Leema Education Trust was set up in 2002 to provide bursaries for the tertiary education of children from the community. The bursaries provided by the trust funded tuition fees, accommodation, study material and, where required, a living allowance. Eighteen students received funding for courses as varied as chemical engineering, extractive metallurgy, law degrees, arts degree, commercial degrees, social work degrees and human resource qualifications. The trust has come to an end, but Merafe Resources will continue to fund the students that are still to complete their qualifications.

Economic contribution *continued*

CASE STUDY

Tapologo providing a community HIV and AIDs programme

Tapologo (place of rest) is an HIV and AIDS programme which received funding from Merafe Resources in 2008. It provides a comprehensive and holistic response to the HIV and AIDS-related health needs of communities in the vicinity of the Venture's Boshoek and Horizon operations in the North West Province. It was initially established in 1998 to provide home-based care to HIV and AIDS patients. Home-based care remains its core focus. The next step for Tapologo was the establishment of an inpatient unit which can accommodate a maximum of 42 patients. AIDS patients usually need to be stabilised as inpatients before going on to antiretroviral treatment (ART). By 2008 Tapologo had 1 200 patients receiving ART. It hopes to increase this to 1 600 in the near future. Its treatment teams regularly visit the centres it has established to distribute ART to monitor the status of patients and provide HIV and AIDS testing. Tapologo has been very successful with the use of antiretrovirals (ARVs) to prevent mother to child transmission of the HIV virus.

The area in the vicinity of mining operations in the North West province in which Tapologo is operating has become a magnet for people seeking employment and as a result informal settlements with numerous social problems have sprung up. AIDS orphans are one of the problems and Tapologo finds it also needs to provide nutritional support for these orphans when it can. Tapologo's inpatient buildings are all environmentally friendly and local inhabitants were trained to assist with their construction. The fruit and vegetables grown adjacent to the inpatient centre provide sufficient produce for the centre's needs. The funding provided by Merafe Resources has been used to refurbish two of Tapologo's outreach centres, at Ledig and Chaneng, that will provide 360 people living with HIV and AIDS and their families with the vital health services they need, act as a hub for home-based carers and clinic nurses and also provide a meeting place and training venue.

The Venture's CSI programme invests in education projects, health initiatives, social welfare, enterprise development and job creation. Its investment in enterprise development and job creation initiatives during 2008 included establishing a business park in the vicinity of the Kroondal mine that will provide small, medium and micro enterprises (SMMEs) with premises where they can sell their products. The project is intended to assist in the development of SMMEs and reduce unemployment. Other projects include upgrading and renovating primary school classrooms; supplying computers and printers to a primary school; establishing a craft centre, installing equipment and training women to work in the centre and helping them develop markets for their products; sponsoring training for SMMEs that also developed tourism awareness and further developing informal catering enterprises into formal BEE catering companies, which will enhance the hospitality industry in the Rustenburg area.

Environment

Approach

The impact that the operations of the Xstrata-Merafe Chrome Venture have on the natural environment is managed by means of Xstrata's Sustainable Development Policy and its 17 Sustainable Development Standards (to be found under the Sustainable Development section of the Merafe Resources website). In particular, Sustainable Development Management Standard 10: Environment, Biodiversity and Landscape Functions and Management Standard 13: Life Cycle Management – Projects and Operations apply to environmental management in the Venture's operations. They set out the Venture's commitment to acting responsibly, identifying, analysing, evaluating, eliminating or treating all significant actual and potential impacts.

Every operation is independently audited at least once every three years, depending on risk and performance.

Environmental risks and opportunities

The environmental risks associated with ferrochrome mining are ground water contamination, dust pollution from slimes dams and loss of biodiversity. Other material environmental challenges include: abating greenhouse gas emissions; biodiversity conservation and land management; resource management; emissions, waste and tailing management; and closure planning and closed site management.

The aspects and impacts register is used to identify the Venture's key environmental risks and detail the programmes and controls in place to manage them.

An opportunity that the Venture has identified and exploited is using the platinum waste product, UG2, to make chromite pellets that have the additional advantage of reducing the energy usage in its chrome smelters.

Financial implications and other risks and opportunities for the organisation's activities as a result of climate change

The Venture's operations were part of an independent study commissioned into the potential physical impacts of climate change on its operations. The aim of the study was to answer these questions: How will climate change impact existing operations and projects? What are the key climate change threats? Where are the greatest climate change impacts? Which climate change mitigation and adaptation options should be considered?

The study evaluated a comprehensive range of climate change threats. The relative likelihood of these threats and the vulnerability of individual sites and transport networks to each threat type were considered. A financial consequence was assigned to each threat in business interruption terms and the impact of climate changes was predicted for 2015, 2025 and 2050. Because the threats identified were of a medium to long-term nature the study focused on 2025 as the most appropriate reference time period. The financial impact of climate change, if no mitigating action is taken, was estimated to be around 3,5 – 4,0% of the current market value of the business.

The assessment pointed to the ports and transport networks used to transport production from the operations to markets bearing 70% of the climate change risk. They generally present much larger targets for extreme weather events than do individual operations.

The most significant impacts on mines and smelter operations in 2025 are likely to be water shortages.

Recommendations made by the study regarding operations are being addressed. These include: verifying design limits for existing tailings dams and criteria for new projects to incorporate long-term risk analysis (e.g. by including expectations of a potential 100-year flood or significant increases in rainfall); taking into account climate change risks when transport options are being assessed for new projects; reviewing insurance cover; reviewing implications of climate change risks in annual reviews of site closure plans; and investigating alternative transport routes from sites where rail or road networks are assessed to be most at risk in the future.

Environment *continued*

Materials

Energy

The Xstrata Sustainable Development Policy is applied in the Venture. The policy includes its commitment to continually improve the efficiency of its use of raw materials, energy and natural resources. A principal risk to the continued operation and growth of our ferrochrome operations is access to a secure and cost-effective supply of energy. In an environment of rising energy costs and supply shortages, the ability to achieve sustainable improvements in the energy efficiency of our operations provides the Venture with an important competitive advantage and an opportunity to reduce our direct and indirect greenhouse gas emissions.

Energy efficiency

The Venture's smelters are energy intensive. Most of the energy consumed in our operations is produced by Eskom, South Africa's energy producer. During the first quarter of 2008 energy shortages led to emergency power cuts, load shedding and outages. Eskom implemented a mandatory 10% cut in the supply of electricity to the mining and beneficiation industry.

Energy saving initiatives implemented in the Venture's Western mines include the installation of capacitor banks to correct power factor, resulting in lower reactive component; magnetic couplings for lower start-up currents on conveyor belts; and an underground compressed air chamber to reduce the number of compressors operating at the same time. In addition, proper process control has resulted in the reduction in the number of pumps used.

Direct energy use segmented by primary source

Primary source		2008	2007
Coal	tonnes	11,786.72	24,602.25
Diesel	kilolitres	11,688.92	10,250.20
Fuel oil	kilolitres	3,636.61	6,134.18
Liquid petroleum gas (LPG non transport)	kilolitres	53,768.55	53,873.87
Petroleum	kilolitres	64.31	72.92
Polyfuel	kilolitres	2,249.45	1,893.37
Wood	tonnes	71.40	51.95

Electricity use by the Venture during 2007 and 2008 (indirect energy consumption)

		2008	2007
Electricity use	kilowatt hours	5,226,017,656.36	5,770,382,542.32

CASE STUDY

Xstrata-Merafe Chrome Venture's energy efficiency recognised

The Venture's energy efficiency achievements were recognised when it received a special *eta* mining sector energy efficiency award, sponsored by the National Business Initiative (NBI).

It was the approximately 12,7% saving in energy consumption achieved by the Venture's R2,4 billion investment in world class energy efficient furnaces at its Lion Ferrochrome plant in Limpopo and the Bokamoso pelletising and sintering plant in North West Province, that won the award.

It is the proprietary Premus technology employed at Lion Ferrochrome that produces an energy saving of about 429 000 megawatt hours per annum when the plant is in full production (330 000 tonnes of ferrochrome per annum). The energy saving pellets produced by the Bokamoso plant achieve a saving of about 452 000 megawatt hours per annum when the furnaces it supplies are in full production (565 000 tonnes of ferrochrome per annum).

The Premus technology uses ore, in the form of pellets, already partially reduced to the required metal product in a kiln, and then fed hot into the submerged arc furnaces. Typically, technologies used in ferrochrome smelters can at best pre-heat the raw materials with a gas burner before entering the furnace. The pre-heating temperatures achieved using this method are only a fraction of those reached in the Lion Ferrochrome plant.

At the Bokamoso plant energy savings are achieved by agglomerating and sintering the ore. This breaks up some of the mineral structure through partial reduction and re-oxidation. By allowing better permeability of the gaseous product from the chemical reactions in the furnace bed, the uniform sized pellets also contribute to much better furnace stabilities. Agglomerating fine ore into pellets also increases the retention time of the ore during the semi-continuous smelting process.

Reduction in greenhouse gases

An additional bonus gained from these energy savings is a significant reduction in the emission of certain types of greenhouse gases. Based on its statistical data on power generation, Eskom, South Africa's power generator, would have emitted a further 811 000 tonnes of CO_2 and 7 000 tonnes of SO_2 if the Venture had not made this energy saving.

The annual *eta* (the Greek symbol for efficiency) awards were established by Eskom 18 years ago to promote the more efficient use of energy and to improve business competitiveness. They have never been more relevant. More recently the NBI has participated in the *eta* awards and introduced a special energy efficiency awards section which includes a mining sector category.

Below: The pellets produced at Lion Ferrochrome, Steelpoort, Limpopo Province, using Premus technology





Above: The kiln at Lion Ferrochrome in which ore in the form of pellets is reduced to the required metal product before being fed into a submerged arc furnace to produce ferrochome

Environment *continued*

Water management

The Sustainable Development Policy governs the Venture's use of water. The actual and future potential water scarcity of all sites is assessed. All operations have submitted integrated waste and water management plans to the Department of Water Affairs and Forestry for approval.

Water usage

The Venture's water use includes water employed in its primary activities, which include mining and smelting and its non-primary activities (e.g. garden maintenance and dust control). The potable water used in the operations is sourced from various water service providers including local municipalities, Magalies Water and Rand Water.

The target set for the reduction of water consumption per tonne of ferrochrome production in all its operations, which operate in water-scarce regions was 5% over its 2007 performance by 2010. The upgrading of water meters throughout the operations during 2007 improved the Venture's ability to quantify its water consumption.

Total water withdrawal by source

Category	2008 (ML)	2007 (ML)
Raw ground water	3,842.74	1,665.20
Raw surface water consumed	4,707.57	4,802.67
Potable water consumed	2,902.97	2,900.00
Total water recycled or reused	27,423.74	8,056.64
Water imported	0.00	0.00
Water exported	1,451.50	7.35

Water source significantly affected by withdrawal of water

The only water source in the Venture that is sensitive to withdrawal is the Dwars River and the licensed boreholes at Lion Ferrochrome.

Biodiversity and land management

The Venture owns 2 116ha of land and leases 99ha in the North West, Limpopo and Mpumalanga provinces of South Africa. To date, 2,722.97ha of this land has been disturbed. In 2008 117.28ha of land was disturbed and 61.18ha of disturbed land was rehabilitated.

Some of the areas mined by the Venture are located in or adjacent to biodiversity-rich areas. A number of sensitive species were identified during a biodiversity and land management assessment undertaken of the Waterval, Horizon and Kroondal mines in the Rustenburg area of the North West Province. The plan arising out of the assessment was included in the Venture's Environmental Management Programme Report (EMPR). Invasive species were identified during the assessment. As their removal is an important element of biodiversity management they have all been removed. In addition, the Venture's Thorncliffe and Helena mines in the Mpumalanga Province have endemic 'red list' species within or adjacent to their lease area.

The Venture's commitment to preserving the long-term health, function and viability of the natural environment affected by its operations is contained in the sustainable development policy which governs its approach to the environment in which it operates. It 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. This includes avoiding degradation of natural habitats through watershed management, control of soil erosion and the creation of microclimates.

Management of overburden, rock, tailings and sludges/residues

The sustainable development standards and guidelines applied in the Venture's operations set stringent expectations for the management of tailings and waste rock facilities.

Management processes in place at all operations to manage tailings disposal facilities include: tailings facilities designs that comply with international standards regardless of location; regular external inspections and audits of tailings dams and physical stability control risk assessments and monitoring; leaching control, groundwater monitoring and effluent treatment (e.g. seepage

collection systems); progressive rehabilitation or reclamation and planning that includes worst case scenario weather and geological conditions. In South Africa slag from chrome is classified as a hazardous substance (class 2), and its use for landfill, substrate for road construction, building aggregate, etc, is prohibited. There is a high demand in the building industry for this type of waste product, presenting the Venture with an opportunity to realise value from it.

Operations in or adjacent to areas of high biodiversity value (areas not subject to legal protection but recognised for important biodiversity features)

Operation	Ecological sensitivity
Horizon Mine	Protected species or species of concern include the plants belonging to the genera *Gladiolus*, *Scadoxus*, *Sclerocarya* and *Euphorbia spp*. Data deficient: the mammal *Lemniscomys rosalia* (single-striped mouse)
Kroondal Mine	Adjacent to wetlands area (although not a protected area or listed in RAMSAR convention on wetlands or international importance). A number of protected orchid species occur in the natural areas of the mine, species of *Ceropegia* and the mammal *Lemniscomys rosalia*
Thorncliffe Mine and Helena Mine	Endemic 'red list' species within or adjacent to the lease area: Short stem carnation weed; Sekhukhune (Bushman's tea) Blue Shield Fruit; Red Ivory (Rooi Ivoor), Sekhukhune elephant-root (*sekuhunebasboontjie*); Data deficient: *Cicada Pycna Sylvia*

There are no water bodies or related habitats significantly affected by the Venture's discharge of water and runoff as its operation are zero effluent operations.

Closure plans

All the Venture's operations have a closure plan which is reviewed at least once a year and is independently assessed through the Xstrata sustainable development programme assurance programme. These plans include closure cost estimates and the anticipated costs of rehabilitation are provided for throughout the life of an operation. As the anticipated date of a closure approaches comprehensive plans are integrated into the plan to address identified social, labour, environmental and economic issues associated with the closure.

Emissions, effluent and waste

The primary impact the Venture's operations have on climate change is through energy consumption, reductant use and greenhouse gas (GHG) emissions. It is introducing new designs into its operations and is improving older operations to enhance their efficiency and lower emissions. The inhouse GHG inventory model developed during 2007 is assisting with the identification of possible clean development mechanism (CDM) opportunities and the calculation of GHG emissions against reduction targets.

Emissions to air

The Venture's major emissions to air are: carbon dioxide (CO_2), nitrous oxides (NO_x), sulphur oxides (SO_x).

