

What we cover in this report

The objective of this report is to provide our stakeholders with an integrated view of the economic, social and environmental performance for the financial year 1 January 2010 to 31 December 2010 of the Merafe Group (consisting of the entities set out in this report including Merafe Resources Limited and Merafe Ferrochrome and Mining (Pty) Ltd). The company's previous annual report was published in 2010 for the reporting period ended 31 December 2009.

The JSE Limited (JSE) advised companies listed on the Exchange that, after 1 March 2010, they are required to produce integrated reports, in line with the recommendations of the South African Code of Corporate Practices and Conduct set out in the third King Report on Corporate Governance (King III). However, what constitutes integrated reporting remains the subject of debate internationally, resulting in the formation of an International Integrated Reporting Committee. In South Africa, the JSE, the South African Institute of Chartered Accountants (SAICA), the Institute of Directors of South Africa (IoDSA), Business Unity South Africa (BUSA) and the Association for Saving and Investment South Africa (ASISA) have formed an Integrated Reporting Committee (IRC) which is chaired by Professor Mervyn King. Until some further guidance is provided by these and other similar endeavours, we have chosen to be guided by what typically has constituted annual reporting best practice and the assistance the Global Reporting Initiative's (GRI) G3 Reporting Guidelines provide.

Data is measured according to specific indicators throughout the report, particularly with reference to tables and graphs. Where we found GRI G3 indicators to be not applicable we have made reference to this within the GRI G3 Content Index table. Data is evaluated according to the policies, procedures, codes and guidelines that Merafe and the Venture have developed to meet international best practice. Where possible, data measurement is implicitly defined via units of measure. Additional information has been provided on our website (www.meraferesources.co.za) and is also available on request. There are no restatements or changes to information included in earlier reports.

Audience

The stakeholders for whom we have prepared this report include existing and prospective shareholders, investment analysts, government (local, provincial and national), industry organisations, trade unions, employees and their families, communities in the vicinity of the Venture's operations, contractors, non-governmental organisations (NGOs), suppliers, customers, joint venture partners, business partners and the media.

Applying the GRI G3 Reporting Guidelines

This report meets application level B+ of the GRI G3 Reporting Guidelines, including the Mining and Metals sector supplement. This has been confirmed by Sustainability Services on page 78. There is a GRI Index to the content of the report on pages 146 to 151.

Independent Assurance

In terms of International Financial Reporting Standards (IFRS) an independent auditors' report on the financial statements contained in this report is presented on page 85. The annual financial statements are audited by KPMG Inc. and the unqualified audit report is presented on page 85.

Sustainability Services were engaged to provide independent third party assurance over the sustainability aspects of this report, in accordance with AccountAbility's AA1000AS Assurance Standard (Type II, Moderate), including an assessment of Merafe's ability to adhere to the principles of Inclusivity, Materiality and Responsiveness. Site visits were also conducted at Lydenburg ferrochrome plant and Thorncliffe mine to review a set of 14 material sustainability indicators and drafts of this report were reviewed to assess the Xstrata-Merafe Chrome Venture's (the Venture) adherence to the Global Reporting Initiative's GRI G3 Guidelines (Application Level B+).

Feedback

We welcome feedback on any aspect of our performance or reporting. If you would like to provide feedback or obtain additional information, please contact investorrelations@meraferesources.co.za.

A glossary of terms used in this report can be found on pages 142 to 146.

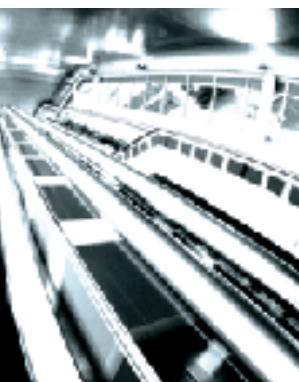
Cover images: Moses Mabhida stadium, Durban and the Wonderkop ferrochrome plant, North West province



THE NUTS AND BOLTS OF THE REPORT 2010

Key fact

When the total life cycle costs are considered, stainless steel is often the least expensive option. Its durability and ease of maintenance compensate for the higher initial purchasing cost



Stainless steel escalators at the Gautrain station

Our goals

- To ensure that our interests in the ferrochrome industry are profitable and sustainable
- To firstly continue growing our interests in ferrochrome and secondly to grow through diversification

Our strategy

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



Molten ferrochrome at the Lion ferrochrome plant, Limpopo province

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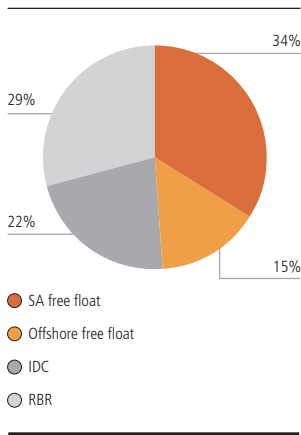
Forward looking statements

Certain statements in this report constitute “forward looking statements”. Such statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performances, objectives or achievements of Merafe Resources Limited and its subsidiary companies, as well as the 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.

Profile

Shareholders in Merafe



Merafe Resources Limited (Merafe or the company) is listed on the JSE Limited under the share code MRF in the "General Mining" sector. The main business of Merafe and its wholly-owned subsidiaries, as set out in the structure below, is the production and sale of ferrochrome to the stainless steel industry through its 20,5% participation in the earnings before interest, tax, depreciation and amortisation (EBITDA) of the Xstrata-Merafe Chrome Venture (the Venture).

The Venture, the largest ferrochrome producer in the world, supplies stainless steel mills in Europe, America and Asia (including China, Japan, Taiwan and Korea).

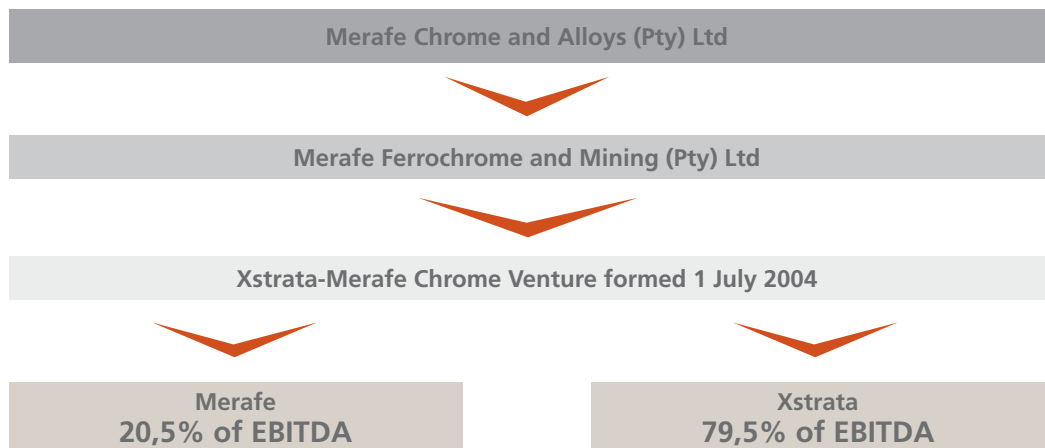
Merafe and Xstrata South Africa (Pty) Ltd (Xstrata) – a wholly-owned subsidiary of Xstrata plc (www.xstrata.com) – established the Venture on 1 July 2004. Both parties agreed to pool their chrome operations (while retaining ownership of their assets) and to share in the EBITDA of the Venture.

The Merafe-owned assets that were pooled into the Venture at its inception were the Boshhoek ferrochrome plant, Boshhoek and Horizon mines and the Kanana UG2 plant. Since then Merafe has increased its ferrochrome interests and its interests in the Venture by acquiring a 50% interest in furnaces 5 and 6 of the Wonderkop ferrochrome plant and Kroondal mine; a 26% interest in Marikana mine and a 20,5% interest in the Lion ferrochrome plant (Phase I), the Bokamoso pelletising and sintering plant, the Mototolo and EPL UG2 plants and the Helena and Magareng mines.

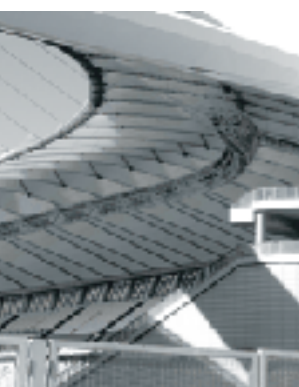
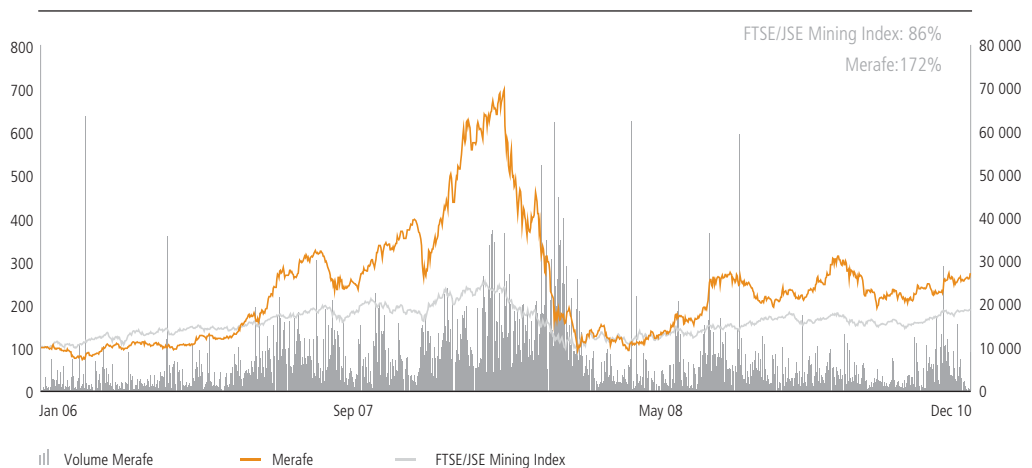
THE SUM OF ALL THE PARTS

Key fact

'Stainless' is a term coined early in the development of these steels for cutlery applications. It was adopted as a generic name but now covers a wide range of steel types and grades for corrosion or oxidation resistant applications



Five-year performance of the Merafe share price against the FTSE/JSE Mining Index



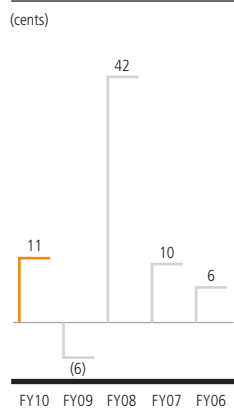
Moses Mabhida stadium in Durban

The year in brief

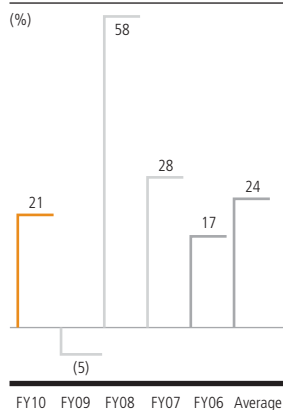


- Profit of R279 million reflects outstanding recovery from 2009 loss
- Significant increase in basic and headline earnings per share
- 48% increase in ferrocrome production
- 46% increase in the average European benchmark ferrocrome price
- Second ordinary cash dividend declared of 2 cents per share
- Fatality at the Lion ferrocrome plant
- Improved lost time injury frequency rate

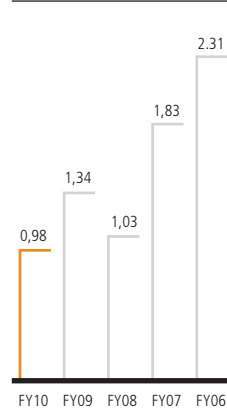
Basic and headline earnings per share



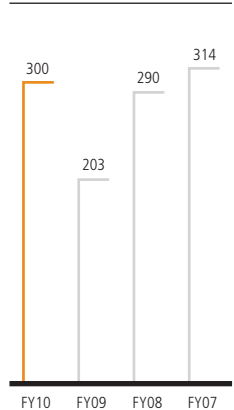
EBITDA margin on revenue



Lost time injury frequency rate



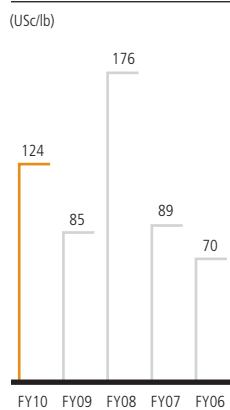
Production tonnes in thousands



Net cash debt



Average European benchmark ferrocrome price





Chairman's statement

Merafe returns to profitability



Chris Molefe
Chairman

25 February 2011

APPLYING THE RIGHT TOOLS FOR OUR BUSINESS

Key fact

The unique surface of stainless steel has no pores or cracks to harbour the dirt, grime and bacteria

Dear shareholder

The successful hosting of the FIFA World Cup finals by South Africa in 2010 was a very proud moment for the South African nation, which was enjoyed by all. It was also a very proud moment for our major shareholder, the Royal Bafokeng Nation, who hosted some of the games in their magnificent stadium at Phokeng.

As you are aware our ferrochrome is mainly used in the production of stainless steel. In this report we feature some of the magnificent stadia that hosted the World Cup and the Gautrain which came on line in 2010, where stainless steel was used extensively in both the stadia and the Gautrain.

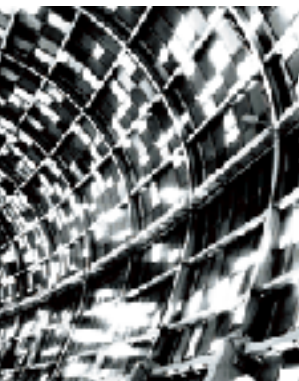
At Merafe we enjoyed a return to profitability as the ferrochrome market began to recover from the effects of the global crisis, and as a result our earnings from our 20,5% share of the EBITDA of the Xstrata-Merafe Chrome Venture (the Venture) increased significantly to R563,5 million.

Our share price also did well in 2010, outperforming the JSE/FTSE Mining Index with an increase of 19% over the year against a 9% increase for the Index.

It is our aim to provide a complete and balanced view of our performance, both the challenges and the successes, in this our first integrated annual report. We are committed to being accountable to our stakeholders. The way we engage with and respond to our stakeholders is described under the stakeholder engagement section of this report on pages 70 to 77.

The nature of our business means that economic, social, environmental and ethical issues are material to our future success and to the interests of our local communities and other stakeholders in the areas where we operate. We concentrate on the issues that are key to our delivering against our strategy and that are of most interest or concern to our stakeholders.

Our assessment of materiality is based on a wide range of factors, including developments in public policy, regulations, technology and community relations.



Soccer City in Johannesburg interior structure



Lion ferrochrome plant, Limpopo province

We review the:

- Results of the business risk assessment process;
- King Code of Governance Principles;
- Performance of Merafe and the Venture against the key performance indicators identified for our business;
- Topics and challenges reported by our peers or raised by industry associations; and
- External initiatives and best practice guidelines, including the GRI G3 Guidelines and its Mining and Metals sector supplement.

The issues that we currently regard as material to our business are discussed under the principal risks and uncertainties section of this report on pages 22 to 27.

A year of change

2010 was also a year of change at Merafe. First, we said goodbye to Steve Phiri as our Chief Executive Officer in April when he joined Royal Bafokeng Platinum (RBPlat) as their Chief Executive. We still enjoy his contribution to our debates at board meetings as he now represents our major shareholder, Royal Bafokeng Resources (RBR), as a non-executive director on our board.

Stuart Elliot, who has been responsible for Merafe's finances since its inception, was appointed Chief Executive Officer of Merafe in Steve's place and Zanele Matlala, who has served on the Merafe board since 2005 and chaired our Audit and Risk Committee, took over from Stuart when she became our Chief Financial Officer in October 2010. She joins us from Kagiso Investments (Pty) Ltd where she was Group Financial Director.

The Venture

Safety

The Venture always aspires to achieve zero harm in its operations. Unfortunately, like any business, it suffers setbacks and does not always achieve its own high standards. I am saddened to have to report that we did not achieve our goal of zero harm in the Venture. My sympathies and condolences go to the wife and children of Mr Kgokong Simon Malapane, who was fatally injured at the Lion ferrochrome plant in August.

The business environment

The business environment is becoming increasingly more complex for the mining industry with the introduction of new regulations and legislation.

Changes we saw this year were the introduction of the mining royalty and the release of the revised Mining Charter and Mining Scorecard in September. We welcome the measurements put in place and are pleased to be able to advise you that Merafe and the Venture are well placed to comply with the new requirements.

The introduction this year, by the Department of Mineral Resources (DMR), of a Section 9 (7) instruction intended to prevent fall of ground incidents, which stipulated a maximum bord width of less than six metres and an extraction ratio of less than 75% for underground mines, could have had a financial implication for the Venture's chrome mines. Fortunately, we were already mining according to acceptable measures and were able to make an individual representation to the DMR on the steps we had taken to prevent fall of ground incidents prior to their instruction. As a result our mining activities were not affected.

As previously advised the Venture has successfully converted all its old order chrome mining rights to new order mining rights.

Organic growth

During 2010 the Venture approved the construction of Project Tswelopele, a pelletising and sintering plant, at the Venture's Rustenburg ferrochrome plant. Merafe's 20,5% portion of the capital cost of Project Tswelopele is expected to be R190 million, which will be funded by the Venture's current and

Chairman's statement *continued*

future cash flows. The project is expected to achieve an overall saving in energy costs for the Venture of R50 million per annum (based on its consumption in 2010) and to improve its ore consumption efficiencies by 3,8% (also based on 2010 figures).

The Horizon chrome mine development is scheduled to reach full production of 40 000 tonnes per month (tpm) by the end of 2013.

Our partner in the Venture, Xstrata Alloys, has taken the decision to go ahead with the Phase II expansion of the Lion ferrochrome plant, in Limpopo province, which will increase the Venture's ferrochrome production capacity by 360 000 tonnes per annum. Merafe has the right and may participate in this project at cost, in line with its current participation interest of 20,5% in the Venture. Furthermore, Merafe has the right to simultaneously increase its interest in the expansion of the Lion ferrochrome plant and the Venture up to 26%. We are in discussion with our partners, Xstrata, in this regard.

The capital expenditure required to build the plant and develop the Magareng chrome mine, which will supply the plant with chrome ore, is R4,9 billion of which 85% is for beneficiation. It is expected to create 1 000 permanent jobs and to employ 1 800 people during its construction. At the same time the Venture intends investing R228 million in local housing development. The project, which is expected to have the potential to earn some US\$21 billion in foreign exchange during its lifetime, is due to be completed in 2013.

Diversification

The Merafe board continues to look for suitable diversification and growth opportunities. While our focus during the year was on growth within our ferrochrome business we continue to assess opportunities in coal.

Recognition of our commitment to BEE, sustainability and good corporate governance

I am always delighted to be able to tell you about the accolades Merafe achieved during the year.

Only 23 companies on the JSE were listed as Best Performers on the JSE Socially Responsible Investment (SRI) Index this year and Merafe was one of these companies. The Index has recognised Best Performers for the past four years and Merafe is one of only seven companies to be listed as a Best Performer over all four of these years.

This year, for the third year running, the *Financial Mail's* Top Empowerment Companies survey rated Merafe as the most empowered company in the Resources Sector.

Finally, for the second year running Merafe was one of only 20 companies on the JSE SRI Index whose sustainability reporting was adjudged to be 'excellent' in the Ernst & Young Sustainability Reporting Awards 2010.

My congratulations to the Merafe team and the Venture for these excellent achievements.

The board

I have already advised you of some of the changes to the board. In May we said goodbye to Dr Con Fauconnier, an independent non-executive director who brought his many years of technical expertise to our discussions. Con needed to resign from our board to avoid a potential conflict of interest when he was appointed to the main board of Xstrata plc, the major shareholder of our partners in the Venture.

When Tlamelo Ramantsi, who has represented the IDC on our board since 2006, resigned from the IDC, their company policy dictated that he resign from our board. As at 31 December 2010 the IDC had not as yet proposed a new non-executive director to replace Tlamelo on the board.

Mzila Mthenjane, who represented RBR on our board, also resigned and was replaced by Steve Phiri.

We are pleased to advise you of the appointment of three new independent non-executive directors to the Merafe board. In September we welcomed Abiel Mngomezulu of Mintek to the board. In December he was joined by Mfanyana Salanje and Karabo Nondumo. Abiel's technical expertise and Mfanyana and Karabo's wide range of financial expertise are included in their profiles on pages 56 to 57 of this report.

My thanks to all of the directors who have served on the Merafe board, both in executive and non-executive positions, for the invaluable contribution you have made to the board. To those of you who have left us this year, I extend my best wishes for your future endeavours.

I want to say a special thank you to Steve Phiri and to recognise his part in the history of Merafe. First of all he needs to be recognised for the key role he played in the original negotiations when RBR became shareholders in what was then SA Chrome in 2001. Then I would like to acknowledge the role he has played as Chief Executive of Merafe which included the negotiations around establishing the Venture. While we were disappointed when RBR decided they needed your skills in their platinum business, we are delighted that you remain within the Royal Bafokeng 'family' and that you continue serving on our board.

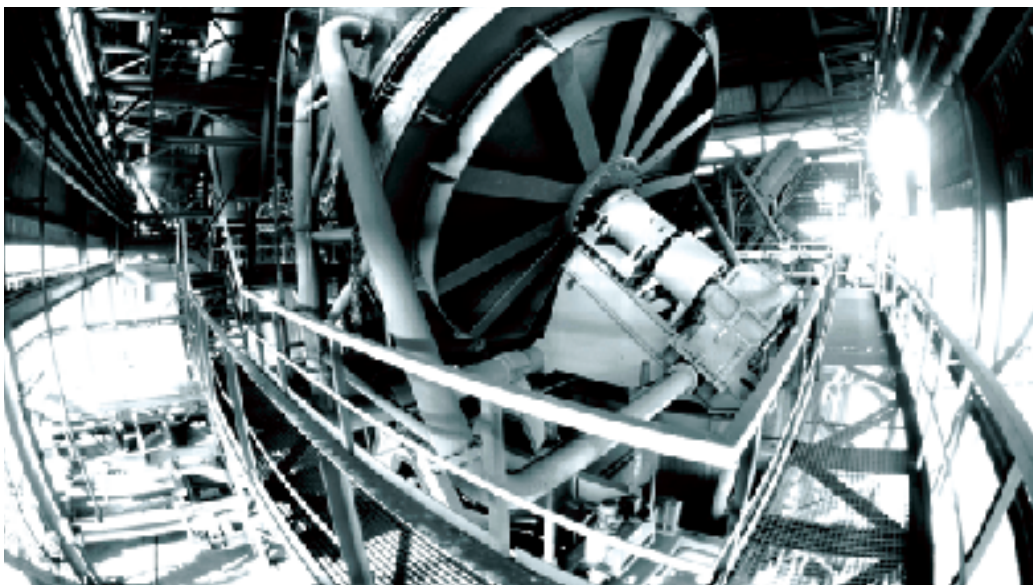
Thanks

I have already thanked our board members for their valued contributions. On behalf of the board I would first of all like to congratulate our new Chief Executive, Stuart Elliot and our Chief Financial Officer, Zanele Matlala, on their appointments. Our thanks also go to the entire Merafe team for a job well done in 2010.

The board would also like to thank our Venture partners, Xstrata, and all Venture employees for the contribution they have made to our success in 2010 and all our stakeholders for their continued support.



Chris Molefe
Chairman



Part of the Premus technology process at Lion ferrochrome plant, Limpopo Province



Chief Executive Officer's report



Significant increase in earnings

Stuart Elliot
Chief Executive
Officer

25 February 2011

STRENGTHENING A SUSTAINABLE COMPANY

Key fact

Lower alloy grades resist corrosion in normal atmospheric and potable water environments. More highly alloyed grades, however, can resist corrosion when exposed to many alkaline or acid solutions, making stainless steel the ideal material for use in processing plants

Introduction

I am delighted that in my first report as Chief Executive Officer, I am able to advise you that we achieved a significant increase in our earnings for the year ended 31 December 2010, primarily as a result of a 46% increase in the average European benchmark ferrochrome price in 2010 and a 4% increase in Merafe's share of the Venture's sales of ferrochrome to 291 000 tonnes from 281 000 tonnes in 2009.

At the same time I regret to have to tell you that the Venture did not achieve its goal of zero harm. Mr Kgokong Simon Malapane, who was 58 years old, was fatally injured at the Lion ferrochrome plant in August 2010. Simon was a front end loader driver working for the principal internal transport contractor at Lion. The Venture immediately carried out an investigation into the cause of Simon's death and training material has been developed and provided to prevent a similar incident occurring. On behalf of the board I would like to extend our sympathies and condolences to Joyce, his wife, and their children.

While we did not achieve zero harm in our operations the Venture's lost time injury frequency rate reduced by 31% compared to the year ended 31 December 2009.

Financial review

Merafe's operating income is generated from the Xstrata-Merafe Chrome Venture (the Venture), the global market leader in ferrochrome, with a total managed capacity of 1,98 million tonnes of ferrochrome per annum. Merafe shares in 20,5% of the earnings before interest, taxation, depreciation and amortisation (EBITDA) from the Venture.

Merafe's earnings from the Venture increased significantly from the prior year, primarily as a result of an increase of 46% in the average European benchmark ferrochrome price from 85USc/lb to 124USc/lb, year-on-year, and an increase of 4% in Merafe's share of sales tonnes from 281 000 in 2009 to 291 000 in 2010.

Merafe's share of EBITDA from the Venture for the year ended 31 December 2010 was R563,5 million. The EBITDA includes Merafe's attributable share of standing charges of R96,4 million and a foreign



Durban's Moses Mabhida stadium support arch



The Bokamoso pelletising and sintering plant, North West province

exchange loss of R41,2 million. Merafe's EBITDA was R529,8 million, after accounting for corporate costs of R31,4 million and share-based expense of R2,3 million.

The profit and total comprehensive income for the year is R278,7 million after taking into account depreciation of R113,5 million, net financing costs of R25 million, current tax expense of R20,1 million, deferred tax expense of R88,4 million and secondary tax on companies of R4 million.

The deferred tax expense relates primarily to R28,4 million recognised on the utilisation of the assessable loss and R60 million recognised on current temporary differences, primarily relating to property, plant and equipment. The balance of unredeemed capital expenditure is estimated to be R252 million at 31 December 2010.

Trade and other receivables have increased significantly from the prior year primarily due to the effect of the European benchmark price on sales.

Property, plant and equipment increased from the prior period as a result of sustaining capex of R167 million and R103 million of expansionary capex of which R55 million relates to the Horizon mine development and R48 million relates to Project Tswelopele, the new planned 600 000 tonnes per annum pelletising and sintering plant that will be constructed at the Rustenburg smelter.

Merafe started the year with a cash balance of R463 million, generated R233 million in cashflows, paid a dividend and secondary tax on companies (STC) of R53 million, repaid R50 million of long-term resources debt and invested R270 million in expansionary and sustaining capex, closing with a healthy cash balance of R321 million. Merafe has R136 million in its own cash balance and a further R185 million in the Venture. Merafe has R300 million of long-term debt repayable in one instalment on 31 December 2012.

Review of operations

Production costs in Rand terms increased by 10% due to substantial increases in chrome ore prices and power costs. These were partially offset by lower reductant costs achieved mainly as a result of breakthrough achievements in optimising the reductant mix to limit the impact of high metallurgical coke prices.

Higher costs for ore were due to the introduction of South African royalty taxes, higher UG2 prices and the use of higher cost ore to meet increased demand from the smelters.

Ongoing electrical energy efficiency improvements and prioritising maintenance during high-tariff electricity months helped to offset a 25% annual increase in electricity prices. During the past decade the electrical energy efficiencies of the group's ferrochrome operations have improved by over 25%. Further efficiency improvements will be achieved as Project Tswelopele becomes operational in 2013.

All new order mining right applications, mining right conversions, prospecting right conversions and new order prospecting rights applied for in respect of chrome have been granted and executed by the Department of Mineral Resources.

