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PARTNERSHIPS



MERAFE
RESOURCES

MERAFE RESOURCES LIMITED
Integrated Annual Report
For the year ended 31 December 2012

Contents

About the five capitals model

The five capitals model we have adopted provides a basis for understanding sustainability in terms of the economic concept of wealth creation or 'capital'. A sustainable organisation will maintain and where possible enhance these stocks of capital assets, rather than deplete or degrade them. The model allows business to broaden its understanding of financial sustainability by allowing business to consider how wider environmental and social issues can affect long-term profitability.

OVERVIEW

2 Organisational overview and year in review
4 Our stakeholders and issues that could have a material impact on them
6 Our operating context
8 Material issues
12 Historical review of key indicators

2

CEO'S STRATEGIC REVIEW

18 Marketing review
22 Future outlook

16

FINANCIAL CAPITAL

Financial capital is the financial performance of the company which facilitates the sustainable development of our natural, human, social or manufactured capital

26

MANUFACTURED CAPITAL

Manufactured capital in the mining context relates to the mining and smelting process and how it is conducted and the assets which are being mined and beneficiated

34

NATURAL CAPITAL

Natural capital includes the natural resources and process needed by an organisation to produce its products

40

41 Climate change and energy
44 Environment
50 Mineral Resources and Reserves

HUMAN CAPITAL

Human capital is all about the elements required for a productive workforce: health, knowledge, skills and motivation. Enhancing human capital through education and training is essential for business sustainability

64

65 Safety
68 Health and wellness
72 Employees
77 Training and development

SOCIAL CAPITAL

Social capital is any value added to the activities and economic outputs of an organisation by human relationships, partnerships and cooperation

82

83 Social responsibility
90 Transparency and accountability
90 Chairman's report
92 Governance
99 Social and Ethics Committee report
100 Human rights and ethics
102 Risk management
109 Remuneration report

ANNEXURES

116 Sustainability review and assurance
120 Glossary

ANNUAL FINANCIAL STATEMENTS

126

NOTICE TO THE ANNUAL GENERAL MEETING AND PROXY FORM

185

This report has been produced in accordance with the Global Reporting Initiative (GRI) Guidelines to Application Level B+

ICONS USED IN THIS REPORT

This icon refers to further reading



This icon refers to more information available on the web



This icon refers to cross referencing



Merafe icon
This represents any communication relating to Merafe only



Venture icon
This represents any communication relating to the Xstrata-Merafe Chrome Venture



LETTER TO STAKEHOLDERS

We are pleased to present to you the annual report for the Merafe Group, which includes Merafe Resources Limited (Merafe), a company listed on the JSE Limited, and Merafe Ferrochrome and Mining Proprietary Limited (Merafe Ferrochrome) for the year ended 31 December 2012. The scope of this report includes Merafe, its subsidiaries and the Xstrata-Merafe Chrome Venture (the Venture). There has been no significant change in our size, structure, ownership or products and there are no specific limitations on the scope or boundary of this report.

We published our previous annual report, for the reporting period ended 31 December 2011, in 2012.

We welcome the opportunity that an integrated approach to reporting offers us to break down reporting silos and provide a broader explanation of our performance, underpinned by a strategic focus, connectivity of information, a future orientation and an inclusive and responsible approach to stakeholders. We were delighted when our efforts in this regard resulted in our second integrated report winning the Small Cap section of the Chartered Secretaries Southern Africa/JSE Limited Annual Reports Awards 2012. We have taken the opportunity to feature our two new projects, the Tswelopele pelletising and sintering plant and the Lion II ferrochrome plant, in the photographs we have used in the report this year.

This year we have adopted a five capitals model (natural, human, social, manufactured and financial capital) for our reporting, as recommended in the International Integrated Reporting Committee's (IIRC) discussion paper.

We depend on a variety of resources and relationships for our success. The extent to which we are depleting these or building them up has an important impact on the availability of the resources at our disposal and the relationships that support our long-term viability. The capitals model, by seeing these resources and relationships in terms of 'capital', provides us with a basis for understanding sustainability in terms of the economic concept of wealth creation or 'capital' and encourages us to consider how wider environmental and social issues can affect our long-term profitability.

In addition to following the recommendations contained in King III, the South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code) and the JSE Limited Listings Requirements, we are guided by the Global Reporting Initiative's (GRI) 3.1 Guidelines and our internally developed policies and procedures, in terms of measuring our progress towards sustainability.

KPMG Inc. audits our annual financial statements. In compliance with International Financial Reporting Standards (IFRS), an independent auditors' report on the financial statements contained in this report appears on page 133 of our annual financial statements, which can be found on our website at www.meraferesources.co.za.

In order to ensure that we provide our stakeholders with reliable and accurate information on our sustainability, we engaged KPMG who, as disclosed in this report, assured key Merafe sustainability information on pages 116 to 119 of this report and also completed an independent review of key performance indicators in the Venture, selected by KPMG, which are set out on pages 116 and 117 of this report. In addition, Integrated Reporting and Assurance Services (IRAS) calculated Merafe Resources' carbon footprint as well as assuring its application of King III and the GRI G3.1.



Chris Molefe
Chairman



FORWARD LOOKING STATEMENT

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 performance of 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 and performance of the Venture. The company undertakes no obligation to update publicly or to 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.

Overview

ORGANISATIONAL OVERVIEW AND BUSINESS MODEL

Our **business**

We are listed on the JSE Limited in the General Mining sector under the share code MRF. Currently, the main focus of our business is on the 20.5% participation of our wholly owned subsidiary, Merafe Ferrochrome and Mining Proprietary Limited, in the earnings before tax, depreciation and amortisation (EBITDA) of the Xstrata-Merafe Chrome Venture (the Venture), in which Xstrata has a 79.5% participation.

Merafe and Xstrata South Africa Proprietary Limited (Xstrata) formed the Venture in July 2004 when we pooled our chrome operations to create the largest ferrochrome producer in the world.

For more information on the assets we pooled, of which we have retained ownership, and the additional assets we have invested in since participating in the Venture, see the table on page 36 of the Manufactured capital section of this report.

Stakeholder **relationships**

We believe our commitment to and achievements in terms of empowerment, sustainability and good governance have allowed us to establish long-term relationships with our major shareholders – the Royal Bafokeng Nation (through its investment arm, Royal Bafokeng Resources Holdings) and the Industrial Development Corporation (IDC) – and our partners in the Venture.

Empowerment

Merafe's commitment to empowerment was recognised by the *Financial Mail*'s Top Empowerment Companies Survey in 2012 which rated Merafe as the most empowered company in the South African mining sector in 2012.

Governance and sustainability

Our commitment to good governance and sustainability is reflected in our inclusion in the JSE Socially Responsible Investment (SRI) Index since its inception in 2003.

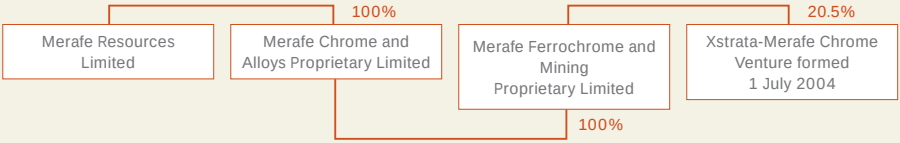
Our material issues

Our material issues are set out on pages 8 to 11 and our approach to risk management is discussed in the Transparency and accountability section of this report on pages 90 to 112.

Our approach to risk

We recognise that risk is inevitable in business and that it goes hand in hand with opportunity. We have established a risk management system that allows us to pursue business opportunities and grow shareholder value, monitor risk in our investments and develop and protect our people, the environment in which the Venture operates and our reputation.

Our structure



For more information on the Merafe Group and structure see pages 129 and 153

Year **in review**

5% increase
in revenue

R314 million
EBITDA

R83 million
cash balance

R512 million
long-term debt

Completed Project Tswelopele on schedule and within budget

Zero
fatalities

Energy efficiency improvement

R257 million
net cash generated from operations

Strong balance sheet

5 cents
HEPS

Most empowered company in the resources sector of the *Financial Mail*'s Top Empowerment Companies Survey in 2012

4.05
TRIFR

Good progress on Lion II

Our **business model and strategy**



Ferrochrome

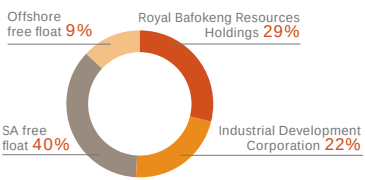
The aim of our business model and strategy is to ensure our ferrochrome interests are profitable and sustainable and that they add value to all our shareholders. We achieve this by:

- extracting chrome ore from the Venture's mines and beneficiating it in its smelters in a safe and cost-efficient manner
- investing in projects that include the Bokamoso and Tswelopele pelletising and sintering plants and the Lion ferrochrome plant Phases I and II that improve the energy efficiency and cost effectiveness of its ferrochrome operations
- employing the Venture's proprietary Premus technology to ensure it is the lowest-cost producer of ferrochrome in South Africa and, despite rising energy costs in South Africa, remains in the lowest quartile of the global ferrochrome production cost curve
- using the flexibility provided by the Venture's variety of technologies to meet changing operating circumstances and customer requirements.

Diversification

Our medium-term objective is not only to grow and improve our ferrochrome operations but to grow through diversification. We are engaging with our stakeholders in this regard and aim to diversify in the medium term. For more information see our CEO's Strategic review on pages 16 to 23.

Our shareholding

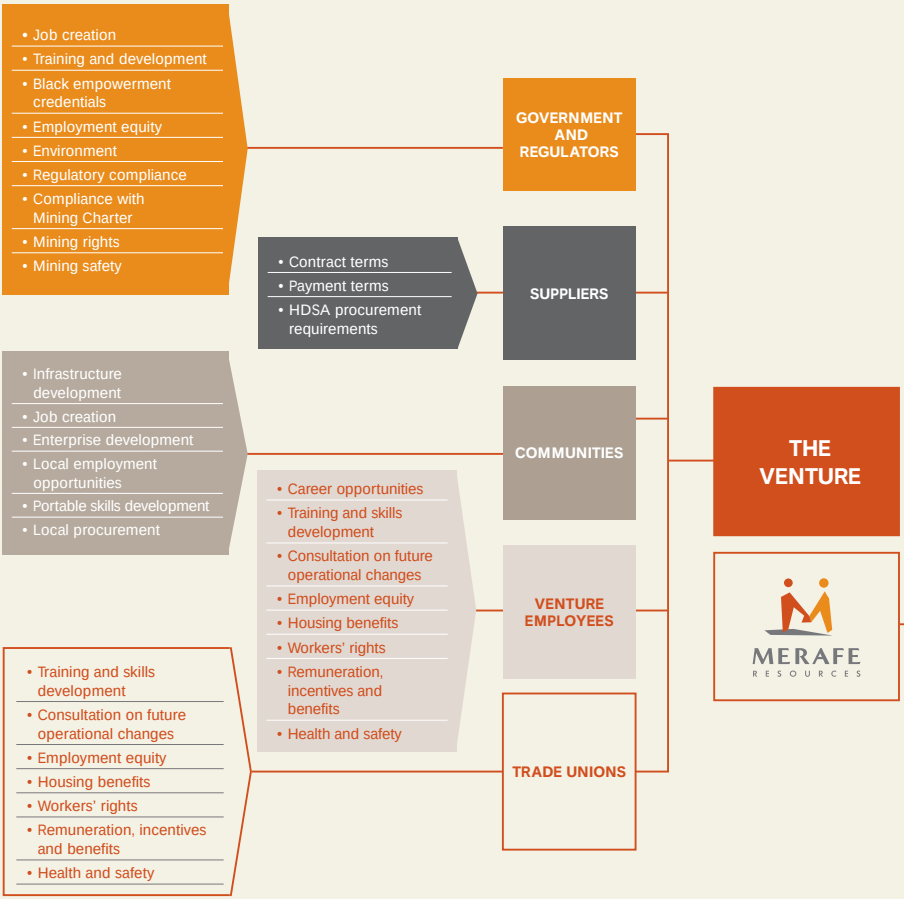


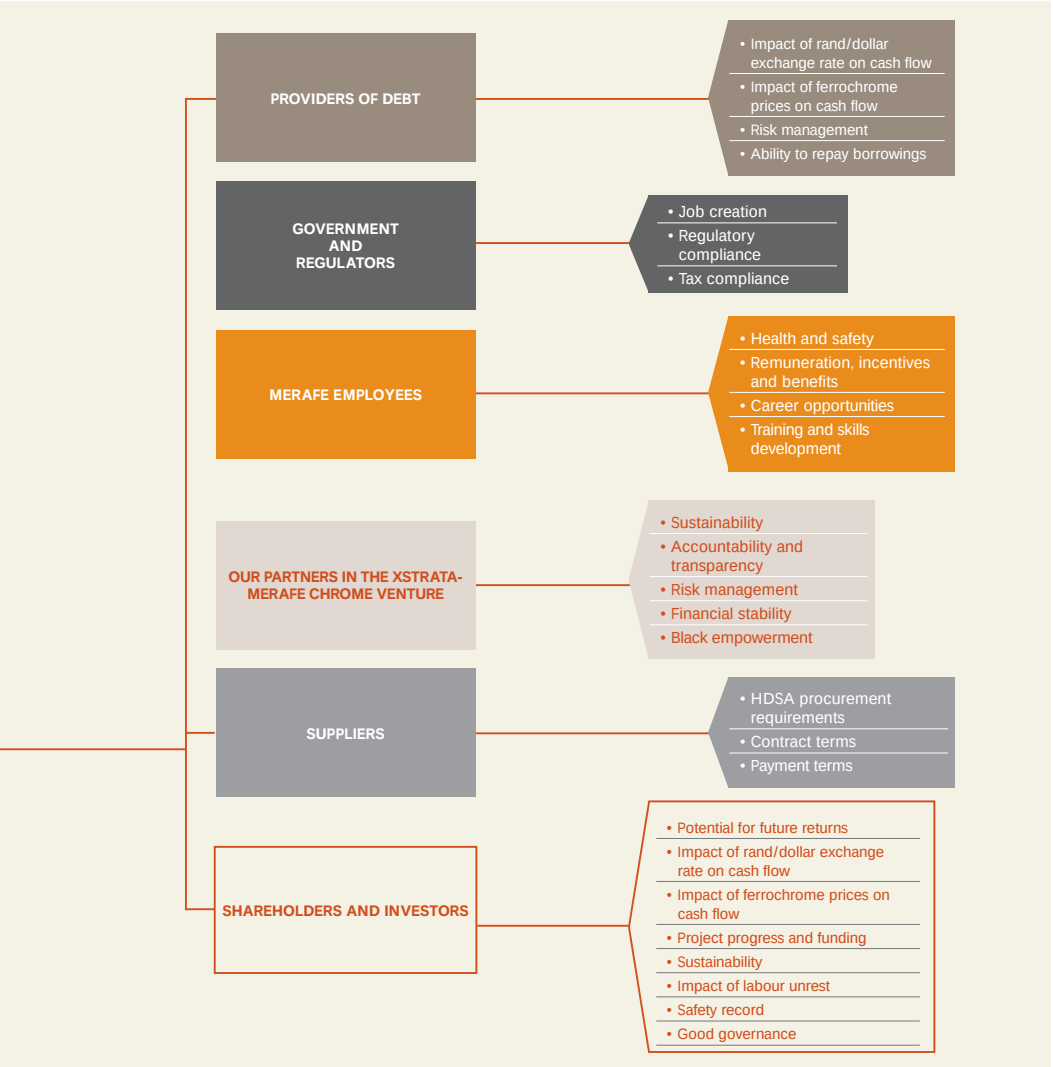
More information on our engagement with our stakeholders is contained in each section of this report and a table containing details of our stakeholders, our methods of engagement with them, the frequency of this engagement, the key topics and concerns raised during these engagements and our responses to them can be found on our website at www.meraferesources.co.za

Overview

OUR STAKEHOLDERS AND ISSUES THAT COULD HAVE A MATERIAL IMPACT ON THEM

Our stakeholders include our shareholders, government and regulators, our joint venture partners, the employees and suppliers of both Merafe and the Venture and the communities in which the Venture operates




PROVIDERS OF DEBT
• Impact of rand/dollar exchange rate on cash flow
• Impact of ferrochrome prices on cash flow
• Risk management
• Ability to repay borrowings
GOVERNMENT AND REGULATORS
• Job creation
• Regulatory compliance
• Tax compliance
MERAFE EMPLOYEES
• Health and safety
• Remuneration, incentives and benefits
• Career opportunities
• Training and skills development
OUR PARTNERS IN THE XSTRATA-MERAFE CHROME VENTURE
• Sustainability
• Accountability and transparency
• Risk management
• Financial stability
• Black empowerment
SUPPLIERS
• HDSA procurement requirements
• Contract terms
• Payment terms
SHAREHOLDERS AND INVESTORS
• Potential for future returns
• Impact of rand/dollar exchange rate on cash flow
• Impact of ferrochrome prices on cash flow
• Project progress and funding
• Sustainability
• Impact of labour unrest
• Safety record
• Good governance

Overview

OUR OPERATING CONTEXT

The Venture's global **position**

Elements influencing the **global demand for and pricing of ferrochrome**

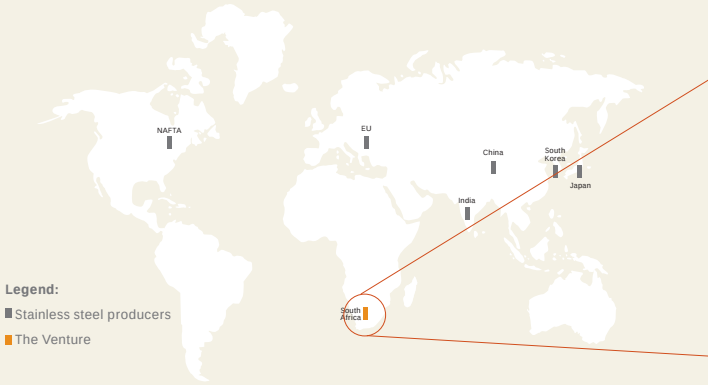
- Global economic conditions
- Exchange rates
- Production costs
- Stainless steel demand
- Growth of Chinese ferrochrome industry
- Chrome ore exports

±90%

of the ferrochrome produced is used in **stainless steel****

5%

growth rate forecast for **stainless steel**



Looking back at **2012**

Production of ferrochrome+

±36%	China
±32%	South Africa
±12%	Kazakhstan
±10%	India
±10%	Others (Brazil, EU, Russia, Turkey, Albania, Zimbabwe, etc)

Production of stainless steel+

±45%	China
±21%	EU
±9%	South Korea/Taiwan
±9%	Japan
±7%	India
±6%	NAFTA*

Ferrochrome consumption+

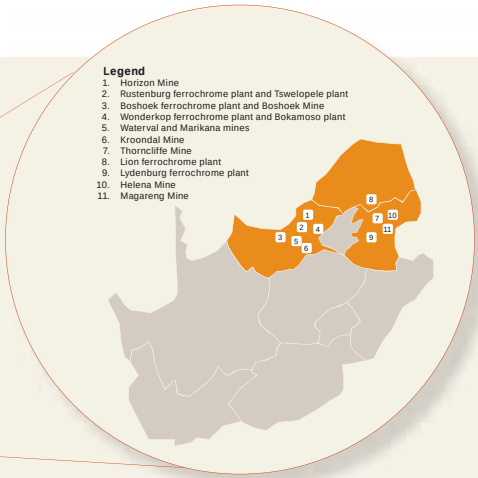
±49%	China
±18%	EU
±13%	South Korea/Taiwan/India
±7%	Japan
±5%	NAFTA*

Consumption of stainless steel**

±38%	China
±19%	EU
±13%	South Korea/Taiwan
±9%	India
±10%	NAFTA*
±8%	Japan

+ *Source of data: Heinz Pariser/February 2013*
* *North American Free Trade Agreement partners – USA, Canada and Mexico*
** *Source: International Chromium Development Association (ICDA)*

For a more detailed breakdown of ferrochrome production and demand see pages 16 to 23



The Venture's position in South Africa

The Venture's competitive advantage

Lowest cost producer in South Africa

Largest ferrochrome producer in the world

Chrome resources in excess of **100 years**

Variety of technologies provide **flexibility**

Major focus on **energy efficiency = major investments** in Phases I and II of the Lion ferrochrome plant and two new pelletising and sintering plants

Lion I and Bokamoso pelletising and sintering plant contributed to overall saving in energy consumption of **more than 12% per tonne of alloy produced**

Newly-constructed Tswelopele pelletising and sintering plant and Lion II will further **increase these savings**

South African chrome industry

Facts

±48%
of China's chrome ore imports in 2012

±35%
of the world's ferrochrome production

±72%
of chrome ore reserves

±R42 billion
contribution to GDP per annum

±R36 billion
in forex earnings per annum

±200 000
direct and indirect jobs

Industry challenges

Increasing electricity costs – **more than doubled** since 2007

Increasing labour **costs** and labour unrest adversely affecting industry

Chrome ore **exports** to China

Socio-political environment
- Labour unrest in mining industry
- Uncertainty around proposed government legislation

See the Mineral Reserves and Resources statement on pages 50 to 61 of this report for details of our chrome resources

MATERIAL ISSUES

Our most material issues

In order to make informed decisions and take appropriate action Merafe and its stakeholders need to identify the issues material to the sustainability of our business. The stakeholders that could be affected by these issues include our employees, shareholders, our partners in the Xstrata-Merafe Chrome Venture (the Venture), the Venture's employees, trade unions, the communities in which the Venture operates, government at local, provincial and national level (in particular the Department of Mineral Resources (DMR) and the South African Revenue Services (SARS)).

We determined our material issues at board and executive level workshops during which we considered financial and non-financial information, the issues driving our sustainability and their possible impact on Merafe and its stakeholders.

	Issue	Stakeholders that could be impacted by or have an impact on this issue	Possible impact	Our mitigating actions/opportunities this issue creates for the business and our response
	Global economic environment	• Shareholders • Merafe management • Merafe employees • Venture partners • Venture communities	• Positive/negative impact on demand for ferrochrome • Positive/negative impact on profitability • Depending on the state of the global economy and demand for ferrochrome and chrome ore, whether the volatility of the rand/dollar exchange rate and the ferrochrome price are in our favour or otherwise, will have a positive or negative impact on all our stakeholders	• While we cannot influence the rand/dollar exchange rate or the global economy and market demand dictates the price of ferrochrome, the Venture can take action to contain costs and remain as competitive as possible. Our investment in the Tswelopele pelletising and sintering plant and Phase II of the Lion ferrochrome plant is increasing the energy efficiency of the Venture's operations and helping to contain costs. The Venture has also managed to reduce the cost of the reductants used in its furnaces and is always looking for and finding ways to further reduce costs
	Diversification – exposure to one commodity	• Shareholders • Merafe management • Merafe employees	• Diversification into other commodities would provide us with a buffer against the cyclical nature of ferrochrome which can and has negatively impacted our profitability during certain years	• Diversification strategy approved by the board • Use empowerment credentials to seek diversification transactions which will enhance shareholder value and smoother returns



Merafe icon
This represents any communication relating to Merafe only



Venture icon
This represents any communication relating to the Xstrata-Merafe Chrome Venture

	Issue	Stakeholders that could be impacted by or have an impact on this issue	Possible impact	Our mitigating actions/opportunities this issue creates for the business and our response
	Partnership in which we do not have a majority stake	• Shareholders • Employees	• Not in control of our destiny • Decisions taken in the best interest of the Venture may negatively impact Merafe	• Contractual provisions • Increase participation interest • Partner with world class operator and global ferrochrome leader • Benefit from economies of scale
	Empowerment credentials	• Shareholders • Venture partners • Employees	• Loss of empowerment credentials would mean loss of competitive advantage and would affect empowerment status of the Venture and diversification opportunities	• Engaging with our key empowerment shareholders • Strategies to increase our empowerment credentials • Opportunity to be an empowerment partner of choice
	Safety, health and wellbeing of Merafe's employees and the Venture's employees and contractors	• Employees, contractors and their families • DMR – Mine Health and Safety Inspectorate • Investors • Trade unions	• Loss of skilled employees • Loss of production impacting on profitability • Negative impact on employee morale • Reputational damage	• The Venture invests in safety training and efforts to transform its safety culture into one where every employee takes responsibility for their safety and that of their fellow employees
	Industrial action in the mining industry and in particular in the operations of the Xstrata-Merafe Chrome Venture	• Venture employees and their families • Trade unions • Shareholders • Communities • DMR	• Loss of production impacting on profitability • Increased costs • Breakdown in relationship with Venture employees • Intimidation of employees by strikers • Damage to property • The safety of the Venture's employees	• The Venture uses every opportunity to engage with its employees, to listen to them, provide them with honest communication regarding the issues that affect them and establish a mutual understanding. It also invests time and effort in establishing an understanding with the trade unions • The Venture also abides by the collective agreements in place and negotiates with the unions annually with the aim of reaching agreement on annual wage increases



In respect of Merafe's empowerment credentials our black ownership of 29% relates to the shareholding of Royal Bafokeng Resources Holdings. The true percentage could be higher as the black ownership of the SA free float (see page 3) has not been determined

MATERIAL ISSUES (continued)

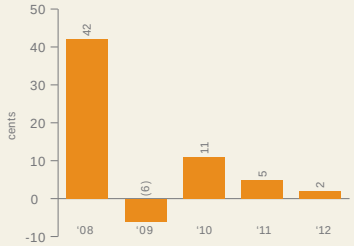
	Issue	Stakeholders that could be impacted by or have an impact on this issue	Possible impact	Our mitigating actions/opportunities this issue creates for the business and our response
	Our social licence to operate	• Communities • Investors • DMR • Employees • Local municipalities	• Dissatisfied communities embarking on action to remove the Venture's social licence to operate • Reputational damage	• To resolve community social issues requires goodwill, commitment and leadership from business, communities, local government and the DMR. If this is addressed the South African mining industry can achieve a more sustainable environment for itself and the communities in which it operates
	Project execution	• Shareholders • Venture management • Venture employees • Venture partners • Communities • Lenders • Customers • Providers of debt	• Loss of profitability • Reputational damage	• The Venture's experienced project team has an excellent track record for delivering projects on time and within budget, which was demonstrated this year with the successful completion of the Tswelopele pelletising and sintering plant and the good progress made with the second phase of the Lion ferrochrome plant
	Chrome ore exports to China	• Shareholders • Merafe management • Merafe employees • Venture partners • Venture employees • Venture communities • Government (SARS)	• Ferrochrome sales to China have been reduced as a result of the export of unbeneficiated chrome ore from South Africa, which is facilitating the growth of a ferrochrome industry in China • Decreased profitability	• The Venture and the ferrochrome industry continue to engage with government with the aim of achieving a solution that supports government's beneficiation and job creation strategies and ensures the sustainability of South Africa's ferrochrome producers

	Issue	Stakeholders that could be impacted by or have an impact on this issue	Possible impact	Our mitigating actions/opportunities this issue creates for the business and our response
	Power prices and the availability of power	• Shareholders • Merafe management and employees • Venture management and employees • Venture communities • Venture customers	• Loss of sales if increased costs make our product prices uncompetitive • Loss of production because of power not being available • Unable to grow the Venture's operations because it is unable to secure a power supply for new projects	• The Venture's continued development and application of energy-efficient technology allows it to maintain its position as South Africa's lowest-cost producer of ferrochrome and therefore the most competitive South African producer • The Venture regularly engages with Eskom and has secured power for the Lion II ferrochrome plant
	Climate change	• All stakeholders	Climate change can impact on the Venture in the following ways: • business continuity and profitability • health and safety • environmental aspects • the Venture's operations give rise to a significant quantity of indirect and direct greenhouse gas (GHG) emissions and are also exposed to the potential impacts of climate change resulting from GHGs	• The Venture continually engages with legislators, researchers and industry bodies to track and evaluate the situation and develop an improved awareness of and preparation for the risks associated with climate change • The Venture is taking steps to reduce its carbon footprint. These include the development of energy-efficient technology and research into the use of alternative sources of energy

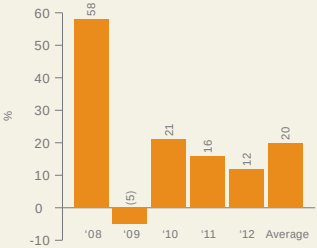
Overview

HISTORICAL REVIEW OF KEY INDICATORS

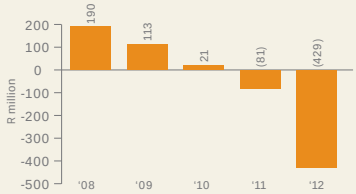
Basic earnings per share



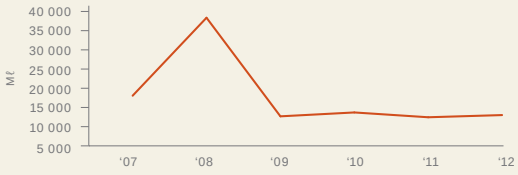
EBITDA margin on revenue



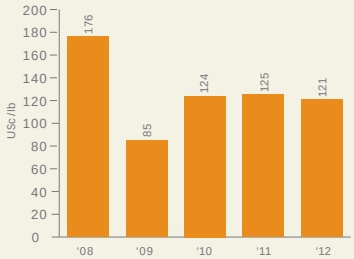
Net cash/(debt) – excluding finance leases



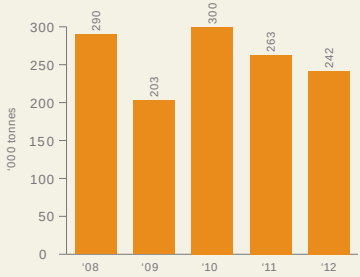
Water usage



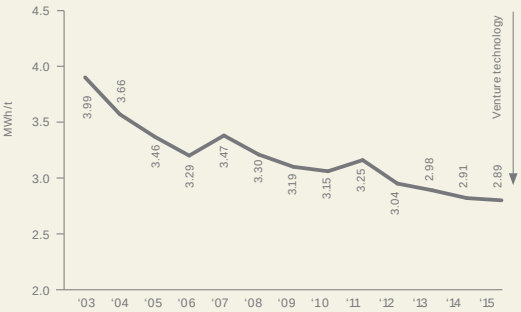
Average European benchmark ferrochrome price



Attributable production tonnes



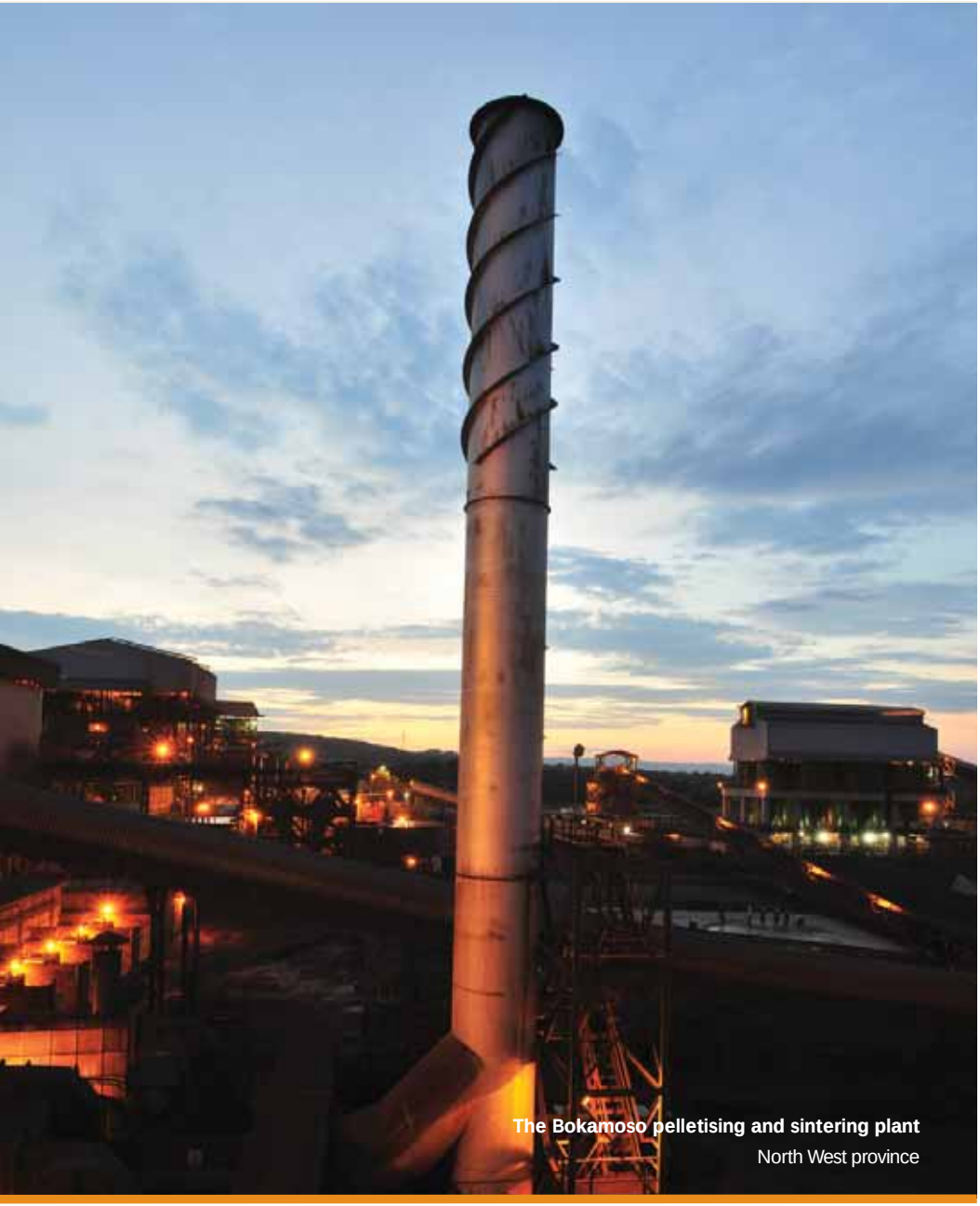
Energy efficiency improvements



This improvement represents more than 25% in energy efficiency over the past decade. The increase in energy consumption in 2007 – 2008 was as a result of reduced pellet availability when all the furnaces operated to meet increased demand.

Safety statistics

	2012	2011	2010	2009	2008
Fatality frequency rate (FFR)	0.00	0.08	0.05	0.05	0.04
Total recordable injury frequency rate (TRIFR)	4.05	3.90	4.58	4.64	5.36



The Bokamoso pelletising and sintering plant
North West province



This section of the report includes our Chief Executive Officer's review of our performance against strategy

STRATEGIC REVIEW	**16**
MARKET REVIEW	**18**
FUTURE OUTLOOK	**22**

strategic review



The Tswelopele pelletising and sintering plant
North West province

STRATEGIC REVIEW





Introduction

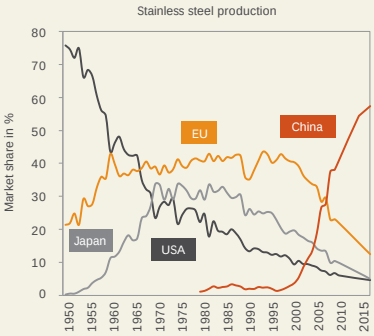
While I have been part of the Merafe family for some time, first as a board member and Chair of the board's Audit and Risk Committee, then as its Chief Financial Officer, this is the first opportunity I have had to report to you as its Chief Executive Officer since I took over from Stuart Elliot in June this year. When I accepted my appointment as CEO I agreed to continue with my responsibilities as Chief Financial Officer until we found a replacement, so I will be reporting to you in terms of both roles in this report. Please see my Financial review in the Financial capital section on pages 27 to 28.

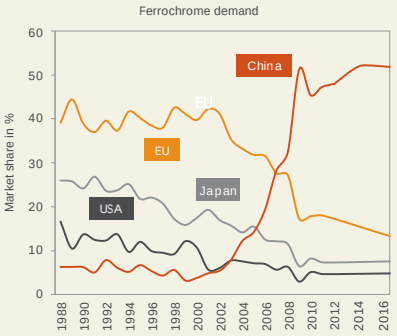
I am pleased to inform you that we have appointed Ditabe Chocho to the position of Chief Financial Officer, who joined us in January 2013 and I look forward to his contribution to our team.