Category	Emission tonnes 2008	Emission tonnes 2007
NO_x - Oxides of nitrogen	238.51	224.33
SO_x - Oxides of sulphur	1,266.29	777.93
Total particulates	1,304.67	963.09
Total emissions to air	2,809.47	1,965.35

Environment *continued*

The Venture, together with other industry stakeholders, is involved with the North West Province Air Pollution Control Forum (NAPCOF) and Ferro Alloys Producers Association (FAPA). These bodies partner with regulators in setting best practice air quality standards. They set up task teams to address specific air quality issues, such as scrubber efficiency, emission standards and give feedback and made recommendations to regulators on the way forward.

Primary particulate emissions during ferrochrome production are controlled by a series of cyclones and bag filter plants at the semi-closed furnaces and scrubbers at the closed furnaces. High efficiency membrane filter bags have been fitted to bag filter plants to reduce particulate emissions. In addition, the design of the cyclone systems has been improved to increase their removal efficiencies. The installation of standby induced draft fans allows maintenance to be performed on main induced draft fans without the release of uncontrolled emissions.

Secondary particulate emissions are controlled through cannon water sprayers and dedicated roadsweeping units are used to clean fine dust particles from the roads.

Fogger systems have been installed on conveyor belts and at loading bins to reduce dust formation.

Effluent

All the Venture's operations are zero-effluence discharge operations. As per licence conditions and requirements in an emergency, effluent may be discharged after consultation with the relevant authorities.

Waste

All operations reuse, recycle or properly dispose of waste generated, minimising waste sent to landfill and maximising opportunities for recycling or reprocessing waste to reduce costs and generate additional revenue. Waste is disposed of responsibly by accredited service providers. The material recycled or reused includes scrap metal, paper, wood, conveyor belts and materials captured from air pollution control equipment.

Depletion of the legacy stockpile at the Boshoek smelter has decreased the quantity of delisted metallurgical slag.

Wastes produced

Category	units	2008	2007
Delisted metallurgical slag	tonnes	261,446.00	274,939.80
Excavated materials, overburden and waste rock	tonnes	3,941,024.51	933,968.80
Quench ash	tonnes	883.43	770.43
Regulated ferrochrome slimes	tonnes	95,715.42	94,580.09
Regulated slag	tonnes	2,356,623.47	3,809,175.00
Tailings and processing wastes	tonnes	1,159,382.98	580,142.19

Waste disposed and recycled

	units	2008	2007
Hazardous waste offsite disposal – landfill	tonnes	325.90	109.49
Hazardous waste onsite disposal – landfill	tonnes	0.00	0.00
Non-hazardous waste offsite disposal – landfill	tonnes	793.76	743.99
Non-hazardous waste onsite disposal – landfill	tonnes	0.01	0.00
Non-hazardous wastes recycled/reused	tonnes	1,597.94	1,206.69
Incinerated waste	tonnes	0.79	13.91
Batteries recycled	tonnes	129.53	9.79
Copper reverts recycled	tonnes	0.20	0.00
Domestic waste recycled	tonnes	11.65	9.75
Conveyor belt disposal	metres	644.81	221.00
Other recyclables	tonnes	19.23	0.00
Pallets recycled	tonnes	2,329.75	216,282.60
Scrap metal recycled	tonnes	3,109.77	3,429.94
Slag containing metals recycled	tonnes	744,354.74	1,350,505.51
Slimes recycled	tonnes	425,325.25	150,721.00
Tailings recycled	tonnes	425,287.00	97,822.00
Waste oil recycled	kilolitres	315.61	218.05

Environmental incidents

Environmental incidents are recorded at each operation and include incidents occurring under the control of 'contract' activities.

Incidents recorded

Venture incident category	2008	2007
Category 1 – negligible (causing negligible, reversible environmental impact, requiring very minor or no remediation)	32	40
Category 2 – minor (causing minor, reversible environmental impact, requiring minor remediation)	10	4
Category 3 – significant (causing moderate, reversible environmental impact with short-term effect, requiring moderate remediation)	1	0
Category 4 – major (causing serious environmental impact, with medium-term effect, requiring significant remediation)	0	0
Category 5 – disastrous (causing disastrous environmental impact, with long-term effect, requiring major remediation)	0	0

Environment *continued*

Product and services

The Venture maintains an integrated system, which identifies, analyses, evaluates and treats impacts and risks associated with its product throughout its life cycle, including the stages which may be beyond its direct control, such as use, recovery, recycling and disposal.

Xstrata plays an active role in the International Council on Metals and Mining's (ICMM) initiatives that contribute to product stewardship and innovation including the ICMM Guide on Material Stewardship.

The Venture has participated in a life cycle inventory (LCI) project for primary ferrochrome production. The scope of the project was to create an LCI for 1 kg of chromium contained in ferrochrome. The project includes the mining of chrome ore and transportation to the smelters, the transport of reductants and fluxes to the smelters and the smelting and production of ferrochrome up to the gate of the smelters. It will also include a complete assessment of downstream ferrochrome uses (e.g. in the stainless steel industry). The Venture collaborated with other South African producers on the project.

To ensure the quality of its products the Venture's systems are aligned with the requirements of ISO 9001, 2000 and some of the smelters have been certified. Its laboratories are ISO 17025 accredited, which ensures that the methods and equipment used are accurate.

Ferrochrome is the final product produced by the Venture. None of the Venture's product is produced from secondary material. Most of the ferrochrome it produces is used in the manufacture of stainless steel. As stainless steel is a corrosion resistant alloy its life expectancy is usually long. It requires a minimum of maintenance and offers attractive life cycle cost benefits over alternatives such as carbon steels. Stainless steel is easily cleaned and is therefore an obvious choice for catering equipment and the food and beverage manufacturing industries. Scrap stainless steel is recycled and it is one of the main sources of raw material for making stainless steel.

The steel is melted electrically and in most cases it is 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 recycle dust into the steel making process. Most of the steel processing consumable materials, including cooling water, lubricating oils, pickling acids and interleaving paper are recycled in the plant or by specialist contractors.

Compliance – environmental fines and fines for non-compliance with laws/fines for non-compliance with laws/regulations concerning the provision and use of products and services

No fines were incurred by the Venture during 2008.

Environmental protection expenditure and investment by the Venture

Item	2008 US$	2007 US$
Audits/EMS/EIA/EIS expenditure	103,374.00	373,414.88
Capital	1,414,089.00	644,947.09
Environmental consultants/contractors	322,581.20	478,010.01
Environmental personnel – employees	145,680.50	251,393.05
Licences/liability insurance	16,610.88	8,873.23
Rehabilitation and decommissioning costs	–	110,031.36
Treatment and disposal of waste	249,790.21	302,560.00
Treatment of emissions	273,785.44	1,511,299.48
Monitoring and analysis equipment	163,571.50	39,515.70
Total rehabilitation closure liability	12,118,971.44	110,199,960.00
Rehabilitation provision	266,033.94	0.00
Guarantee/trust/security deposit	5,402.28	22,502.38
Closure provision	22,998.12	57,837.65
Operating costs – other	73,440.32	255,859.20

Independent assurance statement

To the Board and stakeholders of Merafe Resources:

SustainabilityAssurance.co.za (SA) was commissioned by Merafe Resources to provide independent third party assurance over this 2008 Sustainability Report (the 'Report', covering the period 1 January to 31 December 2008). The assurance team comprised primarily of Michael H. Rea, our principal Corporate Social Responsibility (CSR) consultant, with experience in environmental and social performance measurement. Over the past 10 years, Michael has undertaken over 30 assurance engagements in various countries, including Sudan, Kenya, the DRC, Nigeria, Cameroon, Swaziland, Zimbabwe, Namibia, South Africa, Peru and Canada: working either as part of a team (while in the employ of PwC and KPMG), or as an Independent CSR Consultant.

AccountAbility AA1000AS (revised, 2008)

To the best of our ability, this assurance engagement has been managed in accordance with AccountAbility's AA1000AS (2008) assurance standard, where the format of the engagement was structured to meet the AA1000AS Type 1 (Moderate) requirements.

Independence

SA was not responsible for the preparation of any part of this Report and has not undertaken any commissions for Merafe in the reporting period concerning reporting or data collection. SA did, however, conduct a 'preparedness to report' assurance assessment of Merafe's 2007 Report, identifying reporting gaps that ultimately have been incorporated into Merafe's 2008 reporting processes, but this work has not compromised our ability to afford TPA over this year's Report. SA's responsibility in performing its assurance activities is to the management of Merafe alone and in accordance with the terms of reference agreed with them.

Assurance objectives

The objectives of the assurance process were to provide stakeholders of Merafe with an independent 'moderate level assurance' opinion on whether the report meets the AA1000AS (2008) principles of Inclusivity, Materiality and Responsiveness, as well as to assess the degree to which the Report is consistent with the Global Reporting Initiative (GRI) G3 guidelines, with the objective of establishing whether or not the Report has met the B+ level of reporting requirements.

Scope of work performed

AA1000AS (2008) Compliance

The process used in arriving at this assurance statement is based on AccountAbility's AA1000AS (2008) guidance, as well as other best practices in sustainability reporting assurance. Our approach to assurance included the following:

- A review of Merafe's measurement and reporting procedures;
- A review of drafts of the Report for any significant anomalies; and,
- A series of interviews with the individual responsible for collating and writing various parts of the Report in order to ensure selected claims were reported and substantiated.

It should be noted that unlike other assurance engagements, where site visits are undertaken to test the authenticity of data at the primary source of collection and collation, this report has been assessed at the point of data aggregation for reporting. Given that this is a Type 1 (Moderate) assurance engagement, the accuracy of specific data within the Report was not tested back to source, based on the fact that data supplied by Xstrata Alloys has undergone a series of Ernst & Young managed internal audit and in-house peer review procedures. The testing of data accuracy was therefore limited to trend and anomaly studies.

GRI compliance

In determining the GRI G3 'Application Level' of the Report, we performed the following exercises:

- A review of the process used to define the content of the Report by looking at materiality of issues included in the Report, stakeholder engagement response to stakeholder issues identified, determination of sustainability context and coverage of material issues;
- A review of the approach of management to addressing topics discussed in the Report; and
- A confirmation that the requisite number of performance indicators had been covered in the Report.

Independent assurance statement *continued*

Findings

AA1000AS (2008) – Inclusivity, Materiality and Responsiveness

In general, the company's sustainability reporting processes are adequate. However, it was found that:

- Merafe Reources relies on Xstrata-Merafe Venture to obtain quantitative data with respect to most sustainability indicators;
- Xstrata Alloys undergoes a process of independent third party assurance of their key sustainability indicators by their auditors – Ernst & Young – and the accuracy of this assessment was not tested as part of this engagement;
- Although Merafe actively engages an array of key stakeholders, as defined within this Report, the assurance process did not allow for additional engagement to confirm or refute Merafe's assertion that the Report adequately reflects the information requirements of their key stakeholders;
- Within the parameters of a 'Moderate Level Type 1 assurance assessment', the Report – without exception – appears to reflect an accurate accounting of Merafe's performance, including the review of data supplied by Xstrata Alloys, to be contained within their 2008 Sustainability Report.

GRI compliance

Based on our review of the Report, as well as the processes employed to collect and collate information reported herein, it is our assertion that this Report meets the GRI G3's requirements for Application Level B (responses to all required indicators, as well as no fewer than 20 Core indicators, with at least one from each of Economic, Environment, Human Rights, Labour, Society and Product Responsibility). However, it was found that:

- The reporting of performance against some GRI G3 indicators continues to require either data quality improvements, or further detail in disclosure. Indicator-specific performance is identified in Merafe's GRI Indicator Table.

Recommendations

AA1000AS (2008)

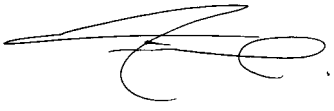
- Merafe should consider extending its sustainability reporting cycle to either accommodate for assurance over interim data (i.e., quarters 1 through 3) or to align itself with the sustainability reporting cycle of Xstrata Alloys (and other material joint ventures);
- Merafe should ensure that stakeholder engagement procedures include an assessment of whether or not this Report, and all future Reports, adequately reflects the reporting requirements of key stakeholders;
- Merafe should continue to improve its reporting according to the principles of Inclusiveness, Materiality, and Responsiveness, as guided by AA 1000AS (2008), ultimately seeking Type 2 (High) levels of assurance in future Reports.

GRI compliance

Having addressed the requirements of GRI G3 Application Level B, it is our recommendation that Merafe review the process followed in compiling the Report and, while making further improvements on the quality of data required for Application Level B, begin addressing the requirements of Application Level A.

Conclusions

Based on the information reviewed, SustainabilityAssurance.co.za is confident that this report provides a comprehensive and balanced account of the environmental, safety and social performance of Merafe during the period under review. The data presented is based on a systematic process and we are satisfied that the reported performance data accurately represents the current environmental, safety and social performance of Merafe, while meeting the AA1000AS (2008) principles of inclusivity, materiality and responsiveness. Moreover, and although the quality or quantity of data of some GRI G3 indicators can be improved, this Report appears to meet the GRI G3's requirements for Application Level B (B+ with this assurance engagement).



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12 March 2009



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Notes on sustainability report

GRI G3 application level requirements

As a second application of the GRI G3 guidelines to our Sustainability Reports, Merafe has decided to seek a B+ level of application. The following table provides a summary of the GRI's requirements. A quick reference to our self-assessment of compliance to the B+ level is available on our website (www.meraferesources.co.za).

The GRI Content Index and the Independent Assurance Statement covering this report's compliance are published on the company's website under the Sustainability reports section (www.meraferesources.co.za).

Report Application Level		C	C+	B	B+	A	A+
Standard Disclosures	G3 Profile Disclosures	Report on: 1.1 2.1 – 2.10 3.1 – 3.8, 3.10 – 3.12 4.1 – 4.4, 4.14 – 4.15	Report Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5 – 4.13, 4.16 – 4.17	Report Externally Assured by SustainabilityAssurance.co.za	Same as requirement for Level B	Report Externally Assured
	G3 Management Approach Disclosures	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosures for each Indicator Category	
	G3 Performance Indicators & Sector Supplement Performance Indicators	Report on a minimum of 10 Performance Indicators, including at least one from each of: social, economic, and environment		Report on a minimum of 20 Performance Indicators, at least one from each of: economic, environment, human rights, labour, society, product responsibility		Respond on each core G3 and Sector Supplement* indicator with due regard to the Materiality Principal by either: a) reporting on the indicator or b) explaining the reason for its omission	

The text of this report is printed on Triple Green, a range of coated paper products which are manufactured on an environmental platform using an alternative fibre source. A portion of the fibre used in this paper is from sugar cane bagasse (post industrial waste material remaining after sugar has been extracted). Sugar cane fibre is more energy efficient than other fibre sources. The paper pulp is bleached using an elemental chlorine-free (*ECF) process which is without rival in terms of pollution prevention, resource conservation and product quality. The remaining wood fibre used is tracked and verified to ensure it has been produced in renewable tree plantations and not derived from ancient, indigenous or rain forests. All wood fibre used is certified as coming from sustainable afforestation areas which are in synergy with the long term preservation of the environment, conservation of fauna and flora and the overall socio-economic welfare of the broader community.