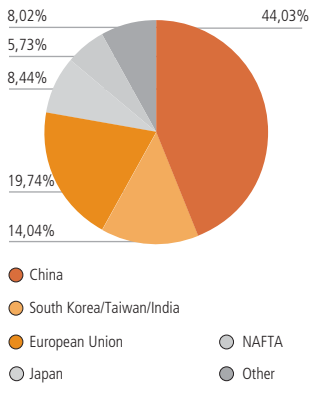
Market review

Strong growth in stainless steel demand, combined with the rapid growth of stainless steel production in China, resulted in a 21% increase in the demand for ferrochrome year-on-year. Global consumption of ferrochrome reached 8,6 million tonnes, exceeding the previous record high of 7,4 million tonnes achieved in 2007, due to record stainless steel melt, which increased by 20% to an estimated 31,2 million tonnes compared to 2009 and was 10% above the previous record production (28,4 million tonnes) in 2006.

China produced more than a third of the world's stainless steel in 2010, an increase of 17% year-on-year. Stainless steel production, excluding that of China, increased by 22% over 2009 levels. Stainless steel production and consequently demand for ferrochrome continued to grow in emerging economies in the second half. However, sovereign debt concerns in Europe impacted confidence in

Chief Executive Officer's report *continued*

Global ferrochrome demand (2010)



global financial stability in the second quarter and resulted in lower stainless steel melt production in Europe and America in the latter part of the year.

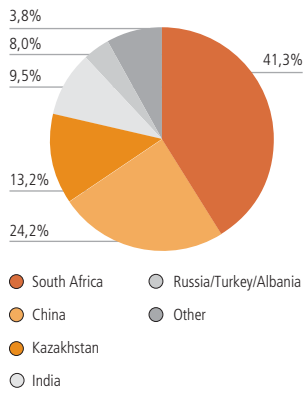
Global ferrochrome production was 8,5 million tonnes in 2010 a growth of 44% year-on year from 2009, despite energy tariffs influencing production levels in both South Africa and China. South African producers ramped up production in the first half of 2010, with scheduled maintenance reducing production in the high electricity-cost winter months.

Despite increased energy costs, rising chrome ore prices and the Chinese government's restrictions on electricity supply as it pursues the energy reduction and efficiency targets set in its eleventh five-year programme, China produced 2,1 million tonnes of ferrochrome in 2010. China remains a net ferrochrome importer, with 46% of its 3,8 million tonne per annum requirement being sourced externally. South Africa's global market share of production declined from 50% in 2002 to 41% in 2010 as a result of the increased production in China, despite reaching record levels of 3,8 million tonnes.

Third quarter weather and energy related production cuts in South Africa, China and India prevented a build up of global stocks of ferrochrome for both producers and consumers. Global ferrochrome stocks have been maintained at around ten to twelve weeks of consumption.

The European benchmark ferrochrome price closed the year unchanged from 130 US\$/lb achieved in the third quarter of 2010. Lower ferrochrome stock levels and higher production costs underpinned stronger prices.

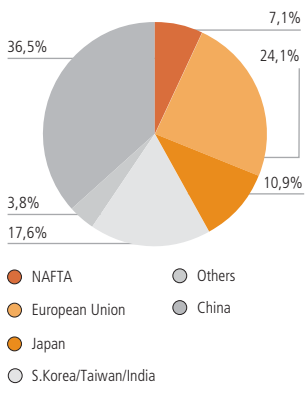
Global ferrochrome production breakdown (2010)



Recent developments

Xstrata South Africa (Proprietary) Limited (Xstrata) has approved the second phase of the Lion smelter complex expansion (Lion II). The expansion will involve the construction and commissioning of a 360 000 tonne per annum ferrochrome capacity smelter and will increase the Venture's total ferrochrome capacity to over 2,3 million tonnes per annum at a capital cost of R4,9 billion. The capital cost includes R700 million for the concurrent development of the 1,2 million ROM tonne per annum Magareng mine within the Thornccliffe mine complex. Bulk earthworks will commence in the first quarter of 2011 and commissioning is planned for the first half of 2013. The expansion will create over 1 000 permanent jobs and a further 1 800 jobs will be generated during the construction phase. Merafe has a right to participate in Lion II at cost, in accordance with its current participation interest of 20,5% in the Venture. In addition, Merafe has the right to simultaneously increase its interest above 20,5% in Lion II and the Venture up to 26%. Merafe and its partner, Xstrata, are in discussions in this regard.

Global stainless steel production



An agreement was concluded with Lonmin to increase and extend the current UG2 off-take agreement from tailings at Lonmin's Marikana operations. The tailings will be treated through chromite recovery plants that will be built, owned and operated by the Venture. Total UG2 supply sourced through this deal agreement will amount to approximately 1.5 million tonnes per annum. Construction of the UG2 plant is expected to be completed by mid 2011.

The Venture approved the construction of Project Tswelopele, a new 600 000 tonnes per annum pelletising and sintering plant. Project Tswelopele will be constructed at the Rustenburg plant and is expected to be fully operational in 2013. The plant will agglomerate some of the additional UG2 from the Lonmin operations, significantly improving operational efficiencies and costs and delivering environmental improvements. Merafe's participation in the new plant is 20,5% which is its proportionate share in the Venture. Merafe's share is expected to cost R190 million and will be funded by the Venture's current and future cash flows.

The Horizon mine development is on schedule to reach a production capacity of 40 000 tonnes of ore per month by the end of 2013. Production at Waterval mine will start at the end of the first quarter of 2011, producing an average of 30 000 tonnes of ore per month from available mineable panels.

Outlook

In 2011, stainless steel production and world consumption of ferrochrome is anticipated to grow by over 8%, including a 13% increase in demand for ferrochrome from China.

Ferrochrome prices are forecast to trade at higher levels in 2011 underpinned by demands from increased stainless steel production. Restricted supply of electricity in South Africa has resulted in the postponement of a number of planned ferrochrome projects over the next five years.

Dividend

I am pleased to be able to tell you that based on the positive outlook for ferrochrome, together with the strong cash position of the company, Merafe's board has been able to declare a final ordinary cash dividend of 2 cents per share amounting to R49,5 million in respect of the financial year ended 31 December 2010. The dividend has been declared in South African currency and is payable to shareholders recorded in the register of the company at the close of business on Friday, 25 March 2011. The secondary tax on companies (STC) on the dividend will amount to R4,95 million, before taking STC credits into account.

Sustainable development

Continuing efforts by the Venture to achieve improvements in energy efficiency and the prioritising of maintenance during high-tariff electricity months helped offset the 25% annual increase in electricity prices. The Venture has already improved the electrical energy efficiencies at its smelters by over 25% and will achieve further efficiency improvements when the Tswelopele pelletising and sintering plant at the Rustenburg ferrochrome plant becomes operational.

Appreciation

My thanks go to the members of the Merafe board for your guidance during 2010. I would like to extend a warm welcome to our three new board members Abiel, Mfanyana and Karabo and I look forward to your contribution in 2011.

My thanks also go to the Merafe team for your outstanding efforts during the year and to the management and staff of the Xstrata-Merafe Chrome Venture for their hard work and dedication which resulted in an excellent return on our investment in the Venture.



Stuart Elliot
Chief Executive Officer



Operations

- 20 furnaces on five production sites with a total production capacity of 1 979 ktpa, nine chrome mines and access to UG2 from six UG2 facilities
- Major technologies include Conventional, Outotec and Premus
- Lowest cost ferrochrome producer in South Africa
- Resources in excess of 100 years, assuming current smelting capacity and taking into account chromite ore from the Venture's mines and its access to UG2 ore
- All new order chrome mining rights applied for, have been granted
- Venture has complied with Department of Mineral Resources' safety directives

Xstrata-Merafe Chrome Venture operations



Key fact

Stainless steel is an alloy of iron with a minimum of 10,5% chromium. Chromium produces a thin layer of oxide on the surface of the steel known as the 'passive layer'. This prevents corrosion of the surface. Increasing the amount of chromium gives an increased resistance to corrosion

FOCUSSED ON ENERGY EFFICIENCY

Mines	Ferrochrome plants	UG2 operations
1 Helena mine	9 Lydenburg ferrochrome plant	14 Mototolo UG2
2 Magareng mine	10 Lion ferrochrome plant	15 Eland UG2
3 Thorncliffe mine	11 Wonderkop ferrochrome plant	16 EPL UG2
4 Kroondal and Marikana mines	12 Rustenburg ferrochrome plant	17 K2 UG2
5 Wonderkop mine	13 Boshhoek ferrochrome plant	18 K1 UG2
6 Waterval East and West mine		19 Kanana UG2
7 Horizon mine		
8 Boshhoek mine		

Merafe's assets include: 100% of the Boshhoek ferrochrome plant, the Horizon and Boshhoek mines and the Kanana UG2 plant; 50% of the Wonderkop ferrochrome plant furnaces 5 and 6 and the Kroondal chrome mine; 26% of the Marikana chrome mine and 20,5% of the Lion ferrochrome plant (Phase I), Mototolo and EPL UG2 plants, Bokamoso pelletising and sintering plant and the Helena and Magareng chrome mines.



Stainless steel applications at the Gautrain station boarding platform

Venture pipeline projects

Project description	Completion date
Project Tswelopele 600 000 tonnes per annum pelletising and sintering plant using Outotec technology to be constructed at Rustenburg ferrochrome plant	Expected to be fully operational by 2013
Chrome recovery plant to treat tailings from UG2 concentrators at Lonmin's Marikana operations	Expected to be in full production in 2011
Lion ferrochrome plant Phase II and development of Magareng mine with a capacity of approximately 1,2 million run-of-mine (ROM) tpa. Merafe has the right to participate in Phase II of Lion at cost and is in discussion with Xstrata in this regard	First production of ferrochrome is expected in the first half of 2013
Horizon mine development 480 000 tonnes per annum	Expected to reach full production in 2013
Waterval mine development 360 000 tonnes per annum	Expected to be in full production in 2011

Venture technologies

The Venture has a variety of technologies at its disposal which gives it the flexibility to meet changing operating circumstances and customer requirements. A major focus of the Venture is on energy efficiency.

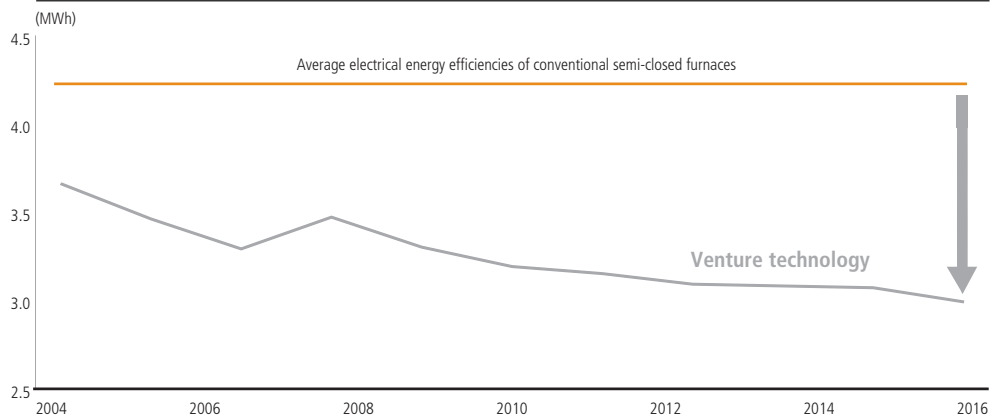
Smelting capacity

Ferrochrome plants	Capacity	Technology	Mines
Western limb			
Wonderkop	553 ktpa FeCr 6 furnaces	Conventional semi-closed furnaces Bokamoso pelletising and sintering plant using Outotec technology	Kroondal, Waterval and Marikana
Rustenburg	430 ktpa FeCr 6 furnaces	Conventional semi-closed furnaces	Kroondal, Waterval and Marikana
Boshoek	240 ktpa FeCr 2 furnaces	Closed furnaces Outotec pelletising and sintering technology	Horizon, Kroondal, Waterval and Boshoek
Eastern limb			
Lydenburg	396 ktpa FeCr 4 furnaces	Premus – kilns, 3 closed furnaces and 1 semi-closed furnace	Helena, Thorncliffe and Magareng
Lion Phase 1	360 ktpa FeCr 2 furnaces	Premus – kilns and closed furnaces	Helena, Thorncliffe and Magareng

Energy efficient operations

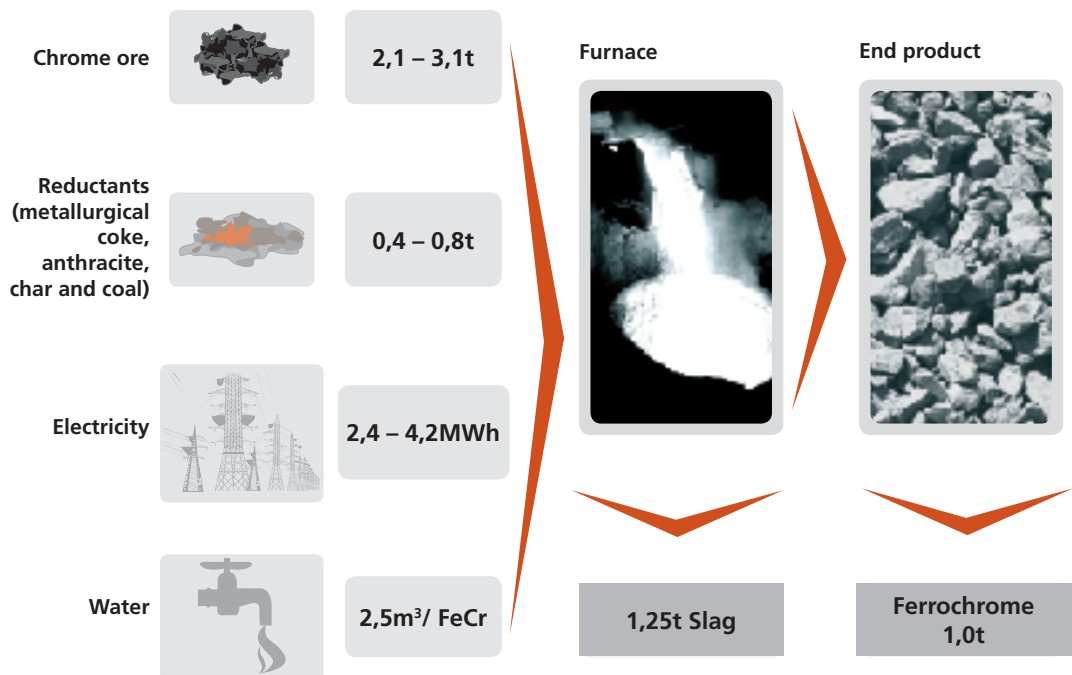
Energy efficiency is a high priority at the Xstrata-Merafe Chrome Venture. Its energy efficiency achievements received a special mining sector award for its overall savings in energy consumption of >12% per tonne of alloy produced, which was achieved by means of a R2,4 billion investment in world-class energy-efficient furnaces at the Lion ferrochrome plant in Limpopo province and the Bokamoso pelletising and sintering plant in North West province. The pelletising and sintering capacity of the Venture is to be increased with the construction of the new Tswelopele pelletising and sintering plant at the Rustenburg ferrochrome plant in the North West province, which will provide a further improvement in efficiencies.

Average electrical energy efficiencies achieved by the Xstrata-Merafe Chrome Venture illustrate continued improvement



* 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

Recipe for producing ferrochrome



Key fact

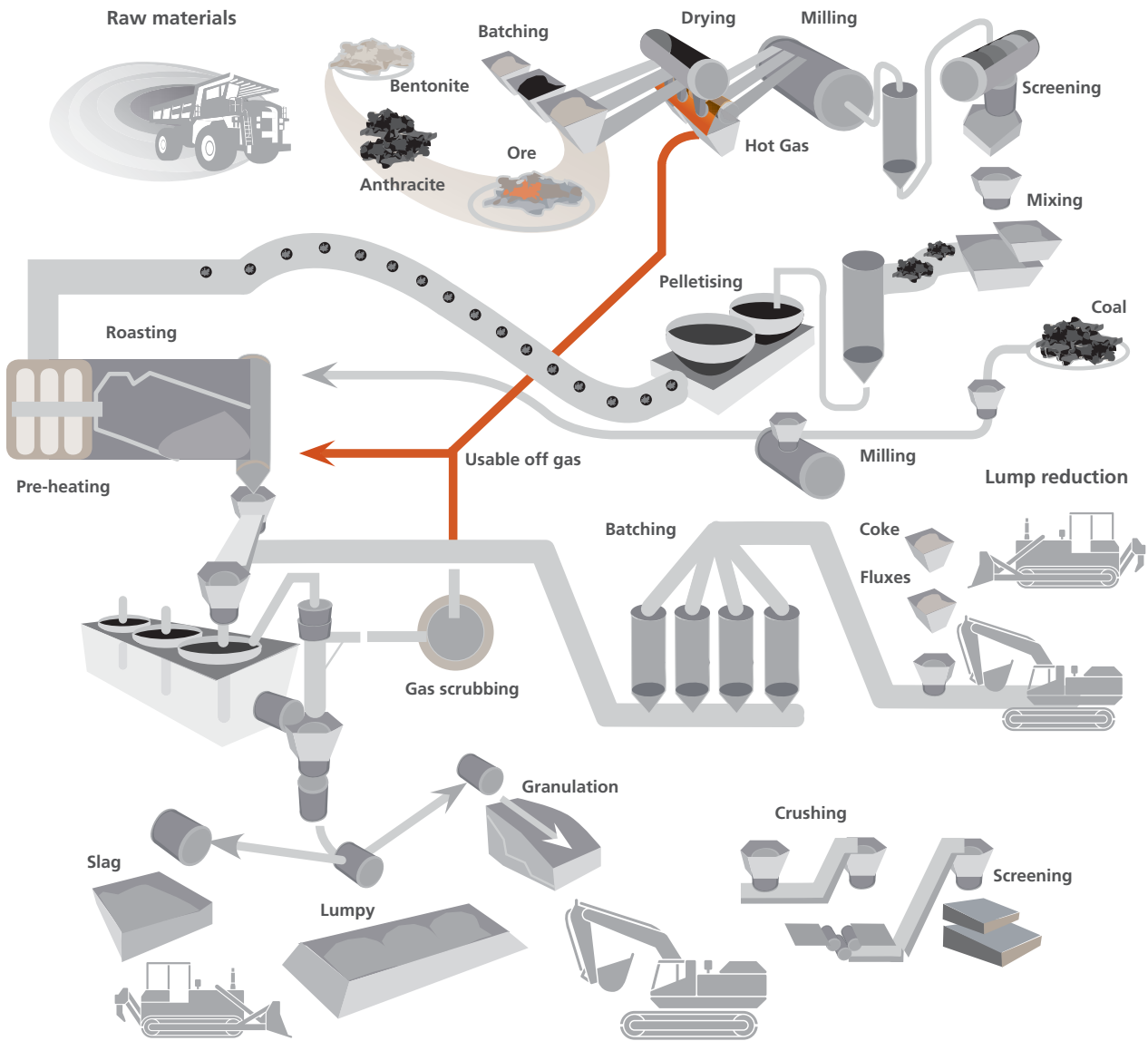
The stain resistance of stainless steel comes from an extremely thin but tenacious and self-repairing film that forms on the surface



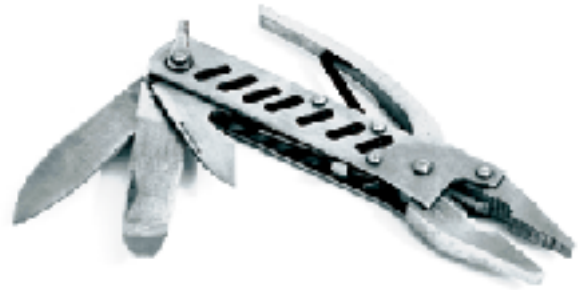
Cape Town stadium with Table Mountain in view

A CONSTANT FLOW OF MATERIAL

The Premus Process, proprietary technology, used in Lion I, is the world's lowest cost ferrochrome technology and the most energy efficient



Management approach



See related Xstrata SD Standard: 10
– www.meraferesources.co.za

See Key performance indicators
on pages 30 to 39 for details
on Venture's environmental
performance

Xstrata plc is a signatory of the
ICMM Principles and applies them in
all operations (www.icmm.com).

Document mapping SD framework
to international standards available
at www.xstrata.com/sustainability

The aim of this section of the report is to provide an overview of the management approaches adopted by Merafe and the Venture to achieve an integrated and balanced approach to managing sustainable development in both Merafe and the Venture.

Policies and procedures are reviewed and updated annually, or as and when required. All of the Venture's sites undergo annual sustainable development audits, which are underpinned by third party risk and verification audits at least once every three years, based on risk.

The Merafe board and its sub-committees are responsible for reviewing Merafe's policies and procedures. In the Venture the Sustainable Development Committee is responsible for the review and updating of policies and procedures.

Management approach to governance, ethics and engagement

The approach adopted by Merafe and the Venture to managing governance, ethics and engagement is described in the Governance section of this report on page 52, which includes an explanation of the measures Merafe has in place to monitor the Venture's management approach.

Management approach to the environment

Challenges

- Climate change and energy management
- Resource management – in particular water and energy
- Biodiversity and landscape functions
- Waste, emissions and tailings management

Environmental management principles and objectives

- Identify foreseeable hazards and environmental impacts, assess associated risks and, where reasonably practical, eliminate these risks or implement measures to control them
- Correctly navigate through every task, however urgent or important
- Continually improve environmental performance

Policy and approach

The Venture is committed to minimising impacts throughout the life of its operations and to rehabilitating land once operations have ceased. Its priorities are to use resources such as energy and water efficiently, to minimise impacts on biodiversity and landscape functions and reduce waste and emissions, including greenhouse gases.

The Sustainable Development Policy applied in the Venture sets out its commitment to identify, analyse, evaluate and eliminate, or otherwise treat, all the significant potential and actual impacts of its activities and operations on the environment, biodiversity and landscape functions, with the aim of preserving the long-term health, function and viability of the natural environments affected by its operations. The Sustainable Development Framework applied in its operations has been designed to provide assurance to the boards of both Venture partners that the performance and systems in place at its operations are consistent with expectations and a number of international standards, including ISO 14001 and the International Council of Minerals and Mining (ICMM) principles.

One of the Venture's initiatives to reduce greenhouse gases (GHGs) is the evaluation of the possibility of using algae as a carbon sequestration method for the carbon dioxide emission from furnaces.

INNOVATIVE AND CAPABLE

Key fact

One of the most energy intensive processes in the average household is heating water. Stainless steel solar hot water systems can save you money and lessen your environmental impact



Johannesburg Soccer City stadium stainless steel turnstiles



Lion ferrochrome plant, Limpopo province

Management approach to the workplace

Challenges

Building a stable workforce

The challenges that face the Venture in building a stable workforce include:

- Periods of strong demand leading to competition for skilled labour in the mining and metals industry, wage escalation and increased employee turnover
- Periods of weak demand in poor economic conditions resulting in oversupply or overstaffing
- Fluctuations in demand for commodities, linked to the economic cycle, which cause periodic shortages and surpluses in the labour market
- Locally available labour may be predominantly unskilled or have low levels of literacy

Employee development

- Providing career development opportunities and retaining key personnel
- Identifying, developing and retaining high-potential employees
- Addressing risk-tolerant or ingrained behaviours that impact negatively on safety in the operations
- Implementing effective training

Diversity


- Maximising local employment and training
- Preventing discrimination
- Making careers in mining more accessible to women
- Increasing the proportion of HDSAs in management

Policy and approach

Merafe and the Venture comply 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 also 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.

Merafe and the Venture are committed to providing a workplace based on mutual respect, fairness, integrity, non-discrimination and equal opportunity at all levels. Both are committed to open two-way engagement with employees and their representatives.

The Sustainable Development Framework applied in the Venture includes the Business Principles which set out how the Venture conducts business; a Sustainable Development Policy which sets out the principles applied to the management of the Venture's people, their health and safety; and Sustainable Development Standards which provide detailed guidance on the requirements and expectations of the business towards sustainability issues. Sustainable Development Standard 3: Behaviour, Awareness and Competency, describes the Venture's aim to attract and retain the best people at every level of its business and to provide industry-leading career development opportunities and competitive remuneration.

 See www.meraferesources.co.za for a copy of the Business Principles

Recruitment and retention of employees

When hiring employees, the Venture gives preference to members of the local community and, in some cases, offers training opportunities to community members that will allow them to develop the skills they require to be employed by the Venture. While senior management vacancies are mostly filled through recruitment agencies with the candidates drawn from all over the country, around 74% of employees can be regarded as local or from local communities.

The mining and metals industry faces critical shortages across a range of disciplines. As a result, the Venture has identified its ability to retain and/or train people with the appropriate skills as a principal risk to its sustainability. The Venture is addressing this risk through its retention and recruitment policies and other interventions.

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

In 2009, when the global recession resulted in a number of companies in the South African mining and metals industry retrenching staff, the Venture, despite operating at an average ferrochrome production capacity of only 30% during the first half of the year, did not retrench any permanent staff members. The Venture benefited from this decision when production levels increased in 2010.

Management approach *continued*

Employee benefits

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

Employment equity

Merafe and the Venture aim to operate workplaces based on mutual respect, fairness and integrity. All the Venture's operations publish employment equity plans and report annually on their progress towards achieving their targets. Employment equity at each operation in the Venture is monitored monthly by management and the employment equity committees in place at each operation.

Merafe and the Venture offer an equal rate of pay to male and female employees for work of equal value. Their employment equity policies are based on providing all potential and existing employees with equal opportunities in terms of recruitment, promotion, transfer, employee benefits, training and conditions of service.

Employee training and development

The shortage of skills in the mining industry has already been highlighted. Clearly the need to develop its workforce is material to Merafe and the Venture. Our approach to training and development is guided by our need to:

- Identify, develop, attract and retain high-potential employees
- Maximise local employment
- Make careers in mining more accessible to women
- Increase the proportion of HDSAs in management
- Provide effective training in human rights
- Ensure employees, contractors and suppliers have a thorough understanding of the Statement of Business Principles, Sustainable Development Policy and 17 Sustainable Development Standards applied in the Venture and that all employees and contractors receive training in these.

Training in the Venture is structured to meet each operation's specific needs. Each operation has a workplace skills planning committee, which is responsible for identifying the operation's specific training requirements.

See KPIs on pages 31 to 33 for employee statistics and training and development



The Gautrain – Stainless steel has been used throughout the station for its ability to withstand wear and tear. It is also easy to clean. The seat in the foreground is made of stainless steel.

Management approach to safety

The Venture's Sustainable Development Policy sets out its commitment to zero injuries, occupational illnesses or fatalities. It values the safety of the contractors that it relies on to provide additional labour and for specialist skills and services in the same way as it values its own employees. Contractors are included in its safety reporting and must comply in full with its safety standards and procedures.

Challenges

- Eliminating fatalities and serious injuries
- Understanding the root causes of near-hits and actual incidents to improve major hazard controls and continuously improve systems and performance
- Further reducing the frequency of injuries sustained, particularly in operations with very low frequency rates

The Venture's Executive Committee reviews performance and receives regular audit reports on safety performance.

The approaches adopted by the Venture to achieve its safety commitments include:

- Identifying, managing and mitigating risk
- Applying leading-practice technology to save lives
- Changing behaviour and creating awareness
- Regular safety inspections

Management approach to health

Challenges

- The impact of HIV and AIDS on the workforce and the communities in which the Venture operates
- The link between tuberculosis (TB) and AIDS emphasised the need to significantly ramp up the Venture's TB programme to provide the highest quality of prevention and care for its employees and contractors
- 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

Policy and approach

The Venture's policy sets out its commitment to eliminating illness from its operations by providing a workplace that is free from significant occupational health and hygiene hazards. It is important to the business that its employees are fit and healthy, which means taking care of their overall wellbeing and working with them to promote healthy lifestyles. The main health issues affecting the workforce and communities are identified at each operation. These include communicable diseases such as HIV and AIDS and TB and non-communicable diseases of lifestyle (diabetes, high cholesterol, obesity, etc).

Management approach to human rights

The approach to human rights applied by Merafe and the Venture is detailed in the Governance section of this report on page 67. The primary human rights issues in the Venture relate to:

Labour

The rights of the Venture's employees and contractors to work for equal pay, associate freely, to a safe and healthy workplace, to non-discrimination and to their legal rights. The Venture's operations are not at risk of incidents of child or forced labour.