2012 was not an easy time for the mining industry in general and the ferrochrome industry was no exception. As you know, globally economies struggled with debt burdens and an inability to generate meaningful growth, with even the Chinese economy slowing. And this, of course, affected the demand for commodities, and in our case for stainless steel and consequently ferrochrome, which is one of its main components.

Ditabe Chocho's CV can be found on page 93 of the Governance section of this report and on our website at www/meraferesources.co.za

A changing market environment (regional share of global stainless production and FeCr demand)





Source of data: Heinz Pariser/February 2013

In addition, labour unrest hit the South African mining industry in 2012 with tragic and costly consequences. While the Venture was not immune to this, it nevertheless avoided widespread strikes.

Safety

There were no fatalities in the Venture's operations this year and, as you will see in the Human capital section of this report, the Venture's total recordable injury frequency rate (TRIFR) remained stable in 2012.

Strategic review

We review our strategic objectives annually and regularly engage with our investors and other affected stakeholders with regard to our strategic objectives. Following our 2012 review we remain firmly committed to our diversification strategy once our financial commitment to Phase II of the Lion ferrochrome plant comes to an end in 2013.

Ensuring our ferrochrome interests remain profitable

Despite the challenges of lower ferrochrome demand, rising costs driven by higher than inflation increase in electricity tariffs and competitive pressure from China's developing ferrochrome industry we remained profitable. Again I would refer you to the Financial capital section of this review and the Annual Financial Statements for details of our financial performance.

During the year the Venture agreed to participate in Eskom's electricity buy-back programme, which involved the temporary closing of furnaces at various plants. In return, Eskom bought back the energy not consumed by these furnaces, which was beneficial to all parties. The arrangement did not, however, affect the Venture's ability to meet its contractual commitments, nor did it result in any job losses.

In the interest of keeping the Venture's costs as low as possible the partners are considering selling certain high cost mining assets. The sale of these assets would not affect the Venture's supply of chrome ore, as it would have sufficient ore available from its remaining assets. The proceeds from the sale of these assets would accrue to the Venture's partners in accordance with their participation interests.

Challenges

China remains the largest purchaser of South African ferrochrome, however, it is now also the largest producer of ferrochrome while South Africa is the number one exporter of chrome ore to China.

& The Venture remains the **lowest-cost** producer of ferrochrome

STRATEGIC REVIEW (continued)

Clearly, the South African ferrochrome industry, which is a major contributor to GDP and jobs in South Africa and has made a major investment in the expansion of its beneficiation capacity, needs to take action to protect its sustainability. The industry continues to engage with government in connection with a number of proposals aimed at limiting the export of unbeneficiated chrome ore from South Africa. The industry's engagement with government on this issue will continue in 2013.

We are also engaging with the relevant authorities with regard to electricity tariff increases, which are a major concern for the Venture and our industry, with Eskom applying for significantly above inflation increases in industrial electricity tariffs over the next five years. As energy prices increase, the Venture's energy efficiency abilities become ever more key to its sustainability as they enable the Venture to compete globally and retain its position as the lowest-cost producer of ferrochrome in South Africa.

Achieving organic growth

I am pleased to report that the Venture completed the new 600 000 tonne per annum (tpa) Tswelopele pelletising and sintering plant adjacent to the Rustenburg ferrochrome plant in the last quarter of 2012, which will further increase the Venture's energy efficiency and reduce costs at its Rustenburg plant.

I am also pleased to report that while, heavy rainfall and community unrest affected progress on the civil work for Phase II of the Lion ferrochrome plant in Limpopo province during the first quarter of 2012, the Venture has since made good progress with its construction and the project is on track with the commissioning of the plant expected to take place toward the end of 2013. Lion II, named as a value-adding project by the South African government, will have an annual capacity of 360 000 tonnes, will be the most energy- and cost-efficient of the Venture's plants and will increase its production capacity to 2 339 000 tonnes per annum.

Chrome ore imports into China

	2012	2011	2010	% change
South Africa	4 490	4 675	3 100	(4.0)
Turkey	1 840	1 612	1 933	14.1
Oman	426	645	902	(34.0)
India	310	439	389	(29.3)
Pakistan	472	440	512	7.3
Albania	305	357	363	(14.6)
Iran	448	330	350	35.8
Zimbabwe	1	212	160	(99.5)
Madagascar	118	86	115	37.2
Australia	501	208	201	140.9
Philippines	180	137	150	31.4
Brazil	29	60	77	(51.7)
Kazakhstan	89	94	243	(5.3)
Others	91	149	172	(38.9)
Total	9 300	9 444	8 667	(1.5)

Source of data: Heinz Pariser/February 2013

Diversification

Once our financial commitments to Lion II come to an end in 2013, our ferrochrome interests will not require any major investment in the medium term. This will free us up financially to pursue our diversification strategy.

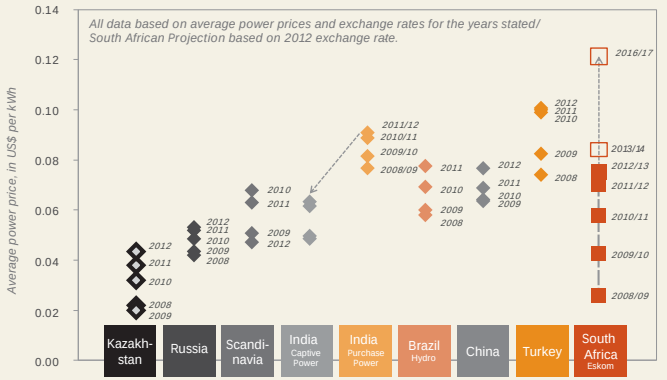
Market review*

The growth in China's stainless steel production in 2012 resulted in record global production of 35.2 million tonnes compared with 34.1 million tonnes in 2011, a 3.2% increase year-on-year. Global demand for ferrochrome also increased year-on-year, to 9.7 million tonnes in 2012, from 9.5 million tonnes in 2011, while global ferrochrome production increased to 9.3 million tonnes in 2012 compared with 9.2 million tonnes in 2011.

See the Operating context section of this report for more information on South Africa's ferrochrome industry

** Source of data: Heinz Pariser/February 2013*

Globally rising power prices



Sources: Individual annual and company reports NordPool Electricity Spot Prices, NRDC, Eskom, Heinz H. Pariser

Ferrochrome production and demand

South African ferrochrome production declined 9% year-on-year with the agreements South African producers reached with Eskom to sell back electricity that they would have used in their furnaces impacting on production levels. During the year increased demand and reduced supply resulted in the drawing down of global ferrochrome stocks.

While China increased its production of ferrochrome by 19% year-on-year to 3.3 million tonnes, facilitated by the increased availability of chrome ore from South Africa, it remains a net importer of ferrochrome, importing 1.5 million tonnes in 2012.

A number of global issues, including the debt crisis in the Eurozone, economic woes in the United States and other geopolitical events, such as the change of leadership in the Communist Party of China, resulted in weaker market conditions which affected ferrochrome demand in the second half of 2012.

Chrome ore

Chinese chrome ore imports decreased from 9.4 million tonnes to 9.3 million tonnes in 2012, however, Chinese demand for chrome ore, driven by the increase in ferrochrome production, increased year-on-year. The excess required to meet this increase came from the drawdown of Chinese port stocks of chrome ore.

In 2012 South Africa supplied around 48% of the chrome ore imported into China, a 4% decrease on 2011 record volumes. These exports of chrome ore continue to advance the development of the ferrochrome industry in China, displacing capacity in South Africa and undermining South African sales of beneficiated chrome ore in the form of ferrochrome.

& South Africa is now the **number one** exporter of chrome ore to China. India was once the leading exporter of ore to China but its exports started dropping in 2007 when the government intervened to promote local beneficiation

STRATEGIC REVIEW (continued)

Our growth in ferrochrome since 2002

2002
- Commissioning of Merafe's **Boshoek smelter and the Motswedi pelletising** and sintering plant
- **Horizon** Mine
- **Kanana UG2** plant

2003
- Merafe acquires **Boshoek Reserves**

2004
- Formation of Xstrata-Merafe **Chrome Venture**
- Merafe's participation interest in the Venture's **EBITDA is 11%**

2005
- Merafe's participation interest in the Venture's **EBITDA** increases to **17%**
- Merafe participates in **360 000 tpa Lion ferrochrome** plant and **Helena** Mine
- Merafe acquires an interest in **Wonderkop smelter** and related mines

2006
- Interest in the Venture's **EBITDA** increases to 20.5%

2007
- **Lion I ferrochrome** plant goes into **production**
- Merafe participates in **Mototolo UG2** plant



Merafe icon
This represents any communication relating to Merafe only

Venture icon
This represents any communication relating to the Xstrata-Merafe Chrome Venture

2008

- Merafe participates in **Bokamoso pelletising** and **sintering** plant

2009

- Merafe participates in **expansionary** projects including **Horizon** and **Waterval** mines

2010

- Merafe participates in **Tswelopele** pelletiser and sintering plant and **K1 and K2 UG2 plants**

2011

- **Waterval** Mine development completed
- Merafe participates in **Lion II** and the **development of Magareng** Mine

2012

- **Tswelopele in** production

2013

- **Lion II ferrochrome** plant scheduled for commissioning

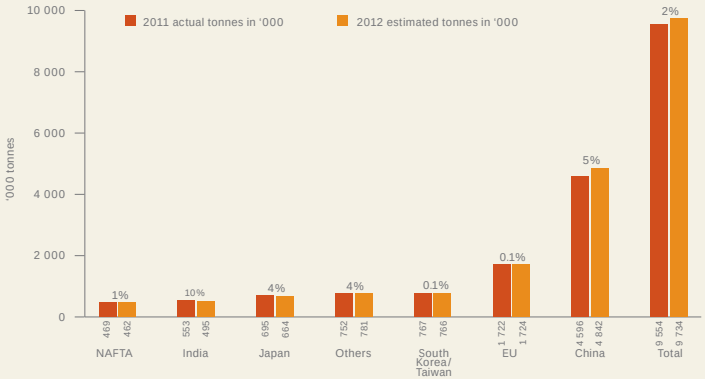


A view from the Tswelopele pelletising and sintering plant towards the Rustenburg ferrochrome plant with the 2.1 km overland conveyor carrying pellets to the plant on the left.

North West province

STRATEGIC REVIEW (continued)

Global ferrochrome demand



Source of data: Heinz Pariser/February 2013

Future outlook

While we recognise that the ferrochrome industry faces challenges we remain optimistic about the future sustainability of our business, particularly as the annual growth rate for stainless steel is expected to be 5% in the long term. The Venture's advantage of being one of the lowest-cost and more energy-efficient producers of ferrochrome will be enhanced in 2013 by the addition of Lion II, which will contribute to the Venture's future sustainability.

We are, however, concerned that this advantage could be further eroded by the substantial increase in electricity costs proposed by Eskom. Further demands for wage increases could also contribute to cost challenges.

At the ANC's recent conference at Mangaung it again confirmed that nationalisation of the mining industry is no longer on its agenda. However, some sort of mining tax remains a possibility.

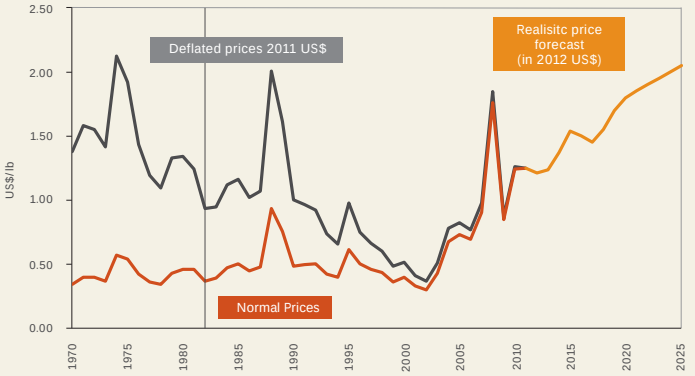
The Venture, along with all South African ferrochrome producers, is committed to continuing to engage with the government with the aim of protecting South Africa's chrome ore resources and an industry deeply committed to the government's beneficiation strategy.

The Glencore Xstrata merger looks likely to go ahead during 2013, having received shareholder approval. Merafe has a longstanding relationship with Glencore who have always been responsible for the marketing of the Venture's ferrochrome and chrome ore and we look forward to further engagement with our new partners in the Venture.

We continue to have the advantage of a strong balance sheet, low gearing and a healthy cash flow and as I have already confirmed we will be investigating opportunities for Merafe to diversify with renewed vigour during 2013.

Merafe's empowerment credentials, which exceed the Mining Charter's requirements, and which earned us the rating of most empowered company in the South African resources sector in the *Financial Mail's* Top Empowerment Companies 2012 survey, also support our future diversification strategy. The Venture is also well-positioned in terms of the remaining Mining Charter targets, many of which it has already exceeded. Its sustainability in terms of its access to reserves (see the Mineral Reserves and Resources section of this report on pages 50 to 61) is also assured.

Ferrochrome price development



Source of data: Heinz Pariser/February 2013

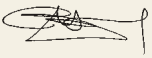
In conclusion

My thanks to our board for their confidence in my ability to lead Merafe and for their support and commitment during the year.

I would also like to thank the Merafe team for their commitment during a challenging year.

The Venture had a change in its Chief Executive Officer with the retirement of Peet Nienaber, in September 2012 who played a significant role in the Venture from its formation in 2004. Loutjie Smit, who has been a non-executive director of Xstrata South Africa for some time, took over as Acting Chief Executive Officer.

My thanks also go to our partners, Xstrata, and the management, employees and contractors of the Xstrata-Merafe Chrome Venture for working safely and profitably in a difficult year.



Zanele Matlala
Chief Executive Officer



This section of the report includes our Chief Financial Officer's review of our financial performance

REVIEW OF RESULTS 26

financial capital



The Lion ferrochrome plant at Steelpoort
Limpopo Province

FINANCIAL CAPITAL

Financial capital makes it possible for the other types of capital to be owned and traded and is representative of how successful we have been at achieving the sustainable development of our natural, human, social or manufactured capital.

Sustainable organisations need a clear understanding of how financial value is created, in particular the dependence on other forms of capital. We enhance our financial capital by:

- effective management of risk
- corporate governance structures
- assessing the wider economic impacts of our activities on society.

Material issues

- Global economic environment
- Ferrochrome demand
- Chrome ore exports to China
- Energy prices and supply



Key points

- Merafe EBITDA R313.7 million
- Strong balance sheet
- Cash flows from operating activities of R257 million
- Profit of R48.9 million
- R603 million invested in expansionary and sustaining capex
- R512 million in long-term debt

Introduction

In this section of our report I will provide you with an overview of our financial performance in 2012. For more detailed financial information I would refer you to our annual financial statements on pages 134 to 182.

Global and local conditions continue to contribute to lower prices and demand for commodities of which ferrochrome is no exception. 2012 was also not a good year for small and medium cap stocks with nervous investors avoiding these stocks. Our share price continues to suffer from this sentiment.

The weakening of the rand against the dollar has compensated to some extent for a reduced ferrochrome price and further electricity tariff increases.

Review of our results

Merafe's primary source of revenue and operating income is currently its 20.5% share of the earnings before interest, taxation, depreciation and amortisation (EBITDA) of the Xstrata-Merafe Chrome Venture (Venture).

Our earnings from the Venture were affected by the decrease in the average European benchmark ferrochrome price from 125 USc/lb in 2011 to 121 USc/lb in 2012, and an increase in costs, both of which were partially offset by the weakening of the rand compared with the US dollar. Merafe's portion of the Venture's EBITDA for 2012 was also affected by a foreign exchange loss of R3.9 million, while its EBITDA for 2011 benefited from a foreign exchange gain of R80.9 million. In 2011 the average R:US$ exchange rate was R7.26 compared with a R:US$ exchange rate of 8.21 in 2012.

Merafe's share of ferrochrome sales tonnes was 255 000 tonnes, which marginally exceeded 2011 sales tonnes of 254 000 tonnes. Chrome ore revenue, as a percentage of total revenue, decreased by 1% from 14% in 2011 to 13% in 2012.

Merafe's share of EBITDA from the Venture in 2012 was R349.4 million, which includes Merafe's attributable share of standing charges of R167.2 million. After accounting for our corporate costs of R33.6 million and a share-based payment expense of R2.1 million, Merafe's EBITDA was R313.7 million. Our corporate costs decreased year-on-year, primarily as a result of transaction costs and expenses associated with indirect tax liabilities that were incurred in 2011.

Merafe's profit for the year was R48.9 million after depreciation of R140.1 million, an impairment loss of R77.5 million, net financing costs of R19.7 million, a current tax expense of R0.3 million, a deferred tax expense of R60.2 million and a R33 million write-back arising from the overprovision of current tax in prior years were taken into account. Depreciation increased year-on-year as a result of the re-assessment of useful lives and residual values in accordance with IAS 16 – Property, Plant and Equipment, as well as the accelerated depreciation recognised on assets scrapped during the year. The impairment loss was primarily as a result of the Venture considering the sale of some of its mining assets as part of its portfolio review. The R33 million write-back of current tax and the increase in the effective tax rate arose from the South African Revenue Services' (SARS) assessment of our returns during 2012.

FINANCIAL CAPITAL (continued)

The balance of our unredeemed capital expenditure is estimated to be R446 million at 31 December 2012.

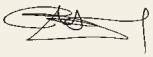
We advised shareholders on 7 August 2012 by means of a SENS announcement, that SARS had issued Merafe Ferrochrome with an audit letter of findings of R26 million. SARS has since withdrawn this letter of findings. As we have previously reported, the partners in the Venture were in the process of engaging with SARS with a view to obtaining clarity on other areas where the structure of the Venture created anomalies with regard to VAT interpretation. We are pleased to report that this matter is now resolved.

Property, plant and equipment increased from 31 December 2011 as a result of capital expenditure of R603 million of which R423 million was expansionary and R180 million was sustaining. The expansionary capital included expenditure on Project Tswelopele, Project Lion II and the development of Horizon Mine.

Merafe started the year with a cash balance of R221 million, generated operating cash flows of R257 million, invested R603 million in capital expenditure, raised loans of R211 million, incurred R3 million foreign exchange fluctuations on cash held and closed with a cash balance of R83 million at 31 December 2012. Cash in Merafe was R24 million and Merafe's share of cash in the Venture was R59 million. At 31 December 2012 Merafe had long-term debt owing to ABSA Capital of R512 million and approximately R288 million unutilised ABSA long-term debt facilities.

Dividend

The Merafe board decided against declaring a dividend for the 2012 year, having taken into account expansion projects and the debt and cash levels of the group.



Zanele Matlala
Chief Financial Officer



STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

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

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

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

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

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2012

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

[b] *Relates to 20.5% of the Venture's total cash outflow.*



This section of the report looks at manufactured capital, the components of which include a company's assets and the processes it employs to extract value from these assets:

THE VENTURE'S OPERATIONS 35

PROJECTS 36

PRODUCT STEWARDSHIP 37

manufactured capital



Inside the Tswelopele pelletising and sintering plant
North West province

MANUFACTURED CAPITAL

Manufactured capital in the mining context relates to the mining process and how it is conducted and the assets which are being mined and beneficiated.

It is important to an organisation's sustainability because its efficient use allows an organisation to be flexible and innovative and increases the speed at which it delivers.

We enhance our manufactured capital by:

- employing our infrastructure, technologies and processes to use our resources most efficiently
- devising technology and management systems that reduce our waste and emissions.

Material issues

- Project execution
- Pricing and the availability of electricity supply
- Business continuity and profitability
- Investing in new technology to increase energy efficiency
- Industrial action



Key points

- Ferrochrome production of 242 000 tonnes
- Operating capacity utilisation of 66%
- Cost increases contained at 9.2%

Our operations

- 20 furnaces on five production sites
- Ferrochrome production capacity of 1 979 000 tonnes a year increasing to 2 339 000 by 2014
- Major energy-efficiency technologies include Outotec and Premus
- Lowest-cost ferrochrome producer in South Africa
- Chrome resources in excess of 100 years assuming current smelting capacity (taking into account chromite ore from the Venture's mines and its access to UG2 ore)

Stakeholder impact

The stakeholders affected by our operations and who can affect our operations include the employees and contractors who work in our operations and our suppliers whose livelihood depends on the success of our operations. Our shareholders rely on the profitability of the Venture's operations and the government is responsible for monitoring the compliance levels of our operations.

Operating performance

The Venture produced a total of 1 180 000 tonnes of ferrochrome in 2012, which is 8% less than its production in 2011, using only 66% of its operating capacity. The weak market conditions influenced its decision to participate in Eskom's power buy-back programme and sacrifice approximately 130 000 tonnes of production. To avoid incurring high winter electricity tariffs the Venture also took the decision to produce at only 40% of its capacity during the winter months of 2012.

The Venture's decisions to take furnaces out of production are influenced by a number of issues. These include the need for furnace refurbishment, a particular furnace being either less efficient or more expensive to run than other furnaces or the need to spread production between plants to keep workforces busy.

When the Venture agreed to participate in Eskom's power buy-back programme it first made sure it could meet its contractual obligations, maintain its reputation as a reliable supplier of ferrochrome, that no employee would lose a job as a result of the buy-back programme and that the programme would be financially beneficial to the Venture.

To be successful the Venture needs Eskom to provide it with a reliable, fairly-priced supply of electricity. It is for this reason that it cooperates with Eskom and whenever possible, participates in programmes that help Eskom meet its commitments.

By the end of 2012, 18 of the Venture's 20 furnaces were back in operation and in spite of the labour unrest that affected the South African mining industry during the year, the Venture lost very little smelter production to strike action. As a precautionary measure the Venture postponed starting up furnaces which had been refurbished during the winter months.

Industrial action at the Venture's mines had a significant impact on ore production volumes, but because its furnace operations were reduced, stockpiled ore was sufficient to meet its requirements. The Venture's vulnerability to industrial action was reduced because while its operations in one region were affected, those in other regions where a different trade union is in the majority were not.

The Venture managed to restrict its total cost increases to 9.2% year-on-year despite costs being driven up by the electricity tariff increase of 16.7%. Despite these circumstances the Venture's ongoing cost saving exercises and investment in consumption efficiency improvements have helped it achieve ongoing year-on-year real cost decreases over the past eight years.

The Venture's cost saving efforts include using more of the lower-priced UG2 ore in its ore mix; optimising its reductant mix and reducing fixed

For more information see the manufactured capital section of our website www.meraferesources.co.za

MANUFACTURED CAPITAL (continued)

Our operations



Xstrata-Merafe Chrome Venture operations

1. Horizon Mine
2. Rustenburg ferrochrome plant and Tswelopele pelletising and sintering plant
3. Boshoek ferrochrome plant and Boshoek Mine
4. Wonderkop ferrochrome plant and Bokamoso plant
5. Waterval and Marikana mines
6. Kroondal Mine
7. Thorncliffe Mine
8. Lion ferrochrome plant
9. Lydenburg ferrochrome plant
10. Helena Mine
11. Magareng Mine

Xstrata-Merafe Chrome Venture's operations

Ferrochrome plants	Capacity	Technology	Mines
Western Limb (North West province)			
Wonderkop	553 000 tpa FeCr	Bokamoso pelletising and sintering plant using Outotec technology	Kroondal, Waterval and Marikana
	6 furnaces	Conventional semi-closed furnaces	
Rustenburg	430 000 tpa FeCr	Tswelopele pelletising and sintering plant using Outotec technology	Kroondal, Waterval and Marikana
	6 furnaces	Conventional semi-closed furnaces	
Boshoek	240 000 tpa FeCr	Motswedi pelletising and sintering plant using Outotec technology	Horizon, Kroondal, Waterval and Boshoek
	2 furnaces	Closed furnaces	
Eastern Limb (Mpumalanga and Limpopo provinces)			
Lydenburg	396 000 tpa FeCr	Premus – kilns	Helena, Thorncliffe and Magareng
	4 furnaces	3 closed furnaces and 1 semi-closed furnace	
Lion Phase 1	360 000 tpa FeCr	Premus – kilns	Helena, Thorncliffe and Magareng
	2 furnaces	Closed furnaces	

The Venture has access to various UG2 plants, in the Western Limb including Eland, EPL, Kanana, Kl, K2, K4 and Rowland, and Mototolo in the Eastern Limb.

costs. The Venture's use of its inhouse patented Premus technology at the Lion and Lydenburg ferrochrome plants and Outotec pelletising technology at its Motswedi, Bokamoso and Tswelopele plants continued to improve its energy efficiencies.

Projects

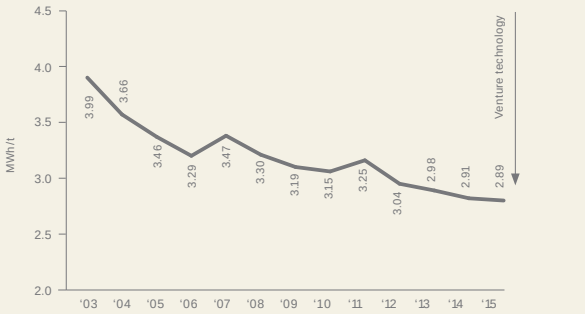
During the year the Tswelopele pelletising and sintering plant was completed on schedule and within budget with the R900 million plant being hot commissioned on 7 October and reaching its designed production capacity within two months of operation. In addition, we congratulate the project team on its outstanding safety record with over 1.6 million man hours being worked on the project without any lost time injuries.

The project's approach to safety was to keep it simple. It used a one page document to summarise the high risk activities facing a team on a particular day and to explain to the team how to perform these activities safely. Supervision levels were improved by not allowing more than 15 team members to work without a supervisor. Management practised ongoing visible felt leadership and there was zero tolerance for any deviation from the project's 20 cardinal rules. Good behaviour was recognised.

Other outstanding performances on the Tswelopele project were the achievement of optimum audit results on both internal and external audits for all aspects of project management.

The capacity of this plant is 600 000 tonnes of pellets per annum. Since it went into production the ore and electricity consumption efficiencies of the Rustenburg plant have

Energy efficiency improvements



improved by more than 21% and 11% respectively. Other advantages are that the plant will produce less slag, emit fewer fugitive emissions and use less water and less diesel by reducing transport requirements. The plant also enables the use of more UG2 ore that cannot be used without being agglomerated.

Good progress was made at Lion Phase II, a 360 ktpa ferrochrome smelter that is being constructed at a capital cost of R4.9 billion. Heavy rainfall and community unrest influenced progress on the civil work during the first few months of 2012. This smelter, based on the energy efficient Premus technology, will be commissioned towards the end of 2013. Once the plant is fully operational additional consumption efficiency improvements and cost savings will be achieved.

Developments at the Horizon Mine progressed well and ramp-up to full production capacity will start during the first half of 2013. Development of the Magareng mine is complete and the mine's beneficiation plant will also be commissioned during the first half of 2013.

Product stewardship

The Venture monitors and addresses the impacts and risks associated with the use of its products throughout their life cycles, including during stages outside of its control, such as use, recovery, recycling and disposal.

It works with national and international industry associations, its customers and suppliers to understand the environmental health and safety risks of its products and to find ways to mitigate these risks.

In terms of Registration, Evaluation and Authorisation and Restriction of Chemicals (REACH), all the products the Venture exports to countries in the European Union have been pre-registered, with the relevant pre-registration certificates and numbers available. The Venture is also actively involved in REACH.

No products produced by the Venture, or their packaging materials, were reclaimed during 2012.

The Venture is participating in a life cycle inventory project for primary ferrochrome production. The scope of the project is to create a life cycle inventory for one kilogram 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 (for example in the stainless steel industry). The Venture is collaborating with other South African producers on this project.

To ensure the quality of its products the Venture aligns its systems with the requirements of ISO 9001:2008 and some of its smelters are certified. Its laboratories are ISO 17025 accredited, which ensures that the methods and equipment it uses are accurate.

Tswelopele facts

Used in the plant:

2 250 tonnes
of structural steel

20km
of instrumentation cable

8km
of piping

42 000 tonnes
of concrete

5km
of conveyors

52km
electrical cable



This section of our report provides information on Merafe and the Venture's approach to climate change and how we are managing our impact on it, the environment in which we operate and how we impact it and our mineral resources and reserves without which our business would not exist

CLIMATE CHANGE AND ENERGY 41

ENVIRONMENT 44

MINERAL RESOURCES AND RESERVES 50

natural capital



Stockpiles and the conveyor belt, which carries the pellets from Tswelopele pelletising and sintering plant to the Rustenburg ferrochrome plant

North West province

NATURAL CAPITAL

Natural capital includes the natural resources and processes needed by an organisation to produce its products.

This includes renewable (timber and water) and non-renewable (fossil fuels and minerals and metals) resources and processes such as energy consumption, waste creation, emissions, etc. Without access to the natural capital contained in our mineral reserves and resources our business would not exist.

We maintain and enhance natural capital by:

- reducing our dependence on fossil fuels
- eliminating waste by reusing or recycling it whenever possible
- protecting biodiversity and eco-systems
- wherever possible using renewable resources from well-managed and restorative eco-systems
- managing resources and reserves efficiently.

Material issues

Energy

Pricing and the availability of electricity supply

Business continuity and profitability

Investing in new technology to increase energy efficiency

Climate change

Health and safety

Environmental aspects of climate change

The Venture's production of significant quantities of indirect and direct greenhouse gas emissions (GHGs)

The carbon budgeting process

Investing in new technologies to reduce emissions



CLIMATE CHANGE AND ENERGY

Key points

- 10% reduction in total CO_2e generated by the Venture
- 3% reduction in CO_2e generated per tonne of ferrochrome produced
- 14% reduction in energy consumption
- 6% reduction in energy use per tonne of ferrochrome produced

Stakeholder impact

The returns earned by Merafe's investors can be negatively affected by pricing, carbon taxes, non-availability of a supply of electricity and the prices customers have to pay for the Venture's products.

The Venture's stakeholders benefit from its energy efficiencies which have made it one of the lowest-cost ferrochrome producers in the world and the lowest-cost producer in South Africa.

The Venture is a major purchaser of electricity from Eskom and any energy efficiencies it achieves reduce pressure on Eskom, which is currently struggling to meet electricity demands.

The government is responsible through the Department of Energy (DoE) for South Africa's energy production strategy, the National Treasury for a proposed carbon tax and the Department of Environmental Affairs (DEA) for climate change policies. Government's actions and decisions can have a positive or negative impact on our business. The price and availability of power can threaten the viability of the Venture's ferrochrome business in particular.

Engagement with stakeholders

We keep our investors and business partners informed on climate change and energy issues. This engagement includes regular board and committee meetings and reporting.

The Venture, which engages regularly with government, was instrumental in establishing two important and influential structures in South Africa: the Energy Intensive User Group (EIUG) and the Industry Task Team on Climate Change (ITTCC) which are both well-regarded and respected by government and big business. The Venture mainly engages with government through these structures and as a member of the South African ferrochrome industry. During 2012 the Venture focused on the pricing and security of power in South Africa, the proposed carbon tax and climate change policies. The Venture is also assisting with the development of the DoE's integrated resource plan.

Merafe's emissions

Merafe established its carbon footprint for the first time in 2012, which was 86 tCO_2e. In order to offset its carbon footprint Merafe is purchasing trees from Food and Trees for Africa and has requested that these trees are planted in a disadvantaged community in the vicinity of the Venture's operations.

The Venture's emissions

The Venture measures its GHG emissions as carbon dioxide equivalent tonnes (tCO_2e). The Venture's total Scope 1 (direct) and Scope 2 (indirect) GHG emissions during 2011 amounted to 6.7 million tCO_2e and this reduced to 6.0 million tCO_2e in 2012.

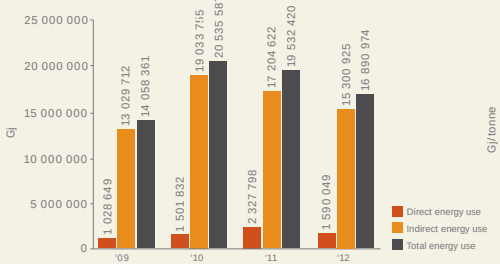
During 2012 the Venture carried out an annual review of its climate change strategy, targets and plans and its energy improvement plans.

It also identified energy reduction projects on which to perform feasibility studies. The availability of funding and uncertainty regarding the increase in power costs made this a difficult exercise. A significant amount of work was done on a waste heat recovery project at the Wonderkop ferrochrome plant. Waste heat will be harvested using the Organic Rankin Cycle process to generate electricity. This project will be funded by an independent power producer from whom we will buy back the electricity produced. The feasibility of this project, however, depends on market conditions and future electricity prices.

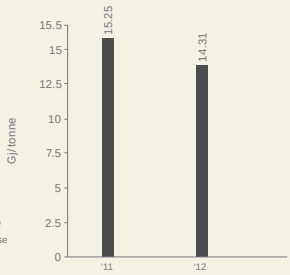
Natural capital

CLIMATE CHANGE AND ENERGY (continued)

The Venture's energy usage*



Energy use per tonne of ferrochrome produced*



** Data for previous years has been restated following a review of data and conversion factors when data was transferred to Xstrata's new database*

The Rustenburg ferrochrome plant is also exploring the possibility of a waste heat recovery project, but the plant has not yet decided on the technology it will use; and is also looking at the possibility of capturing gas from the municipal waste dump, which can then be used as an energy source by the plant. The Venture hopes to sign a memorandum of understanding with the Rustenburg municipality in the near future, which will allow the plant to conduct a feasibility study.

The Venture's energy consumption

Total energy consumption in the Venture's operations decreased 14% year-on-year, partially as a result of lower production volumes and partially as a result of increased energy efficiency.

The Venture's approach to climate change and managing carbon emissions

The Venture has worked for many years on climate change-related initiatives. It has improved its energy efficiency throughout its business and invested in technological solutions that have made its ferrochrome operations the most energy-efficient in the world. It constantly looks for ways to further reduce its energy use per tonne of product and is researching safe solutions to capturing, storing and using carbon dioxide (CO_2) emissions from its ferrochrome smelting operations to produce energy. Xstrata and the Venture apply a global factor based on the GHG protocol (0.8349 kg CO_2/kWh) when measuring the Venture's greenhouse gas emissions.

The Venture's investment in the Bokamoso and Tswelopele pelletising and sintering plants and the Lion ferrochrome plant Phases I and II are all aimed at reducing its consumption of electricity and consequently its carbon footprint.

The Venture includes carbon and climate change risks in its business risk management systems and continues to improve its standards and protocols to measure and monitor and report on its carbon footprint.

The Venture's climate change strategy

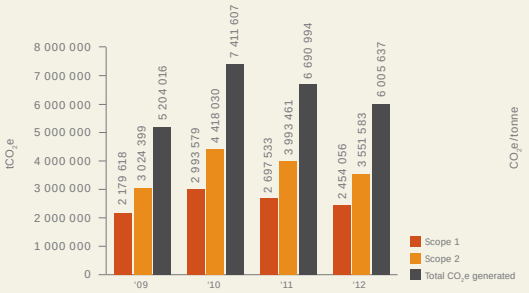
The Venture's existing climate change strategy consists of three elements, which are to:

- continually improve the quality of its data relating to GHG emissions and energy use
- create and develop more energy-efficient mining, concentrating, smelting and refining processes
- achieve ongoing energy efficiency improvements by identifying, implementing and sharing programmes between its operations that significantly advance energy efficiency improvements at its operations.

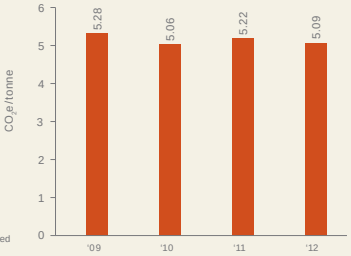
Xstrata began a review of its global climate change strategy, which is applied in the Venture, late in 2011. The objectives of this review were to:

- improve how energy and GHG emissions footprint are measured and managed and understand and identify priority abatement investment opportunities
- further integrate carbon price assumptions, climate-related risks and opportunities into business planning and strategic decision-making
- continue to proactively engage and participate in the development of effective public climate change policy
- continue to invest in the research and development of low emission technologies.

Greenhouse gas emissions (GHGs)*



CO_2e generated per tonne of ferrochrome produced*



** Data for previous years has been restated following a review of data and conversion factors when data was transferred to Xstrata's new database*

The risks associated with climate change

Climate change remains a key longer-term risk for the Venture. The potential risks it faces from climate change are both physical and financial. They are complex risks as they include operational risks such as business continuity, health and safety, environmental aspects and regulatory aspects. The Venture needs to constantly engage with legislators, researchers and industry bodies, track and evaluate the situation and develop an improved awareness of and preparedness for the risks associated with climate change. It works with members of its industry and other stakeholders to understand the potential impacts of climate change and take action to minimise them where climate change is likely to have the most effect and where the Venture can make the greatest difference.