Mineral resources and mineral reserves

Xstrata-Merafe Chrome Venture

The mineral resources and reserves statement of the Venture is set out below. Merafe has a 20,5% attributable interest in the resources and reserves in terms of the Venture Agreement. Merafe's ownership of the specific resources and reserves are set out earlier in the report. Copies of the consenting letters and diagrams of the areas and modifying factors are available on request from the company secretary and/or are on the website. The address of the Competent Persons is Xstrata Head Office, Portion 27, Farm Waterval 306JQ, Rustenburg, 0300.

The Xstrata Merafe Venture has adopted the 2007 SAMREC and the JORC Codes for Reporting Exploration Results, Mineral Resources and Ore Reserves as its mandatory standards for the estimation of public reporting of Mineral Resources, Ore Reserves (Mineral Reserves in the case of the SAMREC Code) and Exploration Results.

The estimation process of the Venture is further based on the Xstrata Alloys procedure "HSEC-G-08-The Procedure for the estimation of Mineral Resources and Ore Reserves".

The Ore Reserves and Mineral Resources are declared as at 30 June 2008, unless stated otherwise.

The Ore Reserve and Mineral Resource information in the tables on the following pages is based on information compiled by Competent Persons (as defined by the JORC and SAMREC Codes).

The Competent Person initials have been included after each mine or project for which the Competent Person has been responsible. Each of the Competent Persons has the appropriate professional membership and the relevant experience in relation to the Mineral Resources and/or Ore Reserves being reported by them to qualify as a Competent Person as defined in the SAMREC Code. The Competent Persons have consented to the inclusion in the report of the matters based on their information in the form and context in which it appears. Copies of the consenting letter are kept with the legal department of the Venture.

Metric units are used throughout. All data is presented on a 100% basis. All tonnage and grade information has been rounded to reflect the relative uncertainty in the estimates; there may therefore be small differences in the totals. Mineral Resources are reported inclusive of those Mineral Resources modified to produce Ore Reserves.

Commodity prices and exchange rates used to estimate the economic viability of Ore Reserves are based on long-term forecasts applied at the time the estimate was calculated.

This statement has been reviewed, extracted and compiled by Pieter-Jan Gräbe, Xstrata Alloys (SACNASP).



P-J Gräbe
Xstrata Alloys, SACNASP – 400188/87
21 January 2009

Definitions

The following definitions (as per the SAMREC Code 2007), have been applied in estimating the Mineral Reserves and Mineral Resources position of in respect of the Xstrata-Merafe Chrome Venture disclosed within this document.

Mineral Resource: a concentration or occurrence of material of economic interest in or on the earth's crust in such form, quality and quantity that there are reasonable and realistic prospects for eventual economic extraction. The location, quantity, grade, continuity and other geological characteristics of a Mineral Resource are known, or estimated from specific geological evidence, sampling and knowledge interpreted from an appropriately constrained and portrayed geological model. Mineral Resources are sub-divided, and must be so reported, in order of increasing confidence in respect of geoscientific evidence, into Inferred, Indicated and Measured categories.

Inferred Mineral Resource: is that part of a Mineral Resource for which volume or tonnage, grade and mineral content can be estimated with only a low level of confidence. It is inferred from geological evidence and sampled and assumed but not verified geologically or through analysis of grade continuity. It is based on information gathered through appropriate techniques from locations such as outcrops, trenches, pits, workings and drill holes that may be limited in scope or of uncertain quality and reliability.

Indicated Mineral Resource: is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a reasonable level of confidence. It is based on information from exploration, sampling and testing of material gathered from locations such as outcrops, trenches, pits, workings and drill holes. The locations are too widely or inappropriately spaced to confirm geological or grade continuity but are spaced closely enough for continuity to be assumed.

Measured Mineral Resource: is that part of a Mineral Resource for which tonnage, densities, shape, physical characteristics, grade and mineral content can be estimated with a high level of confidence. It is based on detailed and reliable information from exploration, sampling and testing of material from locations such as outcrops, trenches, pits, workings and drill holes. The locations are spaced closely enough to confirm geological and grade continuity.

Mineral Reserve: the economically mineable material derived from a Measured or Indicated Mineral Resource or both. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a Pre-Feasibility Study for a project and a Life of Mine Plan for an operation must have been completed, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors (the modifying factors). Such modifying factors must be disclosed.

Probable Mineral Reserve: is the economically mineable material derived from a Measured or Indicated Mineral Resource or both. It is estimated with a lower level of confidence than a Proved Mineral Reserve. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a Pre-Feasibility Study for a project or a Life of Mine Plan for an operation must have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. Such modifying factors must be disclosed.

Proved Mineral Reserve: is the economically mineable material derived from a Measured Mineral Resource. It is estimated with a high level of confidence. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a Pre-Feasibility Study for a project or a Life of Mine Plan for an operation must have been carried out, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors. Such modifying factors must be disclosed.

Mineral resources and mineral reserves *continued*

Consolidated Chrome Mineral Resource and Mineral Reserve Statement

as at 30 June 2008

Tonnage is quoted in million metric tonnes. Grades are quoted as % Cr_2O_3.

				RESERVES				RESOURCES			
				Run-of-Mine		Saleable					
	Attributable (%)	Mining Method	Commodity	Proved (Mt)	Probable (Mt)	Proved (Mt)	Probable (Mt)	Measured (Mt)	Indicated (Mt)	Inferred (Mt)	Competent Person
Operating Mines											
Waterval West Mine	20,5%	UG	Ore	9,892	1,729	6,412	1,017	15,795	2,234	0,642	PJG/DR
			Cr_2O_3	31,45%	29,07%	41,93%	41,93%	41,28%	42,04%	42,40%	
Kroondal Mine	20,5%	UG/OC	Ore	2,775	4,251	1,646	2,327	9,590	3,926	-	PJG/DR
			Cr_2O_3	30,85%	27,16%	41,93%	41,93%	42,80%	42,31%	-	
Kroondal Gemini (Kroondal ext)	20,5%	UG/OC	Ore	6,414	6,938	4,038	4,067	9,788	7,729	0,977	PJG/DR
			Cr_2O_3	31,70%	29,27%	41,93%	41,93%	43,08%	42,57%	42,52%	
Marikana East (Kroondal ext)	20,5%	UG	Ore	3,326	0,578	1,957	0,329	5,129	1,905	0,532	PJG/DR
			Cr_2O_3	29,44%	27,91%	41,93%	41,93%	42,67%	42,09%	42,30%	
Thorncliffe Mine	20,5%	UG/OC	Ore	24,961	7,197	20,481	5,692	37,715	14,405	22,256	PJG/
			Cr_2O_3	39,09%	38,26%	42,00%	42,00%	40,52%	40,61%	40,97%	DR/BS
Helena Mine	20,5%	UG/OC	Ore	3,762	0,348	2,775	0,244	6,997	18,093	65,257	PJG/
			Cr_2O_3	34,95%	33,81%	42,00%	42,00%	40,57%	40,10%	38,76%	DR/BS
Horizon/Chromeden Mine	20,5%	UG/OC	Ore	–	–	–	–	0,064	14,483	8,657	PJG
			Cr_2O_3	–	–	–	–	41,80%	42,58%	42,08%	
Total				**51,131**	**21,041**	**37,308**	**13,676**	**85,078**	**62,774**	**98,320**	
Projects/Non-operating Mines											
Wonderkop	20.5%	UG	Ore	–	–	–	–	-	6,462	-	PJG
			Cr_2O_3	–	–	–	–	-	40,10%	-	
Townlands Extension 9	20,5%	UG	Ore	–	–	–	–	-	14,958	-	PJG
			Cr_2O_3	–	–	–	–	-	41,70%	-	
De Grooteboom	20,5%	UG/OC	Ore	-	-	-	-	0,848	0,641	-	PJG/
			Cr_2O_3	-	-	-	-	40,36%	40,60%	-	DR/BS
Boshoek	20,5%	OC/UG	Ore	–	–	–	–	0,503	19,205	0,142	PJG
			Cr_2O_3	–	–	–	–	38,12%	40,33%	40,52%	
Klipfontein/Waterval Reserve	20,5%	UG	Ore	–	–	–	–	2,212	6,287	135,164	PJG/DR
			Cr_2O_3	–	–	–	–	42,60%	42,58%	42,05%	
Marikana West	20,5%	UG	Ore	–	–	–	–	3,173	1,207	1,258	PJG/DR
			Cr_2O_3	–	–	–	–	42,56%	42,39%	42,30%	
Total				**–**	**–**	**–**	**–**	**6,735**	**48,761**	**136,564**	
Grand Total				51,131	21,041	37,308	13,676	91,814	111,535	234,884	

Definitions
OC = Opencast; UG = Underground

Competent Persons
PJG = Pieter-Jan Gräbe, Xstrata Alloys, (SACNASP); BS = Brian Smith, Xstrata Alloys, (PLATO); DR = Dean Richards, Obsidian Consulting Services, (SACNASP)

Notes

- The Mineral Resources and Ore Reserve estimates are tabulated on a total mine basis as at 30 June 2008.
- The Measured and Indicated Mineral Resources are inclusive of those Mineral Resources modified to produce Ore Reserves.
- The Venture's chrome mining operations are all mining the chromitite deposits developed within the world renowned Bushveld Complex of South Africa. The Bushveld Complex is the largest known deposit of chrome ore in the world. The chrome ore is mined from shallow dipping (10° – 14°) tabular ore bodies referred to as the LG6/LG6A Chromitite Layers and the MG1 Chromitite Layer. The chromitite layers are mined mainly underground using trackless mechanised mining methods on a board-and-pillar mine lay-out design.
- Changes in the year on year tonnage and grade estimates are mainly due to mining depletion, and changes in the resource and reserve tonnages and grades due to additional geological information gained through exploration.
- The Mineral Resources are estimated as in-situ chromitite tonnages and grades to reflect the grades of the various individual chromitite layers. Xstrata is currently mining the LG6 – and MG1 Chromitite Layers which have different in-situ grade characteristics.
- Various chromitite layer configurations are mined which produce different ROM products. For this reason the Ore Reserves are estimated and declared as ROM Ore Reserves and Saleable Ore Reserves to reflect the diluting effect of the mining process and the subsequent beneficiation process which produce various high grade chromite products.

Merafe Coal – Schoongezicht and Bankfontein

Mining right applications have been submitted to the DME for the Schoongezicht and Bankfontein projects. Subject to the granting of the mining rights, and subject to necessary legal and administrative requirements, Merafe Coal intends to commence exploiting the coal on these farms. Merafe Coal is a 50/50 joint venture with Sentula Mining Limited.

The coal resource information at 31 December 2008, set out below, is based on historical information, which has been compiled and interpreted by competent persons, as defined by the SAMREC Code, in the employ of the The Mineral Corporation, Homestead Office Park, 65 Homestead Avenue, Bryanston. The Competent Persons have consented to the inclusion in the report of the matters set out below in the form and context in which it appears. Copies of the consenting letter are with the Merafe Company Secretary.

Schoongezicht

The Schoongezicht deposit occurs in an area of 542,9 hectares relating to Mineral Areas 1 and 2 on Portions 7 and the Remaining Extent of the farm Schoongezicht 225 IR in the Delmas District of Mpumalanga Province.

Historical information has been used to determine the coal resources present on the property. Certain of this existing technical information would not be compliant with current SAMREC, SANS 10320-2004, JORC, CIM or NI 43-101 regulatory requirements for public disclosure. However, in preparing the estimate of coal resources, to the extent that it is possible, such resources have been estimated using guidelines in the SAMREC Code (2007) and SANS 10320-2004.

Twenty two cored boreholes have been drilled on the property and immediately adjacent areas. The density of drill coverage for each seam within the defined resource limits ranges from 16 to 20 boreholes per 100ha which, according to the SAMREC Code and SANS 10320-2004 guidelines, allows the resources to be classed as measured.

The table below shows coal resources contained within a selected mining area delimited by the extent of the No 2 Upper Main seam. Within this area, all three seams are present and the stripping ratio is less than 2 to 1 (BCM waste overburden plus interburden to tonnes of coal).

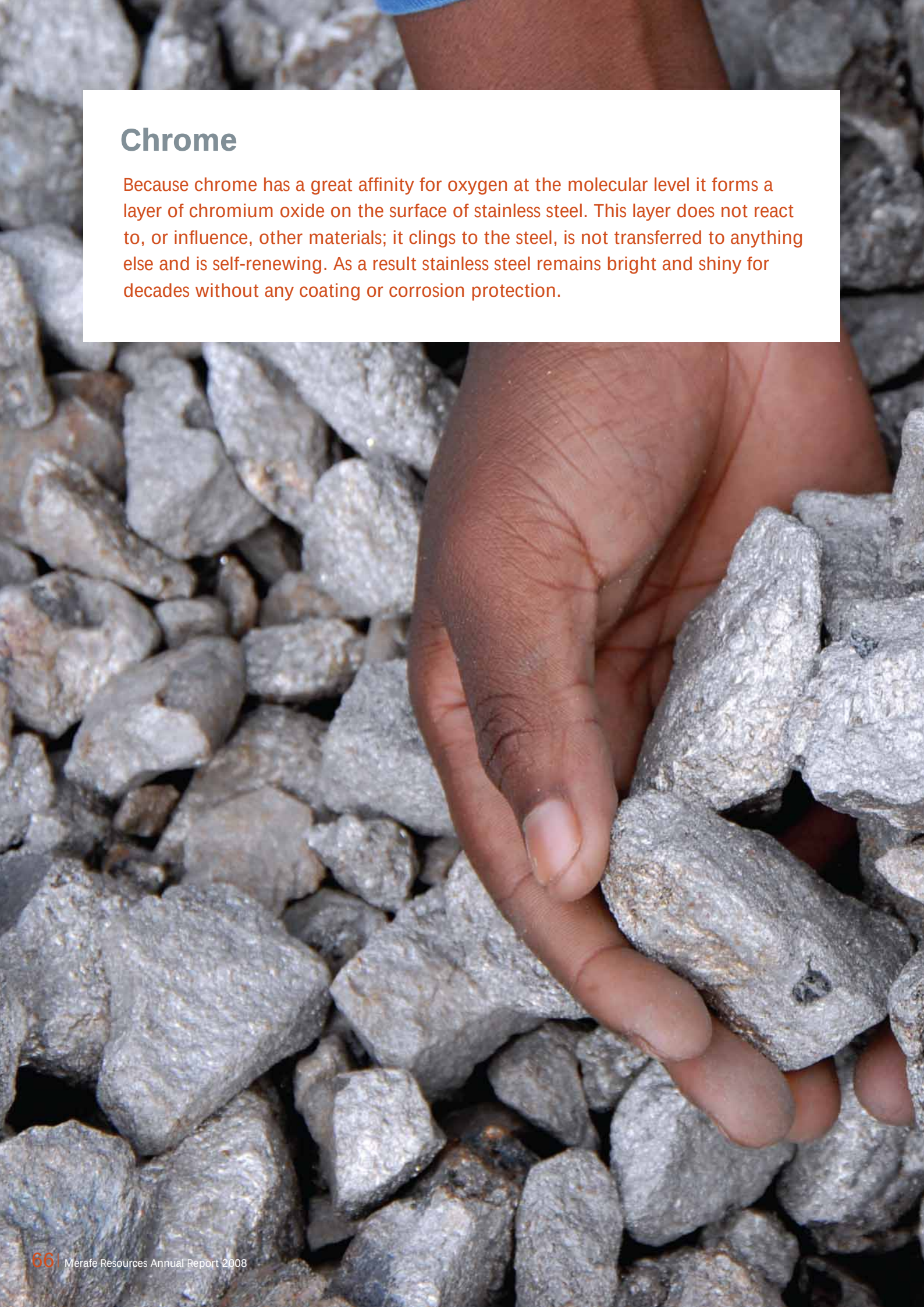
Seam	Ply	Thick m	RD	GTIS Mt	GL %	MTIS Mt
No 2 upper top		0,64	1,52	0,522	10	0,470
No 2 upper main	upper	0,74	1,68	1,026	10	0,923
	lower	3,76	1,53	4,599	10	4,139
No 2 lower		3,01	1,65	3,665	10	3,298
Total				**9,812**		**8,830**