Security

The conduct of security operations protecting the Venture's operations

Communities

The impact the Venture's operations may have on communities includes the use of land and mineral assets, economic impacts, displacement, access to resources such as water and energy and other environmental impacts and economic benefits. The influx of migrant workers during the construction phase of a project may create cultural or social issues.

Voluntary principles on security and human rights

Xstrata plc is a signatory to the United Nations Global Compact and supports the UN Universal Declaration of Human Rights and the International Labour Organisation Conventions. It is also committed to implementing the Voluntary Principles on Security and Human Rights (VPs) across all the operations it manages and reports annually on its progress on upholding the VPs.

Management approach *continued*

Policy and approach

The Venture conducts human rights risk assessments at all its operations. It focuses on identifying human rights risk and preventing incidents to ensure the safe and unhampered operation of its sites. The Business Principles applied in the Venture uphold the elimination of all forms of forced or compulsory labour and prohibit any form of child labour. In terms of South African labour laws an employee must be 18 years of age.

All sites are required to undertake human rights risk assessments, implement grievance resolution mechanisms and set and monitor appropriate performance standards for all contractors including security personnel. Where the Venture employs security personnel (either directly or as contractors) to protect its people and assets, it ensures that appropriate human rights training has taken place and it monitors compliance. The Xstrata Sustainable Development Standards applied in the Venture's operations require its operations to maintain community relations strategies that uphold and promote human rights and respect cultural considerations and heritage.

Management approach to communities

Challenges

- Enhancing the socio-economic capacity, prosperity and sustainability of the communities in which the Venture operates
- Infrastructure development
- Job creation and skills development
- Increasing procurement from small and medium enterprises, black economically empowered (BEE) enterprises and enterprises local to the Venture's operations
- Engaging with previously advantaged suppliers with a view to encouraging them to become black-empowered
- Enterprise development and job creation



Sana Mashilangwako (left), Maria Maloma and Philimon Tau preparing their tomato plants in a hydroponic tunnel at Ga Phasha. The Lion ferrochrome plant provided the tunnels, training for eight community members, a borehole and the plants that provided this enterprise development project with its first crop sell

Objectives

It is the objective of Merafe and the Venture to be catalysts for change in South Africa. This objective can only be achieved through partnerships. This includes partnering with the many role players in the communities in the vicinity of the Venture's operations.

Policy and approach

The Sustainable Development Standards applied in the Venture's operations describe the expectations of community engagement activities and support. The performance of each operation is audited against the Sustainable Development Policy and Standards in place as part of the sustainable development assurance programme.

The Venture recognises the rights of communities affected by its operations and maintains open dialogue with them, in a culturally appropriate manner, at every stage of an operation's lifecycle, to identify and evaluate their needs and concerns and the potential impacts of its operations on communities. It conducts socio-economic baseline studies and risk assessments. It prioritises support for the most vulnerable community members and those most affected by its operations.

Poverty and high unemployment are major challenges in the areas of South Africa in which the Venture operates. The Venture determines community needs by means of socio-economic impact assessment studies. At operational level its community development officers coordinate community development. The Venture's procurement policies, which are aligned with the government's Preferential Procurement Policy Framework Act 2000 (PPPFA) and the Mining Charter Scorecard, give preference to historically disadvantaged South African (HDSA) owned, empowered and controlled businesses for all capital goods, consumables and services. It also gives preference to local suppliers and small, medium and micro enterprises (SMMEs).

Enterprise development is an important element of the Venture's investment in the socio-economic capacity of the communities in which it operates. Both Merafe and the Venture support enterprise development through various initiatives, including the provision of loans with preferential terms, start-up and bridging capital, training and knowledge-sharing. The Venture's practice of ring fencing a portion of tenders for SMMEs gives them the opportunity to be mentored by established service providers.

Management approach to product stewardship

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

Xstrata, our partner in the Venture, plays an active role in the ICMM initiatives that contribute to product stewardship and innovation, including the ICMM Guide on Material Stewardship.

The Venture works with stakeholders – including industry and commodity associations, customers and suppliers – to understand the environmental and health and safety risks of its products and to find ways to address them.

The Venture engages on product stewardship issues with the International Council on Mining and Metals (ICMM) and the International Chrome Development Association (ICDA).

Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) and related legislation

REACH legislation requires all producers and importers of substances intended for use within the EU to register their products according to the requirements of the European Chemical Agency (ECHA). The Venture joined the ferrochrome and vanadium consortia to participate in the final registration process which was completed by 30 November 2010.



Another example of the use of stainless steel in a Gautrain station

For information on the investment by Merafe and the Venture in socio-economic development projects see KPIs on pages 34 to 35

Principal risks and uncertainties

Risk is an intrinsic aspect of business and is inseparable from opportunity.

The risks set out below represent some of the principal uncertainties and trends which may have an impact on Merafe's ability to execute its strategy effectively in the future and on the Venture. These risks have been assessed according to materiality, likelihood and residual risk after controls and have been separated into risks that could affect Merafe at a corporate office level and those that could affect the Xstrata-Merafe Chrome Venture.

See CEO's report for more information on ferrochrome prices

Merafe risks

Commodity price volatility

Risk

Merafe's revenue and earnings are dependent on the effect of prevailing ferrochrome prices on the earnings before interest, tax, depreciation and amortisation (EBITDA) of the Xstrata-Merafe Chrome Venture (the Venture). The ferrochrome price is determined by supply and demand and is closely linked to global economic growth.

Impact

The impact on Merafe's operating profit of movements in the price of ferrochrome is set out on page 3. Ferrochrome price trends and commentary on the outlook for ferrochrome is provided in the Chief Executive Officer's report on pages 9 to 11.

Mitigation

Ongoing process improvement initiatives and investments to reduce costs, cost savings initiatives, including scaling down mining activities during downturns in global demand and optimising UG2 ore consumption to reduce input costs, are adopted to mitigate the impact of reduced ferrochrome prices on the Venture. In addition, close relationships with customers and the technical expertise to predict and plan for upturns and downturns in demand, assist Merafe and the Venture to mitigate their impact.

Fluctuation in currency exchange rates

Risk

The Venture's product is sold in US dollars, while its operations and operating costs are in Rands. As a result fluctuation in the exchange rate can impact positively or negatively on Merafe's earnings from the Venture.

Impact

Currency exchange rate fluctuations impact on our operating profit.

Mitigation

Merafe's policy is not to hedge currency and it is therefore exposed to Rand/US dollar fluctuations. Containing production costs by means of process improvement initiatives and investments to reduce costs, helps mitigate the impact of currency fluctuations in favour of a stronger rand.

Key fact

Modern steel manipulation techniques mean that stainless steel can be cut, welded, formed and fabricated as easily as traditional steel, making it flexible for a variety of uses

IGNITING PASSION AND INNOVATION IN A



Gautrain stainless steel ticketing units in Johannesburg station



Bokamoso pelletising and sintering plant in the North West province

Financing

Risk

Credit markets have significantly restricted the supply of credit as financial institutions apply more stringent lending criteria. A downgrading of Merafe's credit status and an increase in Merafe's debt levels could reduce its ability to obtain financing and implement its growth strategy.

Impact

This could materially and adversely affect the company's financial position and growth plans.

Mitigation

Regular meetings are held with bankers to proactively assess terms and conditions before potential problems arise. However, with its strong cash balance and available banking facilities Merafe is currently well placed in this regard. Its partner in the Venture, Xstrata takes a considered approach to debt management. Its capital expenditure is presented on an approved/unapproved basis to allow for monitoring of its impact on Xstrata's credit rating and its ability to react to changes in market circumstances.

Political and fiscal intervention

Risk

Political risks include changes in laws or regulations, taxes or royalties.

Impact

Any of these risks could have an adverse impact on Merafe's profitability and growth plans.

Mitigation

Merafe follows and ensures any changes to laws or regulations are addressed and closely monitors compliance with legislation. The impact of changes in laws and regulations in respect of the operations is dealt with under Venture risks.

Key employees

Risk

Merafe depends on a small number of key employees.

Impact

The loss of a key employee could result in a loss of skills, knowledge, information and continuity.

Mitigation

To mitigate this risk Merafe is developing a human resource development and transformation plan, which includes a succession plan and training and mentoring of employees. The company's remuneration policy is to invest in future key contributors and to have adequate notice periods in place and lock-ins through deferred bonus payments and share incentives.

Principal risks and uncertainties *continued*

Venture risks

Operational risks

Risk

The Venture's operations are affected by a number of factors which are outside its control. These include the availability and costs of raw materials, water and power, unusual ground conditions, climatic conditions as a result of climate change (e.g. drought or flooding), interruptions to power supplies, congestion at ports, industrial action, environmental hazards, technical failures and incidents at its operations.

Impact

These factors could adversely affect operating performance, production levels, unit costs and operating profit.

Mitigation

The Venture has in place a comprehensive programme to identify, understand and manage the risks that affect the business and its operations. An annual risk review is undertaken and both organisations' risk registers are regularly updated. All operations have water management plans in place which are regularly reviewed and contingency plans for restoring operations quickly after a severe weather event.

Cost control

Risk

The Venture's competitiveness and long-term profitability depend significantly on its ability to maintain low-cost efficient operations.

Impact

Above inflation increases in input costs may negatively impact Merafe's earnings.

Mitigation

The Venture prides itself on being a low cost producer. Cost performance is regularly reported to the Executive Committee and is a key management performance measurement. Its development of lower cost proprietary technology has played a significant part in cost reduction.

Security of energy supplies

Risk

Increasing global demand for energy and the limited growth of new supply is impacting the price and availability of energy worldwide. In South Africa the constraints on energy supplies remain a concern, in particular in a business that is a major consumer of energy.

Impact

Lack of supply of energy could impact on the Venture's ability to operate or threaten planned future expansion of its operations or the development of new mines. Energy tariffs increased 25% during the year.

Mitigation

The Venture has an ongoing programme to assess and monitor energy-related risks, including scenario analyses. It manages the risk through implementing energy efficiency plans, assessing the risks associated with energy supply at the design phase of its projects. The Venture's investment in process technology to achieve efficiencies and reduce energy consumption has resulted in it becoming the lowest cost ferrochrome producer in South Africa.

 See Chief Executive Officer's report on pages 10 to 11 for information on cost reduction initiatives, in particular energy saving.



Emissions, climate change regulation

Future climate change legislation may lead to higher energy costs or restricted energy supplies. It is also likely to increase costs for monitoring, reporting and accounting. Customers are becoming increasingly aware of their own carbon and water footprints and are selecting business partners who actively reduce their impact on climate change through changes to operational processes.

Impact

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 the Venture's ability to maintain profitability.

Water scarcity has become a global issue and could in future affect the Venture's ability to operate.

Mitigation

The Venture continually engages with government and key policy makers to advocate a rational approach to carbon taxes.

Climate change issues are given a high priority by the Venture and it reviews its climate change strategy annually. It has reduced the carbon emissions attributable to the electricity it purchases by improving the energy efficiency of its operations and investigating using renewable energy sources. The Venture set itself a target of achieving a 5% reduction in energy intensity per tonne of product of its 2007 performance by 2012.

The Venture's emissions are reported to the Carbon Disclosure Project (CDP).

Health, safety and environment

Risk

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 the mining industry.

Impact

New or amended environmental, health and safety legislation or regulations may result in increased operating costs or, in the event of non-compliance, the possibility of fines, penalties or other actions which may adversely affect the Venture's financial position. Rehabilitation costs, which are generally estimated and provided for over the life of operations and based on the best information available, may subsequently increase, impacting on group earnings. 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. Increasing demand for water in water-scarce regions presents a growing risk for the Venture's operations.

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 its profitability.

Principal risks and uncertainties *continued*

Health, safety and environment *continued*

Mitigation

These three issues are given priority by the Venture and significant resources are committed to providing a safe and healthy workplace, keeping its impact on the environment to a minimum and addressing the impact of HIV and AIDS on its employees and the communities in the vicinity of its operations.

The Venture monitors legislative requirements and engages with government and regulators to ensure compliance. All operations are regularly independently audited through the Sustainable Development Assurance Programme and manage the risks that could affect the Venture's operations.

The Venture's health, safety, environmental and social performance is reported on quarterly to management.

The Sustainable Development Policy in place at the Venture's operations governs its use of water. The Venture's sites are managed to achieve zero discharge and its ferrochrome plants operate closed circuit water systems where no water is discharged under normal operating conditions and run-offs are directed to lined storm water dams from which the water is recycled back to the plant. The Venture aims to progressively increase its use of recycled water and to reduce its reliance on fresh water resources. It has also set itself a target for reducing its fresh water intensity by a minimum of 3% on its 2010 performance by 2014.

Labour and key employees

All the Venture's operations are unionised and generally have good relations with employees and unions. Its operations depend on a relatively small number of key employees, the loss of whom could have an adverse effect on the business.

Impact

The Venture's lean management structure depends on a relatively small number of key employees. The loss of certain key employees, particularly to competitors, could have a material adverse effect on it. The Venture believes that its future success will depend on its ability to attract and retain highly skilled and qualified personnel.

Mitigation

The Venture provides industry-leading career opportunities and its remuneration strategy includes retention elements for key employees. As the economy improves it is benefiting from its retention of its full-time employees during the economic downturn. The Venture is committed to the participation of HDSAs in management. Fast track and executive development programmes are in place and formal succession planning is regularly reviewed.

Project development

Risk

The development of the Venture's projects can be affected by a number of factors, some of which are outside its control. These include technical uncertainties, availability of suitable financing, infrastructure constraints, cost overruns, overstretched management and insufficient skills or resources. External suppliers can cause unexpected delays and opposition to the project by local communities can slow or halt a project.

Impact

The Venture's ability to develop its project pipeline and replace older operations with new, lower-cost operations will impact future revenues, costs and its reputation for successful project development.

Mitigation

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. The Venture benefits from a broad range of project development experience in its management team. It has 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, mitigated, before the project can proceed to the next phase.

Social and community

Risk

The Venture's operations and the development of its projects can have an impact on local communities. Communities may oppose its activities for various reasons.

Impact

If the Venture does not gain broad support for its activities from local communities its projects could face delays, which could impact on operating profit, development costs and its reputation.

Mitigation

The Venture works with communities affected by its 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. The Venture carries out baseline studies and risk assessments and engages with all affected communities in a transparent, culturally appropriate manner. It recognises the rights of community members and respects local laws, customs and cultural heritage. The Venture aims to avoid the need to resettle communities. Where resettlement is necessary it adheres to the World Bank/International Finance Corporation's standards on involuntary resettlement.

Reserves

Risk

The Venture's 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.

Impact

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 its ability to develop reserves will be adversely affected.

Mitigation

The Venture annually updates the quantity and quality of its estimated proven and probable reserves to reflect the extraction of chrome, additional drilling or other data. Its policy is to ensure five years of proved ore reserves at any time. Reserve and resource estimates are published in this report on pages 40 to 51. 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.

Political and fiscal intervention

Risk

Political risks include changes in laws or regulations, taxes or royalties, infrastructure issues, inability of the Venture to meet the requirements of the Mining Charter Scorecard and changes to mining leases and permits.

Input

Any of these risks could have an adverse impact on the Venture's profitability and the ability of the Venture to continue operating.

Mitigation

The Venture works in partnership with its employees and local communities in order to earn and maintain the Venture's social licence to operate. The Venture maintains an extensive, transparent and open relationship with regulators and local, regional and national government bodies. The Venture follows and ensures any changes to laws or regulations are addressed and closely monitors compliance with legislation. The Venture is on track to achieve the Mining Charter targets, including its employment equity, procurement and social development targets.



Key performance indicators (KPIs)

Merafe's Executive Committee and board monitor a range of financial and sustainability KPIs as a measure of the company's performance against its objectives.

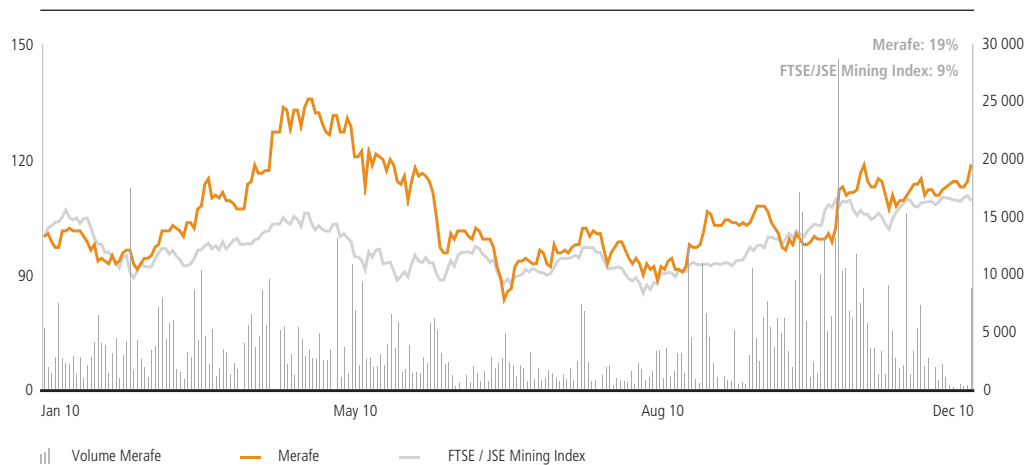
The key performance indicators against which Merafe and the Venture measure themselves are:

Economic capital	Human capital	Environment
<ul style="list-style-type: none"> • EBITDA • EBITDA margins • Gross profit percentage • Debt:equity ratio • Group cash and debt position • Unit cost increase/decreases • Sales volumes • Ferrochrome inventory • Shareholder ROI 	<ul style="list-style-type: none"> • Safety • Health • Employees <ul style="list-style-type: none"> – Diversity and employment equity – Women in mining • Training and development • Corporate Social Responsibility 	<ul style="list-style-type: none"> • Water use • Environmental incidents • Greenhouse gas emissions • Energy use

Economic capital

A detailed discussion of Merafe's financial performance during 2010 can be found in the Chief Executive Officer's report on pages 8 to 11.

2010 performance of the Merafe share price against the FTSE/JSE Mining Index



Key fact

During production, stainless steel uses scrap metal as its primary raw material, with up to 70% of the product coming from recycled material. Increased efficiency in process technology has also decreased the amount of energy required to manufacture stainless steel

IGNITING PASSION AND INNOVATION IN ALL



Gautrain stainless steel interior applications



Lion ferrochrome plant, Limpopo province

Venture's key performance indicators

Human capital

Safety – injury frequency rates

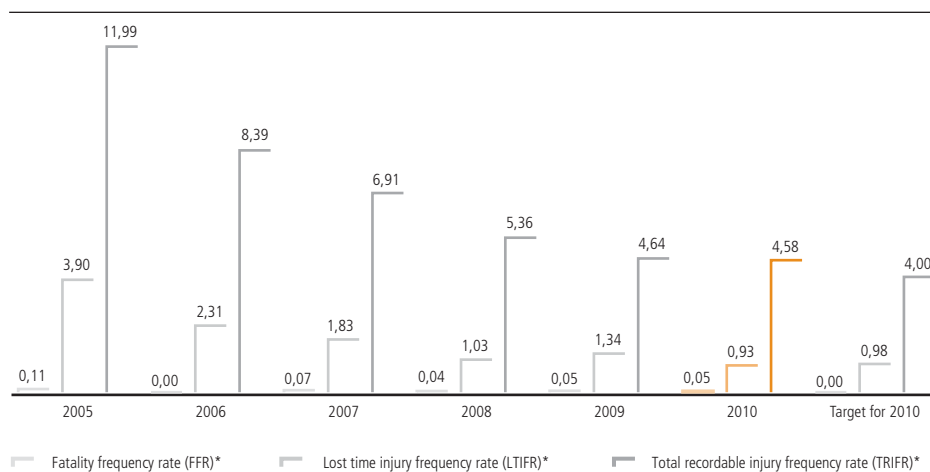
The Xstrata–Merafe Chrome Venture (Venture) is committed to providing a safe workplace and it believes that every work-related incident, illness and injury is preventable. Preventing fatalities is a priority for the Venture. In 2010 one person lost his life at the Venture's operations. We deeply regret the death of Mr Kgokong Simon Malapane at Lion ferrochrome plant which is covered in the Chairman's statement and Chief Executive Officer's report on pages 5 and 8.

The ability to identify hazards and manage and mitigate risk in the Venture is of the utmost importance and the Venture's employees are trained accordingly. Baseline risk assessments are reviewed, spot risk assessments are conducted, as are continuous risk assessments and issue-based risk assessments. Each site has a Major Hazard Management Plan (MHMP) for all the major hazards identified, which identifies the corrective or remedial actions that should be implemented. A Trigger Action Response Plan (TARP) is drawn up which identifies the indicators preceding major accidents and specifies the action to be taken when these indicators occur.

To modify the at-risk behaviour and improve awareness of potentially harmful situations behaviour-based safety (BBS) training and competency-based safety (CBS) programmes are used. The use of computerised virtual reality safety training has improved the ability of employees to identify and react appropriately to hazards present in their workplace.

The comparative analysis of safety statistics for the Venture's employees and contractors between 2005 and 2010 shows that for the sixth consecutive year it has achieved a reduction in its lost time injury frequency rate (LTIFR) (the LTIFR target for 2010 was 0,98 and the Venture achieved an LTIFR of 0,93 in 2010).

Injury frequency rate



* Rate refers to per one million hours worked

Key performance indicators (KPIs)

The Venture's performance measurement for injuries is the total recordable injury frequency rate (TRIFR) based on one million hours worked. This measure includes lost time injuries, medical treatment injuries and restricted work injuries to employees and in the opinion of the Venture is a more complete measure of safety performance than lost time injuries alone.

Health – occupational health

The Venture provides ongoing medical monitoring of significant occupational diseases at all its operations; this includes monitoring adherence to policies and standards and the use of personal protective equipment (PPE).

The main occupational health risk associated with the Venture's operations is noise-induced hearing loss (NIHL). All the Venture's operations have implemented hearing conservation programmes with the aim of reducing and eliminating noise at source, wherever possible, to levels below internationally recommended standards. Appropriate equipment design and modification criteria have been established and a 'buy quiet' procurement policy is in place. Because typically, NIHL manifests over time, the majority of the NIHL cases recorded at the Venture's operations are long-standing employees.

Baseline assessments are carried out for all potentially exposed employees and contractors at all the Venture's operations. Ongoing static and personal monitoring and regular audiometric testing are used at every operation and wherever noise levels may exceed recommended levels, suitable PPE (variphones) is provided and employees are trained in its use.

Occupational illnesses

	2010	2009	2008
Noise-induced hearing loss (NIHL) cases reported	21	6	8

No cases of occupational diseases resulting from current working conditions were recorded in the Venture. The majority of the NIHL cases were in the mines. An increased number of cases were identified after improvements were made to the medical examination process.

HIV and AIDS

Uptake of HIV testing in the Venture

	2010 %	2009 %
Employees	71	96
Contractors	73	93

The drop in the 2010 figures for HIV testing in the Venture is because the testing programme began in 2009 and was completed in 2010.

HIV-positive rate in the Venture

	2010 %	2009 %
Xstrata-Merafe Chrome Venture	14	14
Public sector provincial averages	21-35	21-35

The uptake of HIV testing in the Venture has exceeded expectations. The table above shows that the Venture's HIV-positive rate (14%) is far lower than that of the public sector provincial averages of 21% – 35%. This suggests that the Venture's prevention activities are having an effect. All HIV information is treated as strictly confidential.

Enrolment in the care and treatment programme for those found to be HIV-positive was initially slow but has improved significantly since the start of the wellness programme in 2008.

In addition the Venture has collaborated with the Aurum Institute for Health Research to provide access to HIV care and treatment for every HIV-infected contractor. Aurum uses funding received from the United States' President's Emergency Plan for AIDS Relief (PEPFAR) to finance this programme.

HIV and AIDS strategy

The Venture's HIV and AIDS strategy is based on the results of a cost benefit analysis which indicated that the cost of not addressing HIV and AIDS was likely to be between 3% and 6% of its annual wage bill. On the other hand early intervention – including the provision of antiretroviral (ARV) drugs – would benefit the business through the increased longevity of employees, the continued productivity of HIV-positive employees and the slowing of the spread of HIV and AIDS.

Community outreach

The Venture is forming public private partnerships (PPP) to ensure communities in the vicinity of its operations have access to prevention, treatment and care for HIV and AIDS, as well as other communicable and associated diseases. This approach includes building up a community profile using mapping, zoning, demographics, socio-economic data and stakeholder analysis.

Employees

The total workforce of the Venture by employment contract – full year averages

Category	2010	2009	2008
Full-time employees	6 337	6 025	5 897
Contractors	4 166	3 231	3 897
Total	10 503	9 256	9 794

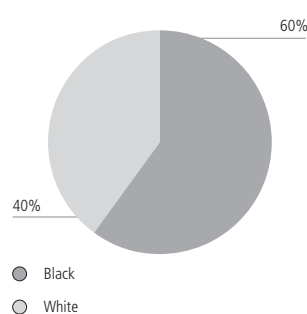
The long-term success of the Venture is dependent on its ability to attract and retain the best people, with appropriate skills, at every level. This is why the Venture decided to retain its employees during the global recession in 2009 when its ferrochrome plants were operating at only 30% of capacity. Now that the demand for ferrochrome has increased, the Venture is benefiting from this retention of skills.

The Venture aims to operate a workplace based on mutual respect, fairness and integrity, where diversity is valued and discrimination is not tolerated. It upholds the rights of its employees to collective bargaining and encourages freedom of association.

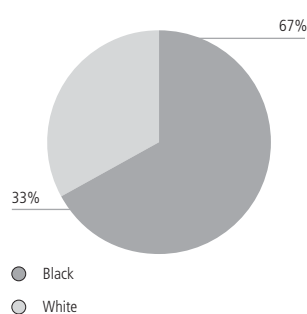
Merafe and the Venture endorse the revised Mining Charter which was published in September 2010 and are committed to achieving the targets set in the Mining Charter Scorecard to ensure diversity in the workplace and historically disadvantaged South African (HDSA) participation at all decision making levels and core occupational categories.

Merafe’s corporate office employs 10 people. The racial and gender breakdown of these employees is shown below.

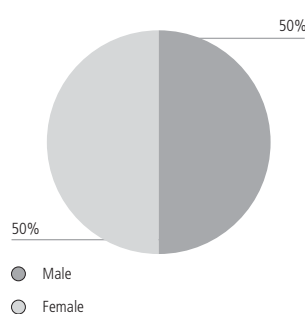
Racial breakdown of Merafe’s corporate office employees



Racial breakdown of Merafe’s management team



Gender breakdown of Merafe’s management team



Diversity and employment equity – Xstrata-Merafe Chrome Venture (in terms of revised Mining Charter targets) – full year average for 2010*

Breakdown of diversity at Top management level in the Venture		
Target: 20% in 2010**	Achieved: 36%	Target for 2011: 25%**
Breakdown of diversity at Senior management level in the Venture		
Target: 20% in 2010**	Achieved: 31%	Target for 2011: 25%**
Breakdown of diversity at Middle management level in the Venture		
Target: 30% in 2010**	Achieved: 60%	Target for 2011: 35%**

Key performance indicators *continued*

Breakdown of diversity at Junior management level in the Venture

Target: 40% in 2010** Achieved: 49% Target for 2011: 40%**

Breakdown of diversity for Core Skills

Target: 15% in 2010** Achieved: 74% Target for 2011: 20%**

* The term diversity used in this section of the report is based on the Mining Charter Scorecard's definition of HDSAs, which includes African males and females, coloured males and females, Indian males and females and white females.

** Mining scorecard targets.

Women participation in mining

The percentage of women employed at Merafe in 2010 was 50%. The percentage of these women that can be defined as working in mining is 30% of the total Merafe workforce. The percentage of the total women employed in the Venture is 12,8%, while women working in mining in the Venture is 6,2%.

Training and development

Both Merafe and the Venture aim to provide their employees with the resources they require to progress in their careers and excel. Employees are offered career development opportunities and access to training and skills development.

The Venture conducts ongoing training and education both in the workplace and at external institutions. Full-time ABET training gives HDSA employees the opportunity to develop the skills they need to build a career in mining.