Possible physical and financial impacts

The Venture's operations could be damaged by flooding and extreme storms which could cause business interruptions. The reduced availability of water could also interrupt its business and could have health impacts.

Some of the Venture's operations are located in arid areas where prolonged drought conditions could limit production growth or prevent it from operating.

The risks associated with pricing and security of electricity supply

Higher energy costs negatively affect the Venture's ability to contain operating costs and remain competitive, especially in its ferrochrome operations which are major consumers of electricity. One of the risks associated with the introduction of a carbon tax in South Africa is the impact it would have on the cost of our electricity (produced by burning fossil fuel which produces GHGs) and transportation. It would also increase operational costs related to GHG emissions monitoring, reporting and accounting.

Engaging in public policy

The Venture is assisting the DoE with a carbon budgeting process which involves developing a scientific process for estimating what the country's annual carbon emissions are likely to be, understanding what reduction it is possible for the country to achieve and developing a model that will allow the DoE to put a reasonably accurate price on carbon emissions. Our participation in discussions and interventions with government is through the EIUG and ITTCC.

Understanding the Venture's carbon footprint

The Venture generates GHG emissions from its smelting processes and from its energy use. The use of fossil fuels in the form of diesel and petrol in vehicles contributes directly to the creation of GHGs and the electricity supplied from coal-fired power stations contributes indirectly to the creation of GHGs.

The Venture and Merafe are committed to minimising GHG emissions and improving our energy efficiency, and recognise the magnitude and importance of this challenge.

& The Venture's energy efficiency makes it the **lowest-cost** ferrochrome producer in South Africa

Natural capital

ENVIRONMENT

Environment includes the natural resources and processes needed by an organisation to produce its products.

This includes renewable (timber and water) and non-renewable (fossil fuels and minerals and metals) resources and processes such as energy consumption, waste creation, emissions, etc.

Material issues

- Water
- Air emissions
- Waste
- Biodiversity and land use



Key points

5.2% increase in the Venture's total water usage

Venture reduced its purchase of potable water by 6.1%

There were no high-potential risk incidents in the Venture in 2012

As Merafe's corporate office has a limited impact on the environment this section of our report focuses on the Venture's environmental approach, impact and performance. Previously, we have relied on the Venture's effective environmental policies and procedures to ensure our investment is managed responsibly. Merafe is now in the process of developing its own environmental policy which will apply to any future investments we make.

Stakeholder impact

When it comes to the environmental impact of the Venture's operations, the communities where it operates are important stakeholders, as its operations could affect their access to water and the quality of this water, and its emissions to air could affect the health of community members. If its waste management is poor it could pollute their environment and if its management of biodiversity and its use of the land it occupies is poor it could damage habitats and destroy threatened species. The Department of Environmental Affairs (DEA), the Department of Water Affairs (DWA) and the Department of Mineral Resources (DMR) are responsible for monitoring the Venture's adherence to environmental legislation and its progress against its environmental targets in terms of the Mining Charter Scorecard.

The communities in which the Venture works, and in particular the forums representing these communities, which include the North West Eco Forum and the Kroondal Eco Forum; the DEA, the DWA and the DMR; and a number of industry bodies, including the North West Air Pollution Control Forum (NAPCOF), the International Stainless Steel Federation (ISSF), the International Chrome Development Association (ICDA), the International Council for Mining and Metals (ICMM) and the Global Business Coalition programme, in which Xstrata is either a member or a participant, all have an impact on the Venture's ability to manage the environments in which it works.

The government departments have to approve its environmental and social impact assessments (ESIAs) and issue its water use licences, without which it cannot operate.

Merafe's investors could be affected if the Venture cannot operate without a licence and if it incurs major environmental fines or penalties.

Engagement with stakeholders

The Venture engages with communities through open days and community forums, which provide an opportunity for community members to gain an understanding of its processes and the steps it is taking to improve its environmental performance. The Venture also invites community members and community forums to record any complaints or concerns. A complaints register is available at every operation for this purpose. These complaints/concerns are addressed and the Venture gives feedback on the actions it has taken.

The Venture's operations have quarterly meetings with the community forums. It sends SMS messages to their members whenever there is a venting incident at one of its smelters and it includes information on its actions to address the result of the incident. It also communicates via emails.

ENVIRONMENT (continued)

The Venture's regular engagement with the DEA and the DWA by means of workshops, working groups, forums and meetings allows it to share best practice, discuss industry issues, give input into proposed legislation and share environmental knowledge.

Its participation in industry bodies through membership of committees, co-development of research projects and presentations gives it access to information on common problems, best practice and performance trends and allows it to share information on product stewardship.

An integrated approach to environmental responsibilities

While the Venture manages the environmental risks and impacts of its operations through Xstrata's group-wide environmental risk and performance management framework, it tailors its approach to environmental management to its specific operational and business management processes, while remaining consistent with the commitments and specifications of Xstrata's group-wide sustainable development and risk management frameworks.

Management accountability is central to Xstrata's integrated approach. Every year Xstrata reviews its environmental risks and opportunities as part of its business strategy and planning process. It captures and integrates environmental risks into its site, divisional and commodity business unit and group-level risk registers. This approach involves the whole management team, not just its environmental specialists, in the analysis and treatment of environmental risks and performance.

Xstrata's sustainable development assurance programme, which aligns with ISO 14001 and the International Council of Mining and Metals' (ICMM) Sustainable Development Principles, requires independent site audits in the Venture every three years. These audits, undertaken by specialists, include assessments of both environmental management systems and risks. Each site uses the findings from these audits when they prepare their annual sustainable development improvement plans. The Venture's executive team tracks and reviews these plans. Site specific environmental compliance and system audits are used to identify opportunities to improve environmental management at the Venture's sites.

The Venture's employees are trained in risk management and environmental awareness.

Minimising impacts

The Venture is committed to identifying, understanding and minimising its impacts throughout the life of its operations and rehabilitating land once its operations have ceased. Xstrata's Sustainable Development Policy, which is applied in the Venture, outlines its commitment to identifying, understanding and mitigating the negative environmental impacts of its activities. The Venture focuses on identifying and using opportunities to help protect and improve the environment by, for example, creating protected areas for biodiversity-rich habitats on the land that it owns or leases.

It recognises that mining activities affect land, water and air and believes there is a great deal that it can do to mitigate these impacts and to ensure that they are not long term.

Managing emissions

The Venture's mining and metal processing operations generate air emissions that have the potential to affect communities living nearby and local ecosystems, if they are not carefully controlled and managed. One of its biggest concerns is particulate matter (dust which is sometimes contaminated with metals). The Venture reduces its emissions to air from its smelters to a point where they do not significantly affect air quality. The total particulates generated by the Venture's operations during 2012 were 26% lower than those we generated in 2011 as a result of the Rustenburg ferrochrome plant not operating for six months. The total mass of oxides of nitrogen (NO_x) produced by our smelting processes was increased by 40% and that of our oxides of sulphur (SO_x) was increased by 8%.

Waste

The Venture's operations generate significant amounts of hazardous and non-hazardous waste which, unless properly disposed of, can be a threat to the environment. The costs of waste disposal can be high. The Venture does not transport, import, export or treat waste deemed hazardous under the Basel Convention Annex I, II, III and VIII.

All its operations are required to have waste management strategies and plans in place to reduce, reuse, recycle and properly dispose of the waste they generate. This minimises the amount of waste sent to landfill and cuts costs. Metallurgical mines and smelters produce distinct wastes that need to be dealt with in a specific manner.

& The Venture uses **water** as efficiently as possible

How the Venture disposes of waste also depends on the local opportunities to recycle or reuse waste. Accredited service providers dispose of the waste the Venture is unable to recycle in a responsible manner. Materials currently recycled include scrap metal, paper, wood and conveyor belts.

The largest volume of waste the Venture produces is mineral waste, which includes waste rock removed to expose ore. This waste can be placed in disused opencast or underground operations, reused during site rehabilitation or stockpiled. Tailings and slag from processing ore and concentrates, are recycled or reused whenever possible.

The Venture's emissions

Category	2012 (tonnes)	2011 (tonnes)	2010 (tonnes)
NO_x (oxides of nitrogen) Stack emissions (total mass)	222	159	184
SO_x (oxides of sulphur) Stack emissions (total mass)	2 549	2 365	3 574
Total particulates Stack emissions (total mass)	1 608	2 166	1 432

Mineral waste

Category	2012 (tonnes)	2011 (tonnes)	2010 (tonnes)
Mineral waste- recycled	1 521 116	1 372 889	1 789 004
Mineral waste – disposed	3 638 000	4 478 552	9 195 910
Mineral waste – produced	4 806 050	5 007 406	9 359 752
Non-mineral waste – recycled	9 767	14 772	21 899
Non-mineral waste – disposed	2 793	6 351	7 159
Non mineral waste – produced	12 560	21 123	29 058

Excavated materials, overburden and waste rock have been recorded under mineral waste calculations. As of 2012 no distinction is made between Mineral waste onsite and offsite disposal. 2010 and 2011 numbers have been instated accordingly.

The Venture recycles UG2 ore, a waste product of the platinum refining process, using it to make chromite pellets which are used in its ferrochrome smelters.

Effluents

All the Venture's operations are zero-effluent discharge operations. In terms of our licence conditions and requirements we may only discharge effluent in an emergency and in consultation with the relevant authorities.

Management of overburden, rock, tailings and sludge/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.

Tailings from its operations are generally stored in specially designed dams during the life of the operation. The Venture prioritises the maintenance of the integrity of tailings dams, as even a small amount of leakage could negatively impact local water quality, and takes great care in their design and management. It has processes in place to ensure it continually checks the structural capacity of these dams and to monitor ground waste.

ENVIRONMENT (continued)

The Venture stores waste rock in dumps, which it rehabilitates by shaping rock piles and revegetating them to mimic the natural environment.

Water

Water is a finite and precious natural resource essential to the sustainability of the communities in which the Venture works. It is also necessary for its mining and metallurgical processes.

Redefining water use

The Venture aims to use water as efficiently as possible and to avoid any negative impacts on water quality in the environments in which it works. Its water use includes water employed in its primary activities, which are mining and smelting, and in its non-primary activities such as dust control and garden maintenance. The Venture mainly sources the potable water it uses in its operations from a variety of water service providers, including local municipalities.

Previously, all water used in dust suppression and plant usage from dirty water onsite was considered recycled, as this water was captured onsite and reused in the activities onsite. The Venture has since revised how it defines recycled and dirty water from onsite dewatering activities. Essentially, it captures all rainwater that falls on "dirty areas" and stores it for use in onsite activities such as dust suppression.

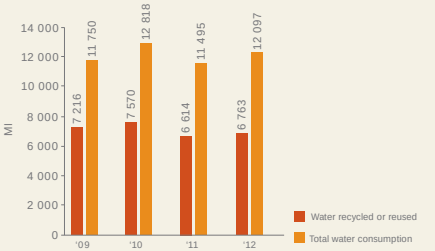
Water usage measurement is an evolving area and the Venture continues to refine how it measures water usage and its collection processes, in order to meet its evolving management and reporting needs.

Water use and availability

The Venture's operations work with the Department of Water Affairs, local communities, local authorities, the farming community and other industry users to ensure the sustainability of water resources and equitable access to water resources for all stakeholders.

The availability of water is a key consideration when the Venture plans the expansion or construction of an operation. It uses the results of the ESIAs it undertakes to guide its decision-making and to ensure it has the least possible impact on local water resources during the various phases of its projects.

The Venture's water usage



All the Venture's operations have water conservation plans. They have previously set water intensity targets and have measures in place to help them be as water efficient as possible. In addition its operations are identifying possible water reduction projects.

The only water sources sensitive to withdrawal in the Venture's operations are the Dwars River and the licensed boreholes at the Lion ferrochrome plant.

Incidents and compliance

It is always the Venture's aim to have no environmental incidents at its operations. It monitors, reports, investigates and remediates any incidents that occur and applies lessons learnt to prevent similar events in the future. Its operations are required to report any environmental high potential risk incidents (HPRI), including near-misses, that could have resulted in a category 4 or 5 incident, even when the actual impact was less significant. Environmental incidents recorded at the Venture's operations include incidents that occur as the result of contractor activity.

Progress

The Venture has had no environmental fines, penalties or prosecutions at its operations for the past five years. The Venture achieved its goal of no category 3, 4 or 5 incidents recorded in its operations in 2012 and no category 4 or 5 incidents were recorded in the Venture's operations for the past six years.

Environmental incidents

Incident category	2012	2011	2010	2009	2008	2007
Category 1 – negligible (causing negligible, reversible environmental impact, requiring very minor or no remediation)	89	76	62	47	32	40
Category 2 – minor (causing minor, reversible environmental impact , requiring minor remediation)	8	7	24	22	10	4
Category 3 – significant (causing moderate, reversible environmental impact with short-term effect, requiring significant remediation)	0	0	0	0	1*	0
Category 4 – major (causing serious environmental impact, with medium-term effect, requiring significant remediation)	0	0	0	0	0	0
Category 5 – disastrous (causing disastrous environmental impact, with long-term effect, requiring major remediation)	0	0	0	0	0	0

* *Stormwater discharges off-site caused by dam overflows as a result of severe storms and heavy rainfall*

Biodiversity and land management

Xstrata maintains a trust fund which contains a sum equivalent to its estimate of the future costs of rehabilitating the sites it manages over their operational lives. The Venture does not have any areas of high biodiversity on the land it owns, leases or manages.

Planning for rehabilitation and restoration

The Venture annually estimates the future costs of rehabilitation and bases the value of the trust fund it maintains on these estimates.

Its careful planning, management and investment in its resources ensures that it rehabilitates and restores its mine areas to an ecological status very similar to the conditions that existed before its mining activities began. The Venture also manages waste rock and closed mines to prevent acid rock drainage occurring. It considers the impact of its operations on local landscapes across the life cycle of a site, from initial exploration to decommissioning and closure.

Identifying potential impacts

The Venture conducts baseline biodiversity and landscape function studies as part of its ESIAs of all its projects. They are undertaken during the feasibility or exploration phase of a project and they help the Venture to address any runoff prevention, soil quality and landscape maintenance issues such as soil erosion. It also conducts environmental risk assessments for its new operations and for any major changes to existing operations. These assessments, having established the existing conditions of biodiversity and landscape function (e.g. soil erosion control and watershed management), identify the potential impacts of the proposed activities that could be a risk to biodiversity and landscape functions. They also identify the standards that need to be applied or used as benchmarks, and opportunities for improvements.

The Venture shares the information it gains from baseline and risk-related studies with affected and concerned stakeholders and uses it in its development and implementation of biodiversity and landscape function management systems and programmes and site closure plans.

Natural capital

MINERAL RESOURCES AND MINERAL RESERVES



Introduction

The purpose of this report is to document the mineral resources and mineral reserves of Merafe Ferrochrome in accordance with the requirements of the SAMREC Code (The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2009). All Merafe's operations are part of a pooling and sharing venture with Xstrata Alloys (the Xstrata-Merafe Chrome Venture, known as the Venture). Merafe has a 20.5% participation interest in the mineral resources and mineral reserves of the Venture. The estimates in this document are as at 31 December 2012. The reporting date was moved forward from the end of June to the end of December during the 2011 reporting period so that it coincides with the Venture's financial year. The mined-out positions have been kept as at the end of June 2012. To arrive at a mineral resources and mineral reserves estimate for 31 December 2012, the budgeted production for July 2012 to December 2012 has been subtracted from the total estimates. The mineral resource and mineral reserve information in the tables on the following pages is based on information compiled by a Competent Person (as defined by the SAMREC Code).

Statement by Competent Person

The mineral resource and mineral reserve statement has been reviewed and the relevant data extracted and compiled by Pieter-Jan Gräbe (P-JG). P-JG is the Lead Competent Person, registered with the South African Council for Natural Scientific Professions (SACNASP, Private Bag X450, Silverton, 0127), Reg. No. 400177/87. He holds a BSc Hons degree in Geology as well as an NHD in Metalliferrous Mining. P-JG is a geologist with 27 years' experience in mineral exploration and mining geology, directly linked to the mining industry and currently a fulltime employee of Xstrata Alloys. P-JG consents to the inclusion in this report of the matters based on this information in the form and context in which it appears.



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For more information on the Merafe structure
see page 3 of this report

Definitions

The following definitions (as per the SAMREC Code 2009) have been applied in estimation and categorisation of the mineral resources and mineral reserves disclosed within this document.

Mineral Resource:

Is 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.

A deposit is a concentration (or occurrence) of material of possible economic interest, in or on the earth's crust, that may include mineralised material that cannot be estimated with sufficient confidence to be classified in the Inferred category. Portions of a deposit that do not have reasonable and realistic prospects for eventual economic extraction are not included in a Mineral Resource.

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.

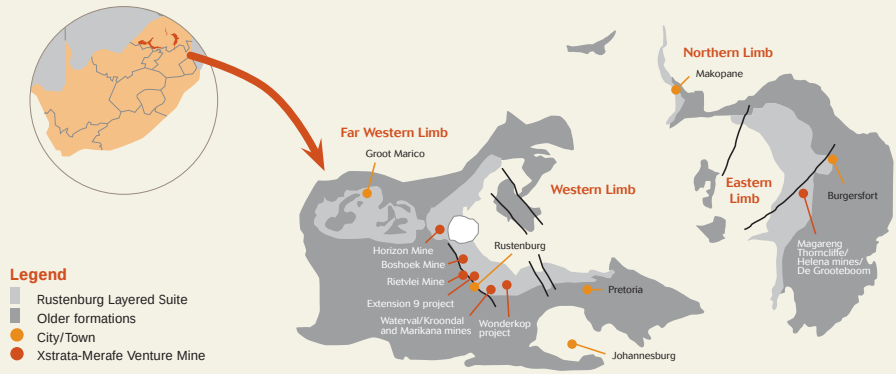
Proved Mineral Reserve:

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.

Natural capital

MINERAL RESOURCES AND MINERAL RESERVES (continued)

Figure 1: Location of the Venture's operations



Brief description of exploration activities

The Venture's exploration activities aim to increase geological knowledge and confidence in its mineral resource base and to comply with legislative requirements. Exploration is done on two fronts; exploration is done ahead of operations in current mining areas to support the mining activities, whilst project areas are explored to define and quantify new resources. Exploration is done on an annual basis, primarily through the drilling of vertical exploration drillholes. Geophysical surveys (mainly airborne magnetic surveys) have been conducted on all major operating mines and projects. The bulk of the exploration drillholes are drilled, as far as possible, on a pre-determined grid whilst further drillholes are drilled to target geological anomalies and to provide geological and geotechnical information for mine planning.

A total of R17.404 million was spent on drilling 21 148 metres of surface exploration drillholes for the Venture operations and projects in FY2012.

No feasibility studies were conducted during the reporting period.

Geological setting

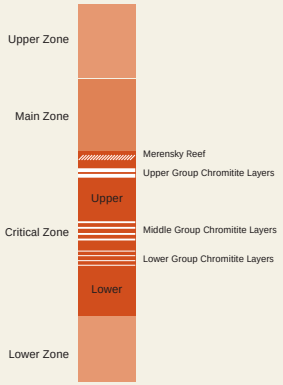
The Venture's chrome ore-bodies occur in the Bushveld Complex and its silica deposit occurs in the Magaliesberg Formation of the Transvaal Super Group (Figure 1). Both these geological occurrences are found in South Africa. Chrome ore is mined from both underground (mostly) and opencast workings, while silica is only mined in opencast workings.

The Bushveld Complex

The two billion year old Bushveld Complex (the Complex) is the world's largest known layered igneous intrusion and covers an area of 65 000km^2. The Complex is host to the majority of the world's PGM, chromite and vanadium resources.

The Complex is divided into five compartments; the Western Limb, the Eastern Limb, the Northern Limb, the far Western Limb and the Bethal Limb (Figure 1). Merafe has operations on the Eastern and Western Limbs of the complex. The Bushveld Complex is divided vertically into four suites of rocks; the Rooiberg Group, the Rustenburg Layered Suite, the Rashoop Granophyre Suite and the

Figure 2: Schematic stratigraphy of the Rustenburg Layered Suite with special reference to the chromitite layers. *(illustration not to scale)*



Lebowa Granite Suite. The mafic Rustenburg Layered Suite hosts the chromite deposits of the complex in the highly continuous chromitite layers of the Critical Zone. The complex reaches a vertical thickness of up to 9 000m. The Critical Zone contains 14 individually recognisable chromitite layers with varying thicknesses and grades. The primary chromitite layers targeted for chromite extraction are the LG6A and LG6 Chromitite Layers, usually mined as a package, and the MG1 Chromitite Layer. The LG6 Package consists of the lower LG6 Chromitite Layer which is separated from the LG6A Chromitite Layer by a pyroxenite (waste) middling. The MG1 Chromitite Layer consists of a single chromitite layer, with occasional discontinuous internal waste partings.

Magaliesberg Formation

The Magaliesberg Formation is made up of a package of individual layers of shale, quartzite and hornfels, which form a sub-formation of the Pretoria Group of the Transvaal Supergroup. The quartzite layers of the formation were formed by the deposition of sandstone sediments into the Transvaal Basin around 2.2 billion years ago. The Magaliesberg Formation is a massive sequence of quartzite and minor hornfels reaching a few hundred metres in thickness. The quartzites form a prominent topographical ridge (mountain range) around the rim of the Bushveld Complex. The Rietvlei deposit occurs along a prominent quartzite ridge which strikes north-south. The ore-body dips towards the east at dips varying between 32^0 – 62^0. Jointing throughout the formation is fairly prominent. The quartzite is very pure, with an average content of SiO_2 of over 90%. There are no indications on surface of major geological disturbances. A major regional fault (the Rustenburg Fault) is developed to the southeast of the mine (just off the mine property).

Type of mining and mining activities

The Venture has chrome mining operations along the Western and Eastern Limbs of the Bushveld Complex. The operations along the Western Limb of the Bushveld Complex comprise the Waterval, Kroondal, Boshoek, Horizon and Wonderkop mines. The LG6 Package at both Waterval and Kroondal mines is mined underground using trackless mining methods on a bord-and-pillar layout. Boshoek Mine is 20km northwest of Rustenburg. The MG1, LG5 and LG6 Chromitite Layers are being mined in open pits. Horizon Mine lies just west of the Pilanesberg Complex. The LG6 Chromitite Layer is currently being mined at Horizon Mine through underground operations. Wonderkop Mine, Waterval/Klipfontein and Extension 9 are exploration projects.

Thorncliffe, Magareng and Helena mines are situated along the southern portion of the Eastern Limb of the Bushveld Complex. The MG1 Chromitite Layer is being mined underground using trackless mining methods on a bord-and-pillar mining layout. De Grooteboom lies contiguous to and immediately north of Thorncliffe Mine.

The Venture's silica deposit lies 15km west of Rustenburg. Rietvlei Silica is an opencast mine. The quartzite is mined mainly to supply the Venture's furnaces with silica.

MINERAL RESOURCES AND MINERAL RESERVES (continued)

Ore production

The Venture has mined 4.276Mt ROM ore from 1 January to 31 December 2012 against a budget of 5.036Mt. The main contributors to the lower than budgeted ROM tonnage are Waterval, Kroondal, Thorncliffe and Helena mines. The lower ROM production at Waterval Mine is mainly due to industrial action and mining operational issues. Kroondal Mine experienced similar industrial action. At Helena Mine the main reasons for the lower production were equipment breakdowns, Section 54 stoppages and mining operational reasons. The 2012 ROM tonnage is higher than the 2011 ROM production of 3.912Mt as production activities at the main production units have remained more or less the same as the 2011 production year. Waterval, Magareng and Helena mines are in build-up phases and increasing their production rates year-on-year.

The estimates in this statement reflect the mineral resources and mineral reserves as at 31 December 2012.

Legal entitlement

All new order mining rights applications, mining right conversions, prospecting rights conversions and new order prospecting rights for all the main operating units, have been granted and executed by the Department of Mineral Resources. Certain Section 102 and Section 11 applications under the MPRDA remain in the ordinary administrative process, and the Venture has little reason to believe these will not be granted in due course.

In respect of a portion of Horizon Mine (Ruighoek and Vogelstruisnek), an application to the High Court has been made by certain surface rights owners at the mine to review and set aside the conversion of mining rights granted by the Minister of the Department of Mineral Resources and to request that the conversion process start again. This issue has been settled and as the area concerned does not fall within the anticipated five-year mining area it will therefore have no impact on short-term mine production.

Description of the method and assumptions made to estimate mineral resources and mineral reserves

Chrome

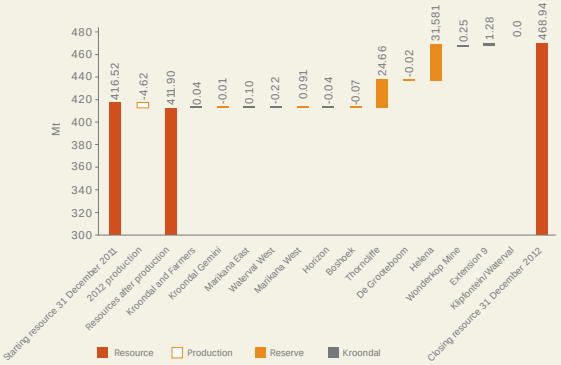
Raw geological data is validated through various steps and routines before being compiled into a final database.

The database data is statistically and geostatistically analysed to determine the inherent characteristics and variability of the data. The ore-body characteristics that are analysed are the distribution and variability of the thickness, SG of the chromitites and the critical grade elements (Cr_2O_3, FeO_{total} and SiO_2). The results of the geostatistical analysis are used as input parameters for the creation of grade and thickness block models covering the entire mining or project area. The block models form the basis from which the tonnage and grades are reported for the various mineral resource and mineral reserve blocks and categories. The mineral resource categories are mainly based on the data point density. A data point density of approximately 200m x 200m is used for the classification of measured mineral resources. For indicated mineral resources a density of between 200m and 400m is used. inferred mineral resources will be classified where the density is lower than 400m x 400m. The geostatistical analysis of the exploration data has indicated semi-variogramme ranges of at least 250m going up to 2 000m. Geological structural characteristics are used in addition to support the drilling density.

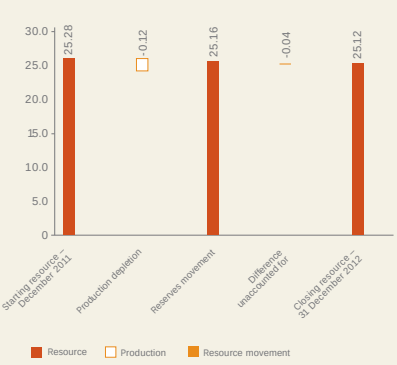
Other factors that are taken into consideration are regional geology and the proximity of other operating or worked-out mines and projects. All the non-mineralised areas, and areas that may not be mined for various legislative or other reasons are excluded from the mineral resources, e.g. boundary pillars, crown pillars, large potholes, transgressive geological bodies, fault zones, etc. The mineral reserves are estimated by applying modifying factors to convert the indicated mineral resources to probable mineral reserves and the measured mineral resources to proved mineral reserves. The following modifying factors are used: an estimated geological loss factor (determined by losses in mined-out areas and projected forward), the predetermined mining extraction rate, ore losses and ore contamination from mining over break. The mineral reserve areas are restricted to the five-year detailed mine plan, except in the case of Waterval, Thorncliffe and Kroondal mines. In these cases the LOM plans form the basis for the mineral reserves. No inferred mineral resources have been converted to mineral reserves.

& The Venture spent **R17.4** million on surface exploration drillholes in 2012

Chrome mineral resource



Quartzite mineral resource



Silica

The silica mineral resources are estimated by modelling the quartzite hill that is being mined. The volume of the quartzite hill is determined from the 1 340m level (amsl) to the current topographical surface. The volume is multiplied by the assayed SG for the Rietvlei quartzite to determine the in-situ tonnage. The quartzite is exposed through the opencast mine workings and along the slopes of the hill. The exploration core boreholes, the beneficiation process, the protruding hill itself, as well as excavations from mining have been used as criteria for classifying the deposit as an indicated mineral resource.

Comparison of mineral resource and mineral reserve estimates with previous year's estimates

The annual mineral resource and mineral reserve estimates are compared with the previous year's statement and reconciled each year after the estimates have been finalised. Changes in the year-on-year tonnage and grade estimates are mainly due to mining depletion and changes in the mineral resource and mineral reserve tonnages and grades due to additional geological information.

Mineral resource reconciliation

The year-on-year change in chromitite resource tonnages is the most prominent at the Thorncliffe and Helena properties. The change is due to the introduction of the MG2 Chromitite Layer into the resource statement. The net change in mineral resources tonnage for every property after mining depletion is shown above.

There is no material difference in the silica mineral resource estimate from January 2011 to December 2012 and the change is almost entirely attributed to mining depletion.

Mineral reserve reconciliation

The biggest year-on-year changes in the ore reserves were recorded at the Kroondal Gemini, Horizon and Thorncliffe properties. The reserve increase at Kroondal Gemini is mainly due to inferred mineral resources upgraded to indicated mineral resources and subsequently modified to mineral reserves and a change in the mining extraction rate. The Horizon mineral reserves were estimated and declared for the first time, hence the increase. Thorncliffe had a net increase in mineral reserves mainly due to inferred mineral resources upgraded to indicated mineral resources followed by the modification of those mineral resources to mineral reserves.

Natural capital

MINERAL RESOURCES AND MINERAL RESERVES (continued)

Auditing

An internal audit is conducted annually on the estimation process. The 2012 estimation process was audited internally by Xstrata Alloys' Auditing Services. The internal audit report is presented to the Xstrata Alloys Audit Committee. The internal audit focused on verifying whether the estimation process complied with the Xstrata inhouse "Procedure for the Estimation of Mineral Resources and Ore Reserves" and the requirements of the reporting code. The audit involved site visits to the chrome mining operations as well as Xstrata Mining Division Head Office. No major issues were raised and the minor issues raised will be addressed during the current reporting period.

Statement regarding inferred mineral resources and feasibility studies

No feasibility studies were conducted during the reporting period on any of the mines or projects and hence no inferred mineral resources have been included in any feasibility studies. No inferred mineral resources have been modified to mineral resources.

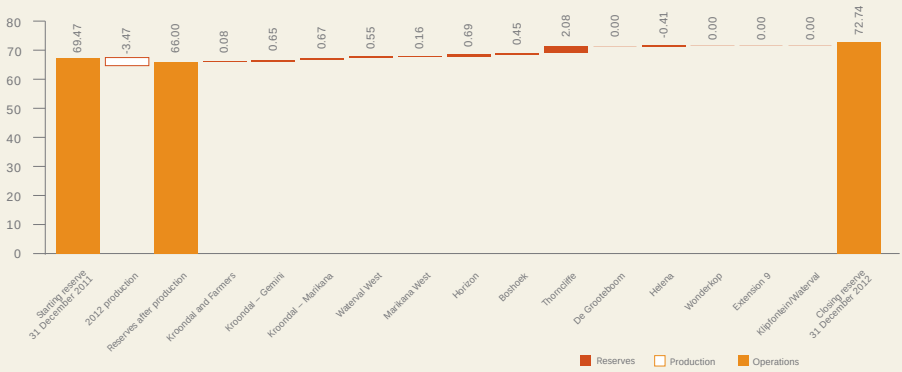
Material risk factors

There are no foreseen material risk factors that could affect the validity of the current mineral resource and mineral reserve statement. All the legislative requirements have been met with respect to the rights to mining and prospecting for which the mineral resources and mineral reserves have been reported. All the operating mines are mining under new order, executed, Mining Rights. The Prospecting Rights of all the prospecting areas have been converted to new order Prospecting Rights.

Summary of environmental funding and management

All Venture operations have developed and implemented their own environmental management programmes (EMP) and systems which are fully aligned with ISO 14001 and the ICMM principles of sustainable development. All operations follow the Xstrata inhouse 17 Sustainable Development Standards which were compiled based on ISO standards. Baseline biodiversity and landscape function studies are conducted at the feasibility or exploration phase of projects and environmental risk

Chrome ore reserves





assessments associated with impacts on biodiversity and landscape functions are undertaken for new operations or major changes to existing operations. Information from these studies is used, in consultation with the affected parties and concerned external stakeholders, for the development and implementation of biodiversity and landscape function management systems and programmes. Various audits are conducted across the operations. These range from internal audits to third party external audits. The Venture also makes use of specialist reports where necessary. The Venture sets targets and effectively measures environmental performance against such targets and benchmarks their performance against leading practices in the industry. Such targets and performances are reviewed at regular intervals to ensure continual improvement of environmental performance. The Venture has introduced key performance indicators on the reuse and recycling of waste in 2012. The target was set at 10%. All employees are coached and trained regarding the efficient use of natural resources, reducing input material and waste. All operations have closure plans which entail the rehabilitation of all disturbed areas, buildings etc. These plans are reviewed annually and amended where applicable. They include closure cost estimates and anticipated costs of rehabilitation and restoration are provided for throughout the life of the operations. The estimated rehabilitation costs are provided for by means of a bank guarantee. Day-to-day cost relating to environmental issues is budgeted for on an annual basis.

Natural capital

MINERAL RESOURCES AND MINERAL RESERVES (continued)

Mineral resources and mineral reserves statement

The reporting date for the mineral resources and mineral reserves is 31 December 2012.

Chrome mineral resources

Name of operation	Attributable portion	Mining method	Commodity	Measured mineral resources 31.12.12	Measured mineral resources 31.12.11	Indicated mineral resources 31.12.12	Indicated mineral resources 31.12.11	Measured and indicated resources 31.12.12	Measured and indicated resources 31.12.11	Inferred mineral resources 31.12.12	Inferred mineral resources 31.12.11	Competent Person
Operating mines												
Waterval	20.5%	UG	(Mt)	16.609	16.530	0.98	1.36	17.59	17.89	0.6	0.6	DR/PJG
			Cr_2O_3(%)	41.29	41.20	42.6	42.5	41.4	41.3	43	43	
Marikana West	20.5%	UG	(Mt)	3.530	3.217	1.59	2.06	5.12	5.27	5.12	–	DR/PJG
(Waterval Ext)			Cr_2O_3(%)	42.38	42.34	42.6	42.7	42.5	42.5	42.5	–	
Kroondal	20.5%	UG/OC	(Mt)	9.811	9.995	1.82	1.89	11.64	11.89	0.1	–	DR/PJG
			Cr_2O_3(%)	42.87	42.91	42.4	42.6	42.8	42.9	42	–	
Kroondal Gemini	20.5%	UG/OC	(Mt)	10.854	9.846	6.47	7.76	17.33	17.61	0.2	0.2	DR/PJG
(Kroondal ext)			Cr_2O_3(%)	42.83	42.98	42.2	42.4	42.6	42.7	42	42	
Marikana East	20.5%	UG	(Mt)	4.485	3.874	0.49	1.21	4.97	5.08	0.3	0.3	DR/PJG
(Kroondal ext)			Cr_2O_3(%)	42.35	42.41	42.3	42.3	42.3	42.4	42	42	
Horizon	20.5%	UG/OC	(Mt)	4.080	4.023	9.74	10.09	13.82	14.11	9.1	8.8	DR/PJG
			Cr_2O_3(%)	44.78	44.99	43.9	44.0	44.1	44.3	44	45	
Boshoek	20.5%	OC/UG	(Mt)	0.350	0.739	16.87	16.87	17.22	17.61	–	–	DR/PJG
			Cr_2O_3(%)	39.43	40.38	40.4	40.4	40.4	40.4	–	–	
Thorncliffe	20.5%	UG/OC	(Mt)	44.382	41.322	9.70	12.51	54.09	53.83	35.7	13.6	DR/SV
			Cr_2O_3(%)	40.58	40.46	40.8	40.9	40.6	40.6	40	41	
Helena	20.5%	UG/OC	(Mt)	19.673	18.744	7.49	9.06	27.17	27.81	88.0	56.8	DR/SV
			Cr_2O_3(%)	40.48	40.53	39.5	39.5	40.2	40.2	39	39	
Subtotal			(Mt) Cr_2O_3(%)	113.773 41.35	108.289 41.33	55.17 41.4	62.81 41.4	168.94 41.36	171.10 41.4	133.9 40	80.4 40	
Projects												
Wonderkop	20.5%	UG	(Mt)	–	0.452	7.05	6.84	7.05	7.29	–	–	PJG/DR
			Cr_2O_3(%)	–	40.20	40.6	40.5	40.6	40.5	–	–	
Extension 9	20.5%	UG	(Mt)	–	–	13.89	12.61	13.89	12.61	–	–	PJG/DR
			Cr_2O_3(%)	–	–	41.0	40.8	41.0	40.8	–	–	
De Grooteboom	20.5%	UG/OC	(Mt)	0.802	0.808	0.65	0.66	1.45	1.47	–	–	SV/DR
			Cr_2O_3(%)	40.28	40.28	40.3	40.3	40.3	40.3	–	–	
Klipfontein/ Waterval	20.5%	UG	(Mt)	8.277	4.476	13.81	15.78	22.09	20.26	121.6	123.4	PJG/DR
			Cr_2O_3(%)	42.35	42.82	42.5	42.6	42.4	42.7	42	42	
Subtotal			(Mt)	9.080	5.735	35.80	35.90	44.48	41.64	121.6	123.4	
			Cr_2O_3(%)	42.17	42.26	41.5	41.5	41.6	41.6	42	42	
Total			(Mt)	122.853	114.024	90.57	98.71	213.42	212.28	255.5	203.8	
			Cr_2O_3(%)	41.41	41.38	41.4	41.5	41.4	41.4	41	42	

Notes
Tonnages are quoted as million metric tonnes.
Grades are quoted as % Cr_2O_3.
The measured and indicated mineral resources are inclusive of those mineral resources modified to produce ore reserves.
No cut-off grades are applied to the chromitite layers currently being mined because of the exceptional regional grade consistency and continuity.
The mineral resources are estimated as chromitite tonnages and grades to reflect the grades of the various individual chromitite layers. The LG6A and MG1 Chromitite Layers which Xstrata is currently mining, are discrete solid chromitite layers.
Changes in the year-on-year mineral resource tonnage and grade estimates are mainly due to mining depletion and changes due to additional geological information gained through exploration.