Definitions

BCM = Bank Cubic Metres; RD = Relative Density; GTIS = Gross Tonnage In-Situ; GL = Geological Loss; MTIS = Mineable Tonnage In-Situ

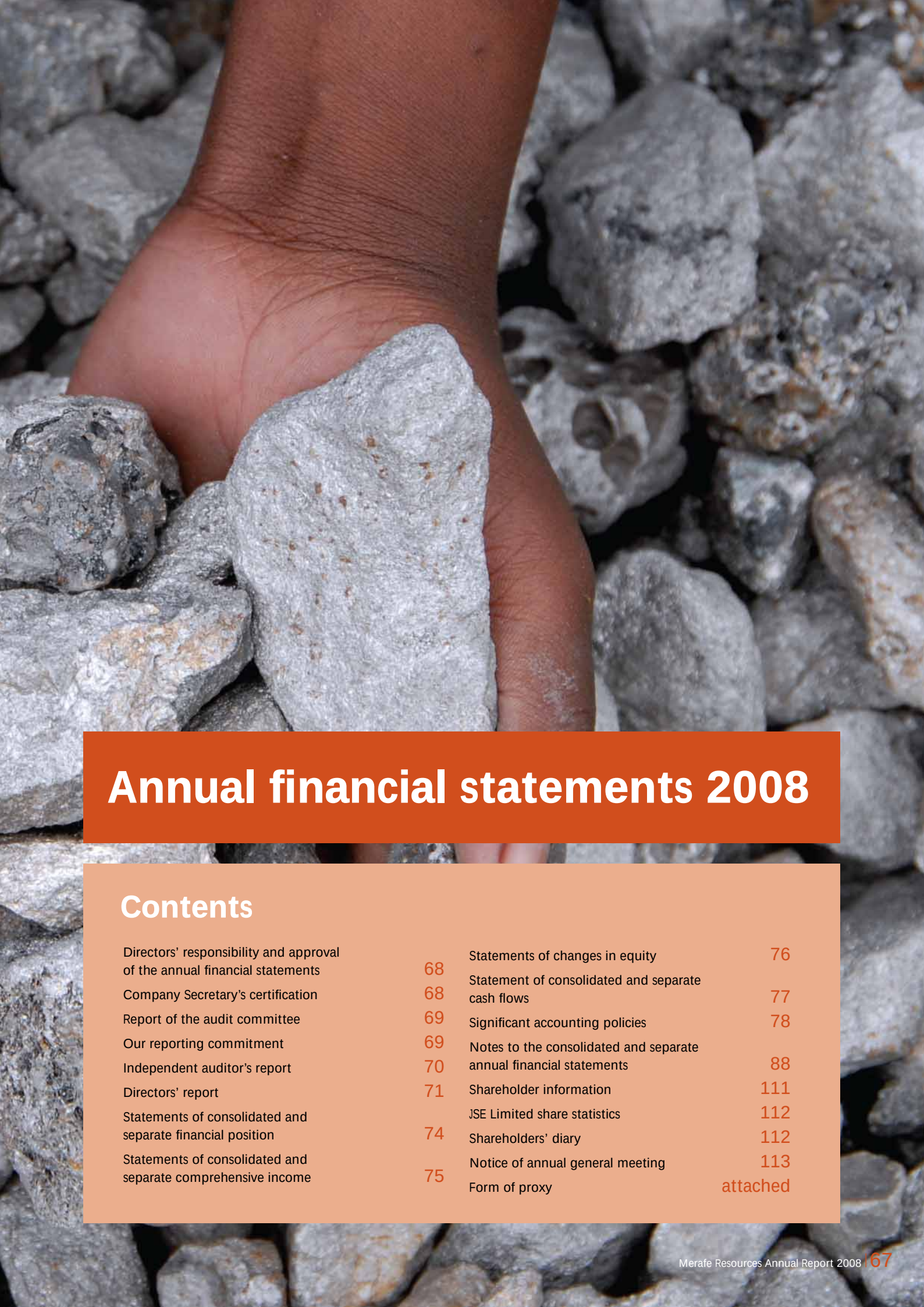
Bankfontein

Portions of the farm Bankfontein 215 IS containing coal have previously been explored and shown to host a potentially economic coal deposit. Merafe Coal is carrying out additional exploration over these areas in order to better define the potential coal resources. Initial drilling on the project has been completed and has shown that the coal deposit extends over a greater area than originally anticipated. The coal seams intersected in these boreholes are presently being analysed. Once these results have been interpreted, the coal resource will be estimated.



Chrome

Because chrome has a great affinity for oxygen at the molecular level it forms a layer of chromium oxide on the surface of stainless steel. This layer does not react to, or influence, other materials; it clings to the steel, is not transferred to anything else and is self-renewing. As a result stainless steel remains bright and shiny for decades without any coating or corrosion protection.



Annual financial statements 2008

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Directors' responsibility and approval of the annual financial statements

for the year ended 31 December 2008

The company's directors are responsible for the preparation and fair presentation of the group and company annual financial statements, comprising the statements of financial position at 31 December 2008; the statements of comprehensive income; the statements of changes in 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' responsibility includes: 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' responsibility also includes 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 27 February 2009 and signed on its behalf by:



Chris Molefe
Non-executive Chairman
27 February 2009



Steve Phiri
Chief Executive Officer
27 February 2009

Company Secretary's certification

for the year ended 31 December 2008

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 of South Africa as amended, and that all such returns are true, correct and up to date.



Amritha Mahendranath
Company Secretary
Sandton
27 February 2009

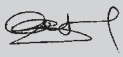
Report of the Audit Committee

for the year ended 31 December 2008

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 2008 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
27 February 2009

Our reporting commitment

for the year ended 31 December 2008

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 (the Charter) 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 Charter 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.

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

for the year ended 31 December 2008

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 statements of financial position at 31 December 2008 and the statements of comprehensive income, the statements of changes in equity and the statements of cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 71 to 73.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 2008, 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 Riaan Davel
Chartered Accountant (SA)
Registered Auditor
Director
27 February 2009

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Directors' report

for the year ended 31 December 2008

Nature of business

Merafe Resources Limited (Merafe Resources) and Merafe Ferrochrome and Mining (Proprietary) Limited, through the Xstrata-Merafe Chrome Venture (the Venture), participate in chrome mining and the beneficiation of chrome ore into ferrochrome. Currently its major assets consist of a ferrochrome smelter and pelletising and sintering plant at Boshoek in the North West Province of South Africa at which chrome ore is beneficiated into ferrochrome, the Kanana UG2 plant and Horizon and Boshoek Mines, which produce chrome ore. Its assets also include a 50% interest in the Wonderkop 5 and 6 furnaces and the Kroondal Mine; 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 pelletising and sintering 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.

The Venture has submitted nine applications to the Department of Minerals and Energy (DME) for new order prospecting and mining rights under South Africa's Mineral and Petroleum Resources Development Act. All of these applications have been granted to the Venture. Of the eleven applications made to convert existing old order mining rights into new order mining rights, nine have been granted and notarially executed. The two outstanding conversions are being processed and actively pursued on a ongoing basis with the DME.

Merafe Resources holds a 50% interest in Merafe Coal (Pty) Ltd, with the other 50% interest being held by Sentula Mining Limited. Merafe Coal continues to look for growth opportunities in the coal mining sector as well as developing the Schoongezicht and Bankfontein coal deposits. Applications for new order mining rights have been submitted to the DME in respect of its two properties. Merafe Coal intends to commence mining once these have been granted. These deposits are well positioned to supply both export quality coal and coal suitable for consumption by Eskom.

Group financial results

The financial statements set out the financial results of the group on pages 74 to 110. These financial statements have been prepared using appropriate accounting policies, conforming to International Financial Reporting Standards, supported by reasonable and prudent judgements where required.

Merafe's 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's 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.

The year showed record ferrochrome prices, resulting in increased revenue. This situation changed in the fourth quarter of 2008 as a result of a decrease in demand for ferrochrome due to the global economic crisis.

The global ferrochrome industry has experienced a significant decrease in demand in the fourth quarter of 2008 as a result of the global economic credit crisis. As a result of the slow-down in demand, as at 16 January 2009 the Venture had temporarily suspended seventeen out of twenty furnaces and will continue to monitor the prevailing market conditions closely. Rather than voluntarily retiring debt, the company has chosen to retain its cash balances to ensure that it has sufficient operating capital to see it through these difficult economic times until the market turns. The company intends to maintain a maximum debt: equity ratio of 25%.

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.

Directors' report *continued*

for the year ended 31 December 2008

Dividend policy

Merafe has adopted a hybrid dividend policy that has features of a stable dividend policy and a residual dividend policy.

The company intends to pay a stable dividend once a year, based on the company's annual financial performance and economic circumstances prevailing at the time.

In addition, in any given year, the directors may consider an additional distribution in the form of special dividends and/or share buy-backs dependent on the company's financial condition, future cash requirements, future earnings prospects, availability of distributable reserves and other factors.

Dividends are recognised when they are declared by the board of Merafe.

Ordinary dividends

No ordinary dividends were declared or paid during the year (31 December 2007: nil).

Share capital

Full details of the authorised and issued share capital of the company are set out in note 6 to the annual financial statements. During the year to 31 December 2008, 9 861 640 ordinary shares were issued to employees exercising their share options.

Directorate

In February 2008, Mr Zed van der Walt retired as an executive director and Ms Lebo Mogotsi resigned as a non-executive director from the board. In March 2008, Dr. Con Fauconnier joined the board as a non-executive director. In January 2009, Ms Nobubele Majova joined the board as a non-executive director.

Non-executive directors are remunerated quarterly for their contribution to the board. Executive directors do not receive board fees in addition to their remuneration in terms of their employment contracts with the company.

Details of the current board of directors are set out on pages 8 and 9 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 2008:

- Royal Bafokeng Resources Holdings (Pty) Limited – 29,3%
- The Industrial Development Corporation of South Africa Limited – 22,2%

Directors' interests in Merafe Resources Limited

As at 31 December 2008 the directors of the group are beneficially interested (directly and indirectly) in 10 954 615 shares (31 December 2007: 10 687 362).

	2008		2007	
	Direct	Indirect	Direct	Indirect
Steve Phiri	254 000	–	62 000	–
Stuart Elliot	10 076 115	–	10 025 362	–
Bruce McBride	–	600 000	–	600 000
Zanele Matlala	24 500	–	–	–
Total	10 354 615	600 000	10 087 362	600 000

Details of investments in subsidiaries

	Issued share capital	Percentage holding		Shares at cost		Loans (from)/to subsidiaries	
		2008	2007	2008	2007	2008	2007
	R	%	%	R	R	R'000	R'000
Directly held							
Southwits Mining Company (Pty) Ltd	100	100	100	100	100	(102)	(102)
Merafe Chrome & Alloys (Pty) Ltd	200	100	100	200	200	982 129	947 830
Indirectly held							
Merafe Ferrochrome & Mining (Pty) Ltd	400	100	100	400	400	–	–

Interest in the profits of subsidiaries for the year ended 31 December 2008 amounts to R1 030,8 million (31 December 2007: R240,1 million). Subsidiaries are incorporated in the Republic of South Africa.

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.

No impairment of property, plant and equipment has been recognised as management is of the opinion that the downturn in the economy is of a temporary nature.

Post balance sheet date events

On 16 January 2009, the Venture announced that a further six furnaces had been suspended due to market conditions, bringing in total seventeen out of twenty furnaces that had been temporarily suspended.

No other material facts or circumstances have occurred after the balance sheet date, being 31 December 2008, and the date of this report.

Statements of consolidated and separate financial position

as at 31 December 2008

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
Assets					
Non-current assets		1 861 185	1 800 793	989 980	952 286
Property, plant and equipment	2	1 861 185	1 800 793	4 589	4 558
Investments	3	–	–	982 027	947 728
Deferred tax asset	11	–	–	3 364	–
Current assets		1 893 165	785 409	296 119	11 297
Inventories	4	1 067 153	496 877	–	–
Trade and other receivables	5	286 271	251 064	2 368	1 197
Cash and cash equivalents	19.2	539 741	37 468	293 751	10 100
Total assets		3 754 350	2 586 202	1 286 099	963 583
Equity and liabilities					
Equity		2 479 338	1 438 526	1 259 227	958 305
Share capital	6	24 593	24 494	24 593	24 494
Share premium	7	1 244 072	1 238 643	1 244 072	1 238 643
Equity-settled share-based payment reserve	8	15 586	7 993	15 586	7 993
Retained earnings/(accumulated loss)		1 195 087	167 396	(25 024)	(312 825)
Non-current liabilities		845 136	518 094	1 382	1 253
Loans and borrowings	9	366 174	400 948	1 382	1 253
Provision for closure and restoration costs	10	29 730	25 161	–	–
Deferred tax liability	11	449 232	91 985	–	–
Current liabilities		429 876	629 582	25 490	4 025
Loans and borrowings	9	1 200	86 305	–	–
Financial liability	12	11 466	–	–	–
Trade and other payables	13	331 364	350 879	17 179	2 564
Current tax liability		85 846	1 461	8 311	1 461
Bank overdraft	19.2	–	190 937	–	–
Total equity and liabilities		3 754 350	2 586 202	1 286 099	963 583

Statements of consolidated and separate comprehensive income

for the year ended 31 December 2008

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
Revenue	14	2 781 304	1 655 803	–	–
Cost of sales*		(1 247 795)	(1 237 026)	(53 660)	(32 603)
Gross profit/(loss)		1 533 509	418 777	(53 660)	(32 603)
Other income		496	124	342 107	33 466
Operating profit before net finance (expense)/income	15	1 534 005	418 901	288 447	863
Net finance (expense)/income	16	(63 983)	(54 394)	2 498	510
Finance expense		(67 045)	(55 075)	(1)	(23)
Finance income		3 062	681	2 499	533
Profit before income tax		1 470 022	364 507	290 945	1 373
Income tax expense	17	(442 331)	(124 394)	(3 144)	(1 373)
Profit and total comprehensive income for the year		1 027 691	240 113	287 801	–
Earnings per share					
Basic earnings per share (cents)	18.1	42	10		
Diluted earnings per share (cents)	18.3	41	10		
**Includes depreciation and amortisation expenses as follows:*		(77 918)	(46 239)	(253)	(234)