To address the shortage of mining, engineering and related skills the Venture offers bursaries for full-time university and technikon studies in mining, electrical, metallurgical and mechanical engineering, surveying geology, occupational hygiene, financial management, information technology, science and commercial accounting. It also offers graduate trainee positions, work placements for students and financial assistance. The main focus of this assistance is on members of the communities in which the Venture operates.



Full time Adult Basic Education and Training (ABET) at the Venture's Western mines training centre in Rustenburg, North West province

Average training hours per employee in the Venture

	2010	2009	2008	% increase/ decrease
Total training hours	422 639	253 358	188 020	66,81
Average number of training hours for permanent employees during the year	40	21	19	89,43
Average number of training hours for contractors during the year	41	35	19	16,94

The Venture's investment in training

	Percentage of total annual payroll (excluding mandatory skills development levy) 2010	2010 R	2009 R	2008 R
Spend on training	3,5	57 203 322	22 195 164	4 371 681
Average training spend per employee/contractor		5 446	2 280	446

Skills development investment

	2010 R	2009 R	2008 R
Learnerships and bursaries provided for core and critical skills training	8 725 787	7 430 733	6 260 447
Artisans	6 628 908	4 461 397	3 014 161
ABET training (level I,II, III, IV and NQF 1)	590 123	292 178	336 602
School support and post matric programmes	995 532	158 258	425 121

Adult Basic Education and Training (ABET) forms part of the mines' Social and Labour Plan (SLP) commitments. Set out below are the Venture's commitment and achievements in 2010.

	Number of full-time learners planned for 2010 in terms of SLPs	Number achieved
Western mines	60	48
Eastern mines	60	50

Portable skills

All the Venture's operations exceeded the targets they had set for training employees in portable skills such as engineering, computer, electrical, driving, carpentry, plumbing, bricklaying, welding and plumbing skills.

Community Social Responsibility

Communities are an integral part of mining development. As a result it is essential that the Venture makes a meaningful contribution towards community development, in keeping with the principles of its social licence to operate. The Venture's operations draw on average 74% of their employees from local communities. It is a key challenge to continually improve the alignment between the needs of communities with the Venture's CSR and SLP projects. The Venture has recently developed a new approach to address this important issue.

The Venture, through its mining and beneficiation activities and its community and social development investment, contributes to the overall prosperity of South Africa and in particular to the communities in which it operates, by:

- Providing jobs, skills and training
- Paying taxes and royalties
- Giving preference to local and black-empowered businesses when buying goods and services
- Developing SMMEs and contributing to job creation through its enterprise development programme
- Assisting with the development and improvement of the infrastructure in local communities.

Key performance indicators *continued*

A key component of the new order mining rights in South Africa is the Social and Labour Plan (SLP). SLPs are developed in consultation with local communities and are approved by the Department of Mineral Resources (DMR). A report on progress against each SLP is submitted annually to the DMR. The Venture's three mines in the North West province each have an SLP in place. In the East one combined SLP is in place for all the mines. SLP commitments include human resource development commitments in the form of ABET training, learnerships, bursaries, internships and experiential training. In addition they invest in projects which include infrastructure development, enterprise development and education and health projects.

The Venture's Social and Labour Plan learnerships in 2010

	Target	Actual number
Western mines	19	19
Eastern mines	20	23

SLP projects

The Venture's SLP projects in progress in 2010 had a value of R15 646 534.

Impact of SLP projects

Infrastructure development projects

One of the Venture's infrastructure development projects is a multipurpose community centre (MPCC) established in a rural area at a cost of R6,2 million to house various critical government departments and additional facilities such as training, advisory services and an enterprise development information centre. The MPCC has brought critical government services to the community which were not previously available to them.

In addition, the tribal offices of six communities were renovated, improving the facilities available to these communities.

A Limpopo community was provided with a potable water supply and a number of wet points which will help prevent the outbreak of cholera in the community as its members will no longer have to drink water drawn from a river.

Education projects

The construction of a school hall has made it possible for activities involving all the pupils to be held. The rebuilding of a block of classrooms has reduced overcrowding among learners and provided safe, hygienic facilities that are more conducive to learning. Both these projects are in Limpopo province near the Lion ferrochrome plant.

Enterprise development projects

Four enterprise development projects (a poultry farm, a craft and needlework centre, a welding centre and a jewellery-making centre) have created 33 jobs. A community economic centre has been constructed which provides small businesses with facilities in which they can establish business premises.

Health projects

A home-based care project which supports the work of the Departments of Health and Social Welfare is aimed at addressing community healthcare problems and other social services issues such as domestic violence, registering grants, distribution of food parcels and the promotion of health programmes in the community.



Children being taught in one of the brightly decorated classrooms at the Steelpoort Academy built with funds provided by the Lion ferrochrome plant as part of its community development programme

The Venture's corporate social investment

	2010 R'000	2009 R'000
Community and social development	19 330	7 379
Culture/art	1 028	10
Education	16 013	10 647
Enterprise development and job creation	18 204	9 910
Environment	50	100
Health	5 464	6 456
Personnel time – in kind donations	641	1 625
Total	60 730	36 127

Procurement

	2010 %	2009 %	2008 %	2007 %
Percentage of discretionary procurement spend with BEE companies	58,2	58,0	49,7	43,0

The value of BEE procurement by the Venture in 2010 was over R4 billion.

	2010 %
Discretionary procurement spend with BEE companies	
Capital goods	3,0
Services	61,0
Consumables	36,0

Key performance indicators *continued*

Merafe corporate office

Merafe's corporate social investment (CSI) programme

Merafe's corporate social investment programme focuses on education, health and enterprise development.

Education

The PROTEC maths, science and technology teacher training and learner development programme, in which Merafe has invested R3,8 million over a three-year period, works with both teachers and learners in maths, science and technology in 10 schools in villages around Rustenburg. Teachers attend training workshops and receive in-class support to improve their skills and content knowledge of the science, maths and technology curricula. Saturday schools and a life skills and work experience programme is helping to improve 40 grade 10, 11 and 12 learners' science, maths and English results. It is also encouraging them to follow science or technology-based careers.

The project also supplies much needed science and technology equipment and maths kits as well as training and support in the use of the equipment. Implementation of the project began in 2010.

Initial impacts of the project

Two teacher workshops have been held and there were two school support visits during the year. Tutors selected for the student excellence programme attended a two-day tutor workshop and received additional training during the year. Saturday school classes started at the end of January 2010 for the 40 learners. Learners have been supplied with textbooks, workbooks and calculators. Learners have also attended a two-day camp during which four hours a day were dedicated to maths and science and the rest of the day to teambuilding and problem-solving activities.

"The opportunity to participate in a PROTEC programme, promoting science education in the township, made all the difference because it helped me get the sort of matric pass I needed to study metallurgy."

Wilheminah Mothoa, Metallurgist

Health

Merafe's investment of R450 000 in the Tapologo Outreach programme made it possible for the programme to improve its facilities in the Ledig and Chaneng villages in the vicinity of its Boshhoek ferrochrome plant. The programme runs nine HIV and AIDS clinics. Merafe funding built additional toilets at the Ledig clinic to cope with the increase in patients (the clinic currently serves 340 patients) and refurbished a derelict police station with new security gates and roof repairs. The police station now acts as a kitchen where meals are cooked for patients and also provides counselling facilities for patients and their family members. A water pump has been installed to provide water for a demonstration food garden. The planting of fruit trees and vegetables has begun and an irrigation system has been installed.

On average 100 individual and 72 family counselling sessions are held in this facility every month and approximately 280 people attend the support group every month.

An old reservoir has also been roofed and converted into a support centre which provides the patients with a space for a variety of activities including handcrafts, group counselling, training, etc.

At the Chaneng clinic these funds were used to construct a septic tank and soakaway, to resource the kitchen with a fridge, a gas boiler and a kettle which will be used to prepare meals for patients receiving antiretroviral treatment. It also paid for a perimeter fence, which, besides providing security, has also made it possible for a small-scale vegetable garden to be developed.

Finally, the funds were used to construct a roof at the Freedom Park Orphans and Vulnerable Children (OVC) centre where Tapologo runs an aftercare programme for 103 orphans and otherwise vulnerable children.

 See Management approach on pages 20 to 21 for further information on Merafe and the Venture's approach to communities and www.meraferesources.co.za

Enterprise development

During 2010 Merafe provided a grant of R688 676 to the Enterprise Development for Unemployed Women project. The grant made it possible for three new sewing co-operatives to be established which are providing employment for approximately 30 women. The project trains and equips groups of underprivileged women to sew, run a co-operative and manage their personal finances. For each co-operative 20 women are selected to attend the 17-week training. After the training they form a co-operative and are assisted to set it up.

These co-operatives have a ready market for their products as they receive orders from Township Patterns for re-usable shopping bags. These bags, which are marketed to retailers by Township Patterns, are made from natural materials and are fully bio-degradable. The project has the potential to have a positive impact, both environmental and social.

Environment

The key environmental impacts relating to our operations include: greenhouse gas emissions (GHGs), the use of scarce natural resources, the effect of land use change on biodiversity and landscape functions, waste and tailings management, emissions to water and air, rehabilitation and management of closed sites.

Water availability and the Venture's potential impacts on water are key considerations when the Venture plans the expansion of existing operations or the construction of new operations. It carries out environmental impact assessments, using the results for planning purposes and to ensure its operations have the smallest possible impact on water resources. The Venture is committed to continually improving the efficiency with which it uses water and to avoiding any negative impacts of its operations on water quality.

The Venture's operations are managed to achieve zero discharges and its ferrochrome plants operate a closed circuit water system where no water is discharged under normal operating conditions and run-offs are directed to lined storm water dams from which the water is recycled back to the plant.

Water use

Water usage is affected not only by the Venture's efforts to reduce water consumption, but also by its production levels in a particular year.

Category	2010 (MI)	2009 (MI)	2008 (MI)	2007 (MI)
Raw groundwater	969,15	2 650,73	3 842,74	1 665,20
Raw surface water	590,57	1 248,30	4 707,57	4 802,67
Potable water	3 012,31	4 593,80	2 902,97	2 900,00
Total water recycled or reused	7 770,91	7 869,85	27 423,74	8 056,64
Water imported	36,34	10,31	0,00	0,00
Total water usage	12 379,28	16 372,99	38 877,02	17 424,51

Category	Percentage increase/ decrease in consumption in 2010	2010 (MI)	2009 (MI)	2008 (MI)	2007 (MI)
Total water recycled or reused	-1,2	7 770,91	7 869,85	27 423,74	8 056,64
Total water usage	-21,6	12 379,28	15 950,74	38 877,02	17 424,51

Improved water management contributed to 21,6% decrease in the Venture's total water usage. The Venture's water consumption reduction target was 5% reduction of fresh water intensity (per tonne of material produced) on 2007 performance by 2010.

Key performance indicators *continued*

Environmental incidents

Environmental incidents recorded at the Venture's operations include incidents that occur under the control of contractor activities.

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

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

Greenhouse gas emissions (GHGs)

CO₂ equivalents (CO₂-e) million tonnes

	2010 CO₂-e Mt	2009 CO₂-e Mt	2008 CO₂-e Mt
<i>Scope 1</i> Direct greenhouse gas emissions generated from the use of reductants, such as anthracite, coke and coal in the ferrochrome smelting process and fuel such as diesel and oil used on-site Venture's mines and ferrochrome plants	3 194 515	2 210 942	3 081 763
<i>Scope 2</i> Indirect emissions of CO ₂ from electricity purchased by the Venture	5 281 706	3 622 260*	5 110 633
Total CO ₂ -e generated from Scope 1 and 2 GHGs	8 476 221	5 833 202	8 192 396
CO ₂ -e generated per tonne of ferrochrome produced	28,25	28,73	28,25

* Electricity purchased by the Venture accounted for 64% of the total CO₂-e Mt in 2009 and in 2010 it accounted for 62% of its total CO₂-e Mt. Please note that the 2009 data was amended during the year after audits were performed on the sites. The significant increase in emissions is due to the start-up of furnaces which were off during 2009.

Energy use

	2010 (GJ)	2009 (GJ)	2008 (GJ)	2007 (GJ)
Direct energy use	1 485 126	993 099	2 508 883	3 743 022
Indirect energy use (electricity)	19 044 327	13 040 136	18 981 021	20 715 707
Total energy use	20 529 453	14 033 235*	21 484 904	24 458 729
Energy use per tonne of ferrochrome produced	68,43	69,13	74,08	86,33

* The 31% reduction in electricity consumption in 2009 needs to be viewed in terms of the 30% reduction in production in 2009 due to market constraints

See Management approach page 16 for further information on environmental issues



Bokamoso pelletising and sintering plant, North West province

Mineral reserves and resources

Introduction

The purpose of this report is to document the mineral resources and mineral reserves of Merafe in accordance with the requirements of the SAMREC Code (The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves, 2007). All Merafe's operations are part of a pooling and sharing venture with Xstrata Alloys (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 30 June 2010. The mineral resource and mineral reserve information in the tables on the following pages is based on information compiled by Competent Persons (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 and holds a BSc Hons degree in Geology as well as an NHD in Metalliferrous Mining. P-JG is a geologist with 24 years' experience in mineral exploration and mining geology, directly linked to the mining industry and is currently a full-time 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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Definitions

The following definitions (as per the SAMREC Code 2007) have been applied in estimation and categorisation of the mineral resources and mineral reserves disclosed within this document.

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

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

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

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

Mineral reserve: the economically mineable material derived from a measured or indicated mineral resource or both. It includes diluting and contaminating materials and allows for losses that are expected to occur when the material is mined. Appropriate assessments to a minimum of a pre-feasibility study for a project and a life-of-mine plan for an operation must have been completed, including consideration of, and modification by, realistically assumed mining, metallurgical, economic, marketing, legal, environmental, social and governmental factors (the modifying factors). Such modifying factors must be disclosed.

Probable mineral reserve: is the economically mineable material derived from a measured or indicated mineral resource or both. It is estimated with a lower level of confidence than approved 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.

Brief description of exploration activities

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

A total of R13,8 million was spent on drilling 22 690 metres of exploration drillholes for the Venture's operations/projects in FY2010. Exploration drilling at Rietvlei Silica Mine began shortly after the 2010 mineral resource and mineral reserve estimation base date. No feasibility studies were conducted during the reporting period.

Geological setting

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

Mineral reserves and resources *continued*

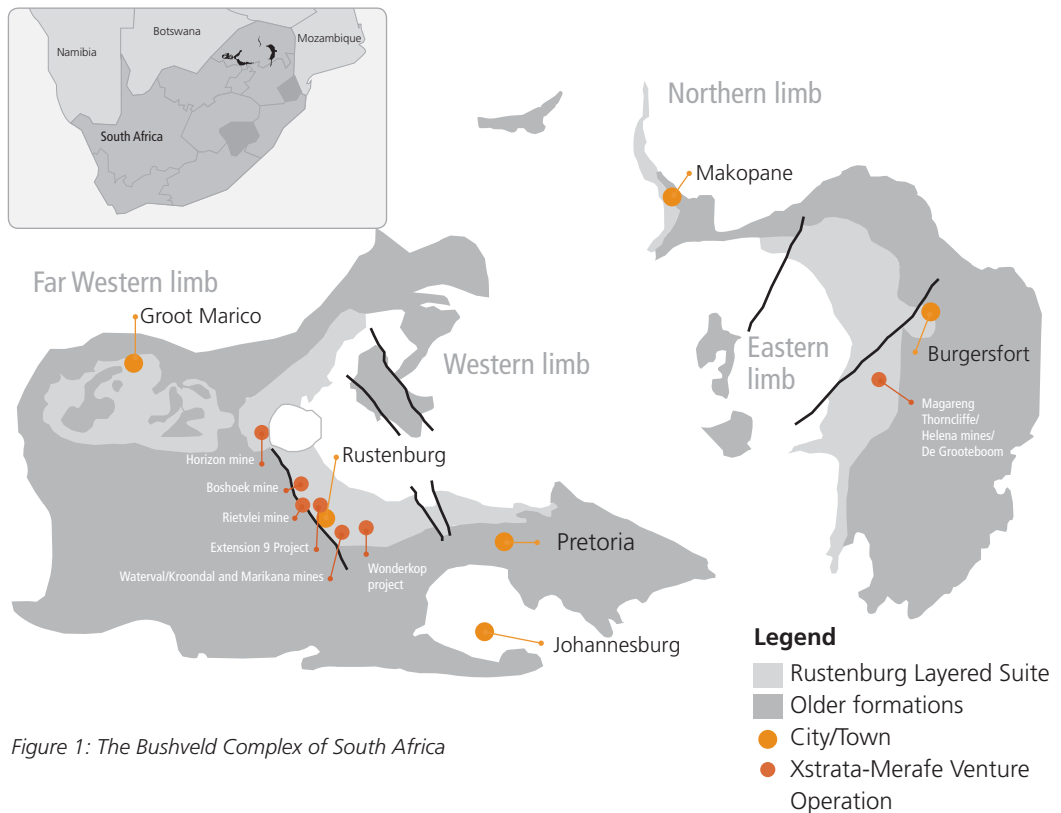


Figure 1: The Bushveld Complex of South Africa

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 000km². The Complex is host to the majority of the world's platinum group metals (PGM), chromite and vanadium resources.

It 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 different suites of rocks; the Rooiberg Group, the Rustenburg Layered Suite, the Rashedoop Granophyre Suite and the 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 9km. The Critical Zone contains 14 distinct chromitite layers with varying thicknesses and grades. The primary chromitite layers targeted for chromite extraction are the LG6 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 forms part of the Pretoria Group of the Transvaal Supergroup. The quartzite of the formation was 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 high around the rim of the Complex. The Rietvlei deposit itself occurs along a prominent quartzite ridge which strikes north-south. The orebody dips towards the east at dips varying between 32° – 62°. Jointing throughout the formation is fairly prominent. The quartzite is very pure ore with an average SiO₂ content of over 97%. 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 (off the mine property).

Type of mining and mining activities

The Venture has legal entitlement to mine the areas set out in this statement.

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 mine, Kroondal mine, Boshhoek mine, Horizon mine and Wonderkop mine. The Waterval and Kroondal mines lie on the outskirts of Rustenburg. The LG6 Package at both Waterval and Kroondal mines is mined underground using trackless mining methods on a Bord and Pillar layout. Operations at the Waterval mine were suspended in early 2009 due to the global economic downturn. Boshhoek mine is 20 km northwest of Rustenburg. The MG1, LG5 and LG6 Chromitite Layers are being mined opencast at Boshhoek mine. 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 Townlands Extension 9 are exploration projects.

Thornccliffe 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 and immediately north of Thornccliffe 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.

Ore production

The Venture has mined 3,55Mt ROM ore from 1 January to 31 December 2010 against a budget of 4,05Mt. The main reason for the lower actual ROM tonnage is that mining at Magareng was delayed due to a pending environmental impact assessment (EIA) approval for underground mining. The 2010 ROM tonnage is marginally higher than the 2009 ROM production of 3,33Mt as production activities at the various mining operations has remained more or less the same as the 2009 production year. The estimates in this statement reflect the Mineral Resource and Mineral Reserves as at June 2010. From 1 July 2010 to 31 December 2010, 1,84Mt of ROM ore was mined. This represents the tonnage depleted from the June 2010 estimate.

Legal entitlements

All new order mining right applications, mining right conversions, prospecting rights conversions and new order prospecting rights applied for by the Venture in respect of chrome have been granted and executed by the Department of Mineral Resources.

In respect of a portion of Horizon mine (Ruighoek and Vogelstruisnek), an application to the High Court has been made by certain members of the Moloana family to review and set aside the conversion of mining rights granted by the Minister of Mineral Resources and to request that the conversion process start again. The Venture and the DMR have entered a notice to oppose the application. External legal advisors of the Venture are of the opinion that the application for the conversion process to be set aside is unlikely to be successful. This issue is ongoing and finality has not been reached. The area concerned does not fall within the anticipated five-year mining area and 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 finally 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 orebody characteristics that are analysed are the distribution and variability of the thickness and the critical grade elements. The results of the geostatistical analysis are used as input parameters in the interpolation and extrapolation of the drillhole data to create a grade and thickness block model covering the entire mining or project area. The block models form the basis from which the tonnage and grades are reported for the various

Rustenburg layered suite

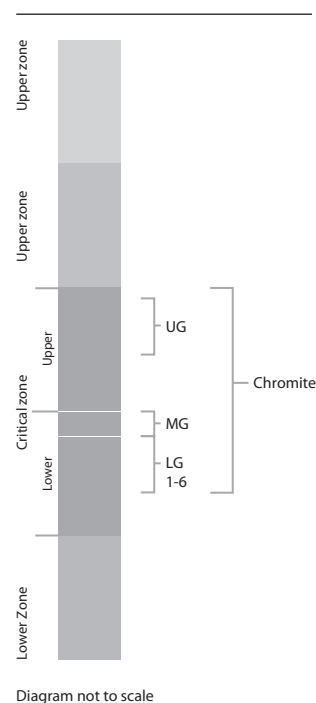


Figure 2: Schematic stratigraphy of the Rustenburg Layered Suite

Mineral reserves and resources *continued*

mineral resource and mineral reserve categories. The mineral resource categories are mainly based on the data point density. A data point density of 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. 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, 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 reserves 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.

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 insitu tonnage. The quartzite is exposed throughout the opencast mine workings and along the slopes of the hill. Although the hill had not been drilled until just after the 2010 estimation process, the protruding hill itself, as well as excavations from mining, have been used as criteria for classifying the mineral resource.

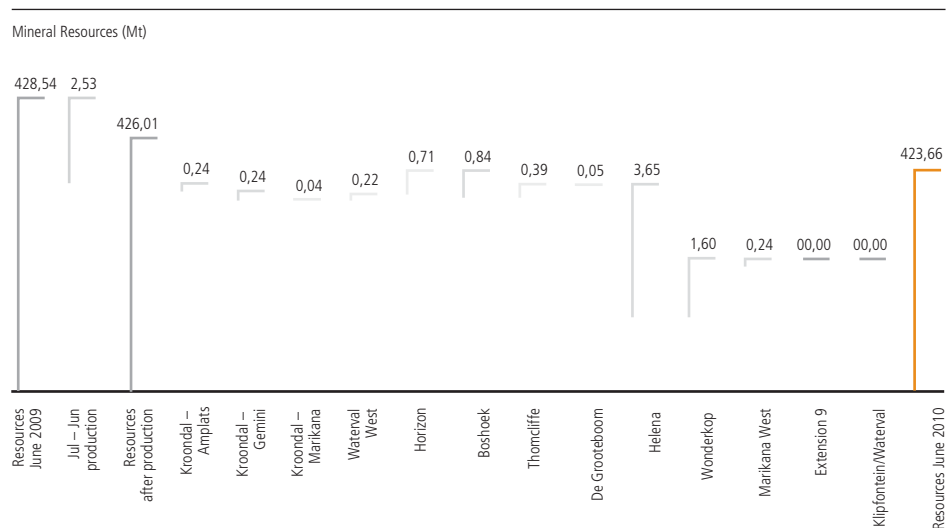
Comparison of mineral resource and mineral reserve estimates with previous year's estimates

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 reserves tonnages and grades due to additional geological information.

Mineral resource reconciliation

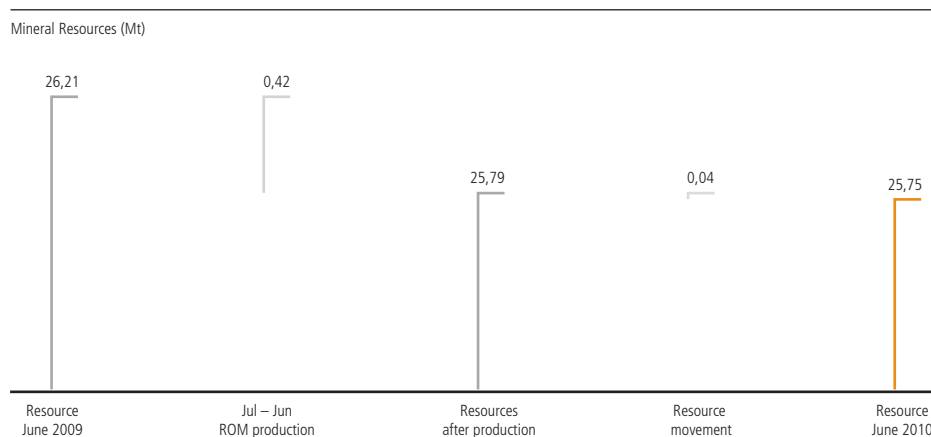
The year-on-year changes in chromite tonnages were most prominent at the Helena and Wonderkop mines. The difference at Helena mine is attributed to new exploration data becoming available and resulted in a tonnage loss, mostly falling in the inferred mineral resource category. The Wonderkop mine estimate difference is due to new exploration data becoming available during the estimation period, as well as new areas included in the mineral resource.

Chrome mineral resources



There is no material difference in the silica mineral resource estimates from June 2009 to June 2010 and the change is mainly attributed to mining depletion.

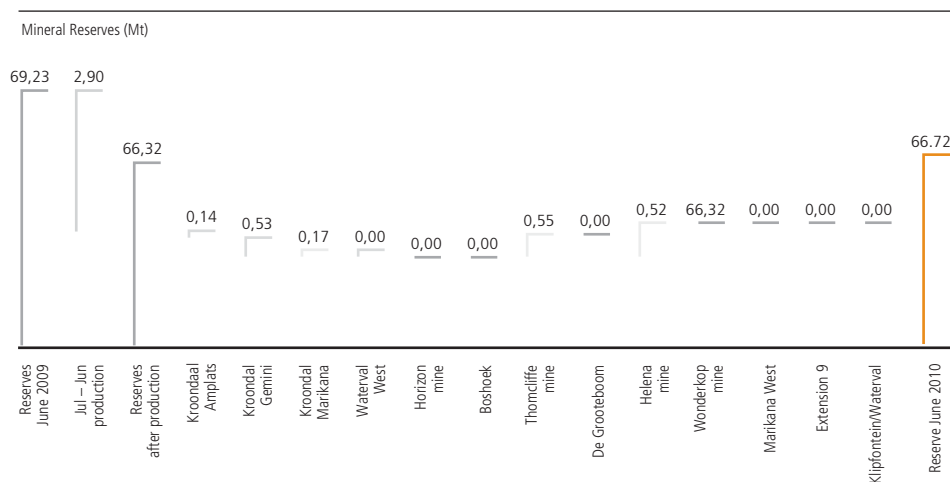
Silica mineral resources



Mineral reserve reconciliation

No material changes were found in the reconciliation of the Mineral Reserve estimates.

Chrome mineral reserves



Auditing

Both internal and external audits are conducted annually on the estimation process. The 2010 estimation process was audited internally by Xstrata Alloys Auditing Services. The internal audit report is presented to the Xstrata plc 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. Gemecs (Pty) Ltd conducted the external audit for the 2010 estimation process. The external audit focused on verifying compliance to the JORC and SAMREC Codes and compliance to the inhouse 'Procedure for the estimation of mineral resources and ore reserves'. The external audit involved site visits to Kroondaal and Boshhoek mines as well as Xstrata Head Office. Further consultations were held with Obsidian Consulting Services. No major issues were raised and the minor issues raised will be addressed before the next mineral resource and mineral reserve estimation report.

Mineral reserves and resources *continued*

Statement regarding inferred mineral resources and feasibility studies

No feasibility studies were conducted during the reporting period and hence no inferred mineral resources have been included in any feasibility studies.

Material risk factors

There are no foreseen material risk factors that could affect the validity of the current mineral resource and mineral reserve statement. Other than the application by the Moloana family to review the mining rights at Ruighoek and Vogelstruisnek of Horizon, there are no legal proceedings or material conditions that could affect mining or exploration activities for the Venture. All the legislative requirements have been met with respect to the rights to mine 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. The majority of its smelters achieved ISO 14001 certification and/or re-certification during 2009. Its mining operations use environmental management systems aligned with ISO 14001 standards, but are not certified.

The mining 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 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 first and second level 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 its performance against leading practices in the industry. Such targets and performances are reviewed at regular intervals to ensure continual improvement of environmental performance.