Chrome mineral reserve statement

Name of operation	Participation interest	Mining method	Commodity	Proved mineral reserves 31.12.12	Proved mineral reserves 31.12.11	Probable mineral reserves 31.12.12	Probable mineral reserves 31.12.11	Total mineral reserves 31.12.12	Total mineral reserves 31.12.11	Competent Person
Operating mines										
Waterval	20.5%	UG	(Mt)	11.044	10.253	0.91	1.23	11.95	11.48	PJG/DR
			Cr_2O_3(%)	30.84	31.35	26.0	26.5	30.5	30.8	
Marikana West	20.5%	UG	(Mt)	1.077	0.973	–	–	1.08	0.97	PJG/DR
			Cr_2O_3(%)	28.59	28.65	–	–	28.6	28.7	
Kroondal	20.5%	UG/OC	(Mt)	3.113	3.227	1.69	1.66	4.80	4.89	PJG/DR
			Cr_2O_3(%)	28.76	28.28	28.6	27.8	28.7	28.1	
Kroondal Gemini	20.5%	UG/OC	(Mt)	7.507	6.288	6.15	6.94	13.66	13.23	PJG/DR
(Kroondal ext)			Cr_2O_3(%)	31.22	31.49	28.5	28.7	30.0	30.0	
Marikana East	20.5%	UG	(Mt)	1.203	0.726	_	0.02	1.20	0.74	PJG/DR
(Kroondal ext)			Cr_2O_3(%)	28.14	28.71	_	27.3	28.1	28.7	
Horizon	20.5%	UG/OC	(Mt)	2.314	1.743	0.15	0.07	2.46	1.81	PJG/DR
			Cr_2O_3(%)	25.51	34.08	25.2	28.5	25.5	33.9	
Boshoek	20.5%	UG/OC	(Mt)	_	_	0.45	–	0.45	_	PJG/DR
			Cr_2O_3(%)	_	_	23.1	–	23.1	_	
Thorncliffe	20.5%	UG/OC	(Mt)	27.788	25.660	4.76	6.56	32.55	32.22	SV/DR
			Cr_2O_3(%)	37.25	37.90	37.9	39.1	37.3	38.2	
Helena	20.5%	UG/OC	(Mt)	4.588	4.131	_	_	4.59	4.13	SV/DR
			Cr_2O_3(%)	35.14	34.96	_	_	35.1	35.0	
Total			(Mt) Cr_2O_3(%)	58.632 33.85	52.999 34.64	14.11 31.3	16.48 32.6	72.74 33.4	69.48 34.2	

Notes
Tonnages are quoted as million metric tonnes.
Grades are quoted as %Cr_2O_3.
No cut-off grades are applied to the chromitite layers currently being mined because of the exceptional regional grade consistency and continuity. A minimum mining cut of 1.8m is applied to the ore reserve tonnage to accommodate the mechanised mining equipment employed by the underground mining operations. External waste is included to make up the minimum cut where applicable.
The chromitite layers are mined mainly underground using trackless mechanised mining methods on a bord-and-pillar mine layout design.
Changes in the year-on-year mineral reserves tonnage and grade estimates are mainly due to mining depletion and changes due to additional geological information gained through exploration.

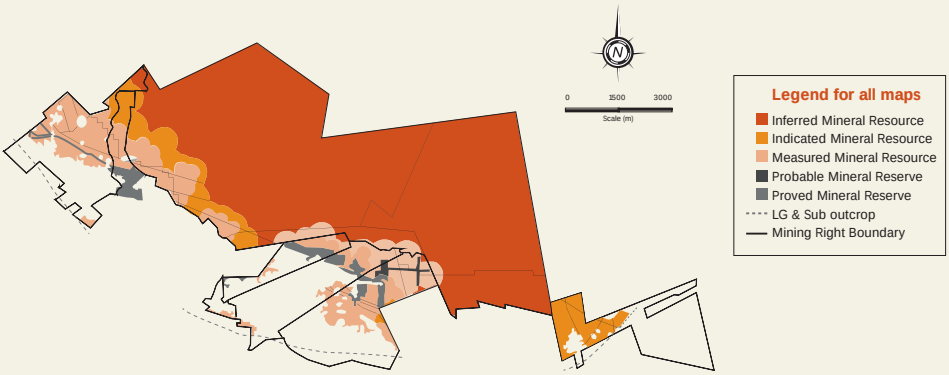
Competent persons;
PJG – Pieter-Jan Gräbe, Xstrata Alloys (SACNASP). Overall responsibility for mineral resources and mineral reserves.
SV – Solly Vaid, Xstrata Alloys (PLATO). Overall responsibility for mineral resources and mineral reserves.
DR – Dean Richards, Obsidian Consulting Services (SACNASP). Responsible for geostatistical analysis of data, mineral resource classification and construction of tonnage and grade block models and reporting of tonnage and grades from block models.

For more detailed information on Merafe ownership of specific mines please see page 129 of the annual financial statements

Natural capital

MINERAL RESOURCES AND MINERAL RESERVES (continued)

Mineral resource and mineral reserve maps



Chrome – Bushveld Complex, Western Limb

Waterval, Marikana West, Waterval/Klipfontein, Kroondal, Marikana East, Gemini and Wonderkop

Silica mineral resources

Name of operation	Participation interest	Mining method	Commodity	Measured mineral resources 31.12.12	Measured mineral resources 31.12.11	Indicated mineral resources 31.12.12	Indicated mineral resources 31.12.11	Measured and indicated resources 31.12.12	Measured and indicated resources 31.12.11	Inferred mineral resources 31.12.12	Inferred mineral resources 31.12.11	Competent Person
Operating mine												
Rietvlei	20.5%	OC	(Mt)	–	–	25.12	25.18	25.12	25.18	–	–	PJG
			SiO_2 (%)	–	–	91	91	91	91	–	–	
Total			(Mt)	–	–	25.12	25.18	25.12	25.18	–	–	
			SiO_2 (%)	–	–	91	91	91	91	–	–	

Silica mineral reserves

Name of operation	Attributable portion	Mining method	Commodity	Proved ore reserves 31.12.12	Proved ore reserves 31.12.11	Probable ore reserves 31.12.12	Probable ore reserves 31.12.11	Total ore reserves 31.12.12	Total ore reserves 31.12.11	Competent Person
Operating mines										
Rietvlei	20.5%	OC	(Kt)	–	–	89.4	–	89.4	–	PJG
			SiO_2 (%)	–	–	91	–	91	–	
Total			(Kt)	–	–	89.4		89.4	–	
			SiO_2 (%)	–	–	91	–	91	–	

Notes
Tonnages are quoted as million metric tonnes.

Grades are quoted as %SiO_2.

The Rietvlei silica ore is mined through opencast mining methods and the ROM (run of mine) ore is crushed, washed and sized on site to produce a final sized and quality graded product. No silica cut-off grades are applied to the mineral resource estimation. The quartzite is mined mainly to supply the Xstrata Alloys furnaces with silica.

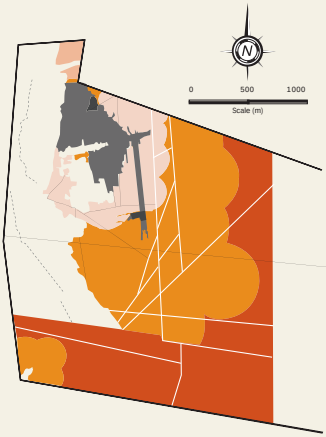
Changes in the year-on-year tonnage and grade estimates are mainly due to mining depletion, reclassification of the mineral resource categories and changes in the mineral resource tonnages and grades due to additional geological information gained through exploration.

No significant changes have been recorded in the year-on-year mineral resource estimation.

Ore reserves for Rietvlei Silica were declared for the first time with the introduction of bench mine plans for the opencast.

The life of mine for Rietvlei Silica mine is four months based on the declared ore reserves and a production rate of 27kt ROM per month. The life of mine period based on all the mineral resources converted to ore reserves is 75 years. The Mining Right expires in 2037.

Competent Person;
PJG – Pieter-Jan Gräbe, Xstrata Alloys (SACNASP), Overall responsibility of mineral resources and mineral reserves

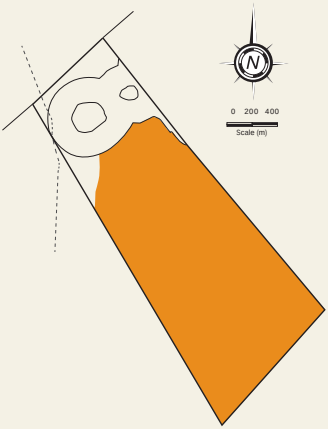


Chrome – Bushveld Complex, Western Limb

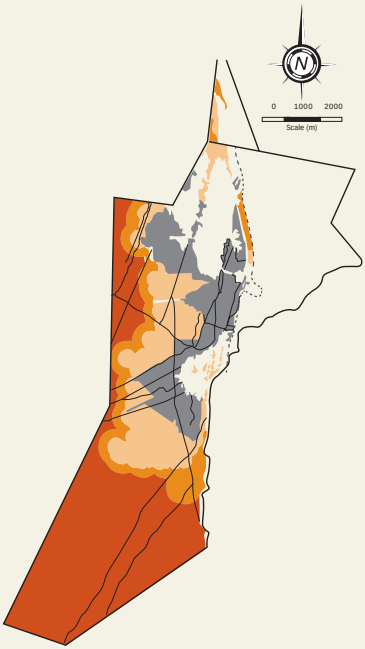
Horizon Mine



Boshoek Mine



Townlands Extension 9



Chrome – Bushveld Complex, Eastern Limb

Thorncliffe, Magareng, Helena and De Grooteboom mines



Silica

Rietvlei Mine



In order to succeed an organisation needs a healthy, motivated and skilled workforce. This section of our report includes information on how we approach the safety, health and wellness and training and development of our employees

SAFETY	**65**
HEALTH AND WELLNESS	**68**
EMPLOYEES	**72**
TRAINING AND DEVELOPMENT	**77**

human capital



Welders at work on the kiln at the Lion II project
Limpopo province

HUMAN CAPITAL

Human capital includes health, safety knowledge, skills, intellectual outputs, motivation and the capacity for relationships of individuals.

Organisations depend on individuals to function. They need a healthy, motivated and skilled workforce. Intellectual capital and knowledge management is also recognised as a key intangible creator of wealth. Damaging human capital by abuse of human rights or labour rights or compromising health and safety has direct, as well as reputational costs.

We enhance our human capital by:

- giving employees and community members access to training, development and lifelong learning and capturing and sharing knowledge
- ensuring adequate safety arrangements in both Merafe and the Venture.

Material issues

The safety of our employees and our contractors

The health of our employees and our contractors

The training and development of our employees and our contractors



SAFETY

Key points

- Zero fatalities
- TRIFR – 4.05
- LTIFR – 1.53
- DISR – 148.30
- The Venture had no safety fines, penalties or prosecutions

Stakeholder impact

The stakeholders most affected by the ability of Merafe and the Venture to keep our employees and contractors safe are their families and dependants. The safety performance of the Venture can also affect Merafe's investors and our business partners because it can impact our financial performance. Trade unions are stakeholders in terms of their responsibility to ensure their members are safe and the DMR's Mine Health and Safety Inspectorate has a mandate to apply the Mine Health and Safety Act (Act No 29 of 1996) in the Venture's operations. Both Merafe and the Venture adhere to the Occupational Health and Safety Act No 85 of 1993 and the Department of Labour's requirements.

Our employees and contractors play a key role in keeping themselves and others safe through their behaviour as leaders, safety representatives, officers and members of a team, the safety training they provide their colleagues, their management of hazards and learnings from high potential risk incidents.

The auditing of the Venture's operations against Xstrata's 17 Sustainable Development Standards identifies any situations or behaviours that could affect safety, the environment, the health of its people and the communities in which it operates. External auditors audit the Venture's operations every three years and all its operations and projects undergo regular sustainable development risk-based audits. While the DMR's Mine Health and Safety Inspectorate also plays an important role in assisting the Venture with keeping its employees and contractors safe, the issuing of Section 54 notices, which bring an operation to a halt until the inspector is satisfied that it is now safe, can impact negatively on production and the morale of the workforce.

The Venture's engagement with safety stakeholders

The Venture engages its employees on safety through green area meetings, induction training, its Business Principles, toolbox talks, occupational health and safety committees and safety training.

It has collective agreements in place with the trade unions and, besides engaging with them in monthly meetings, either the Venture's management or the trade union may call an ad hoc meeting to address any urgent matter. If the trade union raises a safety issue the Venture provides a specific response.

The Venture provides its contractors with its onsite safety requirements in the tender documents and contractor sustainable development packs it issues. Once a contractor is on site members of the Venture's management will have regular ongoing contact with the contractor on sustainabie development matters.

The Venture's policies and approach to safety management

The Venture's operations maintain stringent safety and risk management systems, which we align with the international standards OHSAS 18001 and ISO 31000.

We face the challenge that, as a nation, & **we tend to be risk takers**

Human capital

SAFETY (continued)

Accountability

Safety is always the direct responsibility of Xstrata's senior management, who provide the leadership, systems and processes for the prevention of incidents and the elimination of fatalities in the Venture. The formal management structure documents responsibility for safety from the Xstrata plc board down to each individual Venture employee and contractor.

The Venture puts considerable effort into embedding a safety culture in our operations. Its leaders are aware that they are expected to put safety before production or other considerations and to personally endorse safety initiatives and engage with employees at all levels to discuss safety issues and priorities.

It concludes health and safety agreements with the trade unions.

The sustainable development policies in place in the Venture are aligned with the Xstrata Group Sustainable Development Policy. They set out its commitment to zero injuries and fatalities. Please see the Xstrata Sustainable Development Standards, 3, 4, 5, 6 and 15 at www.xstrata.com/sustainability/our-approach/sustainable-development-framework/standards/

How the Venture measures injuries in its operations

The Venture's key performance measure for injuries is the total recordable injury frequency rate (TRIFR) which measures injuries per one million hours worked by both its employees and contractors. The injuries included in the TRIFR are lost time injuries, medical treatment injuries and restricted work injuries. Xstrata believes the TRIFR is a more complete measure of safety performance than lost time injuries alone.

The Venture's business processes include analysing the root causes of incidents causing injury and developing appropriate programmes to understand, address and eliminate the underlying causes.

What the Venture is doing to make its operations safer

The Venture's management encourages transparent reporting and proactive knowledge sharing across its operations and has made it compulsory for its people to report high potential risk incidents. The Venture assesses accountability, responsibility and consequence in the context of each situation to determine the underlying causes of incidents. The Xstrata Executive Committee receives a report on the investigations of all such incidents and discusses them at its monthly meetings.

In addition, the Xstrata group shares the lessons learnt in the operations it manages during monthly sustainable development conference calls. This approach has allowed it to develop a global reporting culture which provides its management team with the information they need to assess how effective their controls are and to implement improvements. When they feel they do not fully understand a hazard they enlist external experts to assist them in developing appropriate controls.

	2012	2012 target	2011	2010	2009	% difference 2012/2011
Fatality frequency rate (FFR)	0.00	0.00	0.08	0.05	0.05	-100
Lost time injury frequency rate (LTIFR)	1.53	0.88	1.25	0.93	1.34	22.4
Total recordable injury frequency rate (TRIFR)	4.05	4.00	3.90	4.58	4.64	3.8
Disabling injury severity rate (DISR)	149.44	65.11	94.57	84.38	123.48	56.8



During 2012 the Venture experienced an unusually high number of fractures which contributed to its increased DISR. The Venture is investigating the reason for these injuries in order to prevent them in the future.

Reducing contractor management complexity in the Venture

A further safety summit was held with all the Venture's contractors. Focus areas and leading indicators were identified.

The role of training

The Venture's investment in safety training is detailed on page 77 in the Human capital section of this report. It uses virtual reality training, combined with easy to read written instructions, on all our different procedures. The training is designed to ensure that employees cannot complete their training on a procedure until they have shown they fully understand it.

HEALTH AND WELLNESS

Human capital includes health, knowledge, skills, intellectual outputs, motivation and the capacity for relationships of individuals.

Organisations depend on individuals to function. They need a healthy, motivated and skilled workforce. Intellectual capital and knowledge management is also recognised as a key intangible creator of wealth. Damaging human capital by abuse of human rights or labour rights or compromising health and safety has direct, as well as reputational costs.

We enhance our human capital by:

- providing healthcare and training and education in health matters.

Material issues

The health of Merafe's employees and the health of the Venture's employees and contractors, our main concern being the elimination of occupational illnesses from the workplace and health epidemics like HIV and AIDS and tuberculosis (TB)



Key points

- Three noise-induced hearing loss (NIHL) cases – 63% improvement from 2011
- No cases of occupational illnesses, other than NIHL, in the Venture in 2012
- Encouraging employees who test HIV-positive to register for treatment
- The impact of HIV and AIDS and tuberculosis (TB) on our workforce
- The link between TB and AIDS, emphasising the need to significantly increase the Venture's TB programme to provide the highest quality prevention and care for employees and contractors

Stakeholder impact

The stakeholders most affected by the health of our employees and contractors are their families and dependants. The health of our employees can also affect our investors and business partners because it can impact our financial performance. The trade unions are stakeholders in terms of their responsibility to ensure the Venture provides their members with a healthy work environment.

The DMR monitors the Venture's application of the Mine Health and Safety Act and the Department of Labour monitors the Occupational Health and Safety Act. While both Merafe and the Venture's employees are members of medical aid schemes the Venture's contractors often rely on the Department of Health to meet their healthcare needs, including the treatment of TB and the provision of antiretroviral treatment (ART) for those infected with HIV. Currently our employees also rely on the department to provide them with TB screening and treatment.

The Venture's employees and contractors play a key role in keeping themselves healthy by adhering to the occupational health standards in place at its operations. Its total wellness screening and education helps its people stay healthier, by managing or avoiding chronic disease. The Venture's internal audit team audits its operations against Xstrata's 17 Sustainable Development (SD) Standards, which identify any situations or behaviours that could affect the health of the Venture's employees. External auditors also audit the Venture's operations against these standards every three years and all its operations and projects have regular sustainable development risk-based audits. The DMR's Mine Health and Safety Inspectorate can assist in keeping the Venture's employees and contractors healthy and the Department of Health (DoH) has an important role to play in sustaining the health of its contractors and the members of the community in which it works.

Our engagement with these stakeholders

This year, Merafe engaged with its employees on health and wellness matters through a health and wellness day held at its office in November. A nursing sister was available for health risk assessments during which employees' cholesterol, blood pressure and body mass index was assessed. Employees also completed a lifestyle and TB questionnaire. A confidential testing facility was made available for HIV counselling and testing.

The Venture engages with its employees and contractors on health matters through its occupational health and wellness programmes, induction training and occupational health and safety committees. It also provides training and education in health matters to members of the communities in which it operates.

The Venture has collective agreements in place with the trade unions and engages with them in monthly meetings on occupational health matters. If the trade union raises an occupational health issue it is provided with a specific response.

Engagement with the DMR at operational level includes regular visits by Health Inspectors from the Mine Health and Safety Inspectorate and meetings with the DMR and the DoH regarding health issues. The Venture engages with the DoH in order to form partnerships with the department and assist with the provision of health services to members of the communities in which it operates.

See the Training and development section of this report on pages 77 to 78 for details of training and education in health matters provided to community members

HEALTH AND WELLNESS (continued)

Our policy and approach

A business needs a healthy workforce with fewer sickness absences, and employees who are able to work at their full potential.

The health programmes provided by the Venture address occupational illnesses, public health issues and the overall wellbeing of its employees and contractors. It aims to eliminate occupational illness by providing workplaces free of health and hygiene hazards.

It identifies the main health issues affecting its workforce and the local communities and uses this information to address their specific health needs.

Many of the areas in which the Venture operates lack adequate public health facilities for both its employees and the communities. Wherever possible the Venture supplements the existing health facilities, usually through public-private partnerships.

Eliminating occupational illnesses

Typically, occupational illnesses such as NIHL and musculoskeletal illness are only diagnosed some time after the event that caused them. As a result, the occupational illnesses currently occurring in the Venture's operations are usually the result of historic mining and smelting practices. The Venture conducts regular occupational health assessments of the chemical, biological, physical and ergonomic risks at its operations. These assessments help the Venture to manage the occupational health risks in its operations effectively and to minimise the impact of occupational illness through its early identification.

Employees and contractors are made aware of health issues and what they can do to avoid becoming ill. Employee representatives are members of the Venture's formal joint management-worker health and safety committees, which monitor and advise on occupational health and safety programmes.

The Venture has identified noise-induced hearing loss as a major occupational health risk for its employees and has implemented hearing conservation programmes to counteract this risk. Any of its workers exposed to the internationally accepted noise level limit of 85 decibels or above must wear hearing protection. The equipment it provides includes variphones, which are custom-made for comfort and are 100% leak tight. Employees are trained in the use, maintenance and storage and care of this equipment.

Any employees or contractors at risk of being exposed to noise that could damage their hearing are personally monitored and regularly tested as part of our hearing conservation programmes.

Wherever possible the Venture reduces the noise from the equipment it uses in its operations to levels below the internationally recommended standards using design modifications, exclusive zones and “buy quiet” programmes for new or upgraded equipment. The Venture's operations are committed to reducing machinery noise to less than 110 decibels by 2013.

Our policy and approach to HIV and AIDS

HIV and AIDS is a human rights issue, which Merafe and the Venture address through their policies and programmes. To ensure these policies are accessible to the Venture's employees and contractors, they are available in all the languages spoken by its employees.

Employees can choose to receive HIV and AIDS counselling, care and support. The HIV-positive employees of both Merafe and the Venture receive the treatment they need free of charge, together with the support and education that will make it possible for them to maintain their antiretroviral (ARV) treatment programme through the membership of a medical aid.

The Venture's HIV and AIDS policies commit it to:

- providing employees and contractors with the knowledge they need to protect themselves and their families from HIV and AIDS through workplace education programmes that explain clearly how HIV can be contracted, what can be done to prevent contracting and transferring HIV, and what should be done to enhance the quality 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 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 giving their informed consent
- guaranteeing the confidentiality of employees' medical information

- providing 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 structures in joint projects to fight HIV and AIDS in the communities in which the Venture operates
- facilitating the training of peer educators and establishing and training home-based care workers through the Venture's corporate social investment programme.

All the Venture's occupational health nurses have been trained in the management of TB and HIV and the impact of HIV on TB. All employees that visit its occupational health clinics are screened for TB. Those whose screening tests indicate they may have TB are referred to public healthcare facilities for TB investigation and treatment.

The Venture's negotiations with the Department of Health in Limpopo and North West provinces regarding collaboration on TB and HIV programmes are at an advanced stage.

The HIV prevalence rate in the Venture in 2012 was 17%.

Summary of 2012 HIV results for the Venture

	Number
Employees who received pre-test counselling	6 781
Employees tested	6 522
Employees who did not test	259
Employees who tested positive	376

CASE STUDY –
HEALTHIER EMPLOYEES EQUALS PRODUCTIVE WORKFORCE

A trio of medical services makes for a healthier, more productive workforce

Impact:
- Easily accessible consistent quality healthcare for our employees
- A healthier more productive workforce
- Reduced absenteeism

The Venture's Eastern mines' occupational health and wellness centre is the first of its centres to combine occupational health, wellness and a new addition, primary healthcare, under one roof.

The advantages of the three-in-one combination soon became apparent when Sister Erika Steyn, the occupational health practitioner responsible for managing the centre, took us on a tour of the busy centre, which conducts about 7 500 occupational health examinations every year. In 2011 the centre conducted 7 777 occupational health examinations, attended to 988 primary healthcare cases and 4 694 people visited its wellness centre.

Phase 1 – legal compliance

The Venture's clinics have always provided occupational health services in terms of the Mine Health and Safety Act No 29 of 1996, which requires that it establishes a system of medical surveillance, keeps a record of medical surveillance, provides annual medical reports and exit medical certificates and attends to injury on duty cases and occupational disease management.

Phase 2 – moving towards healthier employees through wellness screening

The Venture's inclusion of total wellness screening and education helps its people keep healthy and productive, by managing or avoiding chronic disease. The Venture monitors its workforce for signs of chronic illness by checking for hypertension, diabetes and cholesterol. Its medical aid provides permanent employees with ART and the Venture has arranged for its contractors to receive ART through Right to Care.

After an employee is referred for TB treatment they are monitored through our return to work programme. TB patients cannot return to work until the occupational medical practitioner has declared them fit to do so.

Phase 3 – towards a healthier more productive workforce and a reduction in absenteeism through the provision of easily accessible consistent quality healthcare

The one thing that was still missing in terms of the management of the Venture's employees' health was primary healthcare.

Since it is often difficult and time consuming for employees to access external primary healthcare services, and the quality of the services available to them is not always up to standard, the Venture decided it needed to find a way of providing them with easy access to consistently good quality primary healthcare and reducing the amount of time they were spending away from work accessing external primary healthcare services.

Its solution was to make available a fulltime medical doctor with a dispensing licence who provides a primary healthcare service at the Venture's clinic. Any employee who is unwell at work can consult with the doctor, be issued with medication should they require it and either go back to work or be booked off sick, depending on the doctor's diagnosis.

What is the impact?

Since the primary healthcare service opened its doors in 2010, about 2 500 employees have used the service and absenteeism has decreased.

The Venture aims to provide & **easily accessible** healthcare

Human capital

OUR EMPLOYEES

Organisations depend on individuals to function. They need a healthy, motivated and skilled workforce.

Intellectual capital and knowledge management is also recognised as a key intangible creator of wealth. Damaging human capital by abuse of human rights or labour rights or compromising health and safety has direct, as well as reputational costs.

We enhance our human capital by:

- giving employees and community members access to training, development and lifelong learning and capturing and sharing knowledge
- respecting human rights
- paying fair remuneration to our employees and our business partners
- creating satisfying work opportunities.

Material issues

- Industrial action in the mining industry and the Venture
- Retaining skilled employees and securing the next generation of skilled employees
- Meeting our employment equity and human resource development targets and exceeding the Mining Charter Scorecard targets
- Employee satisfaction
- Maximising local employment in the Venture



Key points

- 4.6% increase in the Venture's fulltime employees which created 275 additional fulltime positions in 2012
- 15% of the Venture's workforce was female in 2012
- The Venture exceeded Mining Charter employment equity targets in 2012
- Merafe exceeded Mining Charter employment equity targets in 2012

Stakeholder impact

Our success or failure in this area will affect our financial performance in the short, medium and long term, which could impact our shareholders. The stakeholders involved in the Venture's efforts to meet the Mining Charter Scorecard employment equity and human resource development targets are the DMR, the Department of Education, the Venture's leadership at all levels and its human resource development specialists. As the Venture's performance in this area could affect its ability to operate, it is also a concern of Merafe's investors and the communities in which the Venture operates. The trade unions are also stakeholders in terms of their responsibilities towards their members

The leaders of Merafe and the Venture, from supervisors to senior management, can have a positive or negative impact on our ability to retain and secure skilled employees because they play an important role in providing a workplace that is free from discrimination and conducive to employee satisfaction. They also play an important role in the development of Merafe and the Venture's employees and the Venture's ability to meet its Mining Charter Scorecard targets. The ability of the Department of Education to ensure that South Africa's youth receive an education that will qualify them for employment in the mining industry will either limit or increase the availability of suitably qualified matriculants.

Our engagement with our stakeholders

Both Merafe and the Venture initially engage with their employees through their induction programmes which introduce new employees to both companies' codes of conduct* and the Venture's induction also introduces employees to its Business Principles and 17 Sustainable Development Standards.*

The Venture's leaders engage with their teams face-to-face through green area meetings, toolbox talks and performance reviews. The Venture also engages through paper-based and electronic company and operation newsletters and face-to-face addresses by senior management. It reports annually to the DMR on its progress against its Mining Charter Scorecard targets and engages with the Department of Education on education matters.

The Venture's policies and approach to its employees

The Venture complies with the South African Basic Conditions of Employment Act No 75 of 1997 and the Labour Relations Act No 66 of 1995, which govern labour relations and conditions of employment in South Africa. 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.

Both Merafe and the Venture are committed to providing a workplace based on:

- mutual respect
- fairness
- integrity
- non-discrimination
- equal opportunity at all levels
- open and two-way engagement with our employees and their representatives.



See www.meraferesources.co.za for Merafe's Code of Ethics and see www.xstrata.com/about/key-policies for Xstrata's Code of Conduct and its Sustainable Development Standards

Human capital

OUR EMPLOYEES (continued)

The Venture's Sustainable Development Policy sets out the principles it applies to the management of its people. Sustainable Development Standard 3, Behaviour, awareness and competency of its 17 Sustainable Development Standards, describes the Venture's aim of attracting and retaining the best people at every level of its business and of providing industry-leading career development opportunities and competitive remuneration. Its policies clearly state that the Venture does not tolerate any form of discrimination and that it will treat all its employees with dignity and in a manner that is culturally appropriate, irrespective of gender, background or race.

Employee relations

The Venture's workplace agreements specify notice periods and it consults with employees before any significant operational changes. In line with its Sustainable Development Policy it consults and communicates with its employees and provides them with appropriate support during significant organisational changes. The Venture's management team always consults with the aim of reaching agreement with trade unions.

Employee remuneration

Both Merafe and the Venture provide well-structured employment contracts and fair and competitive remuneration. We offer an equal rate of pay to male and female employees of equal experience. Our employment equity policies provide all potential and existing employees with equal opportunities in terms of recruitment, promotion, transfer, employee benefits, training and conditions of service.

The Venture bases its minimum wages on union agreements and pays all its employees according to the standard minimum, or above.

Employee benefits

The benefits that the Venture provides its fulltime employees, over and above the legally mandated employment benefits, include retirement benefits in the form of provident funds, medical scheme benefits and assistance with housing loans. It does not offer these additional benefits to temporary or part-time employees. During 2011 the Venture offered all its A to C band employees (non-managerial employees) the opportunity to participate in an employee share ownership plan (ESOP) which will own a 3% share in the assets of Xstrata South Africa.

Labour relations

While Merafe's employees are not unionised we consult with them in advance of any significant changes to our business.

The Venture undertakes to consult with its employees and their recognised representatives in advance of significant operational changes in an effort to reach consensus about any necessary business actions.

Collective bargaining and freedom of association are considered a fundamental right for the Venture's employees. Collective agreements, particularly around terms and conditions of employment and company benefits, are negotiated between the parties with due regard to the relevant legislation. The Venture seeks to reach agreement with the unions on annual wage increases for implementation in July each year. In all, 60.3% of the Venture's employees are covered by a collective bargaining agreement.

Engagement plays a very important role in labour relations and resolving disputes amicably. The Venture uses a number of communication methods to engage with its employees including daily briefings, formal newsletters, electronic messaging, pamphlets and using external mediators to facilitate discussions.

The Venture is committed to treating all its employees with dignity and in a manner that is culturally sensitive. Unfair discrimination on the basis of race, gender, religion, political or sexual orientation, national extraction or social origin is not tolerated.

Industrial action in the Venture in 2012

The Venture's operations were not immune to the unrest that affected the South African mining industry during 2012.

Operation	No of days
Boshoek ferrochrome plant	51 days
Lion Phase II	19 Days
Rustenburg ferrochrome plant	36 days
Wonderkop ferrochrome plant	49 days
Kroondal Mine	42 days
Waterval Mine	2 days
Waterval Mine	34 days



For detailed information on industrial action see our website www.meraferesources.co.za

The total workforce of Xstrata-Merafe Chrome Venture by employment contract

Category	2012	2011	2010	% change year-on-year
Fulltime employees	6 461	6 171	6 337	4.7
Temporary/fixed term employees	258	273	212	-5.5
External contractors	6 379	6 511	4 166	-2
Total	13 098	12 955	10 715	1.1

Some of the participants in this strike resorted to violence and when the police had to intervene and made arrests they discovered that only 50% of the violent protesters were employees of the Venture. This was a concerning aspect of the violence experienced during unprotected strike activity in the mining industry in 2012.

Maximising local employment

Hiring policies

When hiring employees we give preference, where possible, to members of the local community and, in some instances, we offer training opportunities to community members to develop the skills they need to become our employees.

Diversity and equal opportunity

Xstrata South Africa's Transformation Committee (on which Merafe is represented) monitors and helps the Venture to find innovative and effective ways of addressing transformation.

Management and site employment equity committees monitor employment equity in the Venture's operations every month and report the results to the Venture, Merafe and the Xstrata South Africa Transformation Committee, which in turn reports to the Xstrata plc board.

We base our employment equity policies on providing equal opportunities to all potential and existing employees.

Employee challenges

- Maximising local employment in the Venture
- Achieving employment equity that is supported by everyone in the workplace
- Making careers in mining more accessible to women in the Venture
- Engaging with the Venture's employees and the trade union through open communication channels to achieve labour peace
- Providing a workplace that is free of discrimination
- Establishing an employee share ownership plan (ESOP) for the Venture's employees

Venture workforce by employment type and gender in 2012

Permanent and fixed term	Male	Female	Total
Senior management	86	7	93
Middle management	137	40	177
Supervisors, administrators, technicians	681	609	1 290
Operational, maintenance, production	4 859	300	5 159
Grand total	5 763	956	6 719

The Venture invested

& **R45 million**

in artisan and apprenticeship training.

Human capital

OUR EMPLOYEES (continued)

Venture and Merafe top management

The term diversity used in this section of the report is based on the Mining Charter Scorecard's definition of historically disadvantaged South Africans (HDSA), which includes African males and females, coloured males and females, Indian males and females and white females.

The diversity in the top management teams of the Venture, the partners responsible for the management of the Venture, is as follows:

- Diversity at board level in Xstrata is 33%
- Diversity at board level in Merafe is 82%.

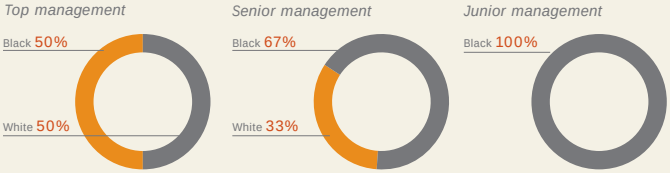
Both companies have exceeded the Mining Charter diversity target for 2012, which was 30%.