Statements of changes in equity

for the year ended 31 December 2008

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
Issued share capital – ordinary shares	6	24 593	24 494	24 593	24 494
Balance at beginning of year		24 494	23 416	24 494	23 416
New shares issued during the year		99	1 078	99	1 078
Share premium – ordinary shares	7	1 244 072	1 238 643	1 244 072	1 238 643
Balance at beginning of year		1 238 643	1 142 887	1 238 643	1 142 887
Premium on new shares issued during the year		5 429	95 756	5 429	95 756
Equity-settled share-based payment reserve	8	15 586	7 993	15 586	7 993
Balance at beginning of year		7 993	3 300	7 993	3 300
Share-based payment		7 593	4 693	7 593	4 693
Retained earnings/(accumulated loss)		1 195 087	167 396	(25 024)	(312 825)
Balance at beginning of year		167 396	(72 717)	(312 825)	(312 825)
Profit and total comprehensive income for the year		1 027 691	240 113	287 801	–
Total equity at end of year		2 479 338	1 438 526	1 259 227	958 305

Statements of consolidated and separate cash flows

for the year ended 31 December 2008

	Notes	GROUP 2008 R'000	GROUP 2007 R'000	COMPANY 2008 R'000	COMPANY 2007 R'000
Cash generated by operations	19.1	929 088	361 225	19 087	5 962
Finance expense	16	(55 579)	(55 075)	(1)	(23)
Finance income	16	3 062	681	2 499	533
Taxation paid	19.3	(700)	(2 211)	–	–
Cash flows from operating activities		875 871	304 620	21 585	6 472
Cash flows from investing activities		(138 262)	(380 998)	256 409	(98 426)
Movement in subsidiary loan account				256 646	(98 367)
Acquisition of property, plant and equipment					
– sustaining		(124 664)	(182 196)	(297)	(59)
– expansionary		(13 658)	(199 148)	–	–
Proceeds from disposal of investment		–	346	–	–
Proceeds from disposal of property, plant and equipment		60	–	60	–
Cash flows from financing activities		(114 351)	7 814	5 657	88 977
Proceeds from issue of shares		5 528	87 731	5 528	87 731
Loans raised during the year		–	95 000	129	1 253
Repayment of borrowings		(119 879)	(174 917)	–	(7)
Net increase/(decrease) in cash and cash equivalents		623 258	(68 564)	283 651	(2 977)
Cash and cash equivalents at beginning of year		(153 469)	(87 667)	10 100	13 077
Effect of exchange rate fluctuations on cash held during the year		69 952	2 762		–
Cash and cash equivalents at end of year	19.2	539 741	(153 469)	293 751	10 100

Significant accounting policies

for the year ended 31 December 2008

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 2008 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 chromite 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 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:

- derivative financial instrument
- equity-settled share-based payments (at grant date)

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 judgements

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Note	1.5.3	Measurement of depreciation and amortisation of property, plant and equipment
Note	1.8	Measurement of provision for closure and restoration costs
Note	1.11.2	Share-based payment transactions
Note	1.18	Determination of fair values

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

1.2.5 Standards and interpretations issued and not yet effective

There are Standards and Interpretations in issue that are not yet effective. These include the following Standards:

- IFRS 2: *Share-based payment: Vesting conditions and cancellations* clarifies the definition of vesting conditions, introduces the concept of non-vesting conditions, requires non-vesting conditions to be reflected in grant-date fair value and provides the accounting treatment for non-vesting conditions and cancellations. The amendments to IFRS 2 will become mandatory for the group's 2009 consolidated financial statements, with retrospective application. The group has not yet determined the potential effect of the amendment.

1.2 Basis of preparation (continued)

1.2.5 Standards and interpretations issued and not yet effective (continued)

- IFRS 3: *Business combinations* incorporates the following changes that may be relevant to the group's operations:
  - o The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
  - o Contingent consideration will be measured at fair value, with subsequent changes therein recognised in profit or loss.
  - o Transaction costs, other than share and debt issue costs, will be expensed as incurred.
  - o Any pre-existing interest in the acquiree will be measured at fair value with the gain or loss recognised in profit or loss.
  - o Any non-controlling (minority) interest will be measured at either fair value or at its proportionate interest in the identifiable assets and liabilities of the acquiree on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the group's 2009 consolidated financial statements, will be applied prospectively and there will therefore be no impact on prior periods in the group's 2009 consolidated financial statements.

- IAS 27: *Consolidated and separate financial statements* requires accounting for changes in ownership interests by the group in a subsidiary while maintaining control, to be recognised as an equity transaction. When the group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in profit or loss. The amendments to IAS 27, which become mandatory for the group's 2009 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- IAS 32: *Financial instruments: Presentation* has been amended to provide exemptions from financial liability classification for puttable financial instruments that meet certain conditions and instruments or components of instruments that contain an obligation for the issuing entity to deliver to the holder a pro rata share of the net assets of the issuing entity only on its liquidation. The amendments to IAS 32 will become mandatory for the group's 2009 consolidated financial statements and are not expected to have a significant impact on the consolidated financial statements.
- IFRS 8: *Operating segments* introduces the "management approach" to segment reporting. IFRS 8 requires that the presentation and disclosure of segment information be based on the internal reports regularly reviewed by the group's chief operating decision maker in order to assess each segment's performance and to allocate resources to them. The amendments to IFRS 8 will become mandatory for the group's 2009 consolidated financial statements and are not expected to have a significant impact on the consolidated financial statements.

The following Standards are applicable to the group and have been adopted before their effective date.

- IAS 1: *Presentation of financial statements (revised)* introduces the term "total comprehensive income", which represents changes in equity during a period other than those changes resulting from transactions with owners in their capacity as owners. Total comprehensive income has been presented in a single statement, effectively combining both the income statement and all non-owner changes in equity in a single statement.
- IAS 23: *(Amended) Borrowing costs* removes the option to expense borrowing costs and requires that an entity capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. This amendment will not constitute a change in accounting policy as the group had previously elected to capitalise borrowing costs to the cost of the asset.

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 with the Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and the Merafe Group pooling and sharing their ferrochrome assets to form a jointly controlled operation. A jointly controlled operation is a joint venture carried on by each venturer using its own assets in pursuit of the joint operations. The consolidated financial statements include the assets that the group controls and the liabilities that it incurs in the course of pursuing the joint operation, and the expenses that the group incurs and its share of the income that it earns from the joint operation. Note 22.3 contains details of the group's share of the working capital and EBITDA of the Venture.

1.3.3 Transactions eliminated on consolidation

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

1.4 Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the group entities at the exchange rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to 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.

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 Property, plant and equipment (continued)

1.5.1 Recognition and measurement (continued)

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, any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

1.5.2 Subsequent costs

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

1.5.3 Depreciation and amortisation

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, no depreciation has been calculated on these assets.

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

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 the straight-line basis over their current estimated useful lives as follows:

- Motor vehicles 20%
- Furniture and equipment 20%.

1.5 Property, plant and equipment (continued)

1.5.3 Depreciation and amortisation (continued)

1.5.3.5 Leased assets

Leases in terms of which the group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Lease payments are accounted for as described in accounting policy note 1.13. Leased assets are depreciated over the shorter of the lease term and their useful lives.

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 investments in equity and debt securities, 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 expense is discussed in note 1.14.

1.6.2 Derivative financial instruments

The group holds derivative financial instruments to hedge its interest rate risk exposure. Derivatives are recognised initially at fair value, attributable transaction costs are recognised in profit and loss when incurred. Subsequent to initial recognition, non-trading derivatives that are not designated in a qualifying hedge relationship are measured at fair value, and changes therein are recognised immediately in profit or loss.

1.6.3 Derecognition of financial assets and financial liabilities

The group derecognises an asset:

- when the contractual rights to the cash flows from the asset expire;
- where there is a transfer of contractual rights to receive cash flows on the asset in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred; or
- where the group retains the contractual rights to the cash flows from these assets but assumes a corresponding liability to transfer these contractual rights to another party and consequently transfers all or substantially all the risks and benefits associated with the assets.

Where the group retains substantially all the risks and rewards of ownership of the financial asset, the group continues to recognise the asset.

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

1.7 Share capital

1.7.1 Ordinary shares

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

1.7.2 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 company'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.

1.8 Provisions

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

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.

Guarantees have been provided by the Xstrata-Merafe Chrome Venture to the Department of Minerals and Energy in respect of the liability for closure and restoration costs.

1.9 Inventories

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

Cost is determined on the following basis:

- Finished goods on hand 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.

1.10 Impairment

1.10.1 Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

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

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

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

1.10.2 Non-financial assets

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

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

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

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

1.11 Employee benefits

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.

1.11 Employee benefits (continued)

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.

1.11.1 Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus plans and accumulated leave if the group has a present legal or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

1.11.2 Share-based payment transactions

The share option programme allows qualifying directors and certain employees to acquire 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 a Black-Scholes-Merton model, taking into account the terms and conditions upon 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.

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

1.12 Revenue from mining and smelting operations

1.12.1 Goods sold

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, the associated costs and possible return of goods can be estimated reliably, 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.

1.12.2 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.

1.13 Lease payments

1.13.1 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.

1.13.2 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.

Significant accounting policies *continued*

for the year ended 31 December 2008

1.14 Finance income and expenses

1.14.1 Finance income

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

1.14.2 Finance expenses

Finance expenses comprise interest expense on borrowings, dividends on preference shares classified as liabilities using the effective interest rate method and changes in the fair value of financial assets at fair value recognised in profit or loss.

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

1.15 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 and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

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

1.16 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. Based on internal management reporting, the group identified only one business segment, being the mining and beneficiation of chromite ore into ferrochrome. Additional segments will be identified as the group diversifies into other commodities.

Significant accounting policies *continued*

for the year ended 31 December 2008

1.17 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 8.

1.18 Determination of fair values

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

1.18.1 Trade and other receivables

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

1.18.2 Derivatives

The fair value of interest rate swaps is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the term and maturity of the contract and using market interest rates for a similar instrument at the measurement date.

1.18.3 Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. 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.

1.18.4 Share-based payment transactions

The fair value of employee share options is measured using the Black-Scholes-Merton formula. 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.

Notes to the consolidated and separate annual financial statements

for the year ended 31 December 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. Property, plant and equipment				
2.1 Fixed property and mineral rights				
Carrying value at beginning 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)	–	–
Additions	–	3 874	–	–
Impairment	–	(51)	–	(51)
Depreciation charge for the year	(5 700)	(5 683)	–	–
Carrying value at end of year	113 715	119 415	4 023	4 023
Land and mineral rights at cost	137 606	137 606	4 023	4 023
Accumulated depreciation	(23 891)	(18 191)	–	–

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

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2.2 Boshoek smelter				
Carrying value at beginning of year	790 622	713 672	–	–
Cost	817 377	730 871	–	–
Accumulated depreciation	(26 755)	(17 199)	–	–
Additions	51 123	90 773	–	–
Reclassification	8 419	(1 093)	–	–
Depreciation charge for the year	(34 230)	(13 965)	–	–
Transfer from capital work in progress	–	1 235	–	–
Carrying value at end of year	815 934	790 622	–	–
Cost	868 021	817 377	–	–
Accumulated depreciation	(52 087)	(26 755)	–	–
2.3 Horizon mine				
Carrying value at beginning of year	37 005	37 916	–	–
Cost	44 206	43 643	–	–
Accumulated depreciation	(7 201)	(5 727)	–	–
Additions	13 321	563	–	–
Reclassification	21 156	–	–	–
Depreciation charge for the year	(2 291)	(1 474)	–	–
Carrying value at end of year	69 191	37 005	–	–
Cost	83 322	44 206	–	–
Accumulated depreciation	(14 131)	(7 201)	–	–

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. Property, plant and equipment (continued)				
2.4 Mining equipment and structures				
Carrying value at beginning of year	10 266	21 984	–	–
Cost	12 943	24 660	–	–
Accumulated depreciation	(2 677)	(2 676)	–	–
Additions	–	1 436	–	–
Reclassification	(10 266)	(13 153)	–	–
Depreciation charge for the year	–	(1)	–	–
Carrying value at end of year	–	10 266	–	–
Cost	–	12 943	–	–
Accumulated depreciation	–	(2 677)	–	–
2.5 Plant and equipment				
Carrying value at beginning of year	564	392	–	–
Cost	2 371	2 187	94	94
Accumulated depreciation	(1 807)	(1 795)	(94)	(94)
Additions	–	184	–	–
Depreciation charge for the year	–	(12)	–	–
Reclassification	(564)	–	–	–
Carrying value at end of year	–	564	–	–
Cost	–	2 371	–	94
Accumulated depreciation	–	(1 807)	–	(94)
2.6 Motor vehicles				
Carrying value at beginning of year	400	35	5	32
Cost	800	392	138	138
Accumulated depreciation	(400)	(357)	(133)	(106)
Additions	–	408	–	–
Depreciation charge for the year	–	(43)	–	(27)
Reclassification	(400)	–	(5)	–
Carrying value at end of year	–	400	–	5
Cost	–	800	–	138
Accumulated depreciation	–	(400)	–	(133)
2.7 Office furniture and equipment				
Carrying value at beginning 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)
Additions	–	19 605	–	58
Reclassification	(18 880)	(474)	(530)	–
Depreciation charge for the year	–	(1 919)	–	(206)
Carrying value at end of year	–	18 880	–	530
Cost	–	23 148	–	1 179
Accumulated depreciation	–	(4 268)	–	(649)

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. Property, plant and equipment (continued)				
2.8 Wonderkop smelter				
Carrying value at beginning of year	184 814	190 441	–	–
Cost	200 081	198 656	–	–
Accumulated depreciation	(15 267)	(8 215)	–	–
Additions	3 478	1 425	–	–
Depreciation charge for the year	(7 190)	(7 052)	–	–
Carrying value at end of year	181 102	184 814	–	–
Cost	203 559	200 081	–	–
Accumulated depreciation	(22 457)	(15 267)	–	–
2.9 Wonderkop mine				
Carrying value at beginning of year	26 973	29 186	–	–
Cost	29 186	29 186	–	–
Accumulated depreciation	(2 213)	–	–	–
Depreciation charge for the year	(2 213)	(2 213)	–	–
Carrying value at end of year	24 760	26 973	–	–
Cost	29 186	29 186	–	–
Accumulated depreciation	(4 426)	(2 213)	–	–

The Wonderkop assets are encumbered by a loan more fully described under note 9.2.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2.10 Lion Ferrochrome smelter				
Carrying value at beginning of year	325 832	302 229	–	–
Cost	336 420	302 598	–	–
Accumulated depreciation	(10 588)	(369)	–	–
Additions	16 399	19 102	–	–
Reclassification	–	14 720	–	–
Depreciation charge for the year	(16 485)	(10 219)	–	–
Carrying value at end of year	325 746	325 832	–	–
Cost	346 609	336 420	–	–
Accumulated depreciation	(20 863)	(10 588)	–	–