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 internally and independently 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.

Mineral resources and mineral reserves statement as at 30 June 2010

Tonnages are quoted in million metric tonnes. Grade are quoted as % Cr₂O₃.

Name of operation	Attributable portion	Mining method	Commodity	Measured Mineral Resources	Indicated Mineral Resources	Measured and Indicated Mineral Resources	Inferred Mineral Resources	Competent Person
				(Mt)	(Mt)	(Mt)	(Mt)	
Operating mines								
Waterval mine	20,5%	UG	Chrome ore (Mt)	16,15	1,90	18,06	0,30	NM/DR
			Cr ₂ O ₃ (%)	41,26	42,40	41,40	43,00	
Marikana West (Waterval mine Ext)	20,5%	UG	Chrome ore (Mt)	3,73	1,51	5,24	–	NM/DR
			Cr ₂ O ₃ (%)	42,36	42,70	42,50	–	
Kroondal mine	20,5%	UG/OC	Chrome ore (Mt)	10,37	2,50	12,87	–	NM/DR
			Cr ₂ O ₃ (%)	42,65	42,6	42,60	–	
Kroondal Gemini (Kroondal mine Ext)	20,5%	UG/OC	Chrome ore (Mt)	11,16	6,04	17,21	0,90	NM/DR
			Cr ₂ O ₃ (%)	42,93	42,4	42,80	42,00	
Marikana East (Kroondal mine Ext)	20,5%	UG	Chrome ore (Mt)	5,24	1,11	6,35	0,30	NM/DR
			Cr ₂ O ₃ (%)	42,62	42,10	42,50	42,00	
Horizon mine	20,5%	UG/OC	Chrome ore (Mt)	0,066	14,47	14,53	8,80	NM/DR
			Cr ₂ O ₃ (%)	41,80	44,40	44,40	44,00	
Boshoek mine	20,5%	UG/OC	Chrome ore (Mt)	1,413	15,93	17,34	–	AM
			Cr ₂ O ₃ (%)	40,28	40,20	40,20	–	
Thorndliffe mine	20,5%	UG/OC	Chrome ore (Mt)	40,51	12,13	52,64	16,30	BS/DR
			Cr ₂ O ₃ (%)	40,47	40,60	40,50	41,00	
Helena mine	20,5%	UG/OC	Chrome ore (Mt)	19,736	8,25	27,99	56,20	BS/DR
			Cr ₂ O ₃ (%)	40,35	39,10	40,00	39,00	
Subtotal			Chrome ore (Mt)	108,39	63,83	172,23	82,80	
			Cr ₂ O ₃ (%)	41,20	41,5	41,30	40,00	
Projects								
Wonderkop	20,5%	UG	Chrome ore (Mt)	–	5,87	5,87	2,20	AM
			Cr ₂ O ₃ (%)	–	40,50	40,50	40,00	
Townlands Extension 9	20,5%	UG	Chrome ore (Mt)	–	14,96	14,96	–	AM
			Cr ₂ O ₃ (%)	–	41,70	41,70	–	
De Grootboom	20,5%	UG/OC	Chrome ore (Mt)	0,804	0,65	1,46	–	BS/DR
			Cr ₂ O ₃ (%)	40,33	40,30	40,30	–	
Klipfontein/Waterval	20,5%	UG	Chrome ore (Mt)	5,868	14,20	20,07	123,60	NM/DR
			Cr ₂ O ₃ (%)	42,61	42,50	42,50	42,00	
Subtotal			Chrome ore (Mt)	6,672	35,68	42,36	125,80	
			Cr ₂ O ₃ (%)	42,34	41,80	41,90	42,00	
Total			Chrome ore (Mt)	115,070	99,52	214,59	208,60	
			Cr ₂ O ₃ (%)	41,26	41,60	41,4	41,00	

Mineral reserves and resources *continued*

Notes

- The statement reflects the mineral resources estimate as at 30 June 2010.
- All figures are presented on a 100% basis, with Merafe Resources' participation interest (%) in the Venture shown against each asset. The Xstrata and Merafe chrome resources have been pooled in the Pooling and Sharing Venture (PSV).
- Tonnage information has been rounded to reflect relative uncertainty in the estimates; there may therefore be small differences in the totals.
- The measured and indicated mineral resources are inclusive of those mineral resources modified to produce mineral reserves.
- No cut-off grades have been applied to the mineral resource estimates due to the exceptional regional grade continuity.
- OC – Opencast mining, UG – Underground mining
- Competent Persons;
P-JG – Pieter-Jan Gräbe, Xstrata Alloys, (SACNASP). Overall Responsibility for Mineral Resources and Mineral Reserves.
BS – Brian Smith, Xstrata Alloys, (PLATO). Overall Responsibility for Mineral Resources and Mineral Reserves.
AM – Alfred Mabelane, Xstrata Alloys, (SACNASP). Responsible for collection and validation of Mineral Resource data.
NM – Nathi Mntungwa, Xstrata Alloys, (SACNASP). 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.
- The subtotal and total of the averages is a weighted average.

Silica mineral resources as at 30 June 2010

Name of operation	Attributable portion	Mining Method	Commodity	Measured Mineral Resources	Indicated Mineral Resources	Measured and Indicated Mineral Resources	Inferred Mineral Resources	Competent Person
				(Mt)	(Mt)	(Mt)	(Mt)	
Operating mine								
Rietvlei	20.5%	OC	Quartzite ore (Mt)	–	25,75	25,75	–	P-JG
			SiO ₂ (%)	–	97,50	97,50	–	
Total			Quartzite ore (Mt)	–	25,75	25,75	–	

Notes

- The statement reflects the mineral resources estimate as at 30 June 2010.
- All figures are presented on a 100% basis, with Merafe Resources' participation interest (%) in the Venture shown against each asset. The Xstrata and Merafe silica resources have been pooled in the Pooling and Sharing Venture (PSV).
- Tonnage information has been rounded to reflect relative uncertainty in the estimates; there may therefore be small differences in the totals.
- No cut-off grades have been applied to the mineral resource estimates due to the massive and pure nature of the mineral resource.
- OC – Opencast mining.
- Competent Person:
P-JG – Pieter-Jan Gräbe, Xstrata Alloys, (SACNASP), Overall Responsibility of Mineral Resources and Mineral Reserves.

Chrome mineral reserves statement

Name of operation	Participation interest	Mining method	Commodity	Proved Mineral Reserves	Probable Mineral Reserves	Total Mineral Reserves	Competent Person
				(Mt)	(Mt)	(Mt)	
Operating mines							
Waterval mine	20.5%	UG	Chrome Ore (Mt)	9,88	1,51	11,39	NM/DR
			Cr ₂ O ₃ (%)	31,18	26,00	30,50	
Kroondal mine	20.5%	UG/OC	Chrome Ore (Mt)	3,04	2,00	5,04	NM/DR
			Cr ₂ O ₃ (%)	28,73	27,80	28,40	
Kroondal Gemini (Kroondal mine ext)	20.5%	UG/OC	Chrome Ore (Mt)	6,93	4,94	11,88	NM/DR
			Cr ₂ O ₃ (%)	31,14	28,60	30,10	
Marikana East (Kroondal mine ext)	20.5%	UG	Chrome Ore (Mt)	1,20	0,05	1,25	NM/DR
			Cr ₂ O ₃ (%)	28,95	29,00	29,00	
Thornccliffe mine	20.5%	UG/OC	Chrome Ore (Mt)	26,03	5,43	31,47	BS/DR
			Cr ₂ O ₃ (%)	38,60	39,10	38,70	
Helena mine	20.5%	UG/OC	Chrome Ore (Mt)	5,64	0,10	5,74	BS/DR
			Cr ₂ O ₃ (%)	34,31	31,50	34,30	
Total			Chrome ore (Mt)	52,74	14,03	66,77	
			Cr ₂ O ₃ (%)	34,98	32,30	34,00	

Notes

- The statement reflects the mineral reserves estimate as at 30 June 2010 (see definitions on page 41).
- All figures are presented on a 100% basis, with Merafe Resources' participation interest (%) in the Venture shown against each asset. The Xstrata and Merafe chrome resources have been pooled in the Pooling and Sharing Venture (PSV).
- Tonnage information has been rounded to reflect relative uncertainty in the estimates; there may therefore be small differences in the totals.
- As modifying factors, a minimum mining cut of 1,7m is applied to the mineral reserve tonnage due to the mechanised mining equipment employed by the underground operations. In addition geological losses are subtracted and mining ore losses and waste dilution are applied. All mineral reserves are covered by a detailed mine plan.
- OC – Opencast, UG – Underground.
- Competent Persons:
 - P-JG – Pieter-Jan Gräbe, Xstrata Alloys, (SACNASP). Overall Responsibility for Mineral Resources and Mineral Reserves.
 - BS – Brian Smith, Xstrata Alloys, (PLATO). Overall Responsibility for Mineral Resources and Mineral Reserves.
 - AM – Alfred Mabelane, Xstrata Alloys, (SACNASP). Responsible for collection and validation of Mineral Resource data.
 - NM – Nathi Mntungwa, Xstrata Alloys, (SACNASP). 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.

Governance, ethics and engagement

Introduction

Changes in international governance trends and the new Companies Act No. 71 of 2008 prompted the third report on corporate governance in South Africa, referred to as King III, which came into effect on 1 March 2010. South Africa has, as with King I and King II, endeavoured to be at the forefront of governance internationally, hence its focus on reporting annually in an integrated manner. Integrated reporting allows stakeholders to make a more informed assessment of a company's economic performance in the context of its social and environmental impact and an evaluation of its business ethics.

The philosophy of King III revolves around leadership, sustainability and corporate citizenship. It highlights that good governance is essentially about effective leadership, which is characterised by upholding ethical standards and being responsible, accountable, fair and transparent. Responsible leadership develops and implements strategies intended to achieve sustainable economic, social and environmental performance.

Merafe's inclusion of its sustainability reporting with its financial reporting since 2004, reflects its commitment to best practice corporate governance.

Best practice reporting standards

While delivering positive returns to shareholders remains a key consideration for businesses worldwide, the imperative for organisations in the 21st century is to do this with the utmost consideration and care for the social and environmental spaces that they occupy and influence. In order to provide its stakeholders with the information they need to understand and assess the company's economic, social and environmental performance Merafe subscribes to the international GRI G3 Guidelines and the Mining and Metals Sector Supplement (an addendum to the GRI G3) as a rigorous framework for providing comprehensive information to its stakeholders on its economic, social and environmental performance, reflecting transparently on both the positive and negative impacts of its operations.

This report uses the Global Reporting Initiative's (GRI) G3 guidelines and has, for the third year running, been subjected to an independent third party assurance by SustainabilityServices.co.za (SS), the objectives of which are to provide the stakeholders of Merafe with an independent opinion on whether the report meets the AA1000AS (2008) principles of Inclusivity, Materiality and Responsiveness and to assess the degree to which the report is consistent with the GRI G3 guidelines and whether or not it has met the B+ level of reporting requirements. SS undertook a review of selected sustainability performance indicators at two of the Xstrata-Merafe Chrome Venture (the Venture) operational sites.

In the Ernst & Young survey of annual reports from 67 companies listed on the JSE Limited's Socially Responsible Investment Index (SRI), as well as the ten largest state-owned entities in South Africa, Merafe was one of only 10 companies whose reporting was ranked excellent.

The sustainability reporting of these companies and public entities was marked and ranked according to a mark plan developed by the adjudicators, academics Professor Ben Marx and Ms Vanessa van Dyk of the University of Johannesburg, specifically for this purpose.

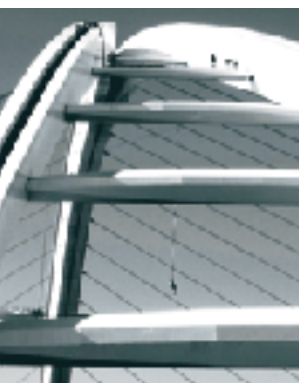
Recognition of Merafe's approach to business

Merafe Resources has again been identified as a Best Performer in the JSE's Socially Responsible Investment (SRI) Index for 2010 and is one of only seven companies to consistently rank among the Best Performers since the Index began identifying Best Performers in 2007. In 2010, 106 companies listed on the JSE were assessed for participation in the Index of which 74 met the qualifying criteria and only 23 were identified as Best Performers. Every year since the inception of the Index in 2004, Merafe has met the qualifying criteria and has been invited to participate.

Best Performers are those companies that have met the required environmental threshold and have the relevant core indicators in place in the social and governance areas. In addition, in 2010, best performing companies needed to have an independent chairman and to meet the new climate change indicators. The pioneering set of criteria against which companies are assessed provides guidance on environmental, economic and social sustainability as well as governance best practice. The Index further offers a platform to recognise listed companies that incorporate sustainability principles into their everyday business practices and is a tool which investors can use to assess companies on a broader base.

Key fact

Stainless steel is a green product. It is 100% recyclable as it is not coated with any toxic material and it does not produce toxic run-off



Moses Mabhida stadium steel arches in Durban

Similarly, Xstrata – our joint venture partner in the Xstrata-Merafe Chrome Venture (the Venture) – has retained its position as Mining Sector Leader for the fourth consecutive year in the annual Dow Jones Sustainability Index review 2010/11. This year Xstrata has also been named as the Super Sector Leader for Basic Resources Industries. The Dow Jones Sustainability Indices (DJSI) follow a best-in-class approach and include sustainability leaders from each industry on a global and regional level respectively.

Empowerment credentials

In 2010 the *Financial Mail's* Top Empowerment Companies Survey again ranked Merafe as the most empowered company in the Resources Sector of the JSE.

The Top Empowerment Companies Survey is a mechanism to monitor, measure and rank the empowerment achievements of listed companies. The Survey uses the generic broad-based black economic empowerment (BEE) scorecard, which supports the Broad-based BEE Codes of Good Practice issued by the South African Government's Department of Trade and Industry in 2008, to measure the empowerment credentials of companies.

Governance and management systems

Merafe recognises that good corporate governance is key to the integrity of the organisation and its 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.

Towards compliance with King III Code of Corporate Practices and Conduct

The directors endorse the Code of Corporate Practices and Conduct (the Code), set out in the King III Report on Corporate Governance. In an ongoing effort to improve Merafe's governance standards, the board has reviewed the recommendations contained in the revised Code and is taking the necessary steps to ensure that they are applied throughout the company.

Board balance and independence

- The majority of non-executive directors are independent
- Non-executive directors do not receive share options or incentives
- There is a clear separation of the responsibilities between the Chairperson and the CEO
- The Chairperson of the board is independent and free of conflicts of interest

While the board acts as the custodian of corporate governance within the organisation, a clear allocation of responsibilities among the directors of the company ensures a balance of power and authority. As recommended by the Code, no independent non-executive director has been with the company for longer than 10 years and there are no fixed term contracts with directors.

The structure of the Merafe board is closely aligned to the recommendations of King III, with seven of the ten board members serving as non-executive directors and five of the seven non-executive directors, or 50% of the composition of the board, being independent. The independence of these directors is assessed annually. The chair of the board is an independent non-executive director. In terms of King III the Chairman is elected annually. Chris Molefe was re-elected Chairman by the board for 2011. As the Chairman is an independent non-executive director there is no need for the board to appoint a lead independent director at this point in time.

The board's corporate governance role

- The Board Charter commits the board to ensuring the company is a responsible corporate citizen

Governance, ethics and engagement *continued*

Good governance is effectively about strong leadership. It is the role of the Merafe board to direct, govern and be in effective control of the company. The fact that the company has been acknowledged for being a responsible corporate citizen on more than one occasion during the year is testament to the sound leadership provided by the board.

The board's Charter and the company's Code of Ethics define the roles, responsibilities and behaviours of the board in ensuring a successful, ethical and sustainable business. The board is required to make decisions on matters of a material and significant nature, including the company's financial and operating results, major acquisitions and disposals, considerable capital expenditure and the strategic direction of the business.

Not only does the board direct the development of the company strategy but it is incumbent upon its members to assess the short- and long-term impacts of the strategy on all stakeholders. The company's strategic plans are reviewed annually and, following a strategic planning workshop in November 2010, the board approved Merafe's strategic plan for 2011.

Accountability rests with the board for ensuring financial and legislative compliance, as well as the timeous identification and management of risk and opportunity.

Board membership as at 31 December 2010

Director	Position	First appointed	Attendance at board meetings
Non-executive directors			
Chris Molefe (62)	Chairman and independent non-executive director	5 May 2003	4/4
Belese Majova (36)	Independent non-executive director	2 January 2009	4/4
Meryl Mamathuba (38)	Non-executive director	1 June 2007	2/4
Abiel Mngomezulu (56)	Independent non-executive director	9 September 2010	0/1
Karabo Nondumo (32)	Independent non-executive director	1 December 2010 Appointed to the board at the final board meeting of the year	n/a
Steve Phiri (55)	Non-executive director	26 July 2001 (as non-executive director) 1 March 2003 (executive director) 1 April 2010 (non-executive director)	3/4
Mfanyana Salanje (49)	Independent non-executive director	1 December 2010 Appointed to the board at the final board meeting of the year	n/a
Executive directors			
Stuart Elliot (47)	Chief Executive Officer, executive director	16 October 2001	4/4
Zanele Matlala (47)	Chief Financial Officer, executive director	1 April 2005 (non-executive director) 1 October 2010 (executive director)	4/4
Bruce McBride (51)	Commercial Director, executive director	26 July 2001	4/4

Company Secretary
Ami Mahendranath (43)

The definition of an independent non-executive director in King III (these are the criteria that Merafe uses to define an independent non-executive director)

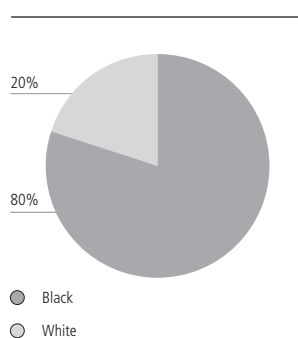
A non-executive director who:

- is not a representative of a major shareholder who can control or significantly influence management or the board
- does not have a material direct or indirect interest in the company/group which:
 - o is greater than 5% of the group's total number of shares in issue
 - o is less than 5% of the group's total number of shares in issue, but is material to his/her personal wealth
- has not been employed by the group or appointed as designated auditor or partner in the group's external audit firm, or senior legal adviser in the previous three financial years
- is not related (immediate family) to someone who has been employed by the group in an executive capacity in the previous three financial years
- is not a professional adviser to the group
- is free from any other business or relationship that could conflict, such as being a director of a material customer of or supplier to the company does not receive remuneration based on the company's performance

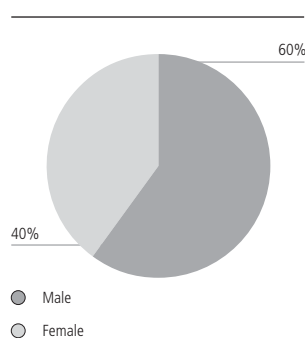
Merafe Resources board composition

At the end of December 2010, the majority of the directors were black, reflecting the make-up of the country's population. In addition, four of the board members are black women in line with the spirit and intent of employment equity principles.

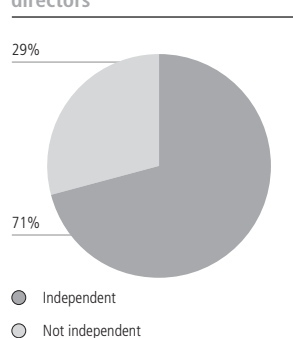
Board racial composition



Board gender composition



Independence of non-executive directors



The Company Secretary

The Company Secretary plays a pivotal role in guiding and assisting the board on the delivery of its mandate and it is expected that she is available to the Chairman and individual board members at all times. The Company Secretary is responsible for ensuring compliance with all statutory requirements, including the JSE Listing Requirements, and administers and records the business of the directorate. It is also her responsibility to ensure that the Board Charter and the Terms of Reference of board committees are kept up to date and relevant and that proper procedure is followed for the appointment and induction of new directors.

Board expertise

It is imperative that the board has the appropriate balance of skills and experience within its ranks to fulfil its mandate. The members of the Merafe board have a wide range of skills and financial, technical and commercial expertise which can guide the decision-making of the board. Biographies of board members follow.

Governance, ethics and engagement *continued*



Directorate

Non-executive directors

Chairman

Chris Molefe

(Independent)

BCom, Post-graduate Diploma in Property Development

Chris (62) has chaired the Merafe board for the past seven years. He has extensive experience in mining and resources, merchant banking and transformation strategy development. He gained his experience while working for Mobil Oil, Union Carbide, Chase Manhattan Bank, Transnet and Royal Bafokeng Resources Holdings (Pty) Limited, where he held the position of Chief Executive Officer. He is currently Executive Chairman of Nishati Oil and Energy Consulting (Pty) Limited. He is also a non-executive director of Jubilee Platinum plc and Kiwara plc.



Belese Majova

(Independent)

BCompt

Belese (36) joined the Merafe board in January 2009 as an independent non-executive director. Presently, 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. Previously, she was Financial Director of City of Johannesburg Housing and Financial Manager and acting Chief Financial Officer of the South African Enterprise Development Fund (SAEDF). After completing her Articles she gained audit experience as the Internal Audit Manager for Transnet.



Meryl Mamathuba

BProc, LLB

Meryl (38) joined the Merafe board in June 2007. She heads up the Corporate Funding Department at the Industrial Development Corporation of South Africa Limited (IDC). Prior to joining the IDC in 2002 she was an associate of Kunene Inc from 1998.



Abiel Mngomezulu

(Independent)

BSc (Hons)

Abiel (57) 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. He previously served in various roles from 1999 to 2007 in the Department of Mineral Resources (DMR), including Director: Mineral Economics, Chief Director: Mineral Promotion and Deputy Director General for the Mineral Policy and Development Branch, where he was primarily responsible for managing the regulation and promotion of the mining industry. Before joining the DMR he worked for both public and private companies in the mining sector.



Steve Phiri

BJuris, LLB, LLM, HDip Co Law

Steve (55), an admitted attorney of the High Court of South Africa, was Chief Executive Officer of Merafe for the past six years, before becoming the Chief Executive Officer of Royal Bafokeng Platinum in April this year. He remains on the board as a non-executive director representing Merafe's major shareholder, RBR. Before joining Merafe, Steve headed up Corporate and Legal Affairs for the Royal Bafokeng Nation (RBN) and led the negotiating team that successfully resolved the dispute between the RBN and Impala Platinum Limited. In this role he also negotiated the RBN investment in Merafe and the Nation's joint venture with Anglo Platinum Limited. He is a member of the Minerals and Mining Development Board and the South African Diamond and Precious Metals Regulator, a non-executive director of Royal Bafokeng Holdings (Pty) Limited and Zurich Insurance Company SA.

Karabo Nondumo

(Independent)

BAcc, HDipAcc, CA (SA)

Karabo (32), who joined the Merafe board as an independent non-executive director on 1 December 2010, is Executive Head of Corporate Finance at Vodacom Group Ltd. She was previously CEO of AWCA Investment Holdings. She became involved in the mining industry as an associate at Shanduka Resources and Executive Assistant to Executive Chairman Cyril Ramaphosa. She was also seconded to Shanduka Coal to look after Shanduka Resources' interests. While at Shanduka she served on the boards of Dowding, Reynolds and Associates (DRA) and Lace Diamonds. Karabo is an independent non-executive director of Rolfes Technologies Ltd (Chair: Remco) and Topfix Holdings Ltd.

**Mfanyana Salanje**

(Independent)

BCom, BCompt (Hons), MBA, CA (SA), ACMA (UK), HDip Tax Law

Mfanyana (49), who joined the Merafe board as an independent non-executive director in December 2010, is the Chief Executive Officer of Mfanyana Financial Solutions. He has vast experience in both the public and private sectors, having been a General Manager: Group Finance at Transnet Limited, Chief Financial Officer of State Information Technology Agency (Pty) Ltd, as well as Group Financial Director of Thebe Investment Corporation Limited. His experience includes partnerships at Ernst & Young and Sizwe Ntsaluba. He is an experienced member of audit committees and boards of directors in both the public and private sectors. These include Khula Enterprise Development Finance Limited and Accenture Limited.

**Executive directors****Chief Executive Officer****Stuart Elliot**

BCom, BAcc, CA (SA), HDip Co Law

Stuart (47) gained extensive experience in the accounting and corporate finance fields before joining Merafe in 2001 as Chief Financial Officer. Stuart became Merafe's Chief Executive Officer in April 2010. He was an Audit Manager at KPMG and a Senior Manager at FirstCorp Merchant Bank. As a Project Finance Consultant with Gencor in London he worked exclusively on Gencor's acquisition of Billiton plc from Royal Dutch Shell. Stuart was also an associate director with Deutsche Bank and a director of the Corner House (Pty) Limited for three years.

**Chief Financial Officer****Zanele Matlala**

BCompt (Hons), CA (SA)

Zanele (47) joined the Merafe board in 2005 as an independent non-executive director. She was appointed Merafe's Chief Financial Officer on 1 October 2010. She is a chartered accountant who, before joining Merafe, was Group Financial Director of Kagiso Investments (Pty) Limited, a position she held from January 2006. Her first appointment as Chief Financial Officer was at the Development Bank of Southern Africa (DBSA), where she had previously served as Executive Manager: Private Sector and International. She joined the DBSA from the IDC where she was head of Wholesale Venture Capital Funds.

**Commercial Director****Bruce McBride**

BA, LLB, Dip Advanced Banking, MBA, PhD

Bruce (51) was a Senior Partner at law firm Bell, Dewar and Hall before joining Merafe Resources in 2001 as Commercial Director. During his time in law he specialised in commercial litigation, banking and mining law. He is a non-executive director of Mundane World Leaders Fund Limited.



Governance, ethics and engagement *continued*



Management team

Kajal Bissessor

Finance and Investor Relations Manager

BAcc, Post graduate diploma in accounting, CA (SA)

Kajal (28) joined Merafe in 2009. She worked as a manager at KPMG Inc from 2004 – 2009. During her time with KPMG Inc she gained international experience as an Audit Senior with KPMG Ireland.



Amritha Mahendranath

Company Secretary

BCom

Amritha (43) joined Merafe in 2003 as Financial Manager. In March 2004 she was appointed Company Secretary. She has a corporate governance qualification from the University of Johannesburg and is currently studying for a post-graduate diploma in compliance.



Dr Jurg Zaayman

General Manager – Merafe Chrome

BEng, MEng, PhD (Metallurgical Engineering)

Jurg (42) started his career in the ferrochrome industry with Xstrata Alloys in 1997. He joined Merafe Resources as Operations Manager during 2001 and later headed up its operations as Managing Director. In 2004 he was seconded to the Xstrata-Merafe Chrome Venture as project leader for the Bokamoso pelletising plant project before being appointed to his current position in 2007.

Board induction and training

All newly appointed directors attend both formal and informal training related to the company and their fiduciary responsibility as directors. Ongoing directorate training in the last year was primarily focused on ensuring a proper understanding of the revisions to the Code of Practice in King III and the new Companies Act. Board members attended training sessions and also visited the operations. They also participated in strategic workshops which led to the approval, by the board, of the company strategy.

Performance evaluation

Performance evaluations to assess the efficiency and competence of the board and its performance with respect to the company's economic, environmental and social performance can also be used to guide the development needs of directors. Once again in 2010, board members evaluated the performance of the board.

Remuneration report

Disclosure of remuneration

Consistent with the new Companies Act No. 71 of 2008, King III calls for disclosure of the remuneration of each individual director

Non-executive directors are given a basic fee as well as a fee for attending board meetings while the remuneration of executive directors is decided by the Remuneration and Nomination Committee and endorsed by the board.

The remuneration paid to executive directors and non-executive fees is set out on page 137. Executive directors do not receive board fees in addition to their remuneration packages. In addition executive directors receive share options and share grants in the company and which information is set out on pages 115 and 118.

It is our understanding that the intention of the requirement by King III to disclose the salaries of the three most highly paid employees other than executive directors in the company, is to disclose if such salaries are material and of shareholder interest. While Merafe is committed to the spirit of the recommendation, the board has decided that it is not necessary, or in the company's interests, to disclose such salaries, based on the fact that the company has a very small permanent staff complement. However, it can provide the assurance that such salaries are below those of executive directors and are market-related.