Venture employment equity

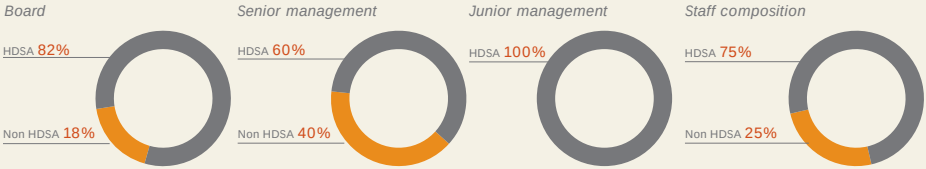
	% target 2012	% achieved in 2012	% Mining Charter target for 2013
Senior management	30	32.63	35
Middle management	40	59.44	40
Junior management	40	54.33	40
Core skills	30	84.80	35

Merafe's employment equity in terms of the B-BBEE Act and Codes of Good Practice and HDSAs in management in terms of the Mining Charter 2010 as at 31 December 2012

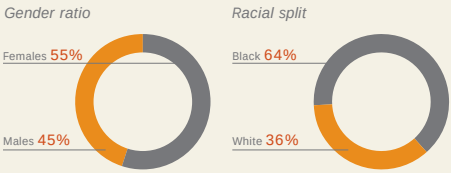
Employment equity in terms of B-BBEE Act and Codes of Good Practice in Merafe Resources



Percentage of HDSAs* (in terms of the Mining Charter 2010) in Merafe Resources



Employees



** In terms of the Mining Charter white women are considered to be HDSA.*

TRAINING AND DEVELOPMENT

Key points

The Venture invested R59.7 million in training in 2012, a 17% increase year-on-year

An average of R4 558.50 was invested in training for each member of the Venture's workforce (employees and contractors)

There was a 17% decrease in the hours of training provided to the Venture's employees and contractors (553 950 hours) in 2012

On average employees each received 42 hours of training, a 19% decrease year-on-year

217 624 hours of training were provided for contractors, an increase of 6.6% year-on-year, with contractor employees receiving on average 34 hours of training during the year

Stakeholder impact

Our employees and contractors are key stakeholders in our business and we regard constructive engagement with them and our trade union as a critical success factor. Our shareholders will be impacted if we do not successfully retain and develop our employees.

Development and training

Both Merafe and the Venture are committed to meeting our human resource development targets and retaining and developing our skilled employees.

The Venture provides:

- development and training opportunities for HDSAs that will help them to further their careers
- career development opportunities that allow it to develop and retain high potential employees
- training that addresses risk-tolerant or ingrained behaviours that impact negatively on our operations
- training in its Business Principles, Sustainable Development Policy and 17 Sustainable Development Standards.

It continually evaluates its training methods and the best way to communicate with the various age groups and cultures in its workforce.

Type of training provided

The Venture's employees received environmental, health, human rights and safety training.

Training sessions for the Venture's employees in 2012 included:

- 34 999 hours of safety training
- 7 513 hours of environmental training
- 7 362 hours of health issue training
- 4 549 hours of human rights training.

Our approach

Both Merafe and the Venture's long-term interests depend on our ability to attract and retain the best people and to transform our workforces. We identify employees with high potential at every level and are committed to providing them with the support and tools they need to develop.

The Venture uses surveys to assess employees' satisfaction levels and to find out about issues that it may need to address. It records and addresses these issues and provides its employees with feedback in this regard.

Since 2011 the Venture has extended its annual individual performance management and development reviews to include all supervisory level employees (16% of employees), introduced team performance reviews for all its employees and extended annual individual performance management and development reviews to include supervisory level employees (16% of the workforce).

For details of training in the Venture see www.meraferesources.co.za

TRAINING AND DEVELOPMENT (continued)

All the Venture's employees have job descriptions and action plans, which they can use to set career objectives for themselves and to measure their own performance. Its managers are trained to conduct performance reviews and give effective feedback.

Each operation in the Venture has a workplace skills planning committee, which is responsible for identifying the operation's specific training requirements. The Venture structures its training to meet these specific needs. This includes providing training to local community members in skills that will equip them to seek employment in its operations.

The Venture, as part of Xstrata Alloys, shares a joint training provider accreditation with Xstrata Coal.

The Venture's operations are spread across three provinces, which requires it to provide training centres at most of its operations. The Steelpoort Development Centre in Limpopo province provides training facilities for the Lion ferrochrome plant, the Lydenburg ferrochrome plant and the Thorncliffe, Helena and Magareng mines. It also provides training to employees of other mining companies in the area. The Centre not only trains members of the community in skills that will equip them to work in the Venture's operations, but also offers training in marketable skills including bricklaying, welding and household electrical skills. The Centre also offers a bridging programme that prepares local students for tertiary education.

To address the shortage of mining, engineering and related skills the Venture offers bursaries for fulltime university and technikon studies in the mining, electrical, metallurgical and mechanical engineering fields, geology, occupational hygiene, financial management, information technology, science and commercial accounting.

It also offers graduate trainee positions, work placement for students as well as financial assistance focusing on members of the communities in which it operates. A mentorship and coaching programme supports employees who receive educational assistance, those who have entered into learnership agreements and those identified for accelerated development.

Apprenticeships, learnerships, bursaries and scholarships

R45 million invested in artisan and apprentice training, 96% of whom were HDSA

Over R8 million invested in bursaries and scholarships, 73% of which were awarded to HDSAs

88% of the Venture's investment in skills development was in HDSAs (over R52 million)

The Venture also provides fulltime adult basic education training (ABET) for its employees and portable skills training that equips employees for career endings.

Leadership development

The Venture invites managers whom it has identified as having leadership potential to participate in a leadership programme where members of its senior management team mentor participants. It also provides them with additional training, support and career development opportunities. Over 80% of the managers participating in our leadership development programmes are HDSAs.

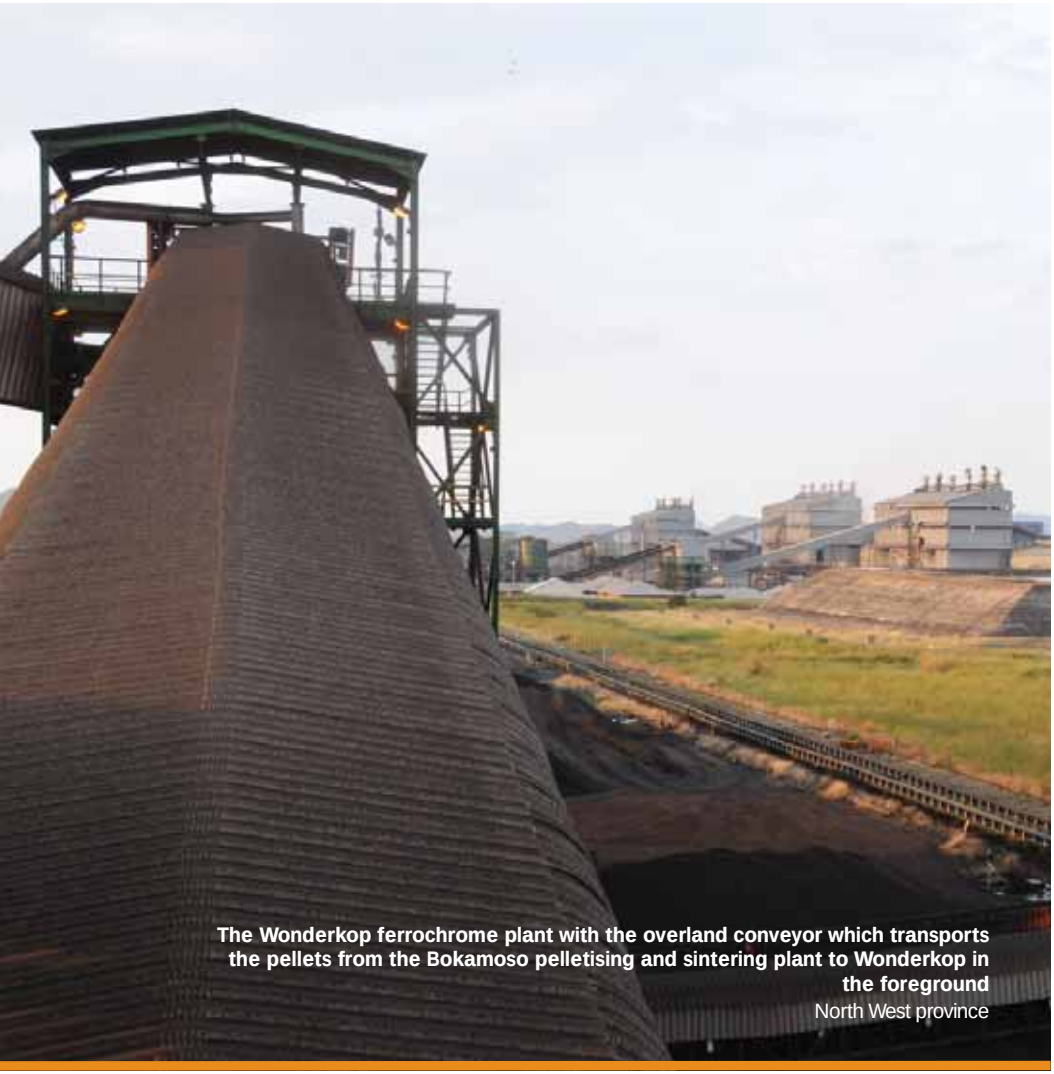
Xstrata employs a devolved business model in the operations it manages, with responsibility and authority being delegated to business units and with management teams expected to run independent businesses. While managers new to this type of culture might find it challenging, the Venture invests in developing the kind of leaders that will support and reinforce it. It offers programmes through leading South African academic institutions that support its leadership requirements.

In 2012 senior managers from the Venture participated in the Wits Business School's Certified Programme in Management Development.

Our success depends on how we

& **attract and retain**

our workforce



The Wonderkop ferrochrome plant with the overland conveyor which transports the pellets from the Bokamoso pelletising and sintering plant to Wonderkop in the foreground
North West province



This section of our report looks at our approach to adding value and creating a stable society in which to operate through our social responsibility and our approach to transparency and accountability

SOCIAL RESPONSIBILITY 83

TRANSPARENCY AND ACCOUNTABILITY

CHAIRMAN'S REPORT 90

GOVERNANCE 92

SOCIAL ETHICS AND TRANSFORMATION COMMITTEE 99

RISK MANAGEMENT 102

REMUNERATION REPORT 109

social capital



Production Engineer, Charlotte Ntsole, at work on the new Tswelopele pelletising and sintering plant
North West province

SOCIAL CAPITAL

Social capital is any value added to the activities and economic outputs of an organisation by human relationships, partnerships and cooperation.

Organisations rely on social relationships and interactions to achieve their objectives. Externally, social structures help create a climate of consent or a licence to operate, in which trade and the wider functions of society are possible. Organisations also rely on wider socio-political structures to create a stable society in which to operate, e.g. government and public services, effective legal systems, trade unions and other organisations.

To enhance social capital we:

- contribute to open, transparent and fair governance
- source materials ethically and treat suppliers, customers and citizens fairly
- respect and comply with local, national and international law
- pay our taxes
- invest in the social infrastructure
- provide communication
- minimise any negative social impacts of our operations and maximise the positive impacts they can have
- support the development of the communities in which the Venture operates.

Material issues

Our social licence to operate

Uncertainty of the socio-political environment



SOCIAL RESPONSIBILITY

Key points

- 55% of the Venture's discretionary procurement was from black empowered companies (R4.2 billion)
- The Venture invested R58 million in enterprise development
- The Venture spent R31.8 million on corporate social investment in 2012, which was an increase of 34% year-on-year
- 100% of Merafe's social investment was in community education
- Increasing procurement from small and medium enterprises and black economically empowered (BEE) enterprises and enterprises local to the Venture's operations
- Enhancing the socio-economic capacity, prosperity and sustainability of the communities in which the Venture operates
- A lack of public healthcare facilities and, in particular, access to HIV and AIDS prevention, treatment and care for communities in the areas in which we operate
- Anti-mining sentiment

Stakeholder impacts

While Merafe has direct relationships with certain key stakeholders in connection with community matters, we also have indirect relationships through our partnership with Xstrata in the Xstrata-Merafe Chrome Venture. As managers of the Venture's day-to-day operations, Xstrata takes responsibility for engaging with the Venture's stakeholders. All the Venture's operations and projects are expected to review the stakeholder engagement plans every year. The Venture's operations held formal community stakeholder meetings during the year. Details of the Venture's engagement and Merafe's engagement during 2012 can be found in the stakeholder engagement tables on our website.

The efforts of Merafe and the Venture to address the various material issues we have identified that could impact negatively or positively on our key stakeholders involve national, provincial and local government in their roles as regulators and partners; the trade unions in their role as representatives of the Venture's employees who are from local communities; and our investors and business partners who are affected by all aspects of our business.

The communities in which the Venture operates play a significant part in our ability to do business. They provide the Venture with employees who make an important contribution to its success. Most of these communities live in poor, underdeveloped areas of the country. In their frustration at the lack of jobs, facilities and infrastructure they are turning to the mining industry to address their needs. The growing social activism in these communities can, and has had a negative impact on the Venture's business.

The Venture identifies its impact on host communities, both positive and negative, using social and human rights baseline studies and risk assessments. Both Merafe and the Venture work closely with communities, government and NGOs to gain multiple perspectives of our impacts and possible impacts with the aim of addressing the concerns of, and our impacts on, the most vulnerable people affected by the Venture's operations.

The Venture maintains a register of community complaints at every operation and it deals with complaints at operational level.

Anti-mining sentiment

The engagement between mining companies and the communities in which they operate is becoming increasingly challenging. Mining communities are turning to the mining industry to address poverty, unemployment and the need for basic infrastructure and services.

The Venture's approach to social and community engagement, as set out in its Sustainable Development Standards, sees consultation with communities as an essential part of its approach to doing business, managing risk and addressing the short-, medium- and long-term sustainability of its business and the communities in which it operates. However, the Venture recognises that this engagement requires an ongoing commitment to building relationships, trust and understanding with the communities.

SOCIAL RESPONSIBILITY (continued)

During 2011 the Venture arranged for consultants to carry out baseline studies of the communities in which it operates. The purpose of the studies was to identify the socio-economic needs of these communities and to be clear about their expectations and how best to manage them, develop trust between Xstrata and the communities; and identify the role and responsibilities of the different role players in the area.

The studies revealed that in the Limpopo province there are high expectations of what the Venture can do or should be doing for the communities and in many cases these expectations are unrealistic. Trust levels are low between community members and all types of leadership. Because everyone is fending for him or herself in these communities it is very difficult for the Venture to establish agreement on what the communities as a whole need. To begin to address this situation the Venture has embarked on a proactive, ongoing comprehensive communication strategy with the aim of keeping these communities informed of the Venture's plans in terms of its investment in the communities and what the expected outcomes are. The Venture is also investing in training and education with the aim of strengthening the capacity of local leadership in the area.

In the North West province, while communities do not blame the Venture for the lack of progress with regard to basic infrastructure, health services, job opportunities, etc, it is clear that they are at breaking point and as happened during 2012 this type of desperation easily transforms into violent protests. Communities said they are not kept informed of what the Venture is doing for them, what it plans to do, new developments, job and procurement opportunities, etc. The Venture has worked hard during 2012 to improve its communications with communities, which has included regular newspaper advertorials covering its investment in health, education, enterprise development and infrastructure and educational radio programmes.

Socio-economic development

Both Merafe and the Venture are committed to uplifting communities by investing in their education and skills development.

Education

- **Merafe spent 100% of its social investment on education in 2012, which amounted to R3.3 million**
- **R11.5 million of the Venture's social investment was spent on community education in 2012**

As part of its corporate social investment programme Merafe has supported Protec, which provides science, mathematics and technology programmes and materials to schools in the Rustenburg area, since 2010. When members of our board visited two of the nine schools in the programme they were concerned by the lack of suitable infrastructure at the schools. We decided to engage with the schools, identify their needs and involve their governing bodies in sourcing quotes and

The Venture's corporate social investment

	2012 R'000	2011 R'000	2010 R'000	2009 R'000	% difference year-on-year
Community and social development	2 845	2 200	19 330	7 379	(40)
Culture/art		–	1 028	10	–
Education	11 562	5 664	16 013	10 647	49
Enterprise development and job creation	5 847	11 398	18 204	9 910	-46
Environment		–	50	100	–
Health	3 662	916	5 464	6 456	90
Personnel time – in-kind donations	7 926	2 856	641	1 625	(44)
Total	31 842	23 834	60 730	36 127	(26)

& **275** new jobs
created by the Venture this year

local service providers to undertake the work required. When we engaged with the schools' governing bodies we realised that they lacked the knowledge and skills necessary to manage the project. To remedy this we brought in the Adopt a School Foundation, which has a holistic approach to school education improvement and, after identifying the needs of a school, actively seeks funding to implement the necessary reforms by developing the necessary management and community leadership skills that will ensure the quality, credibility and sustainability of our investment.

Job creation and skills development

- **The Venture created 275 new jobs this year**
- **Local people make up over 50% of the Venture's workforce**

The Venture has embarked on a number of skills and enterprise development projects in the communities in which it operates, including learnership programmes, secretarial training, training of students for the Department of Civil Works and portable skills training such as electrical and plumbing training.

In addition to the employment created by the Venture's operations its investment in infrastructure development also creates jobs. While these jobs may only be temporary, the people employed to do them learn portable skills such as bricklaying, welding and carpentry, which equip them better for finding fulltime employment.

Procurement

- **Fifty five percent of the Venture's discretionary procurement in 2012 was from black-empowered companies (R4.2 billion)**

Every year the Venture sets itself targets for its discretionary procurement from historically disadvantaged South Africans (HDSAs), which exceed the targets set in the Mining Charter Scorecard. It also aims to purchase as much as possible from local suppliers.

Discretionary procurement

- **The Venture's discretionary procurement for capital goods exceeded the Mining Charter Scorecard target for 2014 by 27%, its consumable target was exceeded by 33% and the services targeted by 10%**

	Total spend 2012 R'000	BEE spend 2012 R'000	BEE spend %	Mining Charter targets for 2012 %
Capex	2 565 554	1 200 644	47	20
Consumables	2 767 239	1 593 408	58	25
Services	2 324 969	1 387 279	60	50

Enterprise development

- **The Venture invested R5.8 million in enterprise development in 2012 and Merafe invested a further R400 000 in the Vuka mentorship programme**

With a national unemployment rate of around 25%, South Africa urgently needs to create employment opportunities. Small, micro and medium enterprises (SMMEs) play a key role in job creation with the Adcorp employment Index indicating that 68% of the 13.8 million people working in South Africa are employed in businesses with less than 50 employees.

Enterprise development is an important part of the investment both Merafe and the Venture make in the socio-economic capacity of communities. Both organisations recognise that it is an investment that makes good business sense as developing SMMEs and creating jobs stimulates growth, increases our ability to procure from black-owned enterprises and benefits us all. In addition, the Venture has enterprise development commitments in terms of the Mining Charter Scorecard and any investment in enterprise development also contributes to Merafe's performance in terms of the broad-based black economic empowerment (B-BBEE) codes.

When Merafe commissioned research into suitable enterprise development opportunities in the Rustenburg area during 2012 it highlighted the important role business development support service providers play in increasing the success rate of SMMEs. The research also indicated that business support is most effective when provided to businesses in start-up phase.

Social capital

SOCIAL RESPONSIBILITY (continued)

Merafe selected the *Grow your Business* programme to work with six SMMEs from the communities in the vicinity of the Boshoek ferrochrome plant and the Horizon mine (these are the assets that Merafe pooled with Xstrata's assets in 2004). These businesses will be mentored over a 12-month period with the aim of increasing their growth and financial stability and also creating more employment. The six businesses will be selected by means of a rigorous selection process that will include an in-depth assessment of each business. During the 12 months of their mentorship, in addition to weekly visits from their mentor the businesses will have access to an online mentorship tool, which tracks key business indicators including cash flow, number of employees, progress against gaps and areas for development identified at the initial assessment of the business.

The Venture supports enterprise development through a number of initiatives. Small businesses often have difficulty obtaining loans from financial institutions because they do not meet their stringent requirements for the granting of credit. The Venture assists companies in this position with start-up and bridging capital and loans with preferential terms. It also offers management expertise in areas such as project management, business planning, cash flow management and legal compliance as well as providing appropriate skills training.

The Venture offers community members ABET, computer literacy training and training in portable skills. At the Steelpoort Development Centre in Limpopo province, community education projects run by the Centre include teacher training (in technology education), ABET facilitator training, science teacher training and engineering workshop training for further education and training (FET) lecturers. The Centre not only trains members of the community in skills that will equip them to work in the Venture's operations but also offers training in marketable skills including bricklaying, welding and household electrical skills. The Centre has expanded its programmes to include a bridging programme that prepares local students for tertiary education.

Public health and HIV and AIDS

The Venture partners with government, international organisation and NGOs, particularly in the areas of public health, to get the best possible value out of our community investment. The public-private partnerships formed by the Venture provide communities access to prevention, treatment and care for HIV and AIDS, as well as other communicable and associated disease. The Venture supports the government's HIV counselling and treatment (HCT) campaign by providing funding and testing sites. It has also funded clinics and hospices in the communities in which it operates, including an HIV and AIDS clinic in Lydenburg in Mpumalanga province. There is also a clinic at the Lion ferrochrome plant in Limpopo province.

During 2012 the Venture also supported the Tapologo hospice which is a well-designed award-winning 34-bed facility and the only 24-hour hospice facility in the area where it operates in the North West province. The main objective of this hospice, which was previously supported by Merafe, is to provide care for AIDS patients in the terminal phase of the disease and symptom control for patients who need to be stabilised before starting ART. It also offers support to families who are unable to cope with an ill family member and aims to reach people in communities that suffer from general poverty, lack of resources and limited access to essential services, who are infected and affected by HIV and AIDS and other terminal illnesses.

Since 2009 the Venture, in partnership with the Regency Foundation, has invested in an HIV and AIDS education and prevention programme for pupils between the ages of 12 and 15, called *HIV & Me*, reaching over 3 500 learners and 126 educators in a year.

Respecting the rights of communities

Challenges

- Compliance with South African human rights legislation including the Constitution and Bill of Rights
- Alignment of our human rights practices with the UN Global Compact's ten universally accepted principles in order to protect the human rights of our employees and the communities in which we operate

& 100%
of Merafe's social investment was spent on community education in 2012

Our approach

Both Merafe and Xstrata respect the legislation of South Africa and comply with its human rights legislation, including the Constitution and the Bill of Rights, which safeguard the basic human rights of employees in South Africa. In addition, the policies of both companies clearly state that we do not tolerate any form of discrimination and that all our employees and stakeholders are to be treated with dignity and in a manner that is culturally appropriate, irrespective of gender, background or race. Xstrata supports the United Nations (UN) Universal Declaration of Human Rights and the International Labour Organisation (ILO) Conventions and is a signatory to the UN Global Compact. It has aligned its Sustainable Development Framework, which is applied in all the operations it manages, including the Venture, with its ten universally accepted principles in the areas of human rights, labour, the environment and anti-corruption.

Xstrata's Sustainable Development Standards require the operations it manages to maintain community relations strategies that uphold and promote human rights and respect cultural considerations and heritage.

In 2008 Xstrata committed to implementing the Voluntary Principles on Security and Human Rights across all the operations it manages. The Voluntary Principles were drawn up to guide companies in maintaining the safety and security of their operations within an operating framework that ensures respect for human rights and fundamental freedoms. The Principles highlight the role companies can play in promoting respect for human rights

CASE STUDY – MEETING ONE OF THE GREATEST CHALLENGES OF ENTERPRISE DEVELOPMENT

Finding ways to help micro and very small businesses move beyond the subsistence level to become profitable and self-sustaining is one of the greatest challenges facing enterprise development programmes.

R660 000 and a lot of initiative from community members
Result: a sustainable micro business

Five years ago the Venture, as part of its social and labour plan projects in Limpopo, adopted a group of women who had already taken the initiative to start sewing and selling clothes to make a living.

When they started they borrowed the regional chief's boardroom. Today they have their own premises which the Venture built for them.

Initially the Venture bought them domestic sewing machines but as their business expanded these machines weren't sufficiently robust or fast enough to cope with the volume of orders they had. Now they have nine industrial machines, a buttonholer and a machine that embroiders and they have been given training in how to operate these very complex machines. When we visited the project we saw piles of school uniforms, anoraks with beautifully embroidered school crests, overalls, traditional dresses and security vests all ready to be despatched to their customers.

The Venture is delighted that its investment has allowed these enterprising women to develop a sustainable business through their own initiative. They didn't wait for others to help them, instead they went out and found customers and asked for financial assistance from us. Because they ensure that the work they deliver to their customers is always of a high standard, they generate repeat orders.

The Venture's Limpopo operations have arranged for their suppliers to commission the project to manufacture their safety jackets. These suppliers have also shared their expertise in setting up a factory-style production line and purchasing fabric at more economical prices with the project team and have given them additional training on their new equipment.

The Venture also introduced the project team to Sage Wise, specialists in capacity building in small businesses, who are training them in business management and advising them on how to comply with statutory requirements.



SOCIAL RESPONSIBILITY (continued)



and strengthening the rule of law. Xstrata continues to implement the requirements of the Voluntary Principles at all the operations it manages, including the Venture. These requirements encompass human rights risk assessments, relations with public security forces and relations with private security providers. Xstrata reports annually on its progress in upholding the Voluntary Principles.

Xstrata participates in the ICMM Resource Endowment Initiative. The Initiative aims to identify the factors that have allowed some countries to benefit from their substantial resource endowments through economic growth and poverty reduction and to determine practical steps that companies, governments, local communities and aid agencies can take to build capacity to achieve better outcomes from resource development where this is lacking.

Resettlement

In the course of conducting business the Venture may need to disturb land used by the local community. It always tries to find ways to avoid resettling community members, but when this is the only viable course of action it consults closely with the affected population to develop an equitable solution. It is the Venture's policy to seek the free, prior, informed consent of communities. Whenever the Venture relocates a community it communicates openly with local community members to inform them of its plans and all their available options. The Venture's team works with the affected households to find a suitable new area for them to live and work and to ensure that relocation provides them with an equivalent or improved standard of living that is sustainable in the long term, as well as education for the affected households.

The Venture works with the community to create economic development and opportunities for quality of life improvement. No resettlements took place in the Venture during 2012.

Child and forced labour

Xstrata's Business Principles, which are applied in the Venture, uphold the elimination of all forms of forced or compulsory labour and prohibit any form of child labour. The minimum age for employment in the Xstrata Group is 18, regardless of local legislation. There is no significant risk in respect of incidents of forced or compulsory labour in the Venture's operations. The age of the youngest person employed by the Venture in 2012 was 18 years of age. Merafe complies with South African labour legislation. Merafe's youngest employee is 30 years of age.

There were no incidents of human rights violations involving indigenous people in the Venture's operations during 2012.

Disputes relating to land use

Communities have lodged land claims in respect of properties that are part of the Venture's current operations. The Venture is currently in discussions with the Regional Land Claims Commission regarding claims by communities over the farms on which the Lion ferrochrome plant is situated.

Ethics line

A free ethics phone line, which provides a confidential whistleblowing facility operated independently by Expolink, is available to the Venture's employees, contractors, suppliers, customers, business partners and community members for the confidential reporting of any breaches of its Business Principles, Code of Conduct. Merafe has a formal whistleblowing policy approved by the board in place.

Our social licence to operate

Both Merafe and the Venture seek to deliver longer-term community outcomes that align with our core business objectives through our corporate social investment (CSI) activities. We aim to:

- define and track socio-economic and business benefits
- partner with NGOs and other organisations to leverage the investments of both organisations
- create stable programmes that become self-sufficient in time.

Merafe's CSI policy and the Venture's sustainable development policy and standards describe our expectations for our businesses around community engagement and support. The Venture audits each site's performance against its sustainable development policy and standards as part of its sustainable development assurance programme.

The Venture is an integral part of the communities in which it operates. Both our organisations pay taxes. The Venture provides jobs and skills development opportunities, buys goods and services from local suppliers, supports local infrastructure initiatives and pays royalties to government.

Mining acts as a catalyst for social and economic development. The Venture's operations are often located in areas where there is little, if any industrial activity, government services are lacking and infrastructure needs are largely unmet. Merafe and the Venture have both the opportunity and the responsibility to partner with local communities, understand their needs and foster sustainable growth. We aim to create benefits for the communities in which we operate that will endure after the Venture's mining activities cease.

We need to demonstrate that our presence in a community is beneficial in order to gain access to resources and to obtain a social licence to operate from broader society.

We provide economic benefits that are far greater than merely providing jobs and paying taxes. The Venture's presence in an area stimulates and supports the development of small and medium-sized businesses, which in turn create sustainable jobs and contribute to infrastructure development.

A free ethics phone line, which provides a
& confidential
facility operated independently by Expolink, is available to the Venture's employees.

GOVERNANCE

Chairman's report



Introduction

I would like to start by expressing my condolences to the families of those who lost their lives during the labour unrest at Marikana in 2012. May there never be a repeat of this tragedy.

To address the imbalance in South Africa's social structure will require a huge commitment from and constructive engagement between business, government, communities and labour.

During 2012 our many challenges at home, including labour and community unrest, demands for major wage increases, excessive increases in electricity costs and uncertainty around possible mining taxes and nationalisation of the mining industry discouraged investors. Unfortunately, at the same time global demand for commodities was weak. Hopefully, 2013 will see an improvement in local and global conditions for our industry.

Safety

The Venture's safety performance in 2012 was a cause for celebration with zero fatalities in its operations during the year. The Venture continues to strive for a major improvement in all other safety measurements.

Strategy

Merafe takes a long-term view of its business which we believe allows us to align the interests of all our stakeholders, something that is not always possible in the short term.

While our management team has again successfully implemented most of our strategies, they have still to implement our diversification strategy. The board has confirmed its support of this strategy and we believe Merafe will be well-positioned, once our debt commitments to our chrome investments are met at the end of 2013, to pursue its diversification strategy.

Our approach to assurance and sustainability

In my letter to stakeholders on page 1 as well as the sustainability review and assurance on pages 116 to 117 of this report, we set out the detailed review and assurance processes which we undertook this year.

We further engaged the services of Deloittes in 2012 to assist us in aligning our remuneration with our strategy and ensuring it is in accordance with best practice.

JSE SRI Index

Our continued participation in the JSE SRI Index confirms the commitment of Merafe and the Xstrata-Merafe Chrome Venture to building a responsible business. We were most disappointed to be informed that while Merafe had qualified as a best performer on the Index the JSE had decided that, given the significance of the unrest in the mining industry, it was not possible to include any mining companies in the best performer category in 2012.

Management

Stuart Elliot left the company in May 2012 to pursue other interests. The board was pleased to appoint Zanele Matlala, whose experience as a long-term member of our board, as both a non-executive and executive director, gives her a considerable advantage, as our Chief Executive Officer.

The board

There were no changes to the board during 2012, except for the resignation of Stuart Elliot.

As Chairman of our unitary board I am responsible for the overall effectiveness of the board and its committees and for ensuring that the board provides effective leadership, upholds ethical standards, is responsible, accountable, fair and transparent and develops and implements strategies aimed at achieving our objectives with regard to our economic, social and environmental performance. We have all been working together for a while and I believe that we work together very effectively, with all board members making a valuable contribution to our deliberations.

There is a clear separation between my responsibilities and those of the Chief Executive Officer and this separation is documented in our board charter. Our Chief Executive Officer is tasked with focusing on the operations of our business and ensuring it is run effectively and in accordance with the strategic decisions of the board.

My thanks to both our non-executive and executive directors, for the contribution you have made to the Merafe board's deliberations and decisions during 2012.

Engaging with our stakeholders

Our board is responsible for effective communication with our shareholders and we interact with shareholders at our annual general meetings and at presentations made by Merafe's executive management team when we release our annual and half-year results. We have delegated the responsibility for engaging with our shareholders and potential investors to the Chief Executive Officer, the Chief Financial Officer and the Investor Relations Manager. Details of these engagements are included in the stakeholder engagement table on the Merafe website at www.meraferesources.co.za

Our plans for 2013

Once again, our industry faces a challenging year as a result of global uncertainty and social and economic factors in South Africa. Our CEO commented on the threat posed by chrome ore exports, however, Merafe remains well-positioned for the year ahead in terms of a strong balance sheet and being the lowest-cost producer in South Africa. The longer-term future brings with it the advantage of the ramping up of the energy-efficient Lion II ferrochrome plant, hopefully in time to compete in a period of increased demand for ferrochrome. Certainly, whatever happens in terms of the demand for ferrochrome, this new plant will increase our competitiveness among South African ferrochrome producers.

Our chrome interests will not be requiring futher investments in the medium term which frees us up to diversify. Merafe's empowerment credentials make it an attractive potential empowerment partner. Our recognition as the most empowered company in the resources sector of the *Financial Mail*'s Top Empowerment Companies survey supports these credentials.

Conclusion

On behalf of the board my thanks to the entire Merafe team and our Venture partners for their contribution to our successes in 2012.



Chris Molefe
Chairman

Merafe takes a
& **long-term**
view of its business

Social capital – Transparency and accountability

GOVERNANCE (continued)

Directorate

Non-executive directors

Chairman

Chris Molefe (64)
(Independent)
BCom, Post-graduate Diploma in Property Development

Chris, who has chaired the Merafe board for the past nine years, has extensive experience in mining and resources, merchant banking and transformation strategy development. He is currently Executive Chairman of Nishati Oil and Energy Consulting Proprietary Limited. He is also a non-executive director of Jubilee Platinum plc and Kiwara plc.

Belese Majova (38)
(Independent)
BCompt

Belese joined the Merafe board in January 2009 as an independent non-executive director. Currently, she is Chief Executive Officer of Zeleb Holdings, a business consultancy specialising in financial management capacity building interventions, business process mapping and supply chain management integration. Her previous experience includes holding senior financial and internal audit management positions.

Meryl Mamathuba (40)
BProc, LLB

Meryl has been a member of the Merafe board since June 2007. She heads up the Corporate Funding Department at the Industrial Development Corporation of South Africa Limited (IDC).

Abiel Mngomezulu (59)
(Independent)
BSc (Hons)

Abiel joined the Merafe board as an independent non-executive director in September 2010. He is currently the President and Chief Executive Officer of Mintek, a state owned enterprise responsible for mineral extraction technologies and beneficiation.

Mpho Mosweu (37)
CA(SA), MBL

Mpho Mosweu, who joined our board in March 2011, is head of the Projects and Corporate Finance department at the IDC. She currently serves on the board of Cipla Medpro, a JSE-listed pharmaceutical company, as an independent non-executive director and chairs the company's audit and risk committee. She has extensive commercial and governance experience.

Karabo Nondumo (34)
(Independent)
BAcc, HDipAcc, CA(SA)

Karabo, who joined the Merafe board as an independent non-executive director on 1 December 2010, is currently Executive Head in the Enterprise Business Unit at Vodacom Group Limited. She gained her previous mining industry experience at Shanduka Resources.

Steve Phiri (57)
BJuris, LLB, LLM, HDip Co Law

Steve was Chief Executive Officer of Merafe for six years, before becoming the Chief Executive Officer of Royal Bafokeng Platinum in in 2011. He remains on the board as a non-executive director and is a non-executive director of RBRH.

Mfanyana Salanje (51)
(Independent)
BCom, BCompt (Hons), MBA, CA(SA), ACMA (UK), HDip Tax Law

Mfanyana, who is currently Chief Executive Officer of Mfanyana Financial Solutions, joined the Merafe board as an independent non-executive director in December 2010. He has extensive experience in both the public and private sectors and chairs the Merafe Audit and Risk Committee.

From left to right: Mfanyana Salanje, Belese Majova, Abiel Mngomezulu, Chris Molefe, Zed van der Walt, Karabo Nondumo



For more detailed information on our directors please see our website www.meraferesources.co.za

Zed van der Walt (68)
(*Independent*)
PrEng, BSc Engineering (MET), MBA, DPLR

Zed (66) was the technical director of Merafe until he retired in February 2008. Prior to joining Merafe, he was the CEO of CMI Limited and has 35 years' operational and management experience in the ferroalloys industry. He possesses vast operational and management experience and knowledge of the ferroalloys industry.

Executive directors

Chief Executive Officer

Zanele Matlala (49)
BCom, BCompt (Hons), CA(SA)

Zanele joined the Merafe board in 2005 as an independent non-executive director. She was appointed Merafe's Chief Financial Officer on 1 October 2010 and Chief Executive Officer in 1 June 2012. She is a non-executive director of Dipula Income Fund, Stefanutti Stocks Holdings Limited and Business Partners Limited.