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. Property, plant and equipment (continued)				
2.11 Helena mine				
Carrying value at beginning of year	45 747	45 706	–	–
Cost	48 988	45 706	–	–
Accumulated depreciation	(3 241)	–	–	–
Additions	21 207	3 282	–	–
Depreciation charge for the year	(3 046)	(3 241)	–	–
Carrying value at end of year	63 908	45 747	–	–
Cost	70 195	48 988	–	–
Accumulated depreciation	(6 287)	(3 241)	–	–

The Lion Ferrochrome smelter assets and the Helena mine assets are encumbered by a loan more fully described under note 9.3.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2.12 Bokamoso pelletising plant				
Carrying value at beginning of year	108 272	–	–	–
Cost	108 689	–	–	–
Accumulated depreciation	(417)	–	–	–
Additions	77 327	108 689	–	–
Depreciation charge for the year	(6 510)	(417)	–	–
Carrying value at end of year	179 089	108 272	–	–
Cost	186 016	108 689	–	–
Accumulated depreciation	(6 927)	(417)	–	–
2.13 Corporate assets				
Carrying value at beginning of year	–	–	–	–
Cost	–	–	–	–
Accumulated depreciation	–	–	–	–
Reclassification	534	–	534	–
Additions	298	–	298	–
Disposals	(13)	–	(13)	–
Depreciation	(253)	–	(253)	–
Carrying value at end of year	566	–	566	–
Cost	1 558	–	1 558	–
Accumulated depreciation	(992)	–	(992)	–

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
2. Property, plant and equipment (continued)				
2.14 Capital work-in-progress				
Carrying value at beginning of year	87 174	132 003	–	–
Cost at beginning of year	132 003	–	–	–
Net movement for the year	(44 829)	132 003	–	–
Total carrying value at end of year	1 861 185	1 800 793	4 589	4 558
Cost	2 013 246	1 893 818	5 581	5 434
Accumulated depreciation	(152 061)	(93 025)	(992)	(876)

2.15 Leased assets

The following leased assets where the company is the lessee are included in note 2.2: Boshoek smelter.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Plant and equipment				
Cost	40 273	27 273	–	–
Accumulated depreciation	(5 173)	(703)	–	–
Carrying value at end of year	35 100	26 570	–	–

3. Investments				
Wholly-owned subsidiaries				
Southwits Mining Company (Pty) Ltd			(102)	(102)
Shares at cost			*	*
Loan from subsidiary			(102)	(102)
Merafe Chrome & Alloys (Pty) Ltd			982 129	947 830
Shares at cost			*	*
Loan to subsidiary			982 129	947 830
Loan at cost			982 129	1 238 775
Provision for impairment			–	(290 945)
Total wholly-owned subsidiaries			982 027	947 728

Merafe Ferrochrome and Mining (Pty) Ltd has constantly generated profits for five consecutive reporting periods. Management therefore consider this inter-company loan account fully recoverable.

These loans are unsecured, have no fixed repayment terms, but by intent are of a long-term nature and are interest free.

* *Amount is less than one thousand*

Notes to the consolidated and separate annual financial statements *continued*

for the year ended 31 December 2008

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
4. Inventories				
Consumables stores	59 521	36 904	–	–
Raw materials	200 269	75 808	–	–
Work-in-progress	68 103	35 266	–	–
Finished goods	739 260	348 899	–	–
Carrying value	769 170	348 899	–	–
Write-down of inventory to net realisable value	(29 910)	–	–	–
	1 067 153	496 877	–	–

The write-down of inventories to net realisable value amounted to R29 909 719. R3 432 053 of the write down relates to a stockpile of 1 829 tonnes of chrome sand. The remaining R26 477 666 of the loss relates to 2 050 tonnes of finished product that was purchased at an average of US$1,75 per pound and written down to a net realisable value of US$0,75 per pound.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
5. Trade and other receivables				
Trade receivables	294 233	424 253	–	864
Trade receivables factored	(90 903)	(189 048)	–	–
Prepayments	26 615	3 389	177	159
Other receivables	56 326	12 470	2 191	174
	286 271	251 064	2 368	1 197

The group's exposure to credit and currency risks and impairment losses related to trade and other receivables are disclosed in note 20.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
6. Share capital				
Authorised – 3 500 000 000 ordinary shares of 1 cent each	35 000	35 000	35 000	35 000
Issued – 2 459 258 861 (31 December 2007: 2 449 397 232) ordinary shares of 1 cent each				
Issued share capital at beginning of year	24 494	23 416	24 494	23 416
Share options exercised	99	497	99	497
Equity-settled share-based payment	–	181	–	181
Shares issued	–	400	–	400
	24 593	24 494	24 593	24 494
7. Share premium				
Balance at beginning of year	1 238 643	1 142 887	1 238 643	1 142 887
Arising from share options exercised	5 442	95 952	5 442	95 952
Share issue expenses arising from share options exercised	(13)	(196)	(13)	(196)
Balance at end of year	1 244 072	1 238 643	1 244 072	1 238 643

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

8. 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 and disclosing for 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	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Reconciliation of share-based payment				
Balance at beginning of year	7 993	3 300	7 993	3 300
Movement during the current year	7 593	4 693	7 593	4 693
Balance at end of year	15 586	7 993	15 586	7 993

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	1 467 472	
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 key management on 30 April 2003	6 534 098	One third per year over the period 30 June 2006 to 30 June 2008
Options granted to senior employees on 1 August 2003	833 333	One third per year over the period 31 December 2006 to 31 December 2008
Options granted to 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	30 217 197	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	2 652 648	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 30 June 2009 to 30 June 2011
Options granted to key management on 1 March 2008	17 436 635	One third per year over the period 1 March 2011 to 1 March 2013
Option granted to senior employees on 1 March 2008	5 842 421	One third per year over the period 1 March 2011 to 1 March 2013

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 has not exercised 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-á-vis* the scheme and employees.

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

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

	2008		2007	
	Weighted average exercise price in cents per share	Numbers of options '000	Weighted average exercise price in cents per share	Numbers of options '000
Outstanding balance at beginning of year	56	59 400	49	70 765
Options granted during the year	227	23 279	–	–
Options exercised during the year	56	(9 862)	45	(49 713)
Options forfeited during the year	79	(500)	–	–
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 end of year	111	72 317	56	59 400
Exercisable at end of year		19 907		9 374

	COMPANY	
	2008 '000	2007 '000
Share options outstanding at end of year have the following terms:		
Exercise price:		
45 cents	1 467	1 517
54 cents	6 534	10 034
55 cents	30 218	35 254
56 cents	2 653	3 095
60 cents	5 000	5 000
67 cents	2 000	2 000
73 cents	833	1 667
82 cents	–	500
98 cents	333	333
227 cents	23 279	–
	72 317	59 400
Exercise dates:		
31 December 2004	450	500
31 December 2005	500	500
30 June 2006	–	3 511
31 December 2006	500	500
30 June 2007	3 267	3 511
31 December 2007	183	851
30 June 2008	3 600	3 845
31 December 2008	11 406	13 251
30 June 2009	1 884	2 032
31 December 2009	11 406	13 084
30 June 2010	1 884	2 032
31 December 2010	11 406	13 084
1 March 2011	7 760	–
30 June 2011	1 884	2 032
31 December 2011	667	667
1 March 2012	7 760	–
1 March 2013	7 760	–
	72 317	59 400

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

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 formula, with the following inputs:

	Key management personnel		Senior and other employees	
	2008	2007	2008	2007
Fair value at grant date in cents	54	20	58	24
Share price in cents (weighted average)	2,51	55	2,51	66
Exercise price in cents (weighted average)	1,30	55	1,41	66
Expected volatility	35%	34%	35%	33%
Option life (expected weighted average)	5 years	5,08 years	5 years	5,18 years
Expected dividends	1,78%	2,24%	1,91%	2,45%
Risk free interest rate	8,73%	8,02%	8,97%	8,47%

		GROUP		COMPANY	
		2008 R'000	2007 R'000	2008 R'000	2007 R'000
9.	**Loans and borrowings**				
9.1	Preference shares	–	118 580	–	–
9.2	ABSA Bank Limited	–	106 250	–	–
9.3	ABSA Bank Limited	–	148 750	–	–
9.4	Finance leases – property, plant and equipment	17 374	18 673	–	–
9.5	ABSA Bank Limited	–	95 000	–	–
9.6	ABSA Bank Limited	350 000	–	–	–
9.7	Horizon Nature Conservation Trust	–	–	1 382	1 253
	Balance at end of year	367 374	487 253	1 382	1 253
	Current portion of non-current borrowings	(1 200)	(86 305)	–	–
	Preference shares	–	(85 000)	–	–
	Finance lease – property, plant and equipment	(1 200)	(1 305)	–	–
		366 174	400 948	1 382	1 253
	Minimum finance lease payments:				
	Repayable within the next year	1 200	1 305	–	–
	Repayable later than 1 year but not later than 5 years	4 483	5 085	–	–
	Greater than 5 years	11 691	12 283	–	–
		17 374	18 673	–	–

9.1 These redeemable preference shares, held by ABSA Bank Limited, had a fixed preference dividend rate of 8,89% (2007: 8,89%), payable quarterly.

9.2 This loan was secured by a 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 was provided in the form of guarantees from Xstrata South Africa (Pty) Ltd and Merafe Ferrochrome and Mining (Pty) Ltd. The loan was repayable bi-annually with the final payment due on 31 December 2010. Interest including bank costs was fixed at 10,54% per annum. This loan was incorporated into the revolving credit facility with ABSA Bank Limited, more fully described under note 9.6.

9.3 This loan was secured by a 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) Ltd and Merafe Ferrochrome and Mining (Pty) Ltd. Interest, including bank costs, was charged at the three month Johannesburg Interbank Acceptance Rate plus a margin of 1,45% per annum. The rate at 31 December 2007 was 12,5% per annum. This loan was incorporated into the revolving credit facility with ABSA Bank Limited, more fully described under note 9.6.

9.4 These loans are secured by finance leases over plant and equipment with a book value of R35 099 931 (31 December 2007: R26 570 240) as per note 2.15. The loans are repayable in monthly instalments averaging R283 114 (31 December 2007: R187 181) per month. Interest is payable at an average of 14,59% per annum.

9.5 This loan was unsecured and bore interest at a fixed rate of 12,59% per annum. This loan was incorporated into a revolving credit facility with ABSA Bank Limited, more fully described under note 9.6.

9.6 This loan is secured by a General Notarial Bond over all movable assets owned by Merafe Ferrochrome and Mining (Pty) Ltd and a cession of rights, title and interest in and to Merafe's participation interest in and under the Pooling and Sharing Agreement with Xstrata South Africa (Pty) Ltd as well as its claims in and to the Wonderkop assets, Bokamoso assets and Lion Ferrochrome assets and a guarantee by Merafe Resources.

9. Loans and borrowings (continued)

This loan is a revolving credit facility and is repayable in full on 31 December 2012. R225 million of the loan bears interest at the Johannesburg Interbank Acceptance Rate plus a margin of 1,2958% plus bank costs and R125 million bears interest at a fixed rate of 10,61% plus a margin of 1,2958% plus bank costs. At year end the variable rate was 13,23%.

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

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
10. Provision for closure and restoration costs				
Balance at beginning of year	25 161	10 954	–	–
Utilised during the year	–	(9 072)	–	–
Charge for the year	4 569	23 279	–	–
Balance at end of year	29 730	25 161	–	–

For purposes of calculating this provision, management have assumed a long-term inflation rate of 5% and a discounting rate of 8%.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
11. Deferred tax (liabilities)/assets				
Recognised deferred tax (liabilities)/assets:				
Property, plant and equipment	(477 079)	(107 755)	8	–
Provisions and accruals	27 847	15 770	3 356	–
	(449 232)	(91 985)	3 364	–

Movement in temporary differences during the year

	Balance 1 January 2007	Recognised in profit	Balance 1 January 2008	Recognised in profit	Balance 31 December 2008
Property, plant and equipment	19 063	(126 818)	(107 755)	(369 324)	(477 079)
Provisions and accruals	9 762	6 008	15 770	12 077	27 847
	28 825	(120 810)	(91 985)	(357 247)	(449 232)

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
12. Financial liability				
Interest rate swap	11 466	–	–	–

This interest rate swap has a nominal amount of R125 million. This instrument fixes the interest rate on the principal at 12,41%. (refer note 9.6).

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
13. Trade and other payables				
Trade payables	166 936	301 956	789	1 272
Employee benefit accruals	57 252	28 208	16 369	1 292
Income received in advance	96 044	20 715	–	–
Other payables	11 132	–	21	–
	331 364	350 879	17 179	2 564

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

Notes to the consolidated and separate annual financial statements *continued*

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	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
14. Revenue				
Revenue from mining and smelting operations	2 781 304	1 655 803	–	–
15. Operating profit before net finance (expense)/income				
The following items have been taken into account in arriving at operating profit before net finance (expense)/income:				
Reversal of impairment (refer note 3)	–	–	290 945	–
Realised and unrealised foreign exchange gains/(losses)	131 487	(5 741)	–	–
Management fee – Merafe Ferrochrome and Mining (Pty) Ltd	–	–	35 860	33 342
Profit on disposal of property, plant and equipment	47	–	47	–
Auditors' remuneration	(624)	(755)	(624)	(755)
Audit fees – current year	(574)	(324)	(574)	(324)
Tax services	–	(294)	–	(294)
Other services	(50)	(137)	(50)	(137)
Consulting fees	(698)	(1 053)	(698)	(1 016)
Depreciation of property, plant and equipment	(77 918)	(46 239)	(253)	(234)
Write-down of inventory to net realisable value	(29 910)	–	–	–
Impairment of mineral rights	–	(51)	–	(51)
Increase in provision for closure and restoration	(4 569)	(23 279)	–	–
Operating lease expenses	(707)	(861)	(707)	(861)
Office equipment	(77)	(168)	(77)	(168)
Buildings	(545)	(693)	(545)	(693)
Personnel expenses	(344 556)	(256 922)	(27 843)	(23 843)
Salaries and wages	(279 748)	(216 963)	(18 513)	(17 599)
Defined contribution expense – provident fund	(24 875)	(16 519)	(1 689)	(1 355)
Defined contribution expense – medical aid	(19 143)	(16 499)	(227)	(207)
Equity-settled share-based payment expense	(7 593)	(4 693)	(7 593)	(4 693)
(Increase)/decrease in accrual for leave pay and bonuses	(13 197)	(2 248)	179	11
16. Net finance income/(expense) recognised in profit and loss				
Finance expense	(67 045)	(55 075)	(1)	(23)
Finance expense on financial liabilities measured at amortised cost	(55 579)	(55 075)	(1)	(23)
Dividends on redeemable preference shares	(8 681)	(18 416)	–	–
Interest on loans and borrowings	(46 897)	(36 563)	–	–
Finance expense on bank overdraft	(1)	(96)	(1)	(23)
Fair value adjustment on interest rate swap	(11 466)	–	–	–
Finance income	3 062	681	2 499	533
Interest income on bank deposits	3 056	659	2 499	511
Interest income on other deposits	6	22	–	22
Net finance (expense)/income	(63 983)	(54 394)	2 498	510

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
16. Net finance income/(expense) recognised in profit and loss (continued)				
Net finance (expense)/income per financial instrument category				
Loans and receivables	3 061	585	2 498	510
Interest income on bank deposits	3 056	659	2 499	511
Interest income on other other deposits	6	22	–	22
Finance expense on bank overdraft	(1)	(96)	(1)	(23)
Financial liabilities measured at amortised cost	(55 578)	(54 979)	–	–
Dividends on redeemable preference shares	(8 681)	(18 416)	–	–
Interest expense on borrowings	(46 897)	(36 563)	–	–
Financial liabilities at fair value through profit and loss	(11 466)	–	–	–
Fair value adjustment in interest rate	(11 466)	–	–	–
	(63 983)	(54 394)	2 498	510

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
17. Income tax expense				
Current tax expense				
Current period	(84 216)	(1 373)	(6 508)	(1 373)
Deferred tax expense	(357 247)	(120 810)	3 364	
Deferred taxation – current charge	(360 419)	(109 680)	3 364	–
Deferred taxation – adjustment in respect of prior years	–	(11 130)	–	–
Reduction in rate	3 172	–	–	–
Normal taxation	(441 463)	(122 183)	(3 144)	(1 373)
Secondary tax on companies	(868)	(2 211)	–	–
Total taxation	(442 331)	(124 394)	(3 144)	(1 373)

The company has unredeemed capital expenditure of R198 637 (31 December 2007: R198 637). The total estimated unredeemed capital expenditure in the group is R51 789 330 (31 December 2007: R1 288 296 076).