Guided by the Remuneration and Nomination Committee, Merafe has developed in line with King III a remuneration policy for directors which addresses base pay, performance contracts, severance and retirement benefits, share-based and incentive schemes. The policy will be presented to shareholders for approval at the Annual General Meeting in 2011.

Remuneration philosophy, strategy and policy

The Remuneration and Nomination Committee was assisted by independent consultants to advise on an appropriate remuneration philosophy, strategy and policy for Merafe in line with King III, which we will be presenting at the Annual General Meeting in 2011 for approval by shareholders and which will be available on our website. The salient features are set out hereunder.

Remuneration philosophy

The company's primary philosophy is to employ high calibre, high performing employees who subscribe to the values and culture of the company. Employees are recognised as being integral to the achievement of corporate objectives and accordingly are remunerated for their contribution to the value they deliver. The remuneration strategy and policy are reviewed by the Remuneration and Nomination Committee on a regular basis to ensure that they are appropriate.

Remuneration strategy

The remuneration strategy is designed to be aligned with organisational business strategy and the execution of that strategy. The company strives to attract, retain, motivate and reward employees accordingly for executing business strategy. Therefore remuneration must be market related and where necessary third parties are used by the Remuneration and Nomination Committee for benchmarking purposes to the appropriate segment. The general principle is to structure executive and employee remuneration as follows:

- Guaranteed annual package and benefits
- Annual variable performance bonus
- Ownership of shares through the long-term incentive scheme which is based upon retention and performance to create a strong alignment to shareholder goals

A priority in the coming year will be to develop a communication plan to ensure all employees are fully aware of the content of the remuneration strategy and policy and how they are expected to contribute to the success of the organisation.

Remuneration policy

The key principles of the remuneration policy:

- The policies are governed by the Remuneration and Nomination Committee who regularly review them to ensure they are relevant and in support of company strategy
- Guaranteed remuneration is targeted at the median to upper quartile of the relevant market data against which it is benchmarked to retain and attract high-calibre and high-performing employees
- It is company policy that 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 which are in support of business strategy to be in place
- The incentive scheme performance measures are assessed by the Remuneration and Nomination Committee and these measures can be weighted between corporate, individual, financial and non-financial criteria. The measures are applicable to the time period to which the scheme relates
- The annual bonus is based upon the attainment of measures for the financial year whereas the long-term incentive scheme measures are based upon growth and sustainability such as capacity growth and assets under management
- Executive remuneration is aligned to shareholder value creation through the long-term scheme
- Where necessary both short-term and long-term incentive schemes are benchmarked against the appropriate database by the Remuneration and Nomination Committee

Governance, ethics and engagement *continued*

- Annual salary adjustments are governed by factors such as CPI, mining inflation, retention strategies, PPI, industry performance, projected growth, contractual arrangements and affordability which will be taken into consideration in setting the recommended increase. The Remuneration and Nomination Committee will approve or set the overall increase percentage that will be applied on a company basis
- Other topics covered in the policy are: succession planning, career planning and performance management
- With regard to non-executive directors the over-riding principle governing payments is that they will be made in the context of good governance

The majority of Merafe's existing employment contracts are aligned with the remuneration policy. However, where existing contracts are not aligned the Remuneration and Nomination Committee will be addressing these discrepancies during 2011.

Non-executive directors' fees

During the process of appointing our new non-executive directors, in accordance with Merafe's philosophy to ensure that its remuneration is market related, it consulted with independent experts regarding appropriate remuneration of its non-executive directors. This process led to a review of the remuneration of non-executive directors. In line with its strategy of employing high calibre individuals Merafe proposes employing a fee structure positioned between the medium and upper quartile rate for non-executive directors for 2011, in accordance with a benchmarking exercise undertaken.

Proposed fee structure for non-executive directors

Position	Non-executive director fees Fees in 2011 R
Chairperson	
Chairperson – Main Board	384 500
Chairperson – Audit and Risk Committee	109 150
Chairperson – Remuneration and Nomination Committee	80 850
Chairperson – Transformation and Corporate Social Investment Committee	80 850
Non-executive director	
Non-executive director – Main Board	207 250
Non-executive director – Audit Committee	98 950
Non-executive director – Remuneration and Nomination Committee	49 350
Non-executive director – Transformation and Corporate Social Investment Committee	49 350

Share incentive scheme

On 13 April 2010 shareholders approved a new share incentive scheme for the company's employees, including its executive directors. The aim of the scheme, which gives employees the opportunity to acquire shares in the company, is to encourage them to identify more closely with the activities of the company and its subsidiaries and to promote its continued growth through their activities.

Share options and share grants were issued under the new incentive scheme during 2010 as set out on pages 112 to 119.

Retirement and appointment of directors

To ensure that the Merafe board keeps pace with the dynamic business environment within which it operates but at the same time maintaining a level of continuity within the directorate, the retirement of directors is staggered on a rotation basis at the Annual General Meeting.

Appointing directors who bring the appropriate skills and expertise to the board – and who are non-executive and independent as suggested by King III – require careful consideration and selection. The procedures for appointing new directors to the board are formal and transparent and a thorough investigation by the Remuneration and Nomination Committee of the candidates assists the board to make informed appointments in the best interests of the company. The committee not only checks whether the potential board member has ever been disqualified as a director but also assures the board that the requisite skills are in place to take decisions around business sustainability, governance, strategy and performance, risk and opportunity and standards of conduct.

Dealing in securities

Merafe has developed a policy to guide directors and designated employees on dealing in the company's securities. The JSE Listings Requirements specifically prohibit directors or senior employees from buying or selling a company's shares during a closed period.

Mechanisms for shareholder communication with the board

There are a number of formal mechanisms in place to ensure regular and consistent communication with the company's shareholders. These include one-on-one meetings with investors as well as investor roadshows; investor site visits; media announcements of the interim and year-end results as well as any other significant developments within the organisation; the company's website; the annual report and the proxy form which shareholders use to exercise their votes. The company also has an Investor Relations Manager who responds to enquiries from shareholders as appropriate.

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

In terms of King III certain functions can be delegated to appropriately constituted committees which operate according to specific terms of reference which are renewed annually.

Merafe has a number of committees that guide and report to the board on key business issues. The committees meet in accordance with the requirements of King III and more often if necessary. The roles and responsibilities of these committees are detailed below, including those of the Executive Committee.

Board sub-committees

The Remuneration and Nomination Committee and the Audit and Risk Committee are chaired by independent non-executive directors, while the Transformation and Corporate Social Investment (CSI) Committee is chaired by a non-executive director.

Audit committees fulfil a vital role in effective corporate governance and it is the responsibility of the Merafe board to ensure that the company has a competent committee in place.

In light of King III the role of the Audit and Risk Committee has been extended beyond financial reporting to include a critical role in the oversight and assurance of the company's integrated financial and sustainability reporting. This required a re-assessment of the skills set of the committee members to ensure they have the necessary experience and understanding of the relevant standards, regulations and guidelines that will ensure Merafe achieves the highest standards of reporting excellence. The independent non-executive directors nominated to the Audit and Risk Committee were formally elected at Merafe's annual general meeting in April 2010 and, on an annual basis, shareholders will be required to endorse the election of Audit and Risk Committee members.

King III has highlighted information technology (IT) governance and the responsibilities of the board in this regard. IT is firmly on the Merafe board's agenda. The board is in the process of developing an IT charter and policy and IT will be a standing agenda item for the Audit and Risk Committee. A control framework will be used to assess internal IT controls which are to be integrated with the company's strategic business processes. In an effort to firm up risk management, the board will receive independent assurance on the effectiveness of these controls. The board will also monitor significant IT expenditure for Merafe.

Governance, ethics and engagement *continued*

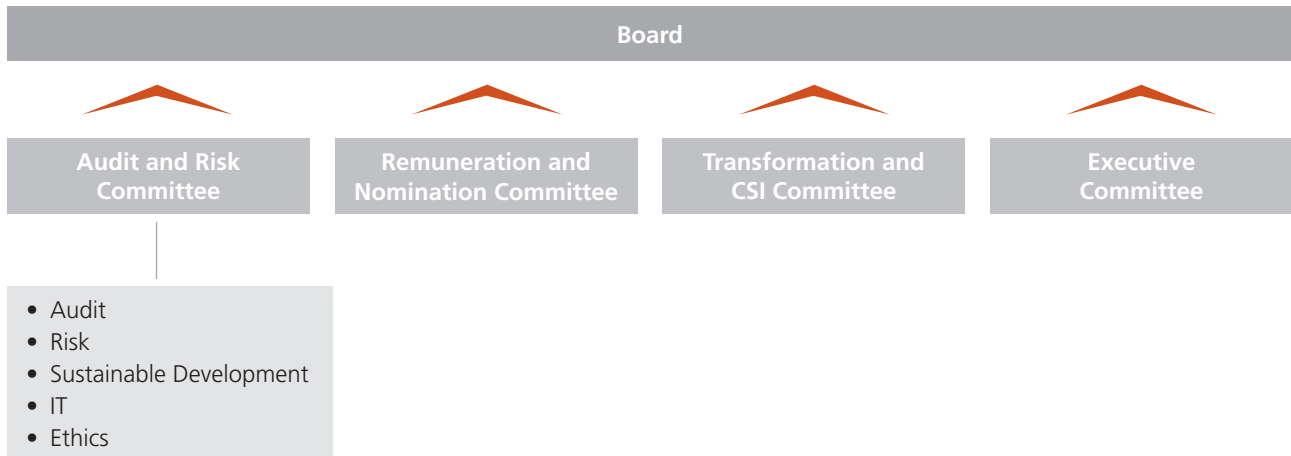
Responsibility for the implementation of an IT governance framework for the Venture has been delegated to the Business Systems division, which has implemented a combination of Control Objectives for Information and related Technology (COBIT), which is a set of best practices for IT management; Information Technology Infrastructure Library (ITIL), which is 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, Supportive, Consulted, Informed – a tool that can be used to identify roles and responsibilities).

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. These Standards apply in the Venture's operations and set clear expectations on a comprehensive range of sustainable development-related topics.*

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.

* See www.meraferesources.co.za for the 17 Sustainable Development Standards.



Committee	Roles and responsibilities
Executive Committee	<p>The Executive Committee recommends policies and strategies; monitors and coordinates implementation; deals with all executive management business; and is responsible for all material matters that are not the responsibility of the board.</p>
Audit and Risk Committee	<p>The Audit and Risk Committee monitors the adequacy of financial controls and reporting; reviews the audit plans of the external auditors and adherence to these plans; considers the extent of non-audit services undertaken by external auditors; ensures that financial reporting complies with IFRS and the Companies Act; and reviews and recommends on all financial matters. In line with King III it is now also the responsibility of the Audit Committee to oversee integrated reporting as well as the assurance function, which will include applying a combined assurance model to ensure a coordinated approach to all assurance activities including sustainable development and ethics.</p> <p>The Audit and Risk Committee 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.</p> <p>The risks listed in Merafe's register, as well as those of the Venture, are reviewed by the committee 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.</p> <p>The Audit and Risk Committee complies with the Corporate Laws Amendment Act and King III in terms of having an independent non-executive director as its Chairman and members who are also independent directors.</p> <p>The Audit and Risk Committee is tasked with monitoring 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 its performance and sustainability and forms an integral part of its risk management practices.</p> <p>The Audit and Risk Committee assesses and monitors the risks to which Merafe is exposed through its participation in the Venture.</p>
Remuneration and Nomination Committee	<p>The Remuneration and Nomination Committee establishes the overall principles of remuneration and considers, reviews and approves the company's policy on remuneration for executive and non-executive directors. External consultants may be called upon to determine whether remuneration is in line with industry standards. Bonuses for executive directors are performance-based and are only paid if the company makes a profit.</p> <p>The Remuneration and Nomination Committee develops policy around the appointment of directors, investigates potential board members for necessary skills and competence and makes appropriate recommendations to the board.</p>
Transformation and Corporate Social Investment Committee	<p>The Transformation Committee reviews and manages the company's commitment to transformation by, at the very least, ensuring compliance with the Employment Equity Act, the Mining Charter and the BBBEE Codes of Good Practice.</p> <p>In accordance with the Transformation Committee's terms of reference, its Chairman will always be a non-executive director.</p> <p>The Corporate Social Investment Committee, a sub-committee of the Transformation Committee, manages Merafe's CSI policies and monitors their programmes.</p>

Governance, ethics and engagement *continued*

Sub-committee membership as at 31 December 2010 and their attendance during 2010

Members	Audit and Risk Committee	Remuneration and Nomination Committee	Transformation and CSI Committee
Non-executive directors			
Chris Molefe	4/4	2/2 (Chairman)	1/1
Belese Majova	4/4 (appointed acting Chairman on resignation of Z Matlala as Chairman on 30 September 2010)	2/2	
Meryl Mamathuba	n/a	n/a	3/3 (Chairman)
Zanele Matlala	3/4 (attended three meetings as independent non-executive director and Chairman of the committee before appointment as CFO)	2/2	1/1
Abiel Mngomezulu	0/1 (appointed 9 September 2010)		
Invitees			
Stuart Elliot	4/4	1/1 (invited to attend this committee after being appointed CEO)	n/a
Zanele Matlala	1/1 (attended one meeting as invitee after appointment as CFO)	n/a	n/a
Bruce McBride	1/1 (invited to attend from final meeting of the year)	n/a	3/3
Steve Phiri	1/1 (attended one meeting as CEO)	n/a	2/3
Jurg Zaayman	4/4 (invitation is risk specific)	n/a	n/a
Kajal Bissessor	4/4 (attends in role of financial controller)	n/a	n/a

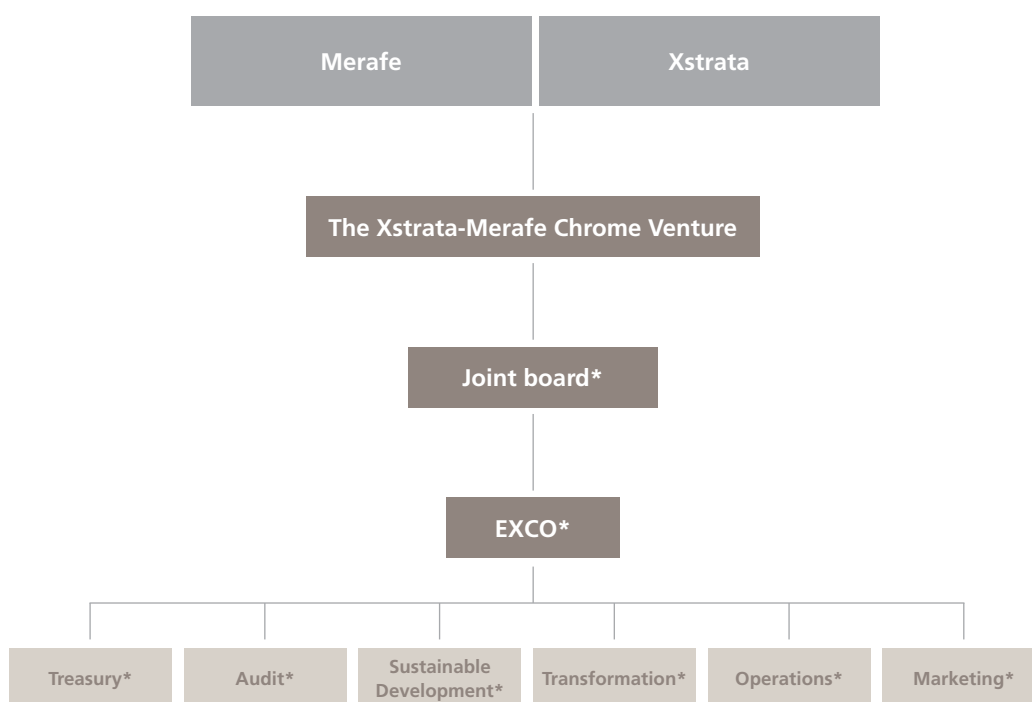
Overall governance of the Xstrata-Merafe Chrome Venture

Merafe's main business is its 20,5% interest in the Venture and, thus, ensuring proper governance of the activities of the Venture is very important for the company. To this end, a joint board, made up of three senior representatives from each company, meets quarterly to oversee the operations of the Venture.

Merafe is represented by its Chief Executive Officer, Chief Financial Officer and Commercial Director. Its General Manager Chrome also attends the meetings. Xstrata is represented by the Chief Executive of Xstrata Alloys, who is currently the Chairman of the joint board, as well as its Chief Financial Officer and the Managing Director of its Chrome Division.

Members of Merafe's management team also attend the Venture's monthly Executive Committee meetings and participate in the Treasury, Sustainable Development Committee, Audit Committee and Transformation Committee meetings.

Merafe representation and participation in the Xstrata-Merafe Chrome Venture



* Merafe representation and participation

Operational risk management

It is incumbent upon the Merafe board to determine the level of risk which the company can tolerate and to ensure that the systems are in place to be able to anticipate unpredicted risks and opportunities. It is the responsibility of the Audit and Risk Committee to assess the risks which may impact on the ability of the company to deliver in line with its strategic mandate while maintaining the highest standards of economic, environmental, social and governance practices (see pages 22 to 27 for a list of these identified risks), and to provide the necessary assurances in this regard to the board.

Operationally, the primary risk to which Merafe is exposed is that of the Venture. In an effort to protect its people, assets, reputation and the environment in which it operates, the Venture has integrated its sustainable development risk management and enterprise risk management. A precautionary and proactive approach to risk management has been adopted within the Venture whereby a definitive possibility of the risk occurring is not necessarily required before preventative action is taken.

Governance, ethics and engagement *continued*

Each operation within the Venture is required to implement and maintain robust risk control systems and processes. Business plans must take account of key risks, internal controls and the appropriate mitigating actions. Significant changes to identified and anticipated risks, and actions taken or being considered to control the risks, are reported to the Venture's Executive Committee and joint board on a monthly basis to ensure that management is fully informed on the business risk profile.

Internal audit

The Venture's internal audit function is independent of all the Venture's operations. Its areas of focus are reserves, health and safety and projects. All its members are qualified Chartered Accountants registered with the South African Institute of Chartered Accountants.

Timeous internal audit reports are provided to Merafe's management and the Chairman of the Xstrata plc audit committee. An annual audit plan is presented to the audit committees of both the Venture and Xstrata plc. The plan is monitored quarterly and reviewed at the Venture's Audit Committee meetings. The areas reviewed by internal audit are rated in four report categories and their recommendations fall into three different classifications. Processes are in place to record and track the progress of actions arising from audit reviews. These are discussed at audit committee meetings.

The internal audit process meets the requirements of King III in all aspects except two, which are: an internal audit quality review is not in place and the chief audit executive does not have a standing invitation to attend Executive Committee meetings. However, in mitigation, he does have regular meetings with the business unit heads.

It was not considered necessary to have a separate internal audit function at Merafe's corporate office for the following reasons:

- All trading in the group takes place in the Venture, which has a reputable independent internal audit function
- The Chief Financial Officer and Chief Executive Officer of Merafe perform monthly reviews of all balance sheet, income statement and cash flow information prepared by the Management Accountant and Financial Manager. The Venture is audited by E&Y, while Merafe is audited by KPMG – an accounting firm independent of E&Y
- Merafe management has monthly meetings with Xstrata management to discuss the performance of the Venture at Executive Committee meetings
- The accounting departments of Xstrata and Merafe are both staffed by qualified Chartered Accountants.

Roles and responsibilities for risk management are clearly defined within the Venture and the internal audit function is responsible for ensuring that operational risk management controls are effective.

The Venture's Director: Sustainable Development guides the development of Health, Safety, Environment and Community (HSEC) frameworks and the implementation of management systems at site level which align to the Business Principles, company policies and best practice standards.

Ethics

The way Merafe does business and the way its directors and employees engage with its many stakeholders is governed by the company's Code of Ethics. The Code, which is binding on directors and employees, including 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.

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



For more information on
Ethics please visit our website on:
www.meraferesources.co.za

A copy of these Principles, in 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 and strict adherence is expected of employees and contractors. An online training system is used to test employees' and contractors' understanding and application of the Business Principles in different simulated scenarios. Employees have to achieve a minimum score of 70% in the training.

The implementation of the Business Principles 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 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.

In October 2010, Xstrata implemented a new global policy on bribery, fraud and corruption which 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 bribery and fraud and to explain the procedures which must be followed by management and staff when there is evidence or a suspicion of an incident of bribery or fraud.

Human rights

Merafe subscribes to the fundamental tenets of human rights as enshrined in the country's Constitution and Bill of Rights. Its 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 United Nations (UN) Universal Declaration of Human Rights, the International Labour Organisation (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. All operations report the age of their youngest employee and are monitored through the internal audit and risk management programme. The age of the youngest employee in 2010 was 19 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 employed. 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.

The Venture seeks to extend its influence beyond the workplace to ensure the highest levels of human rights practice within its supply chain as well. Major suppliers and contractors are expected to comply with the Business Principles and significant business partners undergo screening on their human rights practices.

The Venture's Sustainable Development Standards require the 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 2010 nor were there any incidents of the rights of indigenous people being violated.

Governance, ethics and engagement *continued*

Labour relations

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 employees of the Venture. Collective agreements, particularly around terms and conditions of employment and company benefits, are negotiated between the parties with due regard to relevant legislation. The Venture seeks to reach agreement with the unions on annual wage increases for implementation in July each year.

All employees are treated with dignity and in a manner that is culturally sensitive. Unfair discrimination on the basis of race, gender, religion, political orientation, national extraction or social origin is not tolerated in the workplace.

Industrial action

During 2010 there was a protected strike at the Thornccliffe and Helena mines in Mpumalanga province concerning organisational rights which lasted for 14 days. The Association of Mineworkers and Construction Union (AMCU) were demanding recognition as the majority union. There was a secondary strike at Lydenburg ferrochrome plant that lasted for three days and there was also a secondary strike at Thornccliffe and Helena mines for one day. These strikes were connected to a protected strike of 30 days over wages that took place in Xstrata's platinum business unit.

	Operation	Duration of action	Number of employees involved	Cause of action
2009	Lion ferrochrome plant	66 days	318	Disagreement over bonuses (interpretation of a collective agreement over production incentive/ bonus scheme)
2010	Thornccliffe and Helena mines	14 days	541	Protected strike regarding organisational rights
	Lydenburg ferrochrome plant	3 days		Secondary strike
	Thornccliffe and Helena mines	1 day		Secondary strike



Wonderkop ferrochrome plant, North West province

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 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.

This year Merafe's efforts towards socio-economic empowerment were again recognised in the *Financial Mail's* 2010 Top Empowerment Companies Survey. It was ranked the most empowered company in the Resources Sector of the JSE. The survey is conducted by the Empowerdex Economic Empowerment Rating Agency using the generic broad-based BEE scorecard which supports the broad-based BEE Codes of Good Practice that came into effect in 2008. The elements of the scorecard against which the participants are measured are ownership, management control, employment equity, skills development, preferential procurement, enterprise development and socio-economic development.

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.

Governance, ethics and engagement *continued*

Stakeholder engagement

Engaging with stakeholders, listening to their views and addressing their concerns, is an integral part of doing business for both Merafe and the Venture.

Merafe and the Venture have identified a broad range of internal and external stakeholders who have a material interest in or are affected by both Merafe and the Venture and have assessed their involvement with them, or their potential impact on them, at a corporate office and operational level. The engagement of both Merafe and the Venture with stakeholders is as diverse as the various stakeholders are. Both Merafe and the Venture are proactive in communicating and engaging with internal and external stakeholders.

A broad range of methods are used to engage with stakeholders and dialogue and feedback is encouraged. Engagement includes: face-to-face formal or informal meetings (including Merafe's annual general meeting); media and stock exchange announcements; presentations to investors, potential investors and business partners; conference calls; the Merafe website (www.meraferesources.co.za); the intranet and xtranet sites available to Venture employees; open days and operational site visits; perception studies and reputation audits; whistleblowing facilities and formal grievance mechanisms; financial and sustainability reports; newsletters, circulars and email updates; community, employee or multi-stakeholder forums and workshops; dedicated email and telephone facilities; regular customer, business partner and supplier meetings; cultural, social and environmental impact assessments; and formal consultation and audit processes.

Stakeholders are categorised as:

- those directly affected, both positively and negatively, by the activities of Merafe and the Venture
- interested parties who, while not directly affected by the activities of Merafe and the Venture, have an interest in or influence over them
- authorities at all levels (local, regional and national)

From 2010 the Venture's operations have implemented and will be maintaining and annually reviewing stakeholder engagement plans. Stakeholder engagement information is incorporated into the Venture's annual strategic reviews.