Chief Financial Officer

Ditabe Chocho (43)
BCom, MSc Financial management, CA(SA)

Ditabe joined Merafe as Chief Financial Officer on 2 January 2013. Before joining Merafe he was Chief Financial Officer of DSTV Online, a division of MultiChoice, having previously held the position of CFO of Multichoice Africa Proprietary Limited. He sits on the board committees of Resolution Health Medical Scheme as chairman of their Audit committee and a member of their Remuneration committee.

Commercial Director

Bruce McBride (53)
BA, LLB, Dip Advanced Banking, MBA, PhD

Bruce 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 also a non-executive director of Mundane World Leaders Fund Limited.

Company Secretary

Amritha Mahendranath (45)
BCom

Amritha, who joined Merafe in 2003 as Financial Manager, was appointed Company Secretary in 2004. She has a corporate governance qualification from the University of Johannesburg and has completed the GIBS Board Development Programme.

Senior management

Finance and Investor Relations Manager

Kajal Bissessor (30)
BAcc, Post graduate diploma in accounting, CA(SA)

Kajal joined Merafe in 2009. She worked as a manager at KPMG Inc from 2004 to 2009. During her time with KPMG Inc she gained international experience as an Audit Senior with KPMG Ireland.

General Manager – Merafe Chrome

Dr Jurg Zaayman (44)
BEng, MEng, PhD (Metallurgical Engineering)

Jurg joined Merafe Resources as Operations Manager during 2001. In 2004 he was seconded to the Xstrata-Merafe Chrome Venture as project leader for the Bokamoso pelletising plant project before being appointed to his current position in 2007.

From left to right: Steve Phiri, Mpho Mosweu, Meryl Mamathuba, Zanele Matlala, Bruce McBride, Ditabe Chocho.



GOVERNANCE (continued)

Company Secretary

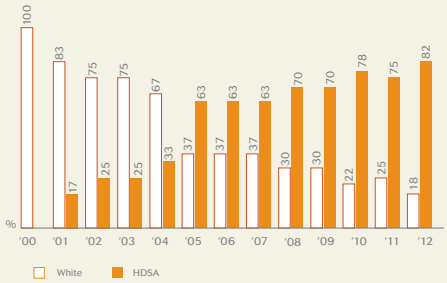
Our Company Secretary is responsible for administering the proceedings and affairs of the directorate, the company and, where appropriate, owners of securities in the company, in accordance with the relevant laws. The Company Secretary is available to assist all our directors with advice on their responsibilities, their professional development and any other relevant assistance they may require.

The board has assessed the competence, qualifications and experience of the Company Secretary, as required in terms of section 3.84 of the JSE Listings Requirements and has agreed that she is sufficiently qualified, competent and experienced to hold the position of Company Secretary. The board made their assessment during a closed session board meeting. The Company Secretary fulfils no executive management function and is not a director. Therefore, the board is satisfied that the Company Secretary maintained an arm's length relationship with the executive team, the board and individual directors in terms of section 3.84 of the JSE Listings Requirements.

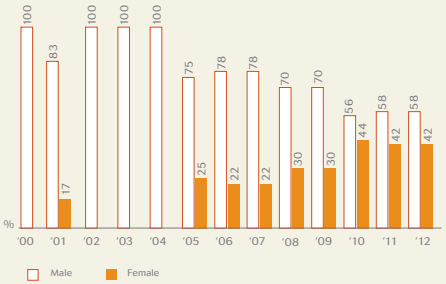
Independent advice

Our non-executive directors can, if necessary, obtain independent professional advice at the company's expense.

Progression of the racial composition of the Merafe board since the company's inception in 2000



Progression of the gender composition of the Merafe board since the company's inception in 2000



Board statistics as at 31 December 2012

45% of our board members are women, all of whom are black

82% of our board members are black

82% of our board members are non-executive directors who do not receive share options or incentives

67% of our non-executive board members are independent

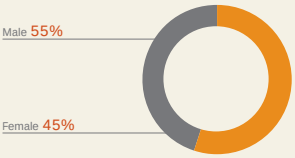


For information on our directors, dealings in securities policy and board induction and training, retirement and appointment of directors, please see our website www.meraferesources.co.za

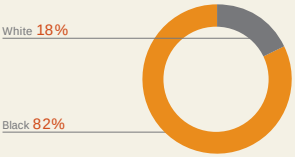
Racial and gender statistics as at 31 December 2012

Board

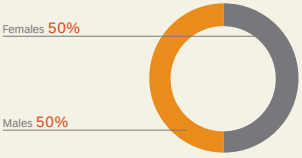
Gender composition



Racial composition



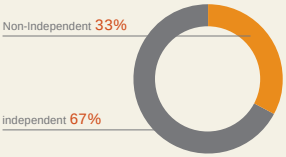
Executive



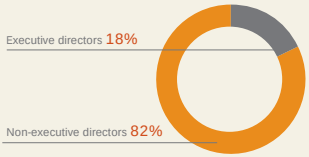


Board independence

Non-executive directors



Split between non-executive and executive directors



& Our chairman is an independent non-executive director and there is a **clear separation of the responsibilities** of the Chairman and the Chief Executive Officer. The Chairman is elected annually by the board and is assessed by the board annually

Social capital – Transparency and accountability

GOVERNANCE (continued)

Details of the members of our board and committees, a summary of their roles and responsibilities and attendance at meetings by members, as at 31 December 2012, are set out below:

Governance structure	Roles and responsibilities	Members/Invitees	Attendance
Board and board committees			
Merafe board	The Chairman is responsible for ensuring that: • the board provides effective leadership • the board maintains ethical standards. • Merafe develops and implements strategies aimed at achieving its sustainability • the board and its committees are effective The board is responsible for: • governance of the Merafe Group on behalf of its shareholders • its own governance • strategy and strategic decision-making • assessment of performance • engaging with stakeholders • Merafe's approach to its social responsibility, safety, health, the environment, ethics and risk	*Chris Molefe (Chairman)* *Zanele Matlala (CEO from 1 June 2012 and CFO)* *Stuart Elliot (CEO until 31 May 2012)* *Bruce McBride* *Meryl Mamathuba* *Belese Majova* *Abiel Mngomezulu* *Mpho Mosweu* *Karabo Nondumo* *Steve Phiri* *Mfanyana Salanje* *Zed van der Walt*	4/5* 4/5* 2/2* 5/5* 3/5* 5/5* 5/5* 3/5* 4/5* 1/5* 5/5* 5/5*
Audit and Risk Committee	All members of this committee+ are independent non-executive directors (as required by the Companies Act). The committee: • monitors the adequacy of financial controls and reporting; reviews the audit plans of the external auditors and adherence to these plans; considers and determines the principles for approving the use of the external auditors for non-audit services; ensures that financial reporting complies with IFRS and the Companies Act; and reviews and makes recommendations on all financial matters • oversees Merafe's integrated reporting as well as the assurance function, which includes applying a combined assurance model to ensure a coordinated approach to all assurance activities including sustainable development and ethics • assists the board in the identification of all material risk and sustainability issues to which the company is exposed. It ensures that the requisite risk management culture, policies, practices, systems and resources are in place and are functioning effectively • reviews the risks listed in Merafe's register, as well as those of the Venture, at each meeting and members are responsible for providing assurance to the board that risk mitigation processes are in place to reduce the company's risk profile • is tasked with ensuring that the information technology (IT) strategies of both Merafe and the Venture are integrated with the entities' overall business strategies and processes, that IT is being leveraged to improve their performance and sustainability and that this forms an integral part of their risk management practices • satisfies itself as to the expertise and experience of the Chief Financial Officer and the financial functions of Merafe and the Venture	*Mfanyana Salanje (Chairman)* *Belese Majova (resigned as member on 4 May 2012)* *Abiel Mngomezulu* *Karabo Nondumo* *Zed van der Walt* *Zanele Matlala+* *Stuart Elliot+ – (resigned 31 May 2012)* *Bruce McBride+* *Chris Molefe+* *Jurg Zaayman+* *Kajal Bissessor+*	5/5 2/2 4/5 4/5 5/5 5/5 3/3 4/5 5/5 4/5 5/5

** There were four paid board meetings, one paid board strategy session and one unpaid board workshop in 2012*

For details of the committee's roles and responsibilities see the Audit and Risk Committee report on page 128

Governance structure	Roles and responsibilities	Members/Invitees	Attendance
Remuneration and Nomination Committee	The committee: • makes recommendations to the board for its consideration and final approval regarding remuneration strategy and policy • assists the board in ensuring that directors and executives are remunerated fairly and responsibly • ensures the disclosure of directors and other executive remuneration is accurate, complete and transparent • assists the board with ensuring that remuneration policies are adopted that promote the achievement of strategic business objectives and encourage individual performance and monitoring remuneration policies • makes recommendations on non-executive directors' fees • develops policy around the appointment of directors, investigates potential board members for necessary skills and competence and makes appropriate recommendations to the board	*Chris Molefe (Chairman)* *Belese Majova* *Karabo Nondumo* *Steve Phiri* *Zanele Matlala*[++] *Bruce McBride*[++] *Stuart Elliot*[+] *– (resigned 31 May 2012)*	6/6 6/6 5/6 5/6 2/3 2/3 1/2
Social, Ethics and Transformation Committee	The committee assists the board with the oversight of social, ethical and transformation matters relating to the company. It monitors the company's: • activities with regard to any relevant legislation, charters or codes in respect of social and economic development • performance in terms of good corporate citizenship including the company's promotion of equality, prevention of unfair discrimination, reduction of corruption, transformation policies and strategies and social responsibility policies and strategies • contribution to the development of communities in which the operations in which we are invested operate • performance in terms of the environment, health and public safety, including the impact of the company's activities and its products and services • application of its code of ethics and its approach to corruption (as recommended in principle 1.3 of the King Report on Governance for South Africa, 2009)	*Belese Majova (Chairman from 4 May 2012)* *Meryl Mamathuba (resigned as Chairman 4 May 2012)* *Chris Molefe* *Stuart Elliot – resigned 31 May 2012* *Zanele Matlala* *Bruce McBride* *Jurg Zaayman*	3/3 2/3 3/3 1/1 3/3 3/3 3/3

[+] *Invitee*
[++] *Invited to committee from 1June 2012*

Management structure	Roles and responsibilities	Members
Executive Committee	Our Executive Committee, which meets at least once a month, recommends policies and strategies; is responsible for the implementation of strategy and carrying out the board's mandates and directives. It deals with all executive management business and is responsible for all material matters that are not the responsibility of the board. It also assists the board with the execution of Merafe's compliance and disclosure obligations	*Chief Executive Officer* *Chief Financial Officer* *Commercial Director*
Xstrata-Merafe Chrome Venture's Joint board	The Joint board meets quarterly with the aim of ensuring proper governance of the activities of the Venture. Members of Merafe's management team also attend and participate in the Venture's monthly Exco, Treasury, Sustainable Development, Audit and Social and Ethics committees	*Three senior representatives from Xstrata and three senior representatives from Merafe. Currently, the Chief Executive Officer of Xstrata chairs the board.*



For committee terms of reference see our website www.meraferesources.co.za

GOVERNANCE (continued)

Our approach to governance

We believe that good corporate governance is key to the integrity of our organisation, our ability to manage risk and perform at optimum levels. It is for this reason that Merafe is committed to the highest levels of ethical and accountable business conduct. Underpinning our disciplined approach to governance is our determination to ensure we maintain a balance between good governance and the spirit of entrepreneurship that has built our business.

Our application of King III in 2012

Merafe applies the principles of King III. A table setting out our application of the principles can be found on our website in the Transparency and accountability section. In 2011, we reported that we had only partially applied some principles and our application of certain principles was under review. We have made the following progress:

Internal audit

Oversight of internal audit in Merafe by the Audit and Risk Committee	We reported last year that the Merafe Audit and Risk Committee did not oversee internal audit in Merafe. Since then PricewaterhouseCoopers (PWC) has been appointed as Merafe's internal auditors. The scope of their appointment included the preparation of an internal audit plan and an internal audit charter; reviews of IT governance, legal and compliance and all matters relating to tax. Also included in PWC's scope as internal auditors is attendance at all Audit and Risk Committee meetings, as well as meeting with our external auditors

Governing stakeholder relationships

Management proactively deals with stakeholder relationships	As we said last year, while our management team continually strives to improve the effectiveness of its stakeholder engagement, this remains an area where we believe there will always be room for improvement
There is an appropriate balance between its various stakeholder groupings	While we believe that we are reasonably well engaged with all our stakeholder groupings, we still seek clarity regarding what is meant by "appropriate balance". In our opinion this issue will also remain one that needs to be monitored for potential areas where there is room for improvement
Equitable treatment of stakeholders	Again, we seek clarity regarding the meaning of "equitable treatment", however, we do believe that we are doing our best to treat stakeholders fairly. This will also remain an area which we will monitor for potential areas where there is room for improvement
Transparent and effective communication to stakeholders	While we believe that our stakeholder engagement policies and procedures ensure transparent and effective communication, we have not, as yet, been able to adequately test this assertion and it therefore remains an issue we will monitor for potential areas where we can make improvements
Disputes are resolved effectively and timeously	We indicated last year that within our agreement with Xstrata regarding the Venture, which is our major agreement, there are various dispute resolution mechanisms, including an arbitration clause. As we have not had to refer any dispute for arbitration since the Venture was formed in 2004 we cannot comment on how effective the process is, or whether disputes are resolved timeously

The governance of information technology

The board is responsible for information technology	PWC is performing a gap analysis in Merafe in their role as internal auditors and their recommendations in this connection will be implemented. For information on the governance of information technology in the Venture please see the Risk management report on pages 102 to 103

SOCIAL, ETHICS AND TRANSFORMATION COMMITTEE REPORT

Merafe's Social, Ethics and Transformation Committee was established by the board of directors on 21 February 2012, in accordance with the requirements of the Companies Act of 2008 (the Act), section 72(4) and Regulation 43(2).

Previously, Merafe had a Transformation and Corporate Social Investment Committee. The responsibilities of the Transformation Committee have been incorporated with this committee's responsibilities and the committee has been renamed the Social, Ethics and Transformation Committee. In addition to the three meetings the committee held during the year it also held two workshops on 6 June and 19 October for the purpose of ensuring that the committee understood its duties and obligations in accordance with the new legislation. During the workshops the committee also developed a new charter and formal terms of reference to replace the previous committee's charter and terms of reference. Professor Deon Rossouw of the Ethics Institute of South Africa assisted the committee during these workshops. The committee's terms of reference will be reviewed annually by the board.

We would refer you to page 97 for a description of the roles and responsibilities of the committee and its terms of reference can be found on our website www.meraferesources.co.za

The committee has an independent role. Its members include three non-executive directors, two of which are independent, two executive directors and the general manager: Merafe Chrome. Independent non-executive director Belese Majova chairs the committee.

The committee assists the board in monitoring the group's activities in terms of legislation, regulation and codes of best practice relating to:

- ethics
- stakeholder engagement, including employees, customers, communities and the environment
- strategic empowerment and compliance with transformation codes and is responsible for:
  - monitoring the company's activities relating to social and economic development, good corporate citizenship, the environment and health and public safety
  - ensuring appropriate short- and long-term targets are set by management
  - monitoring progress on strategic empowerment and performance against targets
  - monitoring changes in the application and interpretation of empowerment charters and codes
  - monitoring functions required in terms of the Companies Act and its regulations.

To meet its responsibilities the committee receives reports on the progress that both Merafe and the Venture have made in terms of the issues covered by its terms of reference. A senior representative of the Venture attends specific committee meetings where the focus is on the Venture.

The members of the committee believe that Merafe is substantively addressing the issues it is required to monitor in terms of the Companies Act. However, the committee was only established in the year under review and we recognise that the functioning and scope of the committee is a work in progress.

We would refer you to our Governance report, and the Human and Social capital reports on pages 90, 64 and 82 for more detailed information.



Belese Majova
Chairman

HUMAN RIGHTS AND ETHICS



Human rights

Merafe subscribes to the fundamental tenets of human rights as enshrined in our country's Constitution and Bill of Rights. Our policies and practices are aligned to ensure that all employees and stakeholders are treated with dignity and in a manner that is culturally appropriate, irrespective of gender, background or race.

The principles of the UN Universal Declaration of Human Rights, the ILO Conventions and the UN Global Compact have been embedded in Xstrata's Sustainable Development Framework, which is applied in the Venture.

South African labour legislation prohibits the employment of children younger than 18 years of age. The Venture's operations reported on their adherence to this legislation, which is monitored through its internal audit and risk management programme. The age of the youngest employee in 2012 was 18 years of age.

The Venture has the grievance processes in place to ensure that any breaches of human rights can be reported, investigated and, where necessary, the appropriate corrective action can be taken. In addition, employees can use the ethics line to report any activities which they believe are not in line with the company's policies on human rights.

Employees of the Venture, and security personnel in particular, undergo training in human rights to ensure a basic understanding of, and compliance with, the Business Principles.

To ensure the highest levels of human rights practice within the Venture's supply chain it expects all its major suppliers and contractors to comply with its Business Principles and significant business partners undergo screening on their human rights practices.

The Venture's Sustainable Development Standards require its operations to maintain community relations strategies that uphold and promote human rights and respect cultural considerations and heritage. No breaches of human rights were reported by any operations during 2012, nor were there any incidents of the rights of indigenous people being violated.

Ethics

The Merafe Code of Ethics governs the way we do business and the way our directors and employees engage with our stakeholders. The Code, which is binding on our directors and employees and contractors, provides guidelines for behaviour which is above reproach.

The Merafe board is committed to creating a culture where the highest levels of integrity are underpinned by transparent business transactions and robust assurance systems.

The Business Principles, which are applied in the Venture, provide an unambiguous framework within which that business operates – ethically, openly, responsibly, together and with others.

A copy of these Principles, in the language of choice, is provided to every employee, supplier, contractor and business partner before they begin work at the Venture. The Principles are an integral part of the Venture's induction process which expects strict adherence to these Principles by both employees and contractors. The Venture uses an online training system to test employees' and contractors' understanding and application of the Business Principles in a variety of simulated scenarios. Employees are required to achieve a minimum score of 70% in the training.

Xstrata's global policy on bribery, fraud and corruption, implemented in 2010, applies to all subsidiaries, joint ventures and business units as well as to all employees, officers and directors of those entities. The purpose of the policy is to ensure that adequate procedures are in place to prevent any form of bribery and fraud and to explain the procedures to be followed by management and staff when there is evidence or a suspicion of an incident of bribery or fraud.

To supplement the Business Principles and support this new policy the Venture developed a new Code of Conduct, which is issued to all employees and contractors. Training is provided in the application of the Code.

The Venture's implementation of the Business Principles and the Code of Conduct is supported by a confidential and independently managed toll-free ethics line and email address, the details of which are printed on the back of the Business Principles and the Code of Conduct and displayed in workplaces.

Employees of the Venture can raise concerns over any unethical business practices including incidences of fraud, theft, corruption, dishonest business activity, misappropriation of company resources or incorrect health and safety practices. These reports are directed to the head of internal audit for investigation and appropriate action.

Fifty percent of the Venture's operations underwent human rights reviews and impact assessments in 2012, 86% of the Venture's significant suppliers and contractors underwent human rights screening and 97% of the Venture's security personnel received human rights training.

Venture employees made six formal complaints relating to human rights. These were addressed and resolved through formal grievance mechanisms.

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

Merafe is committed to the principles of the revised Mining Charter for the South African mining industry and the Mining Scorecard, established to monitor performance against the Charter, and to meeting the targets set in the Mining Scorecard.

Merafe's partner in the Venture, Xstrata, 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 providing feedback and advice.

The Venture is a member of the Ferro Alloys Producers Association (FAPA), the International Chrome Development Association (ICDA), the North West province Air Pollution Control Forum (NAPCOF) and the South African Mining Development Association (SAMDA).

The Venture's Sustainable Development Framework is aligned to the International Council of Mining and Metals' (ICMM) Sustainable Development Framework.

RISK MANAGEMENT



Risk management

Risk is an intrinsic aspect of business and is inseparable from opportunity. The risks set out in the table on pages 104 to 108 represent some of the principal uncertainties and trends which may have an impact on the Venture and/or Merafe's ability to execute their strategies effectively in the future. These risks have been assessed according to materiality, likelihood and residual risk after controls and have been separated into risks from the external environment and those internal to Merafe and the Venture.

The Merafe board is responsible for the governance of risk and setting levels of risk tolerance and has tasked the Audit and Risk Committee with assisting the board in carrying out its risk responsibilities. While our board has also delegated the process of risk management in Merafe to management, the Audit and Risk Committee, acting on behalf of the board, ensures that there are ongoing assessment and monitoring of our risks. The Executive Committee is accountable to the board for designing, implementing and monitoring Merafe's risk management processes and senior managers and heads of department are responsible for effectively managing risks within their respective areas of responsibility.

Merafe's risk management policy and framework describes our risk management philosophy, approach and process and guides the implementation of our risk management process in a uniform manner across the company.

Many risks inherent in a mining business will always exist. The challenge is to manage them effectively. The Venture's risk management system allows it to pursue business opportunities and grow shareholder value as well as developing and protecting its people, assets,

Merafe is
& committed
to the principles of the
Mining Charter

environment and reputation. Its processes are defined within a risk framework that is well understood across all its operations. Because managing risk is a continuous challenge, self-assessment is ongoing within the Venture to identify, evaluate and manage significant risks. The results are regularly updated on the Xstrata group risk registers.

The Venture undertakes a comprehensive annual risk review, the results of which are implemented into the annual business plans which are presented to the Xstrata board for approval. Progress against these plans, significant changes in the Venture's risk profile and actions taken to control and mitigate risks are reported regularly to its Audit Committee, the Xstrata group Audit Committee, the Executive Committee and its board.

Information technology governance

Responsibility for the implementation of an IT governance framework for the Venture has been delegated to the Business Systems division, which has implemented a combination of Control Objectives for Information and related Technology (COBIT), a set of best practices for IT management; Information Technology Infrastructure Library (ITIL), a set of concepts and practices for IT services management, IT development and IT operations; and Val IT, which is a suite of documents that provide a framework for the governance of IT investments produced by the IT Governance Institute (ITGI) and include a formal statement of principles and processes for IT portfolio management. Business Systems, with the assistance of KPMG, has also developed a customised IT governance framework. The framework has two major components: the IT governance strategy roadmap and the IT governance framework, which uses the RACI model (Responsible, Accountable, Consulted, Informed – a tool that can be used to identify roles and responsibilities). Ernst & Young, the Venture's external auditors and its internal auditors audit its IT governance processes annually.

King III has highlighted IT governance and the responsibilities of the board in this regard. IT is firmly on the Merafe board's agenda and as previously mentioned our internal auditors are carrying out a gap analysis of IT governance in Merafe. Should the result reveal weaknesses in our approach we will remedy these.

Within the Venture the Business Systems division reports into the Chief Financial Officer who represents it at board level. In addition, the Venture has established a governance body, the Information Systems (IS) Planning Council, that reports into Exco and plays a key role in driving IT governance in the Venture.

To align the operation and management of IT processes within the Venture with its performance and sustainability objectives the Business Systems division has aligned its scorecard with Xstrata's 17 Sustainable Development Standards.

A post has been created for the management of IT risk and to ensure that the Venture's management of risk is aligned with Xstrata group risk processes and methodology.

The management of IT assets is regularly reported to the IS Planning Council and the Venture's CFO. In addition, they are regularly evaluated by means of internal and external audits. For Merafe IT governance see page 98.

Social capital – Transparency and accountability

RISK MANAGEMENT (continued)

Principal risks and uncertainties affecting Merafe and its investment in the Xstrata-Merafe Chrome Venture

Risk and impact	Mitigation
Socio-political climate in South Africa	
Labour unrest could negatively impact the Venture's productivity and profitability	Relationships with and recognition of trade unions; relationships with employees and establishing employee share option plan (ESOP)
If the Venture does not win broad support for our activities from local communities, our projects could face delays, which could impact on operating profit, development costs and our reputation. Severe disruptions would impact on our profitability and our growth plans	Stakeholder engagement plays a very important role in establishing relationships with our employees and the communities in which we operate, as does the employment of members of the local communities in our operations. The Venture works with communities affected by our operations to identify and evaluate their needs and concerns at every stage of a project's life cycle, as well as the actual and potential impacts its operations have on these communities Merafe and the Venture invest in our social and labour plan commitments, which include local economic development, healthcare and education projects. We also invest in corporate social responsibility initiatives
Commodity price volatility	
Negative impact on earnings	Our preventive actions include managing production levels, including scaling down mining and smelting activities during downturns in global demand. In addition, close relationships with customers and the technical expertise to predict and plan for upturns and downturns in demand, help Merafe and the Venture to mitigate the impact of downturns and take advantage of the opportunities provided by upturns. We also lobby government to protect the South African ferrochrome industry's R13 billion investment in beneficiation capacity
Fluctuation in currency exchange rates	
Currency exchange rate fluctuations impact on our operating profit	We are exposed to rand/US dollar fluctuations. Containing production costs by means of process improvement initiatives and investments to reduce costs, helps us mitigate the impact of currency fluctuations in favour of a stronger rand

For further information on the socio-political climate see the Social capital section of this report on pages 82 to 108 and the Operating context section on pages 6 to 7

Risk and impact	Mitigation
Inability to obtain debt finance	
A downgrading of Merafe's credit status could materially and adversely affect our financial position and growth plans	At Merafe we maintain a strong balance sheet, low gearing and a good reputation and relationship with our bankers. We also have tangible assets to secure financing. We hold regular meetings with our bankers to proactively assess terms and conditions before potential problems arise. Our partner in the Venture, Xstrata, takes a considered approach to debt management
Non-compliance and/or changes to laws, regulations, taxes, royalties and mining rights	
Any non-compliance or changes in legislation can result in extensive disruption to operations, loss of revenue and fines. Loss of mining rights could affect our business	The Venture maintains an extensive, transparent and open relationship with regulators and local, regional and national government bodies. The Venture keeps abreast of all changes to legislation and ensures any changes to laws or regulations are addressed and we closely monitor compliance with legislation. The Venture works in partnership with its employees and local communities in order to earn and maintain our social licence to operate. Merafe maintains an extensive, transparent and open relationship with regulators and local, regional and national government bodies. We follow and implement any changes to laws or regulations and closely monitor compliance with legislation. We are on track to achieve the Mining Charter targets, including our employment equity, procurement and social development targets. Merafe and the Venture regularly engage with SARS, DTI, DMR and other regulators
Investors' negative perceptions of the South African mining industry	
This could impact on investors' appetite for investment in South African mining stocks	Merafe focuses on maintaining relationships with our existing investors and building new relationships. To achieve this our team regularly travels to Europe, the United States and Asia to meet with and make presentations to European, American and South African investors and potential investors to address any concerns. We also keep investors informed through our website
Health of global economy	
The possibility of a meltdown in the Eurozone could impact on South Africa and South African companies	We need to maintain our position as the lowest-cost ferrochrome producer in South Africa and have the flexibility to react quickly to changing economic circumstances
Loss of key and skilled employees in Merafe and the Venture	
Loss of key and skilled employees, particularly to competitors, could result in financial loss and reputational damage	Our policy is to invest in future key contributors and to implement adequate notice periods and lock-ins through deferred bonus payments and share incentives

Social capital – Transparency and accountability

RISK MANAGEMENT (continued)

Risk and impact	Mitigation
Empowerment credentials	
Loss of empowerment credentials if Royal Bafokeng Resources Holdings Limited (RBRH) sell their shares in Merafe	The mining industry is governed by the Mining Charter which requires mining companies to have empowerment credentials. RBRH has been a shareholder in Merafe for over ten years. Merafe ensures RBRH is kept informed, regularly meets with its representatives and RBRH is represented on the board
Operational risks	
The Venture's operations are affected by a number of factors that are outside our control. These include the availability and costs of raw materials, water and power, unusual ground conditions, climatic conditions resulting from climate change (e.g. drought or flooding) These factors could adversely affect our operating performance, production levels, unit costs and operating profit	The Venture has in place a comprehensive programme to identify, understand and manage the risks that affect our business and our operations. We undertake an annual risk review, and the risk registers of Xstrata, Merafe and the Venture are regularly updated
Chrome ore	
Chrome ore exports to China could undermine the South African ferrochrome industry and the beneficiation of chrome ore in South Africa	The Venture and the ferrochrome industry are engaging with government to develop a solution that will support government's beneficiation and job creation strategies and ensure the sustainability of South Africa's ferrochrome producers
Cost control	
The Venture's competitiveness and long-term profitability depend significantly on our ability to maintain low-cost efficient operations. Above inflation increases in input costs may negatively impact Merafe's earnings	We pride ourselves on being a low-cost producer. Cost performance is regularly reported to the Executive Committee and is a key management performance measurement. The Venture's development of lower-cost proprietary technology has played a significant part in cost reduction. We are also engaging with government regarding carbon taxes, electricity costs and steps to ensure the sustainability of the ferrochrome beneficiation industry in the future

More information on stakeholder engagement is available throughout this report

Risk and impact	Mitigation
Security of energy supplies	
Lack of energy supply could impact on the Venture's ability to operate or threaten planned future expansion of our operations or the development of new mines	The Venture has an ongoing programme to assess and monitor energy-related risks, including scenario analyses. We manage the risk through implementing energy efficiency plans and assessing the risks associated with energy supply at the design phase of our projects. Our investment in process technology to achieve efficiencies and reduce energy consumption has allowed us to become the lowest-cost ferrochrome producer in South Africa
Emissions and climate change regulation	
There is uncertainty concerning carbon taxes and the interpretation and application of any legislation relating to these taxes in South Africa They may have a material adverse impact on our ability to maintain profitability Water scarcity has also become a global issue and could in future affect the Venture's ability to operate	The Venture continually engages with government and key policymakers to advocate a rational approach to carbon taxes We have made climate change issues a high priority and the Venture reviews climate change strategy regularly. We have reduced the carbon emissions attributable to the electricity we purchase by improving the energy efficiency of our operations and investigating the use of renewable energy sources. The Venture is undertaking feasibility studies on a number of potential energy efficiency projects. *The Venture's emissions are reported to the Carbon Disclosure Project (CDP) The Venture has successfully taken steps to reduce its water consumption
Health, safety and the environment	
The Venture's operations are subject to extensive health, safety and environmental (HSE) regulations and legislation and community expectations In South Africa HIV and AIDS and associated diseases remain the major healthcare challenges facing our industry Any breach of regulations or non-compliance with the Venture's own best practice standards in health, safety and environmental performance and community relations could affect our licence to operate If the Venture's employees suffer from the symptoms associated with HIV and AIDS, it could have a negative impact on the Venture's production levels and our profitability	We give these three issues priority and significant resources are committed to providing a safe and healthy workplace, keeping our impact on the environment to a minimum and addressing the impact of HIV and AIDS on our employees and the communities in the vicinity of our operations All operations are regularly independently audited through the Sustainable Development Assurance Programme and they manage the risks that could affect the Venture's operations

For more information on climate change and the environment see the Natural capital section pages 40 to 49

Social capital – Transparency and accountability

RISK MANAGEMENT (continued)

Risk and impact	Mitigation
Project development	
The Venture's ability to develop our project pipeline and expand our operations with new, lower-cost operations will impact future revenues, costs and its reputation for successful project development	Cost control is a key consideration in project development and the Venture has an excellent track record of delivering major capital growth projects on time and on budget. We have a comprehensive project approval process which governs project management at each stage of a project. Approval processes ensure that all risks are fully assessed and, where possible, are mitigated before the project can proceed to the next phase
Reserves	
Our mine reserves decline as chrome ore is extracted and not all reserves may be mined as profitably as originally anticipated. In order to develop reserves, mining rights must be obtained for our chrome ore mines Successful exploration and development activities and access to new properties containing economically recoverable reserves are important to the Venture's future success. If it cannot obtain the necessary exploration and mining rights, our ability to develop reserves will be adversely affected	The Venture annually updates the quantity and quality of our estimated proven and probable reserves to reflect the extraction of chrome, additional drilling or other data. Our policy is to ensure five years of proved ore reserves at any time. The Venture continually investigates alternative sources of supply of chrome ore, the acquisition of additional reserves and the possibility of exploiting alternative seams within its existing mines, such as MG4. The Venture has also secured UG2 supply agreements with platinum producers. The Venture is well-positioned in terms of the conversion of its mining rights as set out in the Mineral Resources and Reserves section of this report

For more information on the Venture's Mineral Resources and Reserves see pages 50 to 61

REMUNERATION REPORT

Our remuneration philosophy

Merafe's primary remuneration intent is to employ and reward high calibre and high performing employees who subscribe to the values and culture of our company. We recognise that our employees are integral to the achievement of our corporate objectives and that they should be remunerated accordingly for their contribution, and the value that they deliver. Additionally, non-executive fees should be determined in the context of good governance and be market-related.

Our remuneration strategy

Our remuneration strategy is designed to be aligned with our business strategy and its execution. As we strive to attract, retain, motivate and reward employees for executing our business strategy, their remuneration must clearly be market-related, and our Remuneration and Nomination Committee uses third parties for the purpose of benchmarking to the appropriate segment. The general principle of this strategy is to structure executive and employee remuneration to provide:

- guaranteed annual salaries and benefits that are commensurate with the market for key talent
- annual cash incentives that reward short-term operational performance
- long-term (share-based) incentives that promote retention and drive performance in alignment with shareholder goals.

The Remuneration and Nomination Committee

Responsibility for the company's remuneration policies rests with the Merafe Resources Limited board of directors, which has in turn appointed the Remuneration and Nomination Committee.

The committee comprises at least three members, all of whom are non-executive directors. The Chairman of the committee and the majority of its members are independent. The committee is governed by formal terms of reference approved by the board.

The primary role of the committee is to ensure that the company's directors and senior executives are paid fairly for their individual contributions to the company's performance, and that remuneration policies are appropriate to attract, retain and motivate quality directors and senior management, committed to achieving the overall goals of the company.

This role essentially consists of:

- assisting the board in setting and monitoring remuneration policies which promote the achievement of strategic business objectives and encourage individual performance
- ensuring that remuneration policies are adopted and reviewed and aligned with the strategy of the organisation and linked to individual performance
- reviewing the outcome of the implementation of the remuneration policy.

Additionally the committee plays an active role in succession planning activities, notably for the Chief Executive Officer and executive management.

The committee is responsible for making recommendations to the board on remuneration policy for the directors and, to the extent it deems necessary, makes external comparisons between remuneration packages currently available to the company's own executive directors and those available to directors of other companies of a similar size in the comparable industry sector.

The committee meets formally at least two times a year, and a quorum is set at three members being present. The Chairman of the board and the CEO attend meetings to discuss the performance of other executive directors and to make proposals as necessary.

The Chairman of the committee may meet with the CEO and the Company Secretary to discuss important issues and agree on the agenda. The CEO, other senior employees, professional advisors and board members may attend the meeting by invitation only, but they may not vote. The Company Secretary is the secretary of the committee

The board performs an evaluation of the effectiveness of the committee on an annual basis

Remuneration policy

The key principles of Merafe's remuneration policy are:

- Policy is governed by the Remuneration and Nomination Committee who regularly review all policies to ensure that they are relevant and support company strategy
- Guaranteed remuneration is targeted at the median to upper quartile of the relevant market data

For more information on our performance against strategy see the Chief Executive Officer's review on pages 16 to 23

REMUNERATION REPORT (continued)

- All employees are members of medical and retirement funds and have group life and disability cover
- Variable pay is an important component of remuneration and both annual and long-term performance-based schemes are in place in support of the company's business strategy
- Incentive scheme performance measures are assessed by the Remuneration and Nomination Committee. These measures are weighted between corporate, individual, and financial and non-financial criteria
- Performance measures are applicable to the time period to which the scheme relates
- Annual cash incentive bonuses are based on performance for the financial year, while the long-term incentive scheme measures are based on long-term sustainability and shareholder value
- Annual salary adjustments are governed by factors such as the consumer price index (CPI), retention strategies, the producer price index (PPI), industry performance, projected growth, contractual arrangements and affordability
- Industry average increase surveys are taken into consideration in setting increases
- Both short-term and long-term incentive schemes are benchmarked against practices at similar companies
- The over-riding principle governing payments for non-executive directors is that they are made in the context of good governance.