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Reconciliation of effective group tax rate				
Standard tax rate (%)	28,00	29,00	28,00	29,00
Taxation on net profit at standard tax rate	(411 606)	(105 707)	(81 465)	–
Taxation effect of non-deductible expenditure	(13 004)	(24 331)	(2 308)	(1 373)
Taxation effect of non-taxable income	–	–	81 465	–
Taxation effect of assessed losses and unredeemed capital expenditure utilised	367 410	128 665	–	–
Reduction in tax rate	3 172	–	–	–
Taxation effect of temporary differences	(387 435)	(120 810)	(836)	–
Total normal taxation	(441 463)	(122 183)	(3 144)	(1 373)
Secondary tax on companies	(868)	(2 211)	–	–
Total taxation	(442 331)	(124 394)	(3 144)	(1 373)

18. Earnings per share

18.1 Basic earnings per share

	GROUP 2008 cents	GROUP 2007 cents
Basic earnings per share (cents)	42	10

The calculation of basic earnings per share is based on profit attributable to ordinary shareholders of R1 027 691 771 (31 December 2007: R240 113 378) and a weighted average number of ordinary shares outstanding during the year of 2 456 110 621 (31 December 2007: 2 389 076 465).

	2008 Number of shares	2007 Number of shares
Calculation of weighted average number of shares		
Issued ordinary shares at 1 January	2 449 397 232	2 341 569 565
Effect of share options exercised	6 713 389	26 872 542
Effect of equity-settled share-based payment on 8 June 2007	–	10 223 399
Effect of shares issued on 27 September 2007	–	10 410 959
Weighted average number of shares at 31 December	2 456 110 621	2 389 076 465

18.2 Headline earnings per share

	GROUP 2008 cents	GROUP 2007 cents
Headline earnings per share (cents)	42	10

The calculation of headline earnings per share is based on profit attributable to ordinary shareholders of R1 027 644 810 (31 December 2007: R240 113 378) and a weighted average number of shares outstanding during the year of 2 456 110 621 (31 December 2007: 2 389 076 465).

	GROUP 2008 R	GROUP 2007 R
Headline earnings are calculated as follows:		
Net profit for the year	1 027 691 771	240 113 378
Profit on disposal of property, plant and equipment	(46 961)	–
Headline earnings	1 027 644 810	240 113 378

The tax effect of disposal of property, plant and equipment is R37 487.

18.3 Diluted earnings per share

	GROUP 2008 cents	GROUP 2007 cents
Diluted earnings per share (cents)	41	10

The calculation of diluted earnings per share is based on profit attributable to ordinary shareholders of R1 027 691 771 (31 December 2007: R240 113 378) and a weighted average number of shares outstanding during the year of 2 492 203 126 (31 December 2007: 2 423 805 128).

	2008 Number of shares	2007 Number of shares
18. Earnings per share (continued)		
18.3 Diluted earnings per share (continued)		
Calculation of weighted average number of shares		
Weighted average number of ordinary shares used in calculating basic earnings per share	2 456 110 621	2 389 076 460
Deemed issue of ordinary shares in respect of share options	36 092 505	34 728 668
Weighted average number of ordinary shares used in calculating diluted earnings per share	2 492 203 126	2 423 805 128

	2008 cents	2007 cents
18.4 Diluted headline earnings per share (cents)	41	10

The calculation of diluted headline earnings per share is based on profit attributable to ordinary shareholders of R1 027 644 810 (31 December 2007: R240 113 378) and a weighted average number of shares outstanding during the year of 2 492 203 126 (31 December 2007: 2 423 805 128).

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
19. Cash flow information				
19.1 Cash generated by operations				
Profit for the year before taxation	1 470 022	364 507	290 945	1 373
Adjusted for:				
Depreciation of property, plant and equipment	77 918	46 239	253	234
Write-down of inventory to net realisable value	29 910	–		–
Finance income	(3 062)	(681)	(2 499)	(533)
Finance expenses	55 579	55 075	1	23
Equity-settled share-based payment expense	7 593	4 693	7 593	4 693
Reversal of impairment	–	–	(290 945)	–
Movement in employee benefit accruals	28 983	2 248	15 076	(11)
Adjustment in respect of straight-lining of leases	(37)	12	(37)	12
Provision for closure and restoration	4 569	23 279	–	–
Payment for closure and restoration	–	(9 072)	–	–
Impairment of mineral rights	–	51	–	51
Profit on disposal of plant and equipment	(47)	–	(47)	–
Fair value adjustment on interest rate swap	11 466	–	–	–
Effect of exchange rate fluctuations on cash held during the year	(69 952)	(2 762)		–
Operating profit before working capital changes	1 612 942	483 589	20 340	5 842
Working capital changes	(683 854)	(122 364)	(1 253)	120
Increase in inventories	(600 186)	(177 521)	–	–
(Increase)/decrease in trade and other receivables	(35 207)	22 644	(1 171)	(217)
(Decrease)/increase in trade and other payables	(48 461)*	32 513	(82)	337
	929 088	361 225	19 087	5 962

** Included in the movement in trade and other payables is the payment of R147 million to Xstrata South Africa (Pty) Ltd.*

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
19. Cash flow information (continued)				
19.2 Cash and cash equivalents				
Bank balances	261 390	8 039	15 537	8 890
Call deposits	278 307	29 391	278 208	1 204
Cash on hand	44	38	6	6
Cash and cash equivalents	539 741	37 468	293 751	10 100
Bank overdraft	–	(190 937)	–	–
Cash and cash equivalents in the statement of cash flows	539 741	(153 469)	293 751	10 100
The group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 20.				
19.3 Taxation paid				
Secondary tax on companies	(868)	(2 211)	–	–
Secondary tax on companies owing at year end	168	–	–	–
Taxation paid	(700)	(2 211)	–	–

20. Financial instruments

Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

The board of directors has overall responsibility for the establishment and oversight of the group's risk management framework. The board has established a group audit and risk 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 the oversight role at operations level by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedure, the results of which are reported to the group audit and risk management committee.

20.1 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 with its contractual obligations and arises principally from the group's receivables from customers.

Cash and cash equivalents

The group limits its exposure to credit risk by investing only in liquid securities and only with approved banks and financial institutions. The group's cash balances are in the form of short-term deposits in both local and foreign currency which are held with ABSA Bank Ltd. The Moody's rating of ABSA Bank Ltd at year end was Aa3 for short-term local currency investments and Baa1 for short-term foreign currency investments.

20. Financial instruments (continued)

20.1 Credit risk (continued)

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.

Investments

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

Guarantees

The group's policy is to provide financial guarantees only to wholly-owned subsidiaries. At 31 December 2008, no guarantees were outstanding (31 December 2007: none).

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
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:				
Loans to subsidiaries	–	–	982 027	947 728
Trade and other receivables	286 271	251 064	2 368	1 197
Cash and cash equivalents	539 741	37 468	293 751	10 100
	826 012	288 532	1 278 146	959 025
Impairment losses				
The ageing of trade and other receivables at the reporting date was:				
Not past due	273 956	245 583	940	333
Past due 0 – 30 days	–	89	–	481
Past due 31 – 120 days	12 315	5 009	1 428	–
Past due 121 days and over	–	383	–	383
	286 271	251 064	2 368	1 197

20.2 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 risk 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.

20. Financial instruments (continued)

20.2 Liquidity risk(continued)

In addition, the group maintains the following lines of credit:

Merafe Resources Limited

- ABSA Bank Limited: R1 million credit card facilities. Interest on arrears is payable at prime overdraft rate plus 4,5%
- ABSA Bank Limited: R0,3 million guarantee facility

Merafe Ferrochrome and Mining (Proprietary) Limited

- ABSA Bank Limited: R15 million primary lending banking facility and/or customer foreign currency account facility. Interest would be payable at the prime overdraft rate.
- ABSA Bank Limited: R20,2 financial guarantee facility.
- ABSA Bank Limited: R0,5 million credit card facility. Interest on arrears is payable at prime overdraft rate plus 4,5%.
- ABSA Bank Limited: R29 million foreign exchange contracts.
- ABSA Bank Limited: R1,9 million foreign exchange settlements.
- ABSA Bank Limited: R350 million revolving credit facility. (See note 9.6 for interest rates.)

The Xstrata-Merafe Chrome Venture

- ABSA Bank Limited: US$50 million foreign currency overdraft account. Interest is charged at the London Interbank Offered Rate (LIBOR) plus a margin of 0,5%.

- Standard Bank debtors factoring facility: US$135 million. Interest is offered at the London Interbank Offered Rate plus a margin dependent on the age of the debt (60 days: 1,05%, offered 90 days: 1,1%, 120 days: 1,15%). At year end LIBOR was 0,2%.

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

	Year ended 31 December 2009 R'000	Year ended 31 December 2010 R'000	Year ended 31 December 2011 R'000	Year ended 31 December 2012 R'000	Year ended 31 December 2013 and onwards R'000
ABSA Bank Limited	37 048	32 403	33 209	383 852	–
Finance lease liabilities	1 200	1 370	1 025	1 025	12 753
Trade and other payables	331 364	–	–	–	–
Current tax liability	85 846	–	–	–	–
Interest rate swap	1 840	3 608	3 184	2 834	–

20.3 Market risk

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

Currency risk

Foreign currency

In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US$). In addition the group had liabilities on hand at year end that were denominated in US$. 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 its US$ denominated assets equal or exceed its 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.

	31 December 2008 USD	31 December 2007 USD
20. Financial instruments (continued)		
20.3 Market risk (continued)		
Exposure to currency risk		
The group's exposure to foreign currency risk was as follows based on notional amounts:		
Trade receivables	28 703	22 575
CFC account	23 952	(27 822)
Net exposure	52 655	(5 247)

	Average rate		Reporting date spot rate	
	2008	2007	2008	2007
The following exchange rates applied during the year				
Rand: United States Dollar	7,91	7,04	9,32	6,86

Sensitivity analysis

A 10 percent (strengthening)/weakening of the Rand against the US$ would have (decreased)/increased equity and profit before taxation by R181 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 to 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, or through the use of interest rate swaps.

Profile

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

	2008		2007	
	Average interest rate %	Carrying amount R'000	Average interest rate %	Carrying amount R'000
Fixed rate instruments				
Preference shares		–	8,89	(118 580)
ABSA Bank Limited		–	10,54	(106 250)
ABSA Bank Limited	12,41	(125 000)	12,59	(95 000)
Total fixed rate instrument		(125 000)		(319 830)
Variable rate instruments				
ABSA Bank Limited	13,85	(225 000)	12,63	(148 750)
Finance leases – plant and equipment	14,59	(17 374)	15,01	(18 673)
Bank overdraft (US Dollar account)	–	–	4,90	(190 937)
		(242 374)		(358 360)
Cash and cash equivalents				
– local currency	11,1	316 480	5,70	37 468
– foreign currency	0,86	223 261	–	–
Total variable rate instruments		297 367		(320 892)

20. Financial instruments (continued)

20.3 Market risk (continued)

Interest rate risk (continued)

Fair value sensitivity analysis for fixed rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased or decreased profit before taxation by R1,25 million. The analysis assumes that all other variables remain constant.

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 before taxation by R2,4 million. The analysis assumes that all other variables remain constant.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
20.4 Financial instrument carrying amounts				
Loans and receivables	799 397	285 143	1 277 969	958 866
Investments	–	–	982 027	947 728
Trade and other receivables	259 656	247 675	2 191	1 038
Trade and other receivables	286 271	251 064	2 368	1 197
Prepayments	(26 615)	(3 389)	(177)	(159)
Cash and cash equivalents	539 741	37 468	293 751	10 100
Financial liabilities measured at amortised cost	(528 068)	(961 473)	(2 192)	(2 525)
Loans and borrowings	(350 000)	(468 580)	(1 382)	(1 253)
Loans and borrowings	(367 374)	(487 253)	(1 382)	(1 253)
Finance lease liabilities	17 374	18 673	–	–
Trade and other payables	(178 068)	(301 956)	(810)	(1 272)
Trade and other payables	(331 364)	(350 879)	(17 179)	(2 564)
Income received in advance	96 044	20 715	–	–
Employee benefit accruals	57 252	28 208	16 369	1 292
Bank overdraft	–	(190 937)	–	–
Financial liabilities at fair value through profit and loss	(11 466)	–	–	–
Interest rate swap	(11 466)	–	–	–

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

21. Capital management

The board's policy is to maintain a strong capital base in order to maintain investor, debt providers and 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 is actively pursuing a policy of debt reduction and its objective is to maintain its gearing level at a maximum of 25% versus equity, excluding cash balances at year end. At year end, the gearing level excluding cash balances was 15%, whereas if cash balances are included, the net gearing is 0%.

As the required gearing level has been 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 see the company through the current global economic crisis, to fund working capital and to fund organic growth opportunities in the business.

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

21. Capital management (continued)

There were no changes to the group's approach to capital management during the year, other than the requirement to retain cash to ensure the company has sufficient working capital during the current global economic crisis.

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

In order to see the company through the current period of global economic uncertainty, the group has chosen to retain its cash balances rather than voluntarily settling debt to ensure it has sufficient operating capital until the economic downturn abates.