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Merafe stakeholder engagement				
Shareholders, potential investors and investment analysts				
Merafe Resources has a simple shareholder structure. At 31 December 2010 Royal Bafokeng Resources Holdings (Pty) Limited held 29,08% of its shares, the Industrial Development Corporation (IDC) held 22,08%, JP Morgan Asset Management (UK) Limited held 7,14% of the company's shares, Abax Investments (Pty) Ltd held 5,18% of its shares and institutional shareholders held the balance of the shareholding (36,52%).	<ul style="list-style-type: none"> • Merafe's returns to shareholders and its potential for providing future returns • Financial and non-financial risk management • Corporate governance including executive remuneration • Performance against strategy • Trends and outlook for commodity markets • Management of environmental and social risks and opportunities • Sustainability 	<p>Road shows to investors in South Africa, the United Kingdom, Europe and the USA</p> <p>Integrated annual report</p> <p>Annual general meetings</p>	<p>Two in the United Kingdom during 2010 and one in the United States in 2010</p> <p>Annually</p> <p>Annually</p>	<p>Issues raised by shareholders and the investor community included:</p> <ul style="list-style-type: none"> • Information on the ferrochrome market and ferrochrome pricing • Power constraints and the cost of power • Energy saving technology • Use of ferrochrome • Over reliance on China as a major customer • Political uncertainties with respect to mining rights

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Shareholders, potential investors and investment analysts continued				
	<ul style="list-style-type: none"> • Merafe's returns to shareholders and its potential for providing future returns • Financial and non-financial risk management • Corporate governance including executive remuneration • Performance against strategy • Trends and outlook for commodity markets • Management of environmental and social risks and opportunities • Sustainability 	Industry workshop on ferrochrome industry	One in 2010	<ul style="list-style-type: none"> • Investors gave us very good feedback on the knowledge they gained from this workshop and it appears to have increased investor confidence in ferrochrome • Financial performance • Cash position • Net debt position • Strategy going forward • The Venture's operations • Dividends
		Half-year and year-end presentations to shareholders	Annually	
		Merafe's annual general meeting	Annually	
		Press announcements of its interim and year end results	Bi-annually	
		SENS announcements via the JSE	As and when required	
		Merafe's annual report to shareholders and sustainability report	Annually	
		Merafe's website	Ongoing and as and when required	
Providers of debt				
ABSA Bank	<ul style="list-style-type: none"> • Ability of the company to repay borrowings • Risk management 	The company borrows from South African banks. Regular meetings are held with its bankers. Details of its bankers are to be found on the inside back cover of this report.	As and when required	Key covenants and ratios prescribed in loan agreements are assessed regularly by management and any breaches or potential breaches due to market conditions are anticipated and agreements reached with bankers going forward. Regular meetings are held with Merafe's bankers to assist their understanding of the business and the ferrochrome and stainless steel markets
Suppliers				
All potential suppliers are required to provide details of the HDSA shareholding/ participation in their businesses	<ul style="list-style-type: none"> • Requirements regarding HDSA procurement and procurement policies • Contract terms and delivery 	Merafe suppliers were required to provide details of the HDSA shareholding/ participation in their businesses and the company has established its current level of procurement in terms of the Department of Trade and Industry's (dti) Codes of Good Practice	As and when required	Merafe communicated with all its suppliers during the year in order to establish their status in terms of the Department of Trade and Industry's (dti) Codes of Good Practice and where necessary provided some suppliers, who had very small businesses, with advice on how to complete the certification process. Merafe's HDSA procurement has been assessed in terms of its B-BBEE Scorecard. Merafe has been rated as a Level 3 contributor
Government and regulators				
Department of Mineral Resources (DMR)	<ul style="list-style-type: none"> • Mining Charter compliance with the revised Mining Charter and Scorecard • Mining Rights 	Merafe regularly interacts with the DMR. The company also participates in government forums, both in terms of mining issues and black economic empowerment	Regularly and as and when required	The DMR was engaged in respect of adherence to and development of metals and mining related legislation. In addition Merafe and the Venture engage with the DMR over chrome ore exports

Governance, ethics and engagement *continued*

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Government and regulated continued				
Department of Labour Government of the North West Province	<ul style="list-style-type: none"> Socio-economic development Job creation and employment 	Merafe's operations via the Venture are based in the North West province and it regularly engages with members of government in face-to-face meetings	As and when required	The need to improve living conditions for the communities in which we operate and support for the efforts of provincial government
Business partners				
Business partners	<ul style="list-style-type: none"> New acquisitions and developments Financial returns Risk management Regulatory and policy compliance Accountable and transparent corporate governance Sustainability 	Merafe engages with its partners in the Venture, Xstrata South Africa (Pty) Limited, through regular joint board meetings, the Venture's executive committee meetings and regular contact on operational issues	Monthly Exco meetings Audit and Risk Treasury and Transformation meetings Quarterly board meetings Ad hoc meetings and communication as required	Performance figures, risks and opportunities, sustainable development issues and safety issues are reported on. Strategy is discussed and decisions are taken in Exco and board meetings. Queries are raised where necessary and responded to in meetings or in ad hoc communication
The Venture stakeholder engagement				
Government – national and provincial governments, district and local municipalities				
Department of Environmental Affairs (DEA)	<ul style="list-style-type: none"> Emission standards for new Air Quality Act Ambient air standards Sponsorship in air monitoring programmes 	<ul style="list-style-type: none"> Workshops Members of air quality working groups Meetings Forums Provision and sponsorship of training courses 	Ongoing	<ul style="list-style-type: none"> Sharing of best practice Discussion of industry issues Providing technical assistance to government and others <p>Engagement allows us to give input into proposed legislation, to understand DEA thinking and share environmental knowledge</p>
Department of Water Affairs (DWAF)	<ul style="list-style-type: none"> Integrated water and waste management strategies 	<ul style="list-style-type: none"> Presentations Development of integrated water management programmes Active participation with DWAF 	Ongoing	<ul style="list-style-type: none"> Access to water Water and waste management Water licences <p>Engagement allows us to give input into proposed legislation, understand DWAF aims and intentions and share best practice</p>
Health authorities	<ul style="list-style-type: none"> Capacity building within health facilities and construction of health facilities in collaboration with the Department of Health (DoH) 	<ul style="list-style-type: none"> Working with provincial health departments to align processes and systems Participation in Public Private Partnerships (PPPs) 	Ongoing	Interacting with health departments at national, provincial and municipal level with the aim of supporting efforts to improve the provision of healthcare in communities neighbouring our operations. This has resulted in us forming a PPP to provide healthcare facilities and extending our wellness programme to communities

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Department of Mineral Resources (DMR)	<ul style="list-style-type: none"> • Mining Charter compliance • Drafting of new Mining Charter • Mining Rights 	With DMR directly and through Chamber of Mines and SA Mining Development Association (SAMDA)	Ongoing	Following the release of the Codes of Good Practice for the Minerals Industry (Mining Code) in April 2009, the Venture undertook a review of its progress on transformation which culminated in the development of its principles positions on the next phase of transformation. These positions, which align with government's national imperatives, served as a basis for engagement. The Venture engaged with its peers in the mining industry and secured their agreement regarding the overarching principles it believed should be applied in the new Mining Charter together with a proposed balanced scorecard. The mining industry then shared their ideas with the DMR and engaged through the MIGDETT process. The culmination was the revised Mining Charter and Mining Scorecard issues in September 2010
Local Municipalities	<ul style="list-style-type: none"> • Integrated Development Plans (IDP) 	Partnering with local municipal authorities	Ongoing	Infrastructure in need of repair, provision of roads, running water, community centres and business parks. We partner with local authorities to improve living conditions for our employees and the communities in which we operate. Refer to the Community Development section of this report for further details
International industry bodies				
International Chrome Development Association (ICDA) REACH (Registration, Evaluation, Authorisation and Restrictions of Chemicals)	<ul style="list-style-type: none"> • Development of product knowledge and best practices • HSE risk assessments • Development of requirements for REACH registration and implementation • Integrated projects with downstream users • Material and chemical safety issues in EU for products up and downstream to ensure no risks associated with importing products into EU 	<ul style="list-style-type: none"> • HSE committee meetings and information sharing • Technical committees • Consortia involvement • Meetings • Director: Sustainable Development sits on steering committee, HSE and technical committees of these international bodies and consortia. • Xstrata Alloys is a member of ICDA and is also a member of the ICDA HSE committee 	<ul style="list-style-type: none"> • Monthly and quarterly meetings • Ongoing interaction on joint studies, etc 	<ul style="list-style-type: none"> • Legal compliance • Joint studies • Cost sharing • Development of REACH dossiers • These consortia worked with REACH for the EU to ensure material and chemical safety. Xstrata Alloys' involvement ensured its products meet REACH standards
International Stainless Steel Federation	ICDA works closely with the ISSF and made presentations on the Venture's projects and future plans to them.	Co-development of research projects	Ongoing	Sharing information on efforts to reduce impact on climate change and product stewardship

Governance, ethics and engagement *continued*

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
National industry bodies				
Northwest Air Pollution Control Forum (NAPCOF)	<ul style="list-style-type: none"> • Common industry problems • Performance of operations or individual companies • Interaction with government 	<ul style="list-style-type: none"> • Bi-monthly meetings • Presentations • Engagement about air quality management plans • Xstrata chairs forum 	Regular meetings and ongoing communication between forum members	<ul style="list-style-type: none"> • Common problems, performance trends, poor performance of individual companies • Technical assistance provided to government and others • Sharing of best practice
Ferro Alloys Producers Association (FAPA)	<ul style="list-style-type: none"> • Focus specifically on ferrochrome industry issues, including management of slag, environment, health and all other sustainable development issues • Climate change 	<ul style="list-style-type: none"> • Meetings • Venture chairs forum 	Regular and ongoing	<ul style="list-style-type: none"> • Common problems and best practice and performance trends which are shared • Progress on government understanding on management of issues
Kroondal Eco Forum and Northwest Eco Forum	<ul style="list-style-type: none"> • Impact of the Venture's operations on the environment 	<ul style="list-style-type: none"> • Meetings • SMS messages to inform of venting incidents • Email • Telephonic communication • Direct access to Group Air Quality Specialist and Director: Sustainable Development • SMS messages regarding venting incidents (also sent to all interested parties) 	<ul style="list-style-type: none"> • Query-by-query basis; • Quarterly meetings • Regular meetings • SMS messages • Ongoing 	<ul style="list-style-type: none"> • Complaints/concerns are recorded and addressed monthly • Stakeholders are involved in operations' activities and have a clear understanding of what is happening and the steps being taken to improve sustainability performance • Messages regarding venting incidents provide information about the incident and mitigating action taken

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Communities				
Communities surrounding the Venture's operations	<ul style="list-style-type: none"> • Impact of operations (environmental and social) • Consultation on proposed new projects or changes to existing operations • Community needs • Enterprise development and local procurement • Traditional rights and cultural heritage • Sustainable communities 	<ul style="list-style-type: none"> • Complaints' register at each site • Social development meetings with community • Annual community open days at all operations • Social and labour plans for each site • Grievance and conflict resolution mechanisms 	<ul style="list-style-type: none"> • Quarterly meetings • Ongoing ad hoc communication including meetings, emails and letters • Annual open days 	<ul style="list-style-type: none"> • Regular scheduled quarterly meetings are held by the Venture to discuss operational issues that might have a significant impact on the community, or that are of interest to the communities in the vicinity of the operations. A register is kept of who attends, what is discussed and what actions resulted from the engagement sessions • Ad hoc meetings are also held when issues arise either from the operation, or are raised by the community. Open days were held at operations during the year. Communities were also engaged through the Integrated Development Plans (IDP) and Local Economic Development (LED) forums • Baseline studies were undertaken in 2009 to identify the needs of the communities in the vicinity of our operations and to identify suitable Social and Labour Plan projects. Other responses to community needs addressed as a result of community engagement include upgrading schools, providing bursaries and tertiary education opportunities through the Venture's community development programme, assisting SMMEs with facilities such as an SMME business park at Kroondal and training in business skills • A register of community complaints is maintained at each operation and complaints are dealt with at operational level • All of the Venture's operations appointed Community Development Officers with the aim of improving engagement with communities • A stakeholder perception survey was conducted during the year to assess the perceptions of members of the surrounding communities. The survey provided valuable feedback that will be used to improve aspects of community engagement in the future

Governance, ethics and engagement *continued*

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Employees				
Employees, their families and dependants	<ul style="list-style-type: none"> • Remuneration and benefits • Workers' rights • Skills development, training, career development and career opportunities • Health and safety • Community issues including HIV and AIDS, housing and job creation • Employment equity and non-discrimination • Company news 	<ul style="list-style-type: none"> • Newsletter for Venture employees and newsletters at each operation • Posters • Digital messaging boards • Industrial theatre • Employee briefings • Green area meetings • Company intranet • Induction training • Business principles • Communication forums at each operation • Toolbox talks • Skills development committees • Employment equity committees • Occupational health and safety committees • Ethics line • Performance reviews • Cultural surveys • Grievance and conflict resolution mechanism 	Ongoing regular engagement	<ul style="list-style-type: none"> • Employees are kept informed on business issues, what is expected of them and which Business Principles they are expected to adhere to • Employees understand they are free to join a trade union • Training and communication raises employee awareness regarding health and safety issues • Career opportunities and career development discussed during performance reviews • Community issues covered in communication forums, briefings, etc • Employees communicate in confidence regarding behaviour that is contrary to the company's business principles • Surveys inform company of employees' levels of satisfaction and issues that may need addressing • Issues raised in 2010 included alleged unfair discrimination, nepotism, abusive language, favouritism which were dealt with in terms of grievance procedures and/or the union structures
Customers				
Customers	<ul style="list-style-type: none"> • High quality products • Product stewardship • Contract terms and delivery • Reliability of supply • Maintaining strong ongoing customer relationships 	<ul style="list-style-type: none"> • Glencore International AG (Glencore) and the Venture's marketing team are responsible for maintaining the Venture's relationships with customers to whom they market the ferrochrome it produces 	Ongoing	Typically the material issues are raised by customers at engagement and are addressed by Glencore and/or our marketing team

Stakeholder	Summary of material issues	Methods of engagement	Frequency of engagement	Key topics and concerns raised at engagement and response/s to these
Trade unions				
Trade unions	<ul style="list-style-type: none"> Workers' rights Remuneration Health and safety Consultation on future operational changes Increase in basic wages Improved housing benefits Increase in various allowances Increase in leave entitlement Employee shares Reduction in working hours Production bonus Long service award (increase in values) Service increment More than one full-time shop steward per unit 	<p>In terms of the mines and smelters that make up the Venture, employees are represented by the National Union of Mineworkers (NUM), Association of Mineworkers and Construction Union (AMCU), Solidarity and the National Union of Metal Workers of South Africa (NUMSA). Recognition agreements and union structures are used for the purposes of consultation and communication on union matters. The relationship and engagement are dictated by various collective agreements, applicable labour legislation and management/union structures</p>	<ul style="list-style-type: none"> Monthly meetings Ad hoc meetings based on subject matter and urgency 	<ul style="list-style-type: none"> Demands for amendments to terms and conditions of employment Dissatisfaction in the work environment (e.g. heat, dust, shift patterns, overtime, etc). These are responded to in line with our mandate, compliance with legislative requirements and the maintenance of workable relationships. Each topic requires and receives a specific response
Suppliers				
Suppliers	<ul style="list-style-type: none"> Requirements regarding supplier SD standards, sustainable development policies, practices and procedures Requirements regarding HDSA procurement and procurement policies Contract terms and delivery Technology transfer 	<ul style="list-style-type: none"> Tenders and supply contracts awarded by procurement committee HDSA status details of all potential suppliers required Scorecard established to measure procurement levels Human rights awareness training undertaken with suppliers 	Ongoing	<ul style="list-style-type: none"> Regular engagement by the Venture at all levels with Eskom regarding power supply and costs Suppliers are made aware of the SD standards, human rights standards and sustainable development policies, practices and procedures to which they must adhere when working on the Venture operations Engagement with suppliers has resulted in white suppliers being encouraged to take on HDSA partners and the Venture achieving 64,9% HDSA procurement in 2010

Independent assurance statement

To the board and stakeholders of Merafe Resources:

SustainabilityServices.co.za (SS) was commissioned by Merafe Resources (hereafter, Merafe) to provide independent third party assurance (ITPA) over the sustainability information within this integrated annual report (hereafter, the Report, covering the period 1 January to 31 December 2010). The assurance team comprised primarily of Michael H Rea, our principal Sustainability Assurance Practitioner, with 12 years' experience in environmental and social performance measurement in over 30 assurance engagements in various countries, including Sudan, Kenya, the DRC, Nigeria, Cameroon, Swaziland, Zimbabwe, Namibia, South Africa, Peru and Canada: working either as part of a team (while in the employ of PwC and KPMG), or as an Independent Sustainability Consultant.

AccountAbility AA1000S (revised, 2008)

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

Independence

SS was not responsible for the preparation of any part of this Report and has not undertaken any commissions for Merafe in the reporting period concerning reporting or data collection. SS did, however, conduct an assurance engagement for Merafe's 2008 and 2009 Reports, including the identification of reporting gaps that ultimately have been incorporated into Merafe's 2010 reporting processes. However, this work has not compromised our ability to afford ITPA over this year's Report. SS's responsibility in performing its assurance activities is to the management of Merafe alone and in accordance with the terms of reference agreed with them.

Assurance objectives

The objectives of the assurance process were to provide stakeholders of Merafe with an independent 'moderate level assurance' opinion on whether the report meets the AA1000AS (2008) principles of **Inclusivity, Materiality** and **Responsiveness**, as well as to assess the degree to which the Report is consistent with the Global Reporting Initiative (GRI) G3 guidelines, with the objective of establishing whether or not the Report has met the B+ level of reporting requirements. In meeting the Type II assurance objectives, SS undertook a review of selected sustainability performance indicators at two Xstrata-Merafe chrome venture (hereafter, the Venture) operational sites.

Scope of work performed

AA1000AS (2008) Compliance

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

- A review of sustainability measurement and reporting procedures at Merafe's and Xstrata Alloys' head offices (due to the nature of the Venture);
- A review of data collection, collation and reporting procedures at **Lydenburg Works** and **Thornccliffe Mine**, with specific reference to the following selected sustainability performance indicators:
 1. Total Recordable Injury Frequency Rate (TRIFR), including the number of Restricted Work and Medical Treatment Cases, as well as the calculation of Hours Worked
 2. Lost Time Injury Frequency Rate (LTIFR), including the number of LTIs and the calculation of Hours Worked
 3. Fatal Injury Frequency Rate (FIFR), including the number of Fatalities and the calculation of Hours Worked
 4. Stakeholder Engagement – presence and application of site-specific engagement plans
 5. The percentage of 'Women in' and 'Women at Mining'

Independent assurance statement

6. Electricity consumption
 7. Petrol consumption
 8. Diesel consumption
 9. LPG/LNG consumption
 10. Total volume of water consumed – from all sources
 11. Total volume of water discharged from sites
 12. Presence and management of monitoring and evaluation programmes for Enterprise Development (ED)
 13. Presence and management of monitoring and evaluation programmes for Socio-economic Development (SED)
 14. SED – Alignment with community local economic development (LED) plans
 15. Progress towards Social and Labour Plan (SLP) commitments
- A review of drafts of the Report for any significant errors and/or anomalies; and
 - A series of interviews with the individual responsible for collating and writing various parts of the Report in order to ensure selected claims were reported and substantiated.

It should be noted that due to the scope and nature of this AA1000AS (Type II, Moderate) assurance engagement, site visits were undertaken at **Lydenburg Works** and **Thornccliffe Mine** to test the authenticity of data at the primary source of collection and collation, and this report has been assessed at the point of data aggregation for accuracy of reporting. Please note that Merafe has a policy of rotating site visits to ensure that sustainability monitoring, management and reporting systems are tested at representative sites throughout the group. In 2009, assurance site visits were conducted at the **Boshoek Smelter** and **Kroondal Mine**.

GRI compliance

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

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

Findings

In general, the company's sustainability reporting processes are adequate, and it was noted that:

AA1000AS (Type II)

- Due to the nature of the Venture, Merafe relies on Xstrata and the Venture to obtain quantitative data with respect to most sustainability indicators.
- The Venture, via the Xstrata Sustainability Database (XSD), undergoes a process of internal and independent assurance reviews of their key sustainability indicators.
- Certain site-reported data within XSD was found to be inaccurate and/or unreliable on a few occasions, none of the identified errors were deemed significant enough to warrant a statement of qualification, and all errors were adequately addressed prior to the conclusion of this engagement.
- Enterprise Development (ED) initiatives occur in a significant manner, and in accordance with Social and Labour Plan (SLP) commitments, but specific ED projects do not always appear to be selected in a strategic manner – with the maximum developmental return on investment considered – and systems to monitor and evaluate ED projects for socio-economic impact do not appear to exist in an adequate form. However, the appointment of additional resources and implementation of new systems as of the FY 2010 is expected to herald improvements in the short term. This will need to be followed up in future assurance engagements.

Independent assurance statement *continued*

- Socio-Economic Development (SED) initiatives occur in a significant manner, and in accordance with Social and Labour Plan (SLP) commitments and alignment with both the relevant Integrated Development Plans of the communities in which the Venture operates, SED projects do not always appear to be selected in a strategic manner – with the maximum developmental return on investment considered – and systems to monitor and evaluate SED projects for socio-economic impact do not appear to exist in an adequate form. However, the appointment of additional resources and implementation of new systems as of the FY 2010 is expected to herald improvements in the short term. This will need to be followed up in future assurance engagements.
- Merafe actively engages an array of key stakeholders, as defined within this Report, but the assurance process did not allow for additional engagement to confirm or refute Merafe's assertion that the Report adequately reflects the information requirements of their key stakeholders, although management assertions of engagement were deemed reasonably supportable.
- Within the parameters of a 'Moderate Level Type II assurance assessment', the Report – without exception – appears to reflect an accurate accounting of Merafe's performance, including the review of data supplied by XA and contained within this 2010 Integrated Annual Report.

GRI G3

- Based on our review of the Report, as well as the processes employed to collect and collate information reported herein, it is our assertion that this Report meets the GRI G3's requirements for Application Level B (responses to all required indicators, as well as no fewer than 20 Core indicators, with at least one from each of Economic, Environment, Human Rights, Labour, Society and Product Responsibility). However, the reporting of performance against some GRI G3 indicators continues to require either data quality improvements, or further detail in disclosure. Indicator-specific performance is identified in Merafe's GRI Indicator Table (available via sustainability@meraferesources.co.za), adopting a colour-coding system to identify strengths, weaknesses and non-compliances.

Recommendations

AA1000AS (Type II)

- Merafe should continue, as it has been doing, to improve its reporting according to the principles of **Inclusiveness, Materiality** and **Responsiveness**, as guided by AA 1000AS (2008), ultimately seeking Type 2 (High) levels of assurance in future Reports.
- Merafe should ensure that improvement continues to occur with respect to stakeholder engagement procedures, including an independent assessment of whether or not this Report, and all future Reports, adequately reflects the reporting requirements of key stakeholders.
- Merafe should ensure that the Venture continues to improve its policies, procedures and systems and controls for the identification, selection and supporting of enterprise development (ED) initiatives at all of its sites, including the development of adequate systems to monitor and evaluate ED projects for socio-economic impact.
- Merafe should ensure that the Venture continues to improve its policies, procedures and systems and controls for the identification, selection and supporting of socio-economic development (SED) initiatives at all of its sites, including the development of adequate systems to monitor and evaluate SED projects for socio-economic impact.
- Merafe should continue to employ a sustainability reporting cycle that accommodates for AA1000AS (Type II) assurance over interim data (i.e., quarters 1 through 3).

GRI G3

- Having addressed the requirements of GRI G3 Application Level B (B+ with this assurance statement), it is our recommendation that Merafe review the process followed in compiling its Report and, while making further improvements on the quality of data required for Application Level B, ultimately address the requirements of GRI G3 Application Level A.

Assurance

It is generally accepted that companies rotate their assurance providers on a regular basis so as to avoid decreasing the overall level of true independence and/or the impacts of 'familiarity' on the overall quality of the assurance provided. As such, and given that SustainabilityServices.co.za has provided AA1000AS (Type II, Moderate) assurance over two of Merafe's reports (2009 and 2010), it is recommended that Merafe begin a process to identify an alternate assurance provider for no later than the 2012 report.

Conclusions

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



SustainabilityServices.co.za

Johannesburg

25 February 2011

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Directors' responsibility and approval of the annual financial statements

for the year ended 31 December 2010

The company's directors are responsible for the preparation and fair presentation of the group and company annual financial statements, comprising the statements of financial position at 31 December 2010; the statements of comprehensive income; the statements of changes in equity; statements of cash flows and the notes to the financial statements for the year then ended, which include a summary of significant accounting policies and other explanatory notes and the directors' report in accordance with International Financial Reporting Standards (IFRS), the AC500 Standards as issued by the Accounting Practices Board and its successor and in the manner required by the Companies Act of South Africa.

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 group's and company's ability to continue as a going concern and there is no reason to believe that the business will not be a going concern in the year ahead.

The auditors are responsible for reporting on whether the group annual financial statements and separate company annual financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of group and company annual financial statements

The group and company annual financial statements were approved by the board of directors on 25 February 2011 and signed on its behalf by:



Chris Molefe
Non-executive Chairman
25 February 2011



Stuart Elliot
Chief Executive Officer
25 February 2011

Company Secretary's certification

for the year ended 31 December 2010

I certify that, to the best of my knowledge and belief, the company has lodged with the Registrar of Companies all such returns as are required to be lodged by a public company in terms of section 268 G(d) of the Companies Act of South Africa, and that all such returns are true, correct and up to date.



Amritha Mahendranath
Company Secretary
25 February 2011

Report of the Audit and Risk Committee

for the year ended 31 December 2010

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 year, in compliance with its 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 during the period under review. The system is designed to manage, rather than eliminate, the risk of failure and to maximise opportunities to achieve business objectives. This can provide only reasonable, but not absolute assurance.

As required by the JSE Limited Listings Requirement 3.84(h), the Audit and Risk Committee has satisfied itself that Stuart Elliot and Zanele Matlala, the Chief Financial Officers during the current year, have appropriate experience and expertise.

The Audit and Risk Committee has evaluated the group and company annual financial statements of Merafe Resources Limited for the year ended 31 December 2010 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 annual 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 annual financial statements by the board.



Belese Majova

Acting Chairperson – Audit and Risk Committee

25 February 2011

Our reporting commitment

for the year ended 31 December 2010

We take a long-term and responsible approach to our business and are committed to the vision of the Revised Mining Charter (the Charter) as launched on 13 September 2010 by the Department of Mineral Resources. The purpose of the Charter is to facilitate sustainable transformation, growth and development of the mining industry.

The scorecard of the Charter covers a wide range of weighted control mechanisms to measure the progress in implementation of the Charter. We strive to comply with the Charter and currently have plans in place over the next five years to facilitate compliance with all the pillars.

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

Independent auditors' report

To the members of Merafe Resources Limited and its subsidiaries
for the year ended 31 December 2010

Report on the financial statements

We have audited the group annual financial statements and the annual financial statements of Merafe Resources Limited which comprise the statements of financial position at 31 December 2010, the statements of comprehensive income, the statements of changes in equity, the statements of cash flows, and the notes to the financial statements for the year then ended, which include a summary of significant accounting policies and other explanatory notes, and the directors' report as set out on pages 86 to 139.

Directors' responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa 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, the auditor considers internal controls 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 controls. 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 2010, its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

KPMG Inc.

Registered Auditors



Per Riaan Davel

Chartered Accountant (SA)

Registered Auditor

Director

25 February 2011

KPMG Crescent
85 Empire Road
Parktown
Johannesburg

Directors' report

for the year ended 31 December 2010

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, participates in chrome mining and the beneficiation of chrome ore into ferrochrome. The Venture operates 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 major ferrochrome assets and chrome mines of the Venture are listed on pages 12 and 13 of this annual report.

Merafe Ferrochrome has granted the right of use of the following ferrochrome assets to the Venture:

- 100% interest in the Boshhoek smelter and pelletising and sintering plant
- 50% interest in furnaces 5 and 6 of the Wonderkop plant
- 20,5% interest in the Lion ferrochrome smelter
- 20,5% interest in the Bokamoso pelletising and sintering plant
- 20,5% interest in the Tswelopele pelletising and sintering plant, which is currently under construction

Merafe Ferrochrome has granted the right of use of the following chrome mines and UG2 plants to the Venture:

- 100% interest in the Horizon mine
- 100% interest in the Boshhoek mine
- 50% interest in the Kroondal mine
- 26% interest in the Marikana mine
- 20,5% interest in the Helena and Magareng mine
- 100% interest in the Kanana UG2 plant
- 20,5% interest in the EPL UG2 plant
- 20,5% interest in the Motolo UG2 plant

The Venture has received all of its New Order Prospecting and Mining Rights and Mining Right Conversions for chrome that it applied for from the Department of Mineral Resources.

Group financial results

The financial statements set out the financial results of the group and company on pages 91 to 139. 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 is accounted for in order to determine earnings before taxation of the group. No transfer of assets to the Venture occurred. Property, plant and equipment is depreciated and amortised as described in the accounting policies.

Merafe's earnings from the Venture increased significantly from the comparative year primarily as a result of the increase in the average European benchmark ferrochrome price from 85US\$/lb in 2009 to 124US\$/lb in 2010.

During 2010, the Venture operated at an average ferrochrome capacity of 74% of installed capacity compared to the 2009 year of 50%.

The group managed cash effectively and after paying a dividend and secondary taxation on companies of R53 million, settling R50 million of long-term debt, investing R270 million in sustaining and expansionary capital expenditure and generating cash of R231 million*, closed with a healthy cash balance of R321 million.

Borrowing powers

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

**Net cash from operating activities of R245 million, effect of exchange rates fluctuations on cash held during the year of (R23 million) and proceeds from issue of share capital of R9 million.*

Directors' report *continued*

for the year ended 31 December 2010

New projects

Project Tswelopele

Merafe has approved a 20,5% participation in Project Tswelopele, being the construction of a 600 000 tonnes per annum pelletising and sintering plant at the Venture's Rustenburg smelter.

Merafe's share of Project Tswelopele is expected to cost R190 million and will be funded from the Venture's current and future cash flows of which R47,9 million has been spent up to balance sheet date.

This project was initiated after the success of a similar plant, Bokamoso, which the Venture commissioned adjacent to its Wonderkop smelter in 2007. Bokamoso is a large chrome ore pelletising and sintering plant that has an annual capacity of 1,2 million tonnes. By using the pellets produced in the Bokamoso plant, there have been significant improvements in furnace efficiencies, resulting in reduced production costs.

In line with the Venture's commitment to local beneficiation, chromite concentrate will be agglomerated within the planned 600 000 tonnes per annum pelletising and sintering plant, and then used for the production of ferrochrome at the Rustenburg smelter. This enhances the Venture's strategy of utilising additional UG2 ore in the ferrochrome production process. It is anticipated that the Venture will benefit from the following:

- An improvement in the overall energy efficiency of the operations
- Cost benefits per tonne of ferrochrome resulting from efficiency savings
- More efficient use of reductants and an improved ratio of chromite concentrate usage to ferrochrome produced
- A more stable production environment
- Significant environmental improvements with less slag generation, less road transport and less fugitive emissions
- It will extend the life of existing mining operations

This new plant will result in a complete solution of pelletising and sintering technologies across all five locations operated within the Venture. Also, this project will contribute to sustainable job creation.

Subject to the normal environmental approvals, the new plant is planned to be fully operational by 2013 and the team that successfully implemented, commissioned and managed the Bokamoso Project will be responsible for the delivery of this new facility.