Executive remuneration

The Remuneration and Nomination Committee (assisted by independent advisors) has reviewed Merafe's remuneration policy and has recently approved a new policy which is in line with best practice and which is more aligned with the company's strategic objectives.

The major change in policy has been to move away from bonuses based solely on a 1.5% share of EBITDA towards a more balanced approach, which addresses the long-term sustainability of performance rather than merely rewarding short-term financial performance.

Executive pay mix

Executive pay mix is defined as the balance targeted between the major components of executive remuneration, namely:

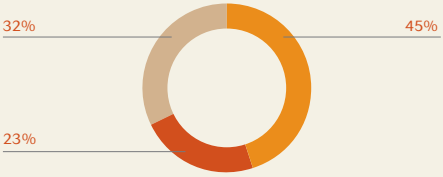
- Guaranteed pay – based on total guaranteed cost to company (tctc), being the combination of basic salary, allowances and benefits
- Performance variable pay, being made up of:
  - on target reward from short-term incentives in the form of annual cash incentives
  - the expected value from long-term (share-based) incentives.

Note: Expected value is defined as the present value of the future reward outcome of an offer, given the targeted future performance of the company and of its share price. It should not be confused with the term "fair value" which is used when establishing the accounting cost for reflection in a company's financial statements. Neither should it be confused with the term "face value" which is used to define the current value of the underlying share at the time of an offer.

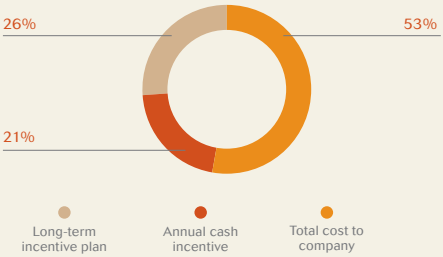
The balance between guaranteed pay (total cost to company), targeted annual cash incentives and the expected value from long-term (share-based) incentives for executives is shown in the pie charts below and on the next page.

Relative apportionment between the major elements of reward

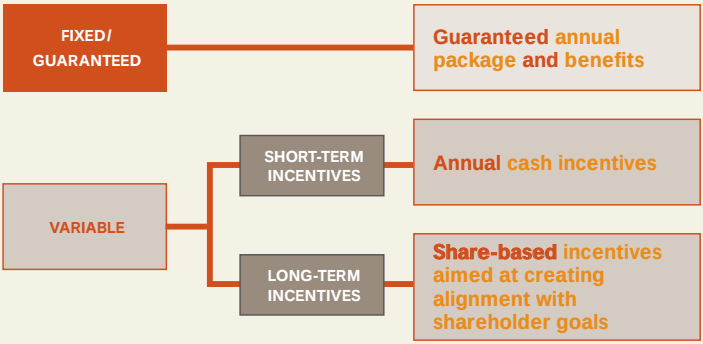
Chief Executive Officer



Executive director



Executive and employee remuneration principles/structure



Note that, through acquisitions and business combinations over time, and due to the impact of individual and business performance, actual pay mix will inevitably deviate from the targeted pay mix structure.

Merafe's executive remuneration (see the diagram above setting out the major components) aims to align employee incentives with the interests of our shareholders. Details of executive and management remuneration in 2012 can be found on page 179 to 180 of this report.

Guaranteed remuneration

Merafe aims to establish and maintain an integrated pay line with pay levels that ensure that it is able to remain competitive while managing costs. Salaries and benefits are reviewed annually and are targeted broadly at the median position in the relevant market. The company conducts annual market pricing exercises against the top management reward surveys. The benchmark used is the median total guaranteed cost of employment for similar positions in similarly sized, listed companies. When deciding on salary reviews the Remuneration and Nomination Committee also takes into account business performance, salary practices prevailing for other employees in the company and, when setting individual salaries, the individual's performance and experience in the role.

Short-term incentives

Merafe's annual incentives are aimed at rewarding a combination of both business and individual performance. Business performance (a weighted combination of financial performance and key strategic metrics) determines the size of a bonus pool for the company and individual contributions to this performance (measured in terms of individual value driver scorecards) determine the bonus pool's distribution to individuals.

Business performance is assessed in terms of a select scorecard of performance indicators, covering both financial and non-financial elements. Actually achieved performance against targeted EBITDA is given a weighting as is the achievement of additional ferrochrome business and/or targeted diversification (as submitted in a body of evidence and approved by the Remuneration and Nomination Committee). These metrics are assessed against a five-point scale.

The percentage split between targeted EBITDA and the achievement of additional ferrochrome business and/or targeted diversification will be discussed and agreed by the Remuneration and Nomination Committee annually, but is currently set at 50%/50%.

REMUNERATION REPORT (continued)

Long-term (share-based) incentives

The intention behind the offer of long-term (share-based) incentives is both to reward employees, including executive directors, for long-term performance and shareholder alignment, and to serve as a retention mechanism for employees whose services are regarded by the company to be crucial to its future growth and sustainability.

Share incentive schemes

On 14 December 1999, Merafe's shareholders approved a share option scheme for employees (including executive directors) of the company and its subsidiaries to encourage employees to identify more closely with the activities of the company and to promote its continued growth by giving them an opportunity of acquiring shares in the company.

All options vest one third per year on the third, fourth and fifth anniversaries and are settled by physical delivery of shares against receipt of payment of the option price. These options lapse if not exercised after 10 years by employees and options are forfeited when an employee resigns from the group not having exercised his/her options.

On 13 April 2010 a new share incentive scheme was approved by shareholders providing for offers of both share options and full value (free) shares. The offers of full value (free) shares were split 50%/50% between performance-oriented awards being subject to performance vesting conditions and retention-oriented grants with no performance conditions other than continued employment.

All offers vest in equal tranches on the third, fourth and fifth anniversary and are settled by physical delivery of shares. Alternatively, the company has the right to settle the value accruing to an individual via the payment of an equivalent value cash bonus.

The conditions applicable to the performance-oriented awards are set out on page 158 of the annual financial statements.

The board of directors of the company, on the recommendation of the Remuneration and Nomination Committee, made various offers of share options and full value (free) shares during 2010, 2011 and 2012.

In 2012 the Remuneration and Nomination Committee made a decision to vary the balance between performance-oriented awards and retention-oriented grants and to simplify the performance criteria that determine vesting of the performance-oriented awards. From 2013 awards will be governed by a single performance metric that compares Merafe's total shareholder return over a three-year period with that of a selection of JSE-listed small cap mining and resources companies.

The fundamental principles governing Merafe's revised long-term incentives are as follows:

- Share options are only offered at the discretion of the board
- Full value share offers are made annually to all employees, the targeted reward of which is dictated by the company's reward strategy – pay mix
- Performance-oriented share awards and retention-oriented grants are offered to senior managers and above, with the proportion of awards, in relation to grants, increasing with seniority
- Performance-oriented award values are calculated as a percentage of an individual's total cost to company guaranteed package
- Retention-oriented grant values in any one year are, at the discretion of the board, calculated either as a percentage of the current total cost to company guaranteed package, or as a percentage matching of the past year's annual incentive payout.

Share options and share awards and/or grants offered to directors under the share incentive scheme during 2012 are set out on pages 159 to 161 of this report.

Unvested share options and share awards and/or grants to directors are set out in the tables on pages 157 to 161 of this report.

Non-executive directors' fees

In accordance with Merafe's policy of ensuring that non-executive directors' fees are market related, the company consults regularly with independent experts regarding the appropriate fee structures and levels, the last review having been undertaken in 2012.

Merafe aims to
& reward
high calibre and high performing employees

The fees for non-executive directors are provided in the context of good governance, and in line with the strategy of attracting and retaining high calibre individuals as custodians of the company's business.

Fees are primarily derived from a methodology which takes into account expertise, the contribution made by the director, and attendance. Independent benchmark advice is sought and the present policy is that non-executive directors' fees are positioned midway between the median and upper quartile of those fees found in listed companies of a similar size. The fees vary according to the different roles, such as Chairman, that non-executive directors undertake in the various committees.

To avoid any conflict of interest, non-executive directors do not and will not participate in any share-based incentive scheme or any other incentive scheme that the company may implement.

Non-executive directors' fees are tabled annually for approval by the shareholders of the company. The non-executive directors' fees paid during 2012 are set out below, as are the proposed non-executive fees for 2013. Details of non-executive directors' remuneration in 2012 can be found on page 179 of this report.

Fees are based on four meetings a year with a split of a 60% retainer and a 40% attendance fee. In addition, attendance fees only are payable for special board or committee meetings. Should the Chairmen of the board and committees be required to undertake ad hoc duties, additional remuneration is payable for the time spent, in accordance with Merafe's remuneration policy and as determined by the board.

Non-executive directors' fees for 2012

	Fees per annum R	Retainer 60% R	Attendance fee 40% R	Fee per meeting R
Board Chairman	407 570	244 542	163 028	40 757
Board members	219 685	131 811	87 874	21 968
Audit and Risk Committee Chairman	115 699	69 419	46 280	11 570
Audit and Risk Committee members	104 887	62 932	41 955	10 489
Remuneration/Nomination Committee Chairman	85 701	51 421	34 280	8 570
Remuneration/Nomination Committee members	52 311	31 387	20 924	5 231
Social, Ethics and Transformation Committee Chairman	85 701	51 421	34 280	8 570
Social, Ethics and Transformation Committee members	52 311	31 387	20 924	5 231

Proposed non-executive directors' fees for 2013 (a fee increase of 7% on non-executive directors' fees for 2013 is proposed with the exception of the Chaiman: Audit and Risk which has been increased to R191 500 after a benchmark exercise was performed to evaluate whether the current fees are market related)

	Fees per annum R	Retainer 60% R	Attendance fee 40% R	Fee per meeting R
Board Chairman	436 100	261 660	174 440	43 610
Board members	235 063	141 038	94 025	23 506
Audit and Risk Committee Chairman	191 500	114 900	76 600	19 150
Audit and Risk Committee members	112 229	67 337	44 892	11 223
Remuneration/Nomination Committee Chairman	91 700	55 020	36 680	9 170
Remuneration/Nomination Committee members	55 973	33 584	22 389	5 597
Social, Ethics and Transformation Committee Chairman	91 700	55 020	36 680	9 170
Social, Ethics and Transformation Committee members	55 973	33 584	22 389	5 597

Based on four meetings a year with a split of 60% retainer and 40% attendance fee



SUSTAINABILITY REVIEW AND ASSURANCE 116

GLOSSARY 120

Annexures



Lion II ferrochrome plant under construction
Limpopo province

Annexures

SUSTAINABILITY REVIEW AND ASSURANCE

The Xstrata-Merafe Chrome Venture

Merafe relies on the Venture and Xstrata to obtain quantitative data with regard to sustainability indicators.

The Venture, via the Xstrata Sustainability Database (XSD), undergoes a process of internal and independent assurance reviews of their key sustainability indicators.

The sustainability data and information falls under the Sustainability and Human Resource Development departments of both the Venture and Xstrata. The information set out in this report is signed off by the Venture and Xstrata.

The Venture's sustainability data and information was subjected to 13 internal and external reviews and audits during 2012. A schedule detailing these internal and external reviews and audits can be found on our website at www.meraferesources.co.za.

In addition, Xstrata plc engaged Ernst & Young (EY) to perform independent assurance over its sustainability report for 2012 in accordance with ISAE 3000 standards to meet the requirements of a type 2 assurance engagement as defined by AA 1000 AS 2008 principles of materiality, responsiveness and inclusiveness. EY provided limited assurance to Xstrata plc on the AA 1000 AS 2008 principles, limited assurance on the accuracy of up to eight sustainability data KPIs, limited assurance on the alignment with ICMM principles and limited assurance on the application of the GRI's G3 Guidelines and the GRI Mining and Metals Sector Supplement. The review focused on data accuracy and site reviews including management interviews and a review of stakeholder engagement activities and monitoring and assurance mechanisms of Xstrata South Africa, Alloys division. The site chosen by this engagement with regard to the Venture for 2012 was the Thorncliffe Mine.

The scope of this work included:

KPI	Details
Water	• Total water withdrawal (M^3) • Total volume of water recycled and reused (M^3)
Land	• Total land disturbed to date (km^2) • Total land rehabilitated to date (km^2)
GHG (tCO_2e)	• Direct greenhouse gas emissions • Indirect greenhouse gas emissions
Energy	• Indirect energy consumption by primary energy source: • Purchased electricity (Gj)
Waste	• Total weight of waste by type and disposal method – Mineral waste – onsite (%)
Safety	• LTI – Lost time injuries

With regard to the above internal and external audits and reviews, the Venture and Xstrata have confirmed to the board of Merafe that there are no material issues arising therefrom which would impact on the reliability, accuracy and completeness of the Venture's information set out in this report.

The Merafe board further engaged KPMG to perform certain procedures on Venture data at specific sites and to perform high level data analytics for all sites within the Venture. The purpose of these procedures was to enable the board to report more confidently to its stakeholders on its sustainability performance. The sites chosen for visits were Wonderkop ferrochrome plant and Kroondal Mine. The selected key performance indicators in the scope of the two site visits and the overall Venture data analytics were:

KPI	Details
Water	• Total water withdrawal (M^3) • Total volume of water recycled and reused (M^3)
GHG (tonnes CO_2e)	• Direct greenhouse gas emissions (Scope 1) • Indirect greenhouse gas emissions (Scope 2)
Energy	• Indirect energy consumption by primary energy source: • Purchased electricity (Gj)
Safety	• Total recordable Injury frequency rate (TRIFR) • Lost time injury frequency rate (LTIFR) • Fatal injury frequency rate (FIFR)
Health	• New cases of noise-induced hearing loss (NIHL)

The positive observations raised by KPMG were that both Kroondal and Wonderkop were well prepared for the review, the Xstrata safety guidelines were comprehensive and that a strong culture of excellence exists that is evident from the General Manager throughout site management.

The high level data analytics that KPMG performed for all sites within the Venture included trend analysis against production, targets and other key drivers. KPMG noted that overall Xstrata and the Venture were able to adequately explain unusual trends in data and addressed all KPMG's queries.

The findings of the review by KPMG were that save for differing opinions on the electricity factor to use for the measurement of greenhouse gas emissions (see pages 41 to 43) there were no material issues raised or that were of concern.

The Venture uses a global factor (0,8349 $kgCo_2$/kWh) based on the GHG protocol whereas KPMG is of the view that the Eskom generated factor (0,99 $kgCo_2$/kWh) should be used for scope 2 emissions. To date, the Regulator has not stipulated that a specific factor should be used.

As a result of the internal and external audit, assurance and reviews as outlined above, (together with the signing off of the data by the Venture and Xstrata), the board is satisfied that the information set out in this report in respect of the Venture's data is reliable, accurate and complete.

The Venture's Mineral Resources and Mineral Reserves statement is signed off by a Competent Person as defined by the SAMREC Code and set out on pages 50 to 61.

Merafe Resources

Our empowerment credentials and compliance with the Mining Charter and the B-BBEE Act are important to us and the Venture. They are also material to our ability to access diversification opportunities going forward. As a result we engaged KPMG to provide our stakeholders with assurance on key indicators in terms of B-BBEE and codes of good practice as well as the Mining Charter as set out in the assurance report that follows on pages 118 to 119.

In addition, Integrated Reporting and Assurance Services (IRAS) has assured Merafe Resources' application of the GRI G3.1 Guidelines in both this integrated report and the supplemental information provided via the Merafe website (www.meraferesources.co.za). This report has been produced in accordance with the Global Recording Initiative (GRI) guidelines to application level B+ (as assured by IRAS). IRAS has also assured Merafe's adherence to AccountAbility's AA1000AS principles of inclusivity, materiality and responsiveness, as well as its adherence to reasonable expectations for integrated reporting and sustainability data transparency. In assessing Merafe's carbon footprint source data, IRAS converted this information into a carbon emissions for comparability purposes, which Merafe has thus included on page 41 of this report. The IRAS independent assurance report can be found on the Merafe Resources website in the Transparency and Accountability section.

See www.meraferesources.co.za
Transparency and accountability section for the
GRI content index and our application of King III

Annexures

INDEPENDENT ASSURANCE REPORT ON SELECTED SUSTAINABILITY INFORMATION

To the directors of Merafe Resources Limited

We have undertaken a limited assurance engagement on selected sustainability information, as described below, and presented in the 2012 annual integrated report of Merafe Resources Limited (Merafe) for the year ended 2012 (the Report).

Independence and expertise

We have complied with the International Federation of Accountants' Code of Ethics for Professional Accountants, which includes comprehensive independence and other requirements founded on fundamental principles of integrity, objectivity, and professional competence and due care, confidentiality and professional behaviour. Our engagement was conducted by a multidisciplinary team of health, safety, environmental and assurance specialists with extensive experience in sustainability reporting.

Subject matter and related assurance

We are required to provide limited assurance on the following key performance indicators, prepared in accordance with the Global Reporting Initiative (GRI) G3.1 Guidelines.

Key performance indicators (Boundary – Merafe Resources)	Assured value	Page
% ownership (as defined by the B-BBEE Act and Codes of Good Practice) **• Black owned – Royal Bafokeng Resources Holdings Proprietary Limited**	29%	3, 9 and 196
Employment equity (as defined by the B-BBEE Act and Codes of Good Practice) • Black disabled employees as a percentage of all employees	0%	
• Black employees in top management as a percentage of all such employees	50%	76
• Black employees in senior management as a percentage of all such employees	67%	76
• Black employees in middle management as a percentage of all such employees	N/A*	
• Black employees in junior management as a percentage of all such employees	100%	76
% HDSA in management (as defined by the Mining Charter 2010) • Board	82%	76
• Senior management	60%	76
• Middle management	N/A*	
• Junior management	100%	76
• Staff	75%	76
Total CSI spend (Rand value)	R3 282 083	84
Total enterprise development spend (Rand value)	R400 000	84

** N/A There is no "middle management" in Merafe as defined by the B-BBEE Act and Codes of Good Practice and the Mining Charter 2010*

Directors' responsibilities

The directors are responsible for the selection, preparation and presentation of the sustainability information, the identification of stakeholders and stakeholder requirements, material issues, for commitments with respect to sustainability performance, and establishing and maintaining appropriate performance management and internal control systems from which the reported information is derived, and for such internal control as the directors determine is necessary to enable the preparation of the report that is free from material misstatement, whether due to fraud or error.

The directors are also responsible for the selection and application of the GRI G3.1 Guidelines to the selected key performance indicators.

Our responsibility

Our responsibility is to express limited assurance conclusions on the selected sustainability information based on our work performed. We conducted our engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000, Assurance Engagements other than the Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our engagement to obtain limited assurance about whether the selected sustainability information is free from material misstatement.

Our procedures and the extent of our procedures depend on our judgement including the risks of material misstatement of the selected sustainability information. In making our risk assessments, we considered internal control relevant to Merafe's preparation of the Report. In a limited assurance engagement, the evidence gathering procedures are less than where reasonable assurance is expressed. We believe the evidence we have obtained is sufficient and appropriate to provide a basis for our limited assurance conclusions.

Summary of work performed for limited assurance

Our work included the following evidence gathering procedures:

- Testing the processes and systems to generate, collate, aggregate, monitor and report the selected sustainability information
- Inspecting supporting documentation and performing analytical procedures on a sample basis to evaluate the data generation and reporting processes against the reporting criteria
- Assessing the reasonableness and appropriateness of significant estimates and judgements made by directors in preparation of the key performance indicators
- Evaluating whether the selected sustainability information presented in the report is consistent with our overall knowledge and experience of sustainability management and performance at Merafe.

Conclusion

Based on our work performed, nothing has come to our attention that causes us to believe that the selected key performance indicators, set out above, for the year ended 2012 are not fairly stated, in all material respects, in accordance with GRI G3.1 Guidelines.

Limitation of liability

Our work has been undertaken to enable us to express a limited assurance conclusion on the selected sustainability information to the directors of Merafe in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than Merafe, for our work, for this report, or for the conclusion we have reached.

Other matters

The maintenance and integrity of Merafe's website is the responsibility of Merafe management. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the report or our independent assurance report that may have occurred since the initial date of presentation on the Merafe website.



KPMG Services (Pty) Limited
Per PD Naidoo
Director
Johannesburg
28 February 2013

Annexures

GLOSSARY

ABET	Adult Basic Education and Training. ABET assists adult learners to become functionally literate and numerate
AIDS	Acquired Immune Deficiency Syndrome
B-BBEE	Broad-Based Black Economic Empowerment – a form of black economic empowerment
BEE	Black Economic Empowerment is a South African government policy aimed at increasing the participation of black people in the ownership, management and control of business
Biodiversity	An abbreviation of biological diversity, which means the full range of variety and variability within and among living organisms and the ecological complexes in which they occur and encompasses ecosystem or community diversity, species diversity and genetic diversity
Carbon intensity	Carbon intensity is calculated as tonnes of carbon dioxide equivalent (CO_2e) emissions per tonne of product
CO_2	Carbon dioxide
CO_2e	Carbon dioxide equivalents
Company	Merafe Resources Limited
CSI	Corporate Social Involvement. CSI is based on the concept that organisations have a responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities and other stakeholders, as well as the environment. This obligation extends beyond the statutory obligation to comply with legislation and sees organisations voluntarily taking further steps to improve the quality of life for employees and their families as well as for the local community and society at large
DEA	Department of Environmental Affairs
Disabling injuries	Calculated as lost time injuries plus restricted work injuries (LTI + RWI)
DISR	Disabling injury severity rate. The number of disabling injuries per million hours worked
DMR	Department of Mineral Resources
dti Codes of Good Practice	The dti Codes of Good Practice are to be applied in the development, evaluation and monitoring of BEE charters, initiatives, transactions and other implementation mechanisms
EBITDA	Earnings before interest, tax, depreciation and amortisation
EMPR	Environmental Management Programme Report (the South African equivalent of an Environmental Impact Study)
EMS	Environmental Management System
Environmental Incident Categories	Category 1: Negligible – An incident that has caused negligible, reversible environmental impact, requiring very minor or no remediation
	Category 2: Minor – An incident that has caused minor, reversible environmental impact, requiring minor remediation
	Category 3: Significant – An incident that has caused moderate, reversible environmental impact, with medium-term effect, requiring major remediation
	Category 4: Serious – An incident that has caused serious environmental impact, with medium-term effect, requiring significant remediation
	Category 5: Disastrous – An incident that has caused disastrous environmental impact, with long-term effect, requiring major remediation
EPS	Earnings per share
ERM	Environmental Resources Management
FAPA	Ferro Alloys Producers Association

Fatality	A death resulting from an occupational injury or illness and identified within the reporting period
FeCr	Ferrochrome
FIFR	Fatal injury frequency rate. The number of fatalities per million hours worked
Fresh water intensity	Raw ground and surface water use per tonne of product
GHGs	Greenhouse gases (GHGs) are the gases present in Earth's atmosphere which reduce the loss of heat into space and contribute to global temperatures through the greenhouse effect. On Earth, the most abundant greenhouse gases are, in order of relative abundance: water vapour, carbon dioxide, methane, nitrous oxide, ozone and chlorofluorocarbons
GJ	Gigajoules (1 GJ = 1 000 000 000 joules)
Global Compact	The UN Global Compact is a voluntary corporate responsibility initiative to advance ten universal principles in the areas of human rights, labour, the environment and anti-corruption
GRI	Global Reporting Initiative. The GRI is a multi-stakeholder international process whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines to assist corporations in reporting on the economic, environmental and social performance of their operation
Group	Merafe Resources Limited and all other group entities including the entities in Note 22
Ha	Hectares (1 ha = 10 000 square metres)
HDSA	Historically disadvantaged South African
HIRA	Hazard Identification and Risk Assessment
HIV	Human Immunodeficiency Virus
HSEC	Health, Safety, Environment and Community
IAS	International Auditing Standards
ICDA	International Chromium Development Association
ICMM	International Council of Metals and Mining
IDC	The Industrial Development Corporation of South Africa Limited
IFRS	International Financial Reporting Standards
IISI	International Iron and Steel Institute
ILO	International Labour Organisation
ISO	Organisation for Standardisation
ISO 14001	The ISOs standard for environmental management systems
ISO 9001	The ISOs standard for quality management systems
JIPSA	Joint Initiative on Priority Skills Acquisition. JIPSA is an initiative started to support ASGISA. Its objective is to identify urgent skills needs and quick and effective solutions. JIPSA seeks to equip people with skills so that they can participate in accelerated growth
JSE Limited Listings Requirements	What the JSE Limited requires of listed companies
JSE SRI Index	JSE Limited Socially Responsible Investment Index
JV	Joint Venture
Kℓ	Kilolitres are a metric unit of volume or capacity equal to 1 000 litres
ktpa	Kilotonnes per annum
kW	A kW (kilowatt) is a measure of the rate of energy use or production. 1kW = 1 000 watts

Annexures

GLOSSARY (continued)

LTI	Lost time injury. An LTI is an occupational injury or illness that results in days away from work on any rostered shift subsequent to the day on which the injury occurred. A fatality is also recorded as an LTI
LTIFR	Lost time injury frequency rate. The number of LTIs per million hours worked (= (LTI/hours worked) x 1 000 000) = LTIs/(hours worked/1 000 000)
m^3	Cubic metres
Materiality	Materiality in reporting means disclosing all information of significant concern to stakeholders for assessing economic, environmental and social performance
Merafe	The company and Merafe Ferrochrome and Mining Proprietary Limited
MHMP	Major Hazard Management Plan
MHSC	Mine Health and Safety Council
Mining Charter	The policy objective stated in the South African Mineral and Petroleum Resources Development Act, which is to expand opportunities for historically disadvantaged South Africans to enter the mining and minerals industry or benefit from the exploitation of the nation's mineral resources
Mℓ	Megalitre (1Mℓ = 1 000 000 litres or 1 000 kilolitres)
MPRDA	South African Minerals and Petroleum Resources Development Act 2004. The MPRDA governs the transfer of mining rights and granting of mining authorisations
Mt	Megatonnes (1 Mt = 1 000 000 tonnes)
NAFTA	Countries who are signatories to the North American Free Trade Agreement
NAPCOF	North West Province Air Pollution Control Forum
New Companies Act	Companies Act 71 of 2008 and including the Corporate Laws Amendment Act
NGO	Non-Governmental Organisation
NIHL	Noise-Induced Hearing Loss
NOx	Oxides of nitrogen (nitric oxide and nitrogen dioxide)
Occupational illness	An occupational illness is registered when it is confirmed as a work-related compensable case by a medical practitioner/physician
OHSAS	Occupational Health and Safety Assessment Specification. OHSAS 18000 is an international occupational health and safety management system specification
Outotec technology	The Outotec® process to produce pellets with steel belt sintering and utilising Outotec's patented preheating method before smelting has competitive benefits. Using pellets with lumpy ore in smelting improves the recovery of chrome, the energy consumption falls and ferrochrome production increases
PEPFAR	President's Emergency Plan for AIDS Relief – America's Initiative formed to combat the global HIV/AIDS epidemic
Potable water	Water of a suitable quality for human consumption
PPE	Personal Protective Equipment
PPP	Public-Private Partnership
PPPFA	Preferential Procurement Policy Framework Act 2000. The purpose of this Act is to enhance the participation of historically disadvantaged individuals (HDIs) and the small, medium and micro enterprises (SMMEs) in the public sector procurement system

Premus technology	This is proprietary technology for the production of ferrochrome, developed and patented by Xstrata Alloys. Premus technology has significant cost and environmental benefits compared to existing technology
Raw water	Raw water consists of untreated water extracted from groundwater, dams or rivers. Groundwater is extracted from wells, boreholes, cut off trenches and mine dewatering both on and off site. Surface water is defined as water from streams, lakes and dams including storm water and collected runoff
REACH	Registration, Education and Authorisation of Chemicals
Recycled water	Recycled/reused water is water that has been used at least once in a process within the operation or at another operation within the organisation that would otherwise be part of a waste stream, and if not reused, would require the input of raw water
ROM	Run of Mine
Royal Bafokeng Resources/RBRH	Royal Bafokeng Resources Holdings Proprietary Limited
RWI	Restricted work injury
SABS	South African Bureau of Standards
Share Incentive Scheme	Means the new share incentive scheme approved by shareholders in 2010, together with the share incentive scheme in existence at that time approved by shareholders in 1999
SLP	Social and Labour Plan. The Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002) (MPRDA) requires the submission of the Social and Labour Plan as a pre-requisite for the granting of mining or production rights. The Social and Labour Plan requires applicants for mining and production rights to develop and implement comprehensive Human Resources Development Programmes including Employment Equity Plans, Local Economic Development Programmes and processes to save jobs and manage downscaling and/or closure
SMEs	Small and Medium-Sized Enterprises
SMMEs	Small, Medium and Micro Enterprises
SOx	Sulphur oxide gases
TB	Tuberculosis – an infectious lung disease caused by exposure to airborne myco bacteria
The Venture	The Xstrata-Merafe Chrome Venture, the parties being Xstrata and Merafe
Total fresh water	Total fresh water is the sum of all water drawn into the boundaries of the reporting organisation from all sources (including surface water, groundwater, rainwater and municipal water supply) for any use over the course of the reporting period
Transformation	In South Africa the term transformation describes the ongoing process to develop a sustainable, equitable society and economy in South Africa
TRI	Total recordable injuries. TRI is a measure that includes lost time injuries (including fatalities), restricted work injuries and medical treatment injuries
VCT	Voluntary Counselling and Testing for HIV/AIDs
Visible Felt Leadership	Respect through action for the wellbeing of people
Waste water discharged	This consists of total volume of effluent discharged to surface water for irrigation, third parties for treatment and/or rivers or oceans
Xstrata	Xstrata South Africa Proprietary Limited





Annual **financial** statements

The Lion ferrochrome plant at Steelpoort
Limpopo province

CONTENTS

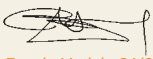
Approval of the consolidated and separate annual financial statements	127
Company Secretary's certificate	127
Report of the Audit and Risk Committee	128
Directors' report	129
Independent auditors' report	133
Statements of comprehensive income	134
Statements of financial position	135
Statements of changes in equity	136
Statements of cash flows	137
Significant accounting policies	138
Notes to the annual financial statements	151
Shareholder information	183

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

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



Kajal Bissessor CA(SA)
Financial Manager



Zanele Matlala CA(SA)
Chief Executive Officer

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

APPROVAL OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS

for the year ended 31 December 2012

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

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

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

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

Approval of the consolidated and separate annual financial statements

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



Zanele Matlala
Chief Executive Officer

28 February 2013

COMPANY SECRETARY'S CERTIFICATE

for the year ended 31 December 2012

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



Amritha Mahendranath
Company Secretary

28 February 2013

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 December 2012

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

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

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

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



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

28 February 2013

DIRECTORS' REPORT

1. Nature of business

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

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

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

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

2. Group financial results

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

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

DIRECTORS' REPORT (continued)

for the year ended 31 December 2012

3. Loans and borrowings

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

4. Venture projects

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

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

5. Going concern

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

6. Dividend policy

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

7. Ordinary dividends

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

8. Share capital

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

9. Directorate

The following changes to the board of directors were effected:

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

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

10. Major shareholders

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

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

11. Directors' interests in Merafe Resources Limited

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

12. Special Resolutions

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

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

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

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

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

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

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

DIRECTORS' REPORT (continued)
for the year ended 31 December 2012

13. Details of investments in subsidiaries and special purpose entities

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

14. Property, plant and equipment

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

15. Events after the reporting date

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

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

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

Directors' responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Other reports required by the Companies Act

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

KPMG Inc
Registered Auditor



Per Riaan Davel
Chartered Accountant (SA)
Registered Auditor
Director

28 February 2013

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

STATEMENTS OF COMPREHENSIVE INCOME

for the year ended 31 December 2012

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

** Group – includes R140m depreciation (2011: R112m) and R78m impairment (2011: R41m)*

** Company –includes R0.3m depreciation (2011: R0.4m) and R3.5m impairment (2011: Rnil)*

STATEMENTS OF FINANCIAL POSITION

as at 31 December 2012

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

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 December 2012

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

* *Approved by the board on 25 February 2011*

STATEMENTS OF CASH FLOWS

for the year ended 31 December 2012

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

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

SIGNIFICANT ACCOUNTING POLICIES

for the year ended 31 December 2012

1. Accounting policies

1.1 Reporting entity

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

1.2 Basis of preparation

1.2.1 Statement of compliance

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

1.2.2 Basis of measurement

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

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

1.2.3 Functional and presentation currency

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

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

1.2.4 Use of estimates and judgements

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

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

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

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

Note 1.10.2 Share-based payment transactions

Notes 9.1 and 24 Lease classification

Note 10 Provision for closure and restoration costs

Note 11 Utilisation of tax losses

Note 27 Assets held for sale

1. Accounting policies (continued)

1.2 Basis of preparation (continued)

1.2.4 Use of estimates and judgements (continued)

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

1.2.5 Standards and interpretations issued and not yet effective

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

IFRS 9 – Financial Instruments

IFRS 13 – Fair Value Measurements

IAS 27 – Consolidated and Separate Financial Statements

IAS 28 – Investments in Associates and Joint Ventures

IAS 1 – Presentation of Financial Statements

IAS 32 – Financial Instruments Presentation

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

IFRS 7 – Financial Instruments: Disclosures

IAS 19 – Employee Benefits

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.3 Basis of consolidation

1.3.1 Subsidiaries

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

1.3.2 Transactions with the Venture

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

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

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

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

1.3.3 Special purpose entities

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

1.3.4 Transactions eliminated on consolidation

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

1.4 Foreign currency

Foreign currency transactions

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

1. Accounting policies (continued)

1.5 Property, plant and equipment

1.5.1 Recognition and measurement

1.5.1.1 Mining assets including mine development costs

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

1.5.1.2 Mineral and surface rights

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

1.5.1.3 Land, non-mining assets and corporate assets

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

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

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

1.5.1.4 Exploration and evaluation expenditure

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.5 Property, plant and equipment (continued)

1.5.2 Subsequent costs

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

1.5.3 Depreciation and amortisation

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

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

1.5.3.1 Mineral and surface rights

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

1.5.3.2 Mining assets including mine development costs

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

1.5.3.3 Capital work in progress

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

1.5.3.4 Land, non-mining assets and corporate assets

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

1.5.3.5 Leased assets

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

Other leases are operating leases and are not capitalised.

1.6 Financial instruments

1.6.1 Non-derivative financial assets

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

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

1. Accounting policies (continued)

1.6 Financial instruments (continued)

1.6.1 Non-derivative financial assets (continued)

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

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

Financial assets at fair value through profit or loss

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

1.6.2 Non-derivative financial liabilities

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

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

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

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

1.6.3 Derivative financial instruments, including hedge accounting

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.6 Financial instruments (continued)

1.6.3 Derivative financial instruments, including hedge accounting (continued)

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

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

Cash flow hedges

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

Separable embedded derivatives

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

Other non-trading derivatives

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

1.7 Share capital

Ordinary shares

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

1.8 Provisions

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

Provision for closure and restoration costs

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

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

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

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

1. Accounting policies (continued)

1.8 Provisions (continued)

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

1.9 Inventories

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

Cost is determined on the following basis:

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

1.10 Employee benefits

1.10.1 Short-term benefits

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

Defined contribution plans

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

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

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

1.10.2 Share-based payment transactions

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.11 Revenue

1.11.1 Sale of goods

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

Revenue is recognised when all the following conditions are met:

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

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

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

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

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

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

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

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

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

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

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

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

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

1.11.2 Management fees

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

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

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

1. Accounting policies (continued)

1.12 Lease payments

1.12.1 Operating lease payments

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

1.12.2 Finance lease payments

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

1.13 Finance income and expenses

1.13.1 Finance income

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

1.13.2 Finance expenses

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

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

1.14 Tax

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1. Accounting policies (continued)

1.14 Tax (continued)

Secondary tax on companies (STC)

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

Dividend withholding tax

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

Tax exposures

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

1.15 Segment reporting

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

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

1.16 Earnings per share

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

1.17 Dividend distributions

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

1.18 Determination of fair values

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

1. Accounting policies (continued)

1.18 Determination of fair values (continued)

1.18.1 Trade and other receivables

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

1.18.2 Derivatives

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

1.18.3 Non-derivative financial liabilities

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

1.18.4 Share-based payment transactions

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

1.19 Mining royalty

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

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

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

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

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

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

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

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

SIGNIFICANT ACCOUNTING POLICIES (continued)

for the year ended 31 December 2012

1.21 Impairments

1.21.1 Financial assets

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

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

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

All impairment losses are recognised in profit or loss.