22. Related party transactions

22.1 Identity of related parties

The group has related party relationships with its wholly-owned subsidiaries (refer note 3), 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 control 0,45% (31 December 2007: 0,44%) 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 22.2).

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
Directors' fees				
Non-executive directors				
C Molefe	(229)	(101)	(229)	(101)
M Mthenjane	(137)	(58)	(137)	(58)
M Mamathuba	(104)	(33)	(104)	(33)
L Mogotsi*	–	(76)	–	(76)
J Matlala	(196)	(82)	(196)	(82)
T Ramantsi	(91)	(33)	(91)	(33)
C Fauconnier	(96)	–	(96)	–
	(853)	(383)	(853)	(383)
* *Resigned February 2008*				
Directors' remuneration				
Executive directors				
S Phiri				
Salary	(2 299)	(2 162)	(2 299)	(2 162)
Bonus	(1 962)	(1 825)	(1 962)	(1 825)
Fringe benefits	(144)	(193)	(144)	(193)
Provident fund contributions	(340)	(291)	(340)	(291)
	(4 745)	(4 471)	(4 745)	(4 471)
Cost of share options exercised	(1 890)	–	(1 890)	–
Proceeds on disposal of share options exercised	(12 540)	–	(12 540)	–
SP Elliot				
Salary	(2 156)	(2 028)	(2 156)	(2 028)
Bonus	(1 836)	(1 708)	(1 836)	(1 708)
Fringe benefits	(145)	(189)	(145)	(189)
Provident fund contributions	(318)	(272)	(318)	(272)
	(4 455)	(4 197)	(4 455)	(4 197)
Cost of share options exercised	–	(4 412)	–	(4 412)
Shares have been retained				

22. Related party transactions (continued)

22.2 Transactions with its directors (continued)

Directors' remuneration (continued)

Executive directors (continued)

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
B McBride				
Salary	(2 103)	(1 977)	(2 103)	(1 977)
Bonus	(1 789)	(1 664)	(1 789)	(1 664)
Fringe benefits	(169)	(245)	(169)	(245)
Provident fund contributions	(311)	(265)	(311)	(265)
	(4 372)	(4 151)	(4 372)	(4 151)
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	(691)	(1 372)	(691)	(1 372)
Bonus	(1 222)	(1 153)	(1 222)	(1 153)
Fringe benefits	(35)	(150)	(35)	(150)
	(1 948)	(2 675)	(1 948)	(2 675)
Cost of share options exercised	–	(4 415)	–	(4 415)
Proceeds on disposal of share options exercised	–	(11 187)	–	(11 187)

** Retired 28 February 2008*

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

	'000 DS Phiri	'000 SP Elliot	'000 B McBride
The following share options were outstanding at 31 December 2008 in favour of directors of the company:			
Average exercise price (cents)	103	119	103
Exercisable on 30 June 2007	3 267	–	–
Exercisable on 31 December 2007	–	9	9
Exercisable on 30 June 2008	3 267	–	–
Exercisable on 31 December 2008	3 357	3 357	3 357
Exercisable on 30 June 2009	295	295	295
Exercisable on 31 December 2009	3 357	3 357	3 357
Exercisable on 30 June 2010	295	295	295
Exercisable on 31 December 2010	3 357	3 357	3 357
Exercisable on 1 March 2011	2 240	2 165	1 407
Exercisable on 30 June 2011	295	295	295
Exercisable on 1 March 2012	2 240	2 165	1 407
Exercisable on 1 March 2013	2 240	2 165	1 407
Total	24 210	17 460	15 186

22. Related party transactions (continued)

22.3 Transactions with the Xstrata-Merafe Chrome Venture

The Xstrata-Merafe Chrome Venture resulted in Xstrata and Merafe pooling and sharing their ferrochrome assets in July 2004. While Merafe's assets form part of the Xstrata-Merafe Chrome Venture, Merafe retains ownership of its assets and is closely involved in the Venture's operations through the Chrome Executive Committee, joint board and sub-committees (treasury, audit and risk, transformation and health and safety) formed to oversee the combined operation of both companies. The group received 20,5% 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:

	Year ended 31 December 2008 R'000	Year ended 31 December 2007 R'000
Inventories	1 066 505	492 797
Trade and other receivables	248 625	222 409
Bank and cash	241 597	27 325
Finance leases	(17 374)	(17 368)
Provisions	(29 730)	(25 161)
Trade and other payables	(311 734)	(344 663)
Bank overdraft	–	(190 938)
Net assets	1 197 889	164 401
EBITDA	1 672 218	497 608

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 Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 22,3%. The IDC received the non-executive directors' fees for T Ramantsi and M Mamathuba disclosed in note 22.2.
No other transactions occurred during the year.

22.5 Transactions with Royal Bafokeng Resources Holdings (Pty) Ltd (RBR)

The RBR is considered to be a related party due to their ability to exercise significant influence over Merafe Resources. The significant influence is a result of the aforementioned party's shareholding of 29,3%. No transactions occurred during the year.

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	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
24. Operating leases				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	(258)	(506)	(258)	(506)
Between one and five years	(198)	(437)	(198)	(437)
	(456)	(943)	(456)	(943)

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 2007: 15%) and the office lease payment escalates at 9% per annum (31 December 2007: 9%).

25. Post balance sheet date events

On 16 January 2009, the Venture announced that a further six furnaces had been suspended due to market conditions, bringing in total seventeen out of twenty furnaces that had been temporary suspended.

No other material fact or circumstance has occurred after the balance sheet date, being 31 December 2008, and the date of this report.

	GROUP		COMPANY	
	2008 R'000	2007 R'000	2008 R'000	2007 R'000
26. Capital commitments				
The group's capital commitments at year end were:				
Various projects	7 643	16 373	–	–

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 2008

	Number of share-holders	% of all share-holders	Number of shares held	% of shares issued
Analysis of shareholdings				
Range				
1 – 1 000	1 328	10,68	816 187	0,03
1 001 – 5 000	3 336	26,84	10 326 057	0,42
5 001 – 10 000	2 275	18,30	18 876 963	0,77
10 001 – 100 000	4 605	37,04	160 196 239	6,52
100 001 – 1 000 000	764	6,15	203 224 158	8,26
1 000 001 and more	123	0,99	2 065 819 256	84,00
Totals	12 431	100,00	2 459 258 860	100,00
Distribution of shareholders				
Category				
Diluted funds	122	0,98	1 712 675 505	69,64
Pension funds	38	0,30	147 712 306	6,01
Nominees and other institutions	122	0,98	52 964 648	2,15
Individuals	11 988	96,44	345 015 787	14,03
Other corporate bodies	52	0,42	57 259 697	2,33
Private companies	68	0,55	22 039 770	0,90
Banks	17	0,14	114 809 815	4,67
Close corporations	24	0,19	6 781 332	0,27
Totals	12 431	100,00	2 459 258 860	100,00
Shareholders holding 5% or more of shares in issue				
Name				
Royal Bafokeng Resources Holdings (Pty) Ltd			720 163 887	29,28
Industrial Development Corporation of South Africa Limited			546 830 100	22,24
Totals			1 266 993 987	51,52
Shareholder spread				
Public	12 422	99,94	1 175 130 501	47,79
Non-public	9	0,06	1 282 128 159	52,21
Directors (directly held)	4	0,02	10 354 615	0,42
Associates	3	0,02	6 779 757	0,27
Royal Bafokeng Resources Holdings (Pty) Ltd	1	0,01	720 163 887	29,28
Industrial Development Corporation of South Africa Limited	1	0,01	546 830 100	22,24
Totals	12 431	100,00	2 459 258 860	100,00

JSE Limited share statistics

at 31 December 2008

Share price (cents)	
High	434
Low	56
Closing price at 31 December 2008	85
Shares traded	
Volume of shares	3 256 933 571
Value of shares	R7 953 million
Volume traded as a % of weighted average shares in issue	132%
Market capitalisation	
As at 31 December 2008	R2 090 million
Shares in issue at 31 December 2008	2 459 258 860

Shareholders' diary

Meetings

Annual general meeting for the 2008 financial year to be held on 16 April 2009

Reports

Interim report six months to 30 June 2009 to be released on or about 4 August 2009
Annual results for the 12 months to 31 December 2009 to be released in March 2010
Annual report for the 12 months to 31 December 2009 to be published in March 2010

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 second 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 Thursday, 16 April 2009, for the purpose of conducting the following business:

1. To receive, consider and adopt the annual financial statements for the company for the year ended 31 December 2008.
2. To elect the following directors, who retire by rotation and, being eligible, offer themselves for re-election:
   2.1 Zanele Matlala
   2.2 Mzila Mthenjane
   2.3 Bruce McBride
3. To ratify the appointment of Belese Majova to the board as a non-executive director.
   Brief CVs of the directors are set out on pages 8 and 9 of this annual report.
4. To approve the non-executive directors' fees for the year ended 31 December 2008.
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.

8. Special resolution number 1
   "Resolved that, in terms of the authority granted in the articles of association of the company, the company and/or its subsidiaries be and are hereby authorised, by way of a general authority, to acquire the company's shares upon such terms and conditions and in such amounts as the directors of the company may from time to time decide but subject to the provisions of the Companies Act 61, of 1973, as amended (the Companies Act), and subject to the rules and requirements of the JSE Limited (JSE) Listings Requirements (Listings Requirements), as amended, provided that:
   a) the general authority granted to the directors shall be valid only until the company's next annual general meeting or for 15 (fifteen) months from the date of this resolution, whichever period is shorter;
   b) any repurchases of shares in terms of this authority be effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the company and the counter-party, such repurchases being effected by only one appointed agent of the company at any point in time and may only be effected if after the repurchase the company still complies with the minimum spread requirements of the Listings Requirements;
   c) the general authority shall be limited to a maximum of 10% (ten per cent) of the company's issued share capital of the shares in the applicable class at the time that the authority is granted;
   d) any repurchase must not be made at a price more than 10% (ten per cent) above the weighted average of the market value of the share for the five business days immediately preceding the date of such acquisition;
   e) the repurchase of shares may not be effected during a prohibited period, as defined in the Listings Requirements, unless a repurchase programme is in place, where dates and quantities of shares to be traded during the prohibited period are fixed and full details of the programme have been disclosed in an announcement over SENS prior to the commencement of the prohibited period; and
   f) such details as may be required in terms of the Listings Requirements be announced when the company or its subsidiaries have cumulatively repurchased 3% (three per cent) of the shares in issue at the time the authority was given."

   Reason for and effect of the special resolution number 1
   The reason for the special resolution is to enable the directors of the company, up to and including the date of the next annual general meeting of the company, to approve the acquisition by the company, or by any of its subsidiaries, of the company's shares.

   The effect of the special resolution is that the directors of the company will be able to approve the purchase of up to a maximum of 10% (ten per cent) of the company's issued ordinary shares on the open market in accordance with the Companies Act, as amended, and the JSE Listings Requirements as and when they deem appropriate, until the next annual general meeting of the company, or until this authority is revoked by the shareholders.

Notice of annual general meeting *continued*

Reason for and effect of the special resolution number 1 (continued)
It is further recorded that the directors have resolved that no such repurchase in the period of this authority will be undertaken or implemented unless the following conditions have been met:

a) the company and its subsidiaries will be able, in the ordinary course of business, to pay its debts for a period of 12 (twelve) months after the date of this notice;
b) the assets of the company and its subsidiaries will be in excess of the liabilities of the company and its subsidiaries for a period of 12 (twelve) months after the date of this notice, such assets and liabilities being fairly valued in accordance with the accounting policies used in the latest annual financial statements and with International Financial Reporting Standards;
c) the company and its subsidiaries will have adequate share capital and reserves for ordinary business purposes for a period of 12 (twelve) months after the date of this notice;
d) the company and its subsidiaries will have sufficient working capital for their requirements for a period of 12 (twelve) months after the date of this notice;
e) the sponsor of the company provides a letter to the JSE confirming that it has discharged all of its responsibilities in terms of Schedule 25 of the Listings Requirements relating to the working capital of the company prior to the commencement of any repurchase of the company shares on the open market.

9. Ordinary resolution number 1
Control of authorised but unissued shares
"Resolved that 10% (ten per cent) or 104 074 114 ordinary shares 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, 61 of 1973, as amended, the articles of association of the company and the JSE Limited Listings Requirements."

10. Ordinary resolution number 2
"Resolved that the directors of the company, be authorised until the next annual general meeting, to allot and issue shares in terms of the Merafe Resources Share Option Scheme, subject to the provisions of sections 221 and 222 of the Companies Act, 61 of 1973, as amended, the articles of association of the company and the JSE Limited Listings Requirements."

11. Ordinary resolution number 3
Issue of shares for cash
"Resolved that, in terms of the JSE Limited (JSE) Listings Requirements, 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, 61 of 1973, as amended, the articles of association of the company and 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% (five per cent) of the company's issued share capital;
- that issues in the aggregate in any one financial year will not exceed 10% (ten per cent) of the company's issued ordinary share capital, including instruments which are compulsorily convertible into shares of that class;
- 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% (ten per cent) of the weighted average traded price of the shares in question, as determined over the 30 (thirty) days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities; 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% (seventy five per cent) majority of the votes cast by shareholders present or represented by proxy at this meeting is required for ordinary resolution number 3 to become effective.

Notice of annual general meeting *continued*

Voting and attendance at the annual general meeting

Any member entitled to attend and vote at the annual general 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. Proxy forms should be forwarded to reach the registered office of the transfer secretaries of the company or the company's registered office by no later than 11:00 on Tuesday, 14 April 2009.

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. Proxy forms should be forwarded to reach the registered office of the transfer secretaries of the company or the company's registered office no later than 11:00 on Tuesday, 14 April 2009.

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.

By order of the board



A Mahendranath
Company Secretary
Sandton
25 March 2009

Notes

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 Central Securities Depository Participant (CSDP) or broker to make the relevant arrangements concerning voting and/or attendance at the annual general meeting.

Form of proxy for the twenty second annual general meeting

I/We (name in block letters) _____

of (address) _____

being the holders/of [ ] ordinary shares

in the company 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 Thursday, 16 April 2009, 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 Zanele Matlala			
2.2 Mzila Mthenjane			
2.3 Bruce McBride			
3. To ratify the appointment of Belese Majova to the board as a non-executive director			
4. To approve the non-executive directors' fees			
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			
8. Special resolution number 1: To repurchase the company's shares			
9. Ordinary resolution number 1: To place the unissued shares under the control of the directors			
10. Ordinary resolution number 2: To authorise the directors to issue shares in terms of the Merafe Resources Share Option Scheme			
11. Ordinary resolution number 3: To authorise the company to issue shares for cash			

Signed at _____ on _____ 2009

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 to 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) Ltd, 16th 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 Tuesday, 14 April 2009.

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 (Proprietary) Limited
16th Floor
11 Diagonal Street
Johannesburg
2001
PO Box 4844
Johannesburg
2000

Sponsor
Deutsche Securities (SA) (Proprietary) Limited
Registration number 1995/011798/07
3rd Floor
3 Exchange Square
87 Maude Street
Sandton
2196
Private Bag X9933
Sandton
2146

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