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

1.22.2 Non-financial assets

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

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

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

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

2. Property, plant and equipment

2.1 Property, plant and equipment – 2012

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

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

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

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

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

2.1 Property, plant and equipment – 2011

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

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

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

	Group		Company	
	2012 R'000	2011 R'000	2012 R'000	2011 R'000
2. Property, plant and equipment (continued)				
2.2 Finance lease assets				
The following finance lease assets where Merafe Ferrochrome is the lessee are included in the Boshoek and Lion ferrochrome smelters and corporate assets:				
Plant and equipment				
Cost	41 308	45 962	155	–
Accumulated depreciation	(9 241)	(8 922)	(34)	–
Carrying value at end of year	32 067	37 040	121	–

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

3. Investment in subsidiaries

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

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

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

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

Special purpose entities

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

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

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

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

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

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

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

8. Equity-settled share-based payment reserve

8.1 Share option schemes

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

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

Reconciliation of share-based payment reserve

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

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

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

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

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

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

8.1 Share option schemes (continued)

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

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

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

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

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

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

8.1 Share option schemes (continued)

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

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

8.2 Share grants

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

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

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

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

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

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

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

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

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

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

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

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

8.2 Share grants (continued)

The following assumptions were used in the valuation model:

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

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

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

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

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

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

8.2 Share grants (continued)

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

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

	K Bissessor
Exercisable on 29 April 2013	183 500
Exercisable on 29 April 2014	183 500
Exercisable on 29 April 2015	183 500
Exercisable on 1 April 2014	81 991
Exercisable on 1 April 2015	81 991
Exercisable on 1 April 2016	81 991
Exercisable on 4 May 2015	70 754
Exercisable on 4 May 2016	70 754
Exercisable on 4 May 2017	70 754
Total	1 008 735

Total key management share grants	12 166 777

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

8.2 Share grants (continued)

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

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

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

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

Expected volatility

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

9.1 Finance leases – property, plant and equipment

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

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

9.2 ABSA Capital

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

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

The loan is secured by the following:

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

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

The financial covenants relating to the loan are as follows:

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

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

9. Loans and borrowings (continued)

9.3 Horizon Nature Conservation Trust

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

9.4 Xstrata

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

Minimum finance lease repayments:

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

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

Movement in temporary differences during the year – Group

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

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

Movement in temporary differences during the year – Company

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

	Group		Company	
	2012 R'000	**2011** R'000	**2012** R'000	**2011** R'000
12. Financial liability				
Interest rate swap	–	6 098	–	–

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

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

* *Includes VAT accruals*

13. Trade and other payables (continued)

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

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

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

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

14. Revenue

Revenue from sale of ferrochrome	2 212 003	2 083 956	–	–
Revenue from sale of chrome ore	329 901	342 774	–	–
Management fees	80	25	13 472	22 090
	2 541 984	2 426 755	13 472	22 090

Geographical areas of ferrochrome sales

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

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

Geographical areas of chrome ore sales

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

14. Revenue (continued)

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

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

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

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

15. Results from operating activities

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

17. Income tax (continued)

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

18. Earnings per share

	2012 cents	2011 cents
18.1 Basic earnings per share	2	5

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

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

	2012 cents	2011 cents
18.2 Headline earnings per share	5	6

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

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

	2012 (cents)	2011 (cents)
18. Earnings per share (continued)		
18.3 Diluted earnings per share	2	5

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

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

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

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

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

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

20. Financial instruments

Principles of risk management

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

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

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

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

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

20. Financial instruments (continued)

Principles of risk management (continued)

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

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

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

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

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

20.1 Credit risk

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

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

Cash and cash equivalents

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

Trade and other receivables

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

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

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

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

Investments

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

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

20.2 Liquidity risk

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

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

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

In addition, the group maintains the following facilities:

The Company

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

Merafe Ferrochrome

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

20. Financial instruments (continued)

20.2 Liquidity risk (continued)

The Venture

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

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

The following guarantee facilities are in place:

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

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

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

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

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

20. Financial instruments (continued)

20.2 Liquidity risk (continued)

Company 2012
Trade and other payables of R30m mature during the year ended 31 December 2013. The instalments relating to finance leases are R60 000 for 2013, R60 000 for 2014 and R20 000 for 2015.

Company 2011
Trade and other payables of R51m mature during the year ended 31 December 2014.

20.3 Market risk

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

Currency risk

Foreign currency

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

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

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

Sensitivity analysis

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

20. Financial instruments (continued)

20.3 Market risk (continued)

Interest rate risk

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

Profile

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

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

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

31 December 2012

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

31 December 2011

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

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

20. Financial instruments (continued)

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

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

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

21. Capital management

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

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

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

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

21. Capital management (continued)

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

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

22. Related parties

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

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2012

22. Related parties (continued)

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

* *Resigned 31 May 2012*

22. Related parties (continued)

22.1 Transactions with key management personnel

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

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

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

22. Related parties (continued)

22.1 Transactions with key management personnel (continued)

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

a Relates to 2012 financial year. 75% of the bonus will be paid in March 2013 and 25% will be payable in December 2013, provided the employee is still in the employ of the company.
b Relates to 2011 financial year. 75% of the bonus was paid in March 2012 and 25% was paid in December 2012.
Note: Fringe benefits include an expense in respect of medical aid, travel expenses and other employer related contributions.

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

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

22.2 Directors' interests in Merafe Resources Limited

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

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

** resigned effective 31 May 2012*

22. Related parties (continued)

22.3 Transactions with the Xstrata-Merafe Chrome Venture

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

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

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

23. Contingencies

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

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

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

26. Dividends per share

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

No dividends were declared during 2012.

27. Assets held for sale

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

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

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

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

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

28. Events after the reporting date

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

SHAREHOLDER INFORMATION

as at 31 December 2012

1. Analysis of shareholdings

Range	Number of members	% of all members	Number of shares held	% of issued capital
1 – 1 000	1 140	14.32	640 487	0.03
1 001 – 5 000	1 951	24.51	5 963 908	0.24
5 001 – 10 000	1 328	16.68	11 008 237	0.44
10 001 – 100 000	2 794	35.11	96 357 101	3.86
100 001 – 1 000 000	598	7.51	185 011 934	7.42
1 000 001 and more	149	1.87	2 194 239 727	88.01
Totals	7 960	100.00	2 493 221 394	100.00

2. Distribution of shareholders

Category				
Diluted funds	62	0.78	293 671 200	11.78
Pension funds	88	1.10	266 418 240	10.69
Private companies	88	1.10	780 579 084	31.30
Individuals	6 995	87.88	231 554 391	9.29
Close corporations	117	1.47	6 235 693	0.25
Other corporations	531	6.67	631 994 621	25.35
Nominees and other institutions	38	0.48	78 852 908	3.16
Banks	41	0.52	203 915 257	8.18
Totals	7 960	100.00	2 493 221 394	100.00

3 Holders holding 5% or more of shares in issue

Name				
Royal Bafokeng Resources Holdings Proprietary Limited			720 163 887	28.88
Industrial Development Corporation of South Africa Limited			546 830 100	21.93
Regarding Capital Management Proprietary Limited			139 620 398	5.60

Shareholder spread

Public	7 953	99.92	1 085 090 399	43.53
Non-public	7	0.08	1 408 130 995	56.47
Directors	4	0.05	1 516 610	0.06
Associates		0.00	0	0.00
Royal Bafokeng Resources Holdings Proprietary Limited	1	0.01	720 163 887	28.88
Industrial Development Corporation of South Africa Limited	1	0.01	546 830 100	21.93
Regarding Capital Management Proprietary Limited	1	0.01	139 620 398	5.60
Totals	7 960	100.00	2 493 221 394	100.00

JSE LIMITED SHARE STATISTICS

as at 31 December 2012

Share statistics	
Share price (cents)	
High	95
Low	64
Closing price as at 31 December 2012	69
Shares traded	
Volume of shares traded	496 773 387
Value of shares	401 217 423
Volume traded as a percentage of weighted average of shares in issue	20%
Market capitalisation	
As at 31 December 2012	R1 720 322 761
Shares in issue as at 31 December 2012	2 493 221 394

SHAREHOLDERS' DIARY

Meetings

Annual general meeting for the 2012 financial year to be held on 24 April 2013

Reports

Interim reports for the six months to 30 June 2013 to be released in August 2013
Annual results for the twelve months to 31 December 2013 to be released and published in March 2014

NOTICE OF THE ANNUAL GENERAL MEETING

for the year ended 31 December 2012

Merafe Resources Limited

(Incorporated in the Republic of South Africa) (Registration number 1987/003452/06)
ISIN: ZAE000060000
Share code: MRF
(hereinafter referred to as Merafe Resources or the company)

Notice is hereby given that the 26th (twenty-sixth) annual general meeting of shareholders of the company will be held at Merafe Resources Limited, 68 Wierda Road East, Wierda Valley, Sandton, 2196 at 11:00 on Wednesday, 24 April 2013 (Notice), for the purpose of transacting the business as outlined in this Notice, and to consider and, if deemed fit, to pass, with or without modification, the ordinary and special resolutions outlined below.

Important dates

Record date to receive the Notice: Friday, 15 March 2013
Last date to trade to be eligible to vote: Friday, 12 April 2013
Record date to be eligible to vote: Friday, 19 April 2013
Last date for lodging forms of proxy (by 11:00): Monday, 22 April 2013

Accordingly, the date on which a person must be registered as a shareholder in the register of the company for purposes of being entitled to attend and vote at the meeting is Friday, 19 April 2013.

Interpretation and definitions

For the avoidance of doubt and to the extent that the terms have not been defined in the integrated annual report for the year ended 31 December 2012 (integrated annual report), reference in this Notice to the following words and expressions:

- the "Companies Act" means the Companies, Act 71 of 2008 (as amended)
- "Group" means the company and all its subsidiaries at the date of this Notice
- "Listings Requirements" means the Listings Requirements of the JSE Limited
- "King III" means the King Report III on Corporate Governance for South Africa.

Any words and expressions defined in the Companies Act or the Listings Requirements, as the case may be, which are not defined in this Notice, shall bear the same meanings in this notice and Schedule A attached to this notice as those ascribed to them in the Companies Act or the Listings Requirements, as the case may be.

Memorandum of incorporation

Until the new Companies Act came into effect on 1 May 2011, the constitutional documents of the company comprised its memorandum of association and its articles of association. When the new Companies Act came into effect, the memorandum and articles of association of the company were consolidated into the company's Memorandum of Incorporation (MOI). In accordance with the terminology of the new Companies Act, and for consistency of reference in this Notice, the acronym "MOI" or phrase "memorandum of incorporation" is used to refer to the company's memorandum of association and articles of association. Accordingly, all references to a provision in the company's MOI or memorandum of incorporation in this Notice as well as all relevant ordinary and special resolutions contained in this Notice refer to provisions of the MOI or memorandum of incorporation that was previously referred to as "company's memorandum and articles of association."

Section A: Ordinary resolutions

For ordinary resolutions 1 to 6 (inclusive) to be duly adopted, the support of more than 50% (fifty percent) of the voting rights exercised on each ordinary resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the relevant resolution, must be exercised in favour of such resolution.

1. Ordinary Resolution Number 1: Adoption of annual financial statements.

"**Resolved that** the group audited annual financial statements, including the directors' report, auditor's report and the report by the Audit and Risk Committee, for the financial period ended 31 December 2012, be and are hereby received and adopted."

Note to Ordinary Resolution Number 1:

- In terms of the provisions of section 30(3)(d) of the Companies Act, a company's annual financial statements must be presented to its shareholders at the first shareholders' meeting after the statements have been approved by the board of directors of the company.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

for the year ended 31 December 2012

2. Ordinary Resolution Number 2: Re-appointment of retiring directors

"**Resolved that,** by separate ordinary resolutions numbered 2.1 to 2.3 (inclusive), the following directors, who, in terms of the company's existing MOI, retire by rotation at this annual general meeting, and, being eligible, stand and offer themselves for re-election, be and are hereby re-elected:

2.1 Belese Majova

2.2 Meryl Mamathuba

2.3 Karabo Nondumo."

Notes to Ordinary Resolution Number 2:

- Resolutions numbered 2.1 to 2.3 (inclusive) above by separate vote and the re-appointments which they represent constitute separate and divisible ordinary resolutions and will be considered to have received the support of the Nomination Committee.
- The reason for resolutions numbered 2.1 to 2.3 (inclusive) is that in terms of the provisions of the company's existing MOI, one-third of the directors, or if their number is not a multiple of three, then the number nearest to, but not less than one-third, are required to retire at each annual general meeting and, being eligible, may offer themselves for re-election.
- The board has evaluated the performance and contribution of each director standing for re-election and has recommended the re-election of each of the directors.
- Brief biographies of each of the directors of the company standing for re-election are set out on pages 92 and 93 of the integrated annual report.

3. Ordinary Resolution Number 3: Confirmation of appointment of director

"**Resolved that** the appointment of Ditabe Chocho by the board of directors of the company on 2 January 2013 be and is hereby confirmed in accordance with the company's existing MOI to continue in such capacity."

Notes to Ordinary Resolution Number 3:

The reason for this resolution is that in terms of the company's existing MOI, shareholders are required to ratify newly appointed directors at the next annual general meeting of the company.

A brief CV of this director is set out on page 93 of the integrated annual report.

4. Ordinary Resolution Number 4: Appointment of members to the Audit and Risk Committee for the forthcoming financial year

"**Resolved that** the following members, by separate ordinary resolutions numbered 4.1 and 4.4 (inclusive), being eligible and offering themselves for re-election, be and are hereby appointed as members of the Audit and Risk Committee for the financial year ending 31 December 2013:

4.1 Mr Mfanyana Salanje

4.2 Mr Abiel Mngomezulu

4.3 Ms Karabo Nondumo*

4.4 Mr Zacharias van der Walt."

* *Subject to her election as a director pursuant to Ordinary Resolution Number 2.3*

Notes to Ordinary Resolution Number 4

- Resolutions numbered 4.1 to 4.4 (inclusive) above constitute separate and divisible ordinary resolutions and will be considered by separate vote.
- The reason for resolutions numbered 4.1 to 4.4 (inclusive) is that in terms of the provisions of section 94(2) of the Companies Act, a company shall at every annual general meeting elect an audit and risk committee comprising at least three members.
- The Nomination Committee conducted an assessment of the performance and independence of each of the directors proposed to be members of the Audit Committee and the board considered and accepted the findings of the Nomination Committee. The board is also satisfied that the proposed members meet the provisions of section 94(4) of the Companies Act, that they are independent according to King III and that they possess the required qualifications and experience as prescribed in Regulation 42 of the Companies Regulations, 2011 and therefore recommends their nomination.
- Brief biographies of each of the independent non-executive directors proposed to be appointed to the Audit and Risk Committee appear on pages 92 and 93 of the integrated annual report.

5. Ordinary Resolution Number 5: Re-appointment of external auditors of the company

"**Resolved that** the re-appointment of KPMG Inc. as the external registered auditors of the company, and being independent from the company, be and is hereby, approved and Ms Grathel Motau be and is hereby appointed as the designated audit partner for the financial year ending 31 December 2013."

Notes to Ordinary Resolution Number 5:

- The reason for this resolution is that section 90(1) of the Companies Act requires a company to appoint an auditor at every annual general meeting.
- The duty to nominate auditors for appointment lies with the Audit and Risk Committee. The Audit and Risk Committee conducted an assessment of the performance and the independence of the external auditors and considered whether or not the external auditors comply with the provision of the Companies Act and section 22 of the Listings Requirements, and the board considered and accepted the findings. The board is satisfied that the proposed external auditors and Ms Grathel Motau comply with the relevant provisions of the Companies Act and the Listings Requirements.

6. Ordinary Resolution Number 6: Placing the authorised but unissued shares under the control of the directors

"**Resolved that**, 10% (ten percent) or 100 677 860 ordinary shares of the authorised but unissued share capital of the company be and are hereby, 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 deem fit, subject to the provisions of the Companies Act (defined), the company's MOI and the Listings Requirements."

Notes to Ordinary Resolution Number 6:

Section 38 of the Companies Act allows the board of a company to resolve to issue shares in the share capital of the company at any time and to the extent that the shares have been authorised by or in terms of the company's existing MOI. However the company's existing MOI provides, that the shareholders of the company must allot and issue unissued shares or, that the shareholders may delegate the power conferred upon them to the directors of the company.

In terms of the company's existing MOI, read with the Listings Requirements, any further allotments and issues of authorised but unissued shares in the company have to be authorised by shareholders notwithstanding that the new Companies Act effectively grants a general authority to the directors of the company to allot and issue such shares. The authority above will be subject to the Companies Act and the Listings Requirements.

Section B: Ordinary resolutions subject to the JSE Limited Listings Requirements

For Ordinary Resolution Number 7 to be adopted, and in terms of the Listings Requirements, a 75% (seventy-five percent) majority of the votes cast by shareholders present in person or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution must vote in favour of such resolution.

7. Ordinary Resolution Number 7: General authority to issue shares for cash

"**Resolved that**, subject to the provisions of the company's MOI, the Companies Act and the Listings Requirements, each as presently constituted and as amended from time to time, the directors be, and are hereby, given general authority to issue authorised but unissued ordinary shares for cash, as and when suitable situations arise, on such terms and conditions as the directors may from time to time in their sole discretion determine, and provided that:

(a) this authority shall not extend beyond the next annual general meeting or 15 (fifteen) months from the date of the annual general meeting, at which this resolution is proposed, and if deemed fit, adopted, whichever date is the earlier

(b) the ordinary shares must be issued only to public shareholders (as defined in the Listings Requirements) and not to related parties (as defined in the Listings Requirements).

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

for the year ended 31 December 2012

(c) The ordinary shares to be issued for cash,

i) in the aggregate in any one financial year may not exceed 10% of the company's ordinary shares in issue;

ii) will be aggregated with any securities that are compulsorily convertible into ordinary shares, and, in the case of the issue of compulsorily convertible securities, aggregated with the securities of that class into which they are compulsorily convertible;

(iii) as regards the number of shares which may be issued (the 10% number), shall be based on the number of ordinary shares in issue added to those that may be issued in future (arising from the conversion of options/convertible securities), at the date of such application, (1) less any ordinary shares issued, or to be issued in the future arising from options/convertible securities issued, during the current financial year, plus (2) any ordinary shares to be issued pursuant to:

aa. a rights issue which has been announced, is irrevocable and is fully underwritten or

bb. acquisition (in respect of which final terms have been announced) may be included as though they were securities in issue at the date of application

(d) 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 percent) of the weighted average traded price on the JSE Limited of the company's ordinary shares over the 30 (thirty) business days prior to the date that the price of the issue is agreed between the company and the party subscribing for the securities; and

(e) that a press announcement giving full details, including the effect on the 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 percent) of the company's issued share capital.

Notes to Ordinary Resolution Number 7:

Under the Listings Requirements applicable to general issues of shares for cash, this ordinary resolution must be approved by a 75% (seventy-five percent) majority of the votes cast by shareholders present or represented by proxy and entitled to exercise voting rights on such resolution, at the annual general meeting at which it is tabled.

Further, in terms of section 14.10 in the Listings Requirements, equity securities held by a share trust or scheme will not have their votes at general or annual meetings taken into account for purposes of resolutions proposed and adopted in terms of the Listings Requirements.

Section C: Ordinary resolution of a non-binding nature

For Ordinary Resolution Number 8 to be duly adopted, the support of more than 50% (fifty percent) of the voting rights exercised on each ordinary resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the relevant resolution, must be exercised in favour of such resolution.

8. Ordinary Resolution Number 8: Non-binding advisory vote on remuneration policy

"**Resolved that** the remuneration policy of the company, as set out in the remuneration report on pages109 to 113 of the integrated annual report, be and is hereby endorsed by way of a non-binding advisory vote."

Notes to Ordinary Resolution Number 8:

Chapter 2 of King III dealing with boards and directors requires companies to table their remuneration policy every year to shareholders for a non-binding advisory vote at the company's annual general meeting. This vote enables shareholders to express their views on the remuneration policies adopted and on their implementation.

The company's remuneration report is contained on pages 109 to 113 of the integrated annual report.

This resolution is of an advisory nature only and failure to pass this resolution will therefore not have any legal consequences relating to existing arrangements. However, the board of directors of the company will take the outcome of the vote into consideration when considering the company's remuneration policy.

Section D: Special resolutions

For Special Resolutions Numbers 1 and 2 to be adopted, a majority of 75% (seventy-five percent) of the voting rights exercised on each special resolution must be exercised in favour of such resolution by shareholders present or represented by proxy at the annual general meeting and entitled to exercise voting rights on the resolution concerned.

9. Special Resolution Number 1: Approval of non-executive directors' fees

"**Resolved that** the revised fees which will be payable to the non-executive directors for their services to the board and committees of the board with effect from 1 January 2013 as set out on page 113 of the integrated annual report, be and are hereby approved."

Proposed non-executive directors' fees for 2013 (a fee increase of 7% on non-executive directors' fees for 2013 is proposed with the exception of the Chaiman: Audit and Risk where the fee increase will be from R115 699 to R191 500 after a benchmark exercise was performed to evaluate whether the current fees are market related)

	Fees per annum R	Retainer 60% R	Attendance fee 40% R	Fee per meeting R
Board Chairman	436 100	261 660	174 440	43 610
Board members	235 063	141 038	94 025	23 506
Audit and Risk Committee Chairman	191 500	114 900	76 600	19 150
Audit and Risk Committee members	112 229	67 337	44 892	11 223
Remuneration/Nomination Committee Chairman	91 700	55 020	36 680	9 170
Remuneration/Nomination Committee members	55 973	33 584	22 389	5 597
Social, Ethics and Transformation Committee Chairman	91 700	55 020	36 680	9 170
Social, Ethics and Transformation Committee members	55 973	33 584	22 389	5 597

Based on four meetings a year with a split of 60% retainer and 40% attendance fee

Notes to Special Resolution Number 1:

The reason for and the effect of this resolution is to approve the remuneration payable by the company to its non-executive directors for their services as non-executive directors of the company for the financial year ending 31 December 2013.

In terms of the provisions of section 66(8) and section 66(9) of the Companies Act, remuneration may only be paid to the directors for their services as directors in accordance with the company's MOI and only by a special resolution approved by the shareholders within the previous two years.

10. Special Resolution Number 2: Memorandum of incorporation.

"**Resolved that** the company adopts a new memorandum of incorporation as contemplated in the Companies Act, to apply in substitution for and to the exclusion of the company's existing memorandum of association and articles of association."

Notes to Special Resolution Number 2:

Special resolution number 2 is proposed to enable the company to adopt a new memorandum of incorporation that will be in line with the provisions of the Companies Act, the Listings Requirements and any applicable legislation. In addition to the Companies Act, changes to the Listings Requirements and developments in market practice require a substantial number of changes to the existing memorandum of association and articles of association of the company. Accordingly, it is considered more appropriate to adopt the proposed new memorandum of incorporation rather than to amend the existing memorandum and articles of association.

A summary of the new principles included in the memorandum of incorporation required under the Companies Act and the Listings Requirements is set out in schedule A attached to this notice to assist shareholders in making a considered assessment in deciding how to vote.

The MOI will be available for inspection at the registered address of the company being 68 Wierda Road East, Wierda Valley, Sandton, 2196 from 22 March 2013 to 24 April 2013 and will also be available on the company's website www.meraferesources.co.za.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

for the year ended 31 December 2012

11. Ordinary Resolution Number 9: Authority to sign all documents required to give effect to all resolutions in this Notice

"**Resolved that** any one of the directors of the company or company secretary be and hereby is authorised to do all such things and sign all such documents and procure the doing of all such things and the signature for all such documents as may be necessary or incidental to give effect to all ordinary and special resolutions passed at the annual general meeting."

12. General

To transact such other business that may be transacted at an annual general meeting.

13. Actions required by Merafe Resources' shareholders

13.1 The actions which shareholders of the company are required to take in order to follow their rights, to pass and adopt, with or without modification, the ordinary and special resolutions set out in this Notice are as set out below. If you are in any doubt as to the action you should take in relation to this Notice, please contact your stockbroker, Central Securities Depository Participant (CSDP), legal advisor, accountant, banker or other professional advisor immediately.

13.2 Record dates

13.2.1 The record date for shareholders to be recorded on the securities register of the Company in order to receive notice of the annual general meeting is Friday, 15 March 2013.

13.2.2 The record date for shareholders to be recorded on the securities register of the company in order to be able to attend, participate in and vote at the annual general meeting is Friday, 19 April 2013 (record date).

13.2.3 The last day to trade in the company's shares in order to be recorded on the securities register of the company in order to be able to attend, participate in and vote at the annual general meeting is Friday, 12 April 2013.

13.3 Voting and attendance at the annual general meeting

13.3.1 If you are a shareholder at record date, you are entitled to attend and vote at the annual general meeting or may appoint one or more proxies to attend, speak and vote thereat in their stead. A proxy need not be a member of the company. A form of proxy, in which the relevant instructions for its completion are set out, is enclosed for the use of a certified shareholder or own-name registered dematerialised shareholder who wishes to be represented at the annual general meeting. Completion of a form of proxy will not preclude such shareholder from attending and voting at the annual general meeting (in preference of that proxy).

13.3.2 The instrument appointing a proxy and the authority (if any) under which it is signed must reach the registered office of the transfer secretaries or the company's registered office by no later than 11:00 on Monday, 22 April 2013.

13.3.3 Shareholders who have dematerialised their shares, other than those shareholders who have dematerialised their shares with 'own-name registration', who wish to attend the annual general meeting in person should contact their CSDP or broker, to provide them with the necessary Letter of Representation in terms of their custody agreement.

13.3.4 Dematerialised shareholders, other than 'own-name' registered dematerialised shareholders, who are unable to attend the annual general meeting and who wish to be represented thereat, must provide their CSDP or broker with their voting instructions in terms of the custody agreement entered into between themselves and the CSDP or broker in the manner and time stipulated therein.

13.3.5 In terms of Schedule 14.10 of the Listings Requirements, equity securities held by a share trust or scheme will not have their votes at general or annual meetings taken into account for purposes of resolutions passed or to be passed in accordance with the Listings Requirements. Accordingly, votes cast by the Merafe Resources Limited Share Incentive Scheme (such scheme constituted by the document as approved by shareholders on 13 April 2010) will not have its votes taken into account for purposes of the adoption of such resolutions.

13. Actions required by Merafe Resources' shareholders (continued)

13.4 Representation by proxy

In compliance with the provisions of section 58(8)(b)(i) of the Companies Act, a summary of the rights of a shareholder to be represented by proxy, is set out below:

- A shareholder entitled to attend and vote at the annual general meeting may appoint any individual (or two or more individuals) as a proxy or as proxies to attend, participate in and vote at the annual general meeting in the place of the shareholder. A proxy need not be a shareholder of the company.
- A proxy appointment must be in writing, dated and signed by the shareholder appointing a proxy, and, subject to the rights of a shareholder to revoke such appointment (as set out below), remains valid only until the end of the annual general meeting.
- A proxy may delegate the proxy's authority to act on behalf of a shareholder to another person, subject to any restrictions set out in the instrument appointing the proxy.
- The appointment of a proxy is suspended at any time and to the extent that the shareholder who appointed such proxy chooses to act directly and in person in the exercise of any rights as a shareholder.
- The appointment of a proxy is revocable by the shareholder in question cancelling it in writing, or making a later inconsistent appointment of a proxy, and delivering a copy of the revocation instrument to the proxy and to the company. The revocation of a proxy appointment constitutes a complete and final cancellation of the proxy's authority to act on behalf of the shareholder as of the later of (a) the date stated in the revocation instrument, if any; and (b) the date on which the revocation instrument is delivered to the company as required in the first sentence of this paragraph.
- If the instrument appointing the proxy or proxies has been delivered to the company, as long as that appointment remains in effect, any notice that is required by the Companies Act or the company's existing MOI to be delivered by the company to the shareholder, must be delivered by the company to (a) the shareholder, or (b) the proxy or proxies, if the shareholder has (i) directed the company to do so in writing; and (ii) paid any reasonable fee charged by the company for doing so.
- Attention is also drawn to the "Notes to the form of proxy".
- The completion of a form of proxy does not preclude any shareholder attending the annual general meeting.

Identification

In terms of section 63(1) of the Companies Act, any person attending or participating in the annual general meeting must present reasonably satisfactory identification and the person presiding at the general meeting must be reasonably satisfied that the right of any person to participate in and vote (whether as a shareholder or as proxy for a shareholder) has been reasonably verified.

A green bar-coded identification document issued by the South African Department of Home Affairs, a driver's licence or a valid passport will be accepted as a form of identification at the annual general meeting.

Electronic participation

Shareholders (or their proxies) may participate (but not vote) electronically in the annual general meeting. Shareholders (or their proxies) wishing to participate in the annual general meeting electronically should contact the company secretary on ami@meraferesources.co.za or +27 11 783 4780 at least 5 (five) business days prior to the annual general meeting. Access to the meeting by way of electronic participation will be at the shareholder's expense. Only persons physically present at the meeting or represented by a valid proxy shall be entitled to cast a vote on any matter put to a vote of shareholders.

NOTICE OF THE ANNUAL GENERAL MEETING (continued)

for the year ended 31 December 2012

Schedule A: Summary of new principles in the proposed memorandum of incorporation

For the company to comply with the requirements of the Companies Act and the Listings Requirements, the company proposes to adopt a new memorandum of incorporation (the new MOI). As the new MOI largely contains similar principles to those which are contained in the current memorandum of incorporation of the company, this summary only sets out some of the principles which have been substantially amended in the new MOI read together with the Companies Act.

The Companies Act contains certain provisions which automatically apply to a company unless its memorandum of incorporation alters these provisions (alterable provisions). Other provisions in the Companies Act will apply despite what is contained in a company's memorandum of incorporation (unalterable provisions). Accordingly, the new MOI does not repeat provisions in the Act that would apply to the company, unless the provision is intended to alter an alterable provision or impose a higher standard than an unalterable provision.

Note: This summary is merely to assist shareholders and should not be relied upon without reference to the new MOI, as made available for inspection, and the Companies Act.

1. Shares and rights of shareholders

1.1 The Companies Act abolishes par value shares, in that a company may not increase its authorised par value shares but may issue any authorised par value shares not yet issued.

1.2 The board of directors is permitted to issue authorised shares of the company without prior shareholder approval.

1.3 The company may acquire its own shares in accordance with section 48 of the Companies Act and the Listings Requirements. This will not require shareholder approval except if the company acquires shares from directors or a prescribed officer or a person related to a director or prescribed officer.

1.4 The issued shares of the company may be held by and registered in the name of a person for the beneficial interest of another.

1.5 No provision is made for the company to pay a commission to any person in consideration for subscribing or agreeing to subscribe for shares in the company.

1.6 The company may convert shares into shares of another class, provided it has procured a special resolution from the shareholders.

2. Shareholders' rights and meetings

2.1 The company must call an annual general meeting once in every calendar year but not more than 15 months after the date of the previous meeting.

2.2 A 15-day notice period for all meetings is required. This is in addition to the number of days required for deemed delivery in terms of the Companies Act.

2.3 In terms of the Companies Act, the company must call a meeting when requisitioned by the holders of at least 10% of the issued shares of the company.

2.4 The quorum for a meeting of shareholders is now at least three people holding at least 25% of the voting rights on at least one matter.

2.5 The shareholders and/or directors may elect any person from their number to be the chairman of the meeting.

2.6 The business to be transacted at an annual general meeting has been included in accordance with the Companies Act and the Listings Requirements.

2.7 A notice convening a general meeting must include the general purpose of the meeting and any specific purpose.

2.8 The matters set out in section 65(11) of the Act and any other matter designated in the new MOI must be decided by a special resolution.

2.9 The chairperson of a general meeting will no longer have a casting vote in the event of an equality of votes.

2.10 At a meeting, voting may be by a show of hands or polling. If at least five people entitled to vote are shareholders entitled to exercise 10% of the voting rights on each matter demand a poll, voting must be by poll.

3. Directors

3.1 The company must appoint a minimum of four directors. No maximum is prescribed.

3.2 Directors' entitlement to remuneration and the appointment of alternate directors are in line with the Companies Act and the Listings Requirements.

3.3 The process for convening and conducting directors' meetings and passing written directors' resolutions is in line with the Companies Act and the Listings Requirements.

3.4 In terms of the Companies Act, the shareholders may remove any director by ordinary resolution despite anything to the contrary in the new MOI or in any shareholders' agreement.

3.5 The board of directors may authorise the company to issue secured or unsecured debt instruments but the granting of special privileges to holders of debt instruments is prohibited and the authority of the board in such regard is limited.

3.6 Permissive provisions on the indemnification of directors and directors' insurance are set out in section 78 of the Act.

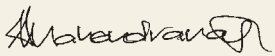
4. General

4.1 Subject to the new MOI, directors have the power to declare dividends and other distributions. Unclaimed dividends are to be held indefinitely, subject to the laws of prescription in accordance with the Listings Requirements. Once prescription has passed, such unclaimed dividends will be forfeited to the company.

4.2 No provision is made for reserves created by the board to be divided among the shareholders by way of bonus or special dividends.

4.3 No provision deals with prohibiting non-distributable reserves and any sum standing to the credit of the share premium account from being set free and paid to members except by means of a reduction of capital.

By order of the board of directors



A Mahendranath
Company secretary

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.

A shareholder is entitled to appoint one or more proxies (none of whom need to be shareholders of Merafe Resources) to attend, speak and vote or abstain from voting in the place of that shareholder at the annual general meeting.

Form of proxy for the twenty sixth annual general meeting

I/We (name in block letters) _____

of (address) _____

(contact no) _____

Being the holder/s 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 on my/our behalf at the annual general meeting of the company to be held at Merafe Resources Limited at 68 Wierda Road East, Wierda Valley, Sandton at 11:00 on Wednesday, 24 April 2013, or at any adjournment thereof.

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

		Number of votes		
		For	Against	Abstain
1	Ordinary Resolution Number 1: Adoption of annual financial statements			
2	Ordinary Resolution Number 2: Re-appointment of retiring directors			
	2.1 Ms Belese Majova			
	2.2 Ms Meryl Mamathuba;			
	2.3 Ms Karabo Nondumo			
3	Ordinary Resolution Number 3: Confirmation of appointment of director: Ditabe Chocho			
4	Ordinary Resolution Number 4: Appointment of members to the Audit and Risk Committee for the forthcoming financial year			
	4.1 Mr Mfanyana Salanje			
	4.2 Mr Abiel Mngomezulu			
	4.3 Ms Karabo Nondumo			
	4.4 Mr Zacharias van der Walt			
5	Ordinary Resolution Number 5: Re-appointment of external auditors of the company, KPMG Inc and to appoint Grathel Motau as the designated audit partner			
6	Ordinary Resolution Number 6: Placing the authorised but unissued shares under the control of the directors			
7	Ordinary Resolution Number 7: General authority to issue shares for cash			
8	Ordinary Resolution Number 8: Non-binding advisory vote on remuneration policy			
9	Special Resolution Number 1: Approval of non-executive directors' fees for 2013			
10	Special Resolution Number 2: Approval of memorandum of incorporation			
11	Ordinary Resolution Number 9: Authority to sign all documents required to give effect to all resolutions in this Notice			

Signed at _____ on _____ 2013

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 annual general meeting", 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 with 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 South Africa Proprietary Limited, 13th Floor, Rennie House,19 Ameshoff Street, Braamfontein, 2001 (PO Box 4844, Johannesburg 2000), or +27 11 713 0800, or the company's registered offices: 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 no later than 11:00 am on Monday, 22 April 2013.
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 of proxy unless previously recorded by Merafe Resources.
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 shares 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 poll.

CORPORATE INFORMATION

Company details

Merafe Resources Limited
Company registration number: 1987/003452/06
www.meraferesources.co.za

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
180 Commissioner Street
Johannesburg 2001
PO Box 8054
Johannesburg
2000

Attorneys

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

Transfer secretaries

Link Market Services South Africa Proprietary Limited
13th Floor, Rennie House
19 Ameshoff Street
Braamfontein 2001
PO Box 4844
Johannesburg
2000

Sponsor

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138 West Street
Sandown
Sandton
2196
PO Box 651987
Benmore
2010