Project Lion II

Xstrata South Africa (Proprietary) Limited (Xstrata) has approved the second phase of the Lion smelter complex expansion (Lion II). The expansion will involve the construction and commissioning of a 360 000 tonne per annum ferrochrome capacity smelter and will increase the Venture's total ferrochrome capacity to over 2,3 million tonnes per annum at a capital cost of R4,9 billion. The capital cost includes R700 million for the concurrent development of the 1,2 million ROM tonne per annum Magareng mine within the Thornccliffe mine complex. Bulk earthworks will commence in the first quarter of 2011 and commissioning is planned for the first half of 2013. The expansion will create over 1 000 permanent jobs and a further 1 800 jobs will be generated during the construction phase. Merafe has a right to participate in Lion II at cost, in accordance with its current participation interest of 20,5% in the Venture. In addition, Merafe has the right to simultaneously increase its interest above 20,5% in Lion II and the Venture up to 26%. Merafe and its partner, Xstrata are in discussions in this regard.

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.

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 and economic circumstances

Directors' report *continued*

for the year ended 31 December 2010

prevailing at the time. In addition, in any given year, the directors may consider an additional distribution in the form of special dividends and/or share buy-backs dependent on the company's financial condition, future cash requirements, future earnings prospects, availability of distributable reserves and other factors. Dividends are recognised when they are declared by the board of the company.

Ordinary dividends

An ordinary dividend of R49 million was declared on 26 February 2010 and paid on 29 March 2010. On 25 February 2011, an ordinary dividend of R49,5 million was declared by the board.

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.

Directorate

The following changes to the board of directors were effected:

	Effective date	Details
1	31 March 2010	Mr Steve Phiri resigned as Chief Executive Officer (CEO) and continued as a non-executive director.
2	1 April 2010	Mr Stuart Elliot, the company's Chief Financial Officer (CFO) was appointed the new CEO and continued to act as CFO until the appointment of the new CFO on 1 October 2010.
3	5 May 2010	Dr Con Fauconnier resigned as a non-executive director.
4	9 September 2010	Mr Abiel Mngomezulu joined the board as a non-executive director.
5	9 September 2010	Mr Mzila Mthenjane resigned as a non-executive director.
6	1 October 2010	Ms Zanele Matlala, who was previously a non-executive director, was appointed CFO.
7	19 November 2010	Mr Tlamelo Ramantsi resigned as a non-executive director.
8	1 December 2010	Ms Karabo Nondumo joined the board as a non-executive director.
9	1 December 2010	Mr Mfanyana Salanje joined the board as a non-executive director.

Non-executive directors are remunerated quarterly for their contribution to the board. Executive directors do not receive board fees in addition to their remuneration. Details of the current board of directors are set out on pages 56 and 57 of this annual report. A detailed report on directors' remuneration has been prepared in accordance with the JSE Limited Listings Requirements and appears in note 22.1 to the annual financial statements.

Major shareholders

The following shareholders were the registered holders of 5% or more of the issued ordinary shares in the company at 31 December 2010:

- Royal Bafokeng Resources Holdings (Proprietary) Limited – 29,1%
- The Industrial Development Corporation of South Africa Limited – 22,1%
- JP Morgan Asset Management (UK) Limited – 7,1%
- Abax Investments (Proprietary) Limited – 5,2%

Directors' report *continued*

for the year ended 31 December 2010

Directors' interests in Merafe Resources Limited

As at 31 December 2010, the directors of the company are beneficially interested (directly and indirectly) in 11 417 225 shares (31 December 2009: 11 417 225 shares) in the company.

	2010		2009	
	Direct	Indirect	Direct	Indirect
Stuart Elliot	10 076 115	–	10 076 115	–
Bruce McBride	–	1 000 000	–	1 000 000
Zanele Matlala	24 500	–	24 500	–
Steve Phiri	254 000	–	254 000	–
Belese Majova	–	62 610	–	62 610
Total	10 354 615	1 062 610	10 354 615	1 062 610

Details of investments in subsidiaries and special purpose entities

	Issued share capital R	Percentage holding		Shares at cost		Loans (from)/to subsidiaries	
		2010 %	2009 %	2010 R	2009 R	2010 R'000	2009 R'000
Investments in subsidiaries							
Directly held							
Southwits Mining Company (Proprietary) Limited	100	100	100	100	100	(102)	(102)
Merafe Chrome & Alloys (Proprietary) Limited	100	100	100	200	200	1 265 059	1 116 438
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 & Mining (Proprietary) Limited	100	100	100	400	400	*	*
PSV Resources Kroondal (Proprietary) Limited	100	50	50	100	100	–	–
PSV Resources Marikana (Proprietary) Limited	100	26	26	100	100	–	–
PSV Resources Waterval (Proprietary) Limited	100	41	41	100	100	–	–

Interest in the profits of subsidiaries for the year ended 31 December 2010 amounted to R159,2 million and interests in the losses of subsidiaries for the year ended 31 December 2009 amounted to R152,2 million. Subsidiaries are incorporated in the Republic of South Africa.

*less than R1 000

Directors' report *continued*

for the year ended 31 December 2010

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
- Merafe Resources Limited Share Incentive Scheme Trust

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

Property, plant and equipment

There were no changes in the nature of property, plant and equipment or in the policy regarding their use during the year under review. No impairment of property, plant and equipment has been recognised as management is of the opinion that the carrying value of property, plant and equipment is reflected at less than its recoverable amount and no impairment is necessary.

Events after the reporting date

No material facts or circumstances, other than set out in note 26 have occurred after the reporting date, being 31 December 2010, and the date of this report.

Statements of consolidated and separate comprehensive income

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Revenue	14	2 558 441	1 839 169	32 367	17 807
Foreign exchange losses		(39 519)	(81 753)	–	–
Operating and other (expenses)/income		(1 989 107)	(1 857 727)	84 915	(39 612)
Earnings/(losses) before interest, taxation, depreciation and amortisation		529 815	(100 311)	117 282	(21 805)
Depreciation		(113 535)	(106 189)	(208)	(222)
Results from operating activities	15	416 280	(206 500)	117 074	(22 027)
Net finance (expense)/income	16	(24 997)	(11 975)	5 881	22 695
Finance expense		(33 853)	(39 568)	(1)	(1)
Finance income		8 856	27 593	5 882	22 696
Profit/(loss) before income tax		391 283	(218 475)	122 955	668
Income tax	17	(112 579)	66 150	(3 482)	(795)
Profit/(loss) and total comprehensive income/(loss) for the year		278 704	(152 325)	119 473	(127)
Profit/(loss) and total comprehensive income/(loss) for the year attributable to:					
Owners of the company		278 704	(152 325)	119 473	(127)
Earnings/(loss) per share					
Basic earnings/(loss) per share (cents)	18.1	11	(6)		
Diluted earnings/(loss) per share (cents)	18.3	11	(6)		

Dividend declared (R'000)	26	49 533**	49 185*
Dividends per share (cents)	26	2**	2*

* This relates to the dividend that was approved at a board meeting on 26 February 2010

** This relates to the dividend that was approved at a board meeting on 25 February 2011

Statements of consolidated and separate financial position

as at 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Assets					
Property, plant and equipment	2.1	2 192 600	1 949 464	4 063	4 417
Investments	3	–	–	1 264 957	1 116 336
Deferred tax assets	11	–	–	5 015	4 452
Total non-current assets		2 192 600	1 949 464	1 274 035	1 125 205
Inventories	4	865 251	757 457	–	–
Trade and other receivables	5	435 514	234 346	157	1 844
Current tax assets		3 519	–	–	–
Cash and cash equivalents	19.1	320 724	462 632	86 304	144 596
Total current assets		1 625 008	1 454 435	86 461	146 440
Total assets		3 817 608	3 403 899	1 360 496	1 271 645
Equity					
Share capital	6	24 767	24 593	24 767	24 593
Share premium	7	1 253 568	1 244 072	1 253 568	1 244 072
Equity-settled share-based payment reserve	8	24 391	22 109	24 391	22 109
Retained earnings/(accumulated loss)		1 272 279	1 042 762	45 135	(25 151)
Total equity attributable to equity holders of the company		2 575 005	2 333 536	1 347 861	1 265 623
Liabilities					
Loans and borrowings	9	312 786	363 626	1 542	1 481
Provision for closure and restoration costs	10	39 439	37 347	–	–
Deferred tax liability	11	469 534	381 180	–	–
Total non-current liabilities		821 759	782 153	1 542	1 481
Loans and borrowings	9	831	888	–	–
Financial liability	12	11 048	8 568	–	–
Trade and other payables	13	408 965	278 735	11 093	4 541
Current tax liability		–	19	–	–
Total current liabilities		420 844	288 210	11 093	4 541
Total liabilities		1 242 603	1 070 363	12 635	6 022
Total equity and liabilities		3 817 608	3 403 899	1 360 496	1 271 645

Statements of changes in equity

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Issued share capital – ordinary shares	6	24 767	24 593	24 767	24 593
Balance at beginning of year		24 593	24 593	24 593	24 593
Share options exercised		174	–	174	–
Share premium – ordinary shares	7	1 253 568	1 244 072	1 253 568	1 244 072
Balance at beginning of year		1 244 072	1 244 072	1 244 072	1 244 072
Share premium arising from share options exercised		9 496	–	9 496	–
Equity-settled share-based payment reserve	8	24 391	22 109	24 391	22 109
Balance at beginning of year		22 109	15 586	22 109	15 586
Share-based payment		2 282	6 523	2 282	6 523
Retained earnings/(accumulated loss)		1 272 279	1 042 762	45 135	(25 151)
Balance at beginning of year		1 042 762	1 195 087	(25 151)	(25 024)
Profit/(loss) and total comprehensive income/(loss) for the year		278 704	(152 325)	119 473	(127)
Ordinary dividend paid		(49 187)	–	(49 187)	–
Total equity at end of year		2 575 005	2 333 536	1 347 861	1 265 623

Statements of consolidated and separate cash flows

for the year ended 31 December 2010

	Notes	Group		Company	
		2010 R'000	2009 R'000	2010 R'000	2009 R'000
Cash flows from operating activities					
Cash generated from/(utilised in) operating activities	19	294 534	266 703	128 009	(27 396)
Interest paid	16	(33 853)	(39 568)	(1)	(1)
Interest received	16	8 856	27 418*	5 882	22 696
Taxation paid	19.2	(23 715)	(87 728)	–	(10 194)
Net cash from/(utilised in) operating activities		245 822	166 825	133 890	(14 895)
Cash flows from investing activities					
Advance of subsidiary loan account		–	–	(148 621)	(134 309)
Acquisition of property, plant and equipment					
– sustaining		(167 126)	(180 990)	(60)	(50)
– expansionary		(103 372)	(1 593)	–	–
Net cash utilised in investing activities		(270 498)	(182 583)	(148 681)	(134 359)
Cash flows from financing activities					
Proceeds from issue of share capital		9 670	–	9 670	–
Dividends paid		(49 187)	–	(49 187)	–
Secondary tax on companies paid		(4 045)	–	(4 045)	–
Loans raised during the year		–	–	61	99
Decrease in non-current borrowings		(50 840)	(2 548)	–	–
Net cash (used in)/generated from financing activities		(94 402)	(2 548)	(43 501)	99
Net decrease in cash and cash equivalents		(119 078)	(18 306)	(58 292)	(149 155)
Cash and cash equivalents at 1 January		462 632	539 741	144 596	293 751
Effect of exchange rate fluctuations on cash held during the year		(22 830)	(58 803)	–	–
Cash and cash equivalents at 31 December	19.1	320 724	462 632	86 304	144 596

* Amount is net of the interest accrual of R0,175 million

Significant accounting policies

for the year ended 31 December 2010

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 2010 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.

1.2 Basis of preparation

The annual financial statements were authorised by the board on 25 February 2011.

1.2.1 Statement of compliance

The consolidated annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), the AC500 Standards as issued by the Accounting Practices Board and its successor and in the manner required by the Companies Act of South Africa.

1.2.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for the following items which are stated at their fair value:

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

1.2.3 Functional and presentation currency

The consolidated financial statements are presented in South African rand, which is the company's functional currency. All financial information presented in South African rand has been rounded to the nearest thousand, unless otherwise stated.

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 if the revision affects only that period or in the period of the revision and future periods, if the revision affects both current and future periods.

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

Note 1.5.3	Measurement of depreciation and amortisation of property, plant and equipment
Note 1.8	Measurement of provision for closure and restoration costs
Note 1.11.2	Share-based payment transactions
Note 1.19	Determination of fair values
Notes 9 and 24	Lease classification
Note 10	Provision for closure and restoration costs
Note 11	Utilisation of tax losses

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.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.2 Basis of preparation (continued)

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. The directors have considered all of these Standards and Interpretations and do not expect them to have any significant impact on future financial statements. All Accounting Standards and Interpretations in issue at the time of finalising the financial statements were considered. The accounting policies have been applied consistently by the group for all periods presented.

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 commences until the date that control ceases. In the company financial statements, subsidiaries are stated at cost less accumulated impairment losses. The accounting policies of subsidiaries have been changed when 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 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 22.2 contains details of the group's share of the working capital and EBITDA of the Venture.

1.3.3 *Special Purpose Entities*

The group has established Special Purpose Entities (SPEs). Refer to Related parties note 22 for the identity and relationship of the Special Purpose Entities to the group. The group does not have any direct or indirect shareholdings 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.

Significant accounting policies *continued*

for the year ended 31 December 2010

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 retranslated 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 cost in a foreign currency are translated using the exchange rate at the date of the transaction.

1.5 Property, plant and equipment

1.5.1 Recognition and measurement

1.5.1.1 Mining assets

Mining assets, including mine development costs and mine plant facilities, are stated at cost less accumulated depreciation and accumulated 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 have diminished below cost, an impairment loss is raised against income in the period that such determination is made.

1.5.1.3 Non-mining assets

Land is shown at cost and is not depreciated. Buildings and other non-mining property, plant and equipment are shown at cost less accumulated depreciation and impairment losses. The cost of self-constructed assets includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items, and restoring the site on which they are located and, 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 income/(expenses)".

Significant accounting policies *continued*

for the year ended 31 December 2010

1.5 Property, plant and equipment (continued)

1.5.1 Recognition and measurement (continued)

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 is 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 their cost of acquisition or 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, the excess is fully provided against, 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.

1.5.1.5 Capital work in progress

Assets in the course of construction are recognised in capital work in progress. On completion, the cost of construction is transferred to the appropriate category of property, plant and equipment. The cost of property, plant and equipment comprises its purchase price and any costs directly attributable to bringing it into working condition for its intended use. Costs associated with a start-up period are capitalised where the asset is available for use but incapable of operating at normal levels without a commissioning period.

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

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.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.5 Property, plant and equipment (continued)

1.5.3 Depreciation and amortisation (continued)

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 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, that excess is fully provided against in the financial year in which this is determined.

1.5.3.4 Non-mining assets

Non-mining equipment, structures and plant and equipment are depreciated using the straight-line method over the estimated useful life.

1.5.3.5 Leased assets

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

Other leases are operating leases and are not recognised in the group's statement of financial position.

1.6 Financial instruments

1.6.1 Derivative financial instruments

The group holds derivative financial instruments to hedge its foreign currency and interest rate risk exposure. An embedded derivative is recognised on certain sales contracts, refer note 1.12. Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit and loss when incurred. Subsequent to initial recognition, non-trading derivatives that are not designated in a qualifying hedge relationship are measured at fair value and any changes therein are recognised immediately in profit or loss.

1.6.1.1 Derivative financial instruments, including hedge accounting

On initial designation of the derivative as the 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 – 125 percent. 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 could ultimately affect reported profit or loss.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.6 Financial instruments *continued*

1.6.1 *Derivative financial instrument continued*

1.6.1.1 *Derivative financial instruments, including hedge accounting continued*

Derivatives are recognised initially at fair value; 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:

1.6.1.2 *Cash flow hedges*

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

When the hedge item is a non-financial asset, the amount accumulated in equity is included in the carrying amount of the asset when the asset is recognised. In other cases 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 in profit or loss.

1.6.2 *Non-derivative financial assets*

The group initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the date at which 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 on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the group is recognised as a separate asset or liability. Assets that are transferred via the debtors discounting agreement are accounted for as a reduction in trade and other receivables.

Financial assets and financial 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 on a net basis or to realise the asset and settle the liability simultaneously.

The group has the following non-derivative financial assets:

- trade and other receivables
- cash and cash equivalents

Trade and other receivables

Trade and other receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Investment in equity and debt securities are financial assets that are not quoted in an active market. Trade and other receivables and investments in equity and debt securities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these non-derivative financial assets are measured using the effective interest method, less any impairment losses.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.6 Financial instruments (continued)

1.6.2 *Non-derivative financial assets (continued)*

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Cash and cash equivalents are measured at amortised cost using the effective interest rate method.

1.6.3 *Non-derivative financial liabilities*

Financial liabilities are recognised initially on the trade date at which the group becomes a party to the contractual provisions of the instrument.

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

The group has the following non-derivative financial liabilities: loans and borrowings; bank overdrafts and trade and other payables.

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

1.7 Share capital

1.7.1 *Ordinary shares*

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

1.8 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, where appropriate.

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.

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

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

Guarantees have been provided by the Venture to the Department of Mineral Resources in respect of the liability for closure and restoration costs.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.9 Inventories

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

Cost is determined on the following basis:

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

1.10 Impairment

1.10.1 *Financial assets*

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

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

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

An impairment loss is 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.

1.10.2 *Non-financial assets*

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

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

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

Significant accounting policies *continued*

for the year ended 31 December 2010

1.10 Impairment *continued*

1.10.2 *Non-financial assets continued*

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

1.11 Employee benefits

1.11.1 *Short-term benefits*

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

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

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 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.

1.11.2 *Share-based payment transactions*

The share incentive scheme allows qualifying directors and certain 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.

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

Significant accounting policies *continued*

for the year ended 31 December 2010

1.12 Revenue

1.12.1 *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.

The significant risks and rewards of ownership pass to the buyer based on Incoterms 2000.

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 distribution 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' in the statement of financial position.

1.12.2 *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 in accordance with the stages of completion.

1.13 Lease payments

1.13.1 *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.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.13.2 *Finance lease payments*

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

1.14 Finance income and expenses

1.14.1 *Finance income*

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

1.14.2 *Finance expenses*

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

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

1.15 Income tax

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

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets and they relate to income taxes levied by the same tax authorities on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

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

Secondary tax on companies

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend. Refer to note 17 of the annual financial statements.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.16 Segment reporting

The company adopted IFRS 8: Operating Segments, which is an accounting policy effective from the prior year and requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. 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.

Ferrochrome is the final product produced by the Venture. Most of the product produced is used in the manufacture of stainless steel.

1.17 Earnings per share

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

1.18 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 in the post-balance sheet period are disclosed in the notes to the financial statements and are not recognised in the current financial statements.

1.19 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.

1.19.1 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.

1.19.2 Derivatives

The fair value of the interest rate swap is based on broker quotes. The quotes are tested for reasonableness by discounting estimated future cash flows based on the term and maturity of the contract and using market interest rates for a similar instrument at the measurement date. The fair value of cash flow hedges are indicated in note 1.6.1.2.

1.19.3 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.

Significant accounting policies *continued*

for the year ended 31 December 2010

1.19 Determination of fair values *continued*

1.19.4 *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.

1.20 Mining royalty

The mining royalty is 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 a mineral resource.

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 income/(expenses).

Notes to the consolidated and separate annual financial statements

for the year ended 31 December 2010

2. Property, plant and equipment 2.1 Property, plant and equipment

	At the beginning of year – 2010			Movements during the year – 2010			At the end of year – 2010		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Additions R'000	Disposals R'000	Depreciation impairment and charge for the year R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Group 2010									
Fixed property and mineral rights	137 606	(28 774)	108 832	–	–	(5 025)	137 606	(33 799)	103 807
Boshoeck smelter	898 405	(63 657)	834 748	109 689	(5 003)	(34 641)	1 003 091	(93 295)	909 796
Horizon, Boshoeck, Kroondal, Wonderkop JV** and Marikana mines	147 593	(18 724)	128 869	115 859	(271)	(24 340)	263 181	(42 793)	220 388
Wonderkop smelter	243 750	(30 231)	213 519	14 014	(218)	(9 836)	257 546	(39 849)	217 697
Wonderkop mine	29 186	(6 639)	22 547	1 404	(1 529)	(3 718)	29 061	(8 828)	20 233
Lion ferrochrome smelter	356 438	(33 661)	322 777	19 542	(8 316)	(20 866)	367 664	(46 211)	321 453
Helena and Magareng mines***	85 882	(10 427)	75 455	24 904	(79)	(7 255)	110 707	(17 603)	93 104
Bokamoso pelletising plant	187 636	(14 394)	173 242	10 834	(3 227)	(10 035)	195 243	(21 202)	174 041
Corporate assets	1 608	(1 214)	394	60	–	(208)	1 668	(1 422)	246
Capital work in progress	69 081	–	69 081	62 754	–	–	131 835	–	131 835
Total	2 157 185	(207 721)	1 949 464	359 060	(18 643)	(115 924)*	2 497 602	(305 002)	2 192 600
Company 2010									
Fixed property and mineral rights	4 023	–	4 023	–	–	(206)	4 023	(206)	3 817
Corporate assets	1 608	(1 214)	394	60	–	(208)	1 668	(1 422)	246
Total	5 631	(1 214)	4 417	60	–	(414)	5 691	(1 628)	4 063

* R113,7 million is recognised in the statement of comprehensive income which comprises R113,5 million depreciation and R0,2 million impairments. R2,2 million is capitalised to inventory

** Includes the Kanana UG2 Plant and the EPL UG2 plant

*** Includes the Mototolo UG2 plant

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

The total carrying value of property, plant and equipment is encumbered by a loan more fully described in note 9.2.

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

Notes to the consolidated and separate annual financial statements *continued*
for the year ended 31 December 2010

2. Property, plant and equipment (continued)
2.1 Property, plant and equipment (continued)

	At the beginning of year – 2009			Movements during the year – 2009			At the end of year – 2009		
	Cost R'000	Accumulated depreciation R'000	Carrying value R'000	Additions R'000	Disposals R'000	Depreciation charge for the year R'000	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Group 2009									
Fixed property and mineral rights	137 606	(23 891)	113 715	–	–	(4 883)	137 606	(28 774)	108 832
Boshoeck smelter	868 021	(52 087)	815 934	66 891	(36 507)	(48 077)	898 405	(63 657)	834 748
Horizon, Boshoeck, Kroondal and Marikana mines	83 322	(14 131)	69 191	65 092	(82 1)	(5 414)	147 593	(18 724)	128 869
Wonderkop smelter	203 559	(22 457)	181 102	40 662	(47 1)	(8 245)	243 750	(30 231)	213 519
Wonderkop mine	29 186	(4 426)	24 760	–	–	(2 213)	29 186	(6 639)	22 547
Lion ferrochrome smelter	346 609	(20 863)	325 746	21 397	(11 568)	(24 366)	356 438	(33 661)	322 777
Helena and Magareng mines	70 195	(6 287)	63 908	16 790	(1 103)	(5 243)	85 882	(10 427)	75 455
Bokamoso pelletising and sintering plant	186 016	(6 927)	179 089	4 109	(2 489)	(9 956)	187 636	(14 394)	173 242
Corporate assets	1 558	(992)	566	50	–	(222)	1 608	(1 214)	394
Capital work in progress	87 174	–	87 174	(18 093) ¹	–	–	69 081	–	69 081
Total	2 013 246	(152 061)	1 861 185	196 898	(52 959)	(108 619)*	2 157 185	(207 721)	1 949 464
Company 2009									
Fixed property and mineral rights	4 023	–	4 023	–	–	–	4 023	–	4 023
Corporate assets	1 558	(992)	566	50	–	(222)	1 608	(1 214)	394
Total	5 581	(992)	4 589	50	–	(222)	5 631	(1 214)	4 417

* R106,2 million is recognised in the statement of comprehensive income and R2,4 million is capitalised to inventory

¹ Relates to transfers from capital work in progress to additions during the year

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
2. Property, plant and equipment (continued)				
2.2 <i>Leased assets</i>				
The following leased assets where Merafe Ferrochrome is the lessee are included in the Boshhoek and Lion ferrochrome smelters:				
Plant and equipment				
Cost	45 962	45 962	–	–
Accumulated depreciation	(7 062)	(5 272)	–	–
Carrying value at end of year	38 900	40 690	–	–
Note: The cost and accumulated depreciation relates to 100% of the leased assets as recognised in the Venture's accounting records. Merafe's portion of the carrying value is R20,6 million (2009: R21,7 million).				
3. Investments				
Wholly-owned subsidiaries				
<i>Southwits Mining Company (Proprietary) Limited</i>			(102)	(102)
– Shares at cost			*	*
– Loan from subsidiary			(102)	(102)
<i>Merafe Chrome & Alloys (Proprietary) Limited</i>			1 265 059	1 116 438
– Shares at cost			*	*
– Loan to subsidiary			1 265 059	1 116 438
<i>Merafe Manganese (Proprietary) Limited</i>				
– Shares at cost			*	*
– Loan to subsidiary			*	*
<i>Merafe Coal (Proprietary) Limited</i>				
– Shares at cost			*	*
– Loan to subsidiary			*	*
<i>South African Chrome & Alloys (Proprietary) Limited</i>				
– Shares at cost			*	*
– Loan to subsidiary			*	*
<i>South African Ferrochrome & Mining (Proprietary) Limited</i>				
– Shares at cost			*	*
– Loan to subsidiary			*	*
Total wholly-owned subsidiaries			1 264 957	1 116 336

* Amount is less than one thousand

The above loans are unsecured, have no fixed repayment terms, 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.

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
4. Inventories				
Consumables stores	58 950	54 695	–	–
Raw materials	323 661	293 082	–	–
Finished goods	482 640	409 680	–	–
	865 251	757 457	–	–
5. Trade and other receivables				
Trade receivables	538 092	341 445	–	–
Trade receivables sold	(178 669)	(163 016)	–	–
Prepayments	3 924	5 906	129	163
Embedded derivative recognised on sales contracts	(6 067)	–	–	–
Project Tswelopele cash flow hedge	700	–	–	–
Other receivables	77 534	50 011	28	1 681
	435 514	234 346	157	1 844

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 + 1,5% (London Interbank Offered Rate) on balances that are overdue.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
6. Share capital				
Authorised – 3 500 000 000 ordinary shares of 1 cent each	35 000	35 000	35 000	35 000
Issued – 2 476 656 043 ordinary shares of 1 cent each				
31 December 2009 – 2 459 258 860 ordinary shares of 1 cent each				
Issued share capital at beginning of year	24 593	24 593	24 593	24 593
Share options exercised	174	–	174	–
Issued share capital at end of year	24 767	24 593	24 767	24 593

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
7. Share premium				
Balance at beginning of year	1 244 072	1 244 072	1 244 072	1 244 072
Arising from share options exercised	9 534	–	9 534	–
Share issue expenses arising from share options exercised	(38)	–	(38)	–
Balance at end of year	1 253 568	1 244 072	1 253 568	1 244 072

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 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 payments in accounting and disclosing for all share options granted, except for share options granted before 7 November 2002, or share options granted after this date, but which had vested prior to 1 January 2005.

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

Management has applied the provisions of IFRS 2: Share-based payments in accounting and disclosing share options and share grants issued under the new scheme.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
Reconciliation of share-based payment				
Balance at beginning of year	22 109	15 586	22 109	15 586
Movement during the current year	2 282	6 523	2 282	6 523
Balance at end of year	24 391	22 109	24 391	22 109

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

for the year ended 31 December 2010

8.1 Equity-settled share-based payment reserve (continued)

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

Grant date/employees entitled	Number of options	Vesting conditions
Options granted prior to 7 November 2002	1 450 000	One third per year over the period 31 December 2004 to 31 December 2006
	17 472	One third per year over the period 31 December 2005 to 31 December 2007
Options granted to senior employees on 1 February 2003	166 667	One third per year over the period 30 June 2006 to 30 June 2008
Options granted to senior employees on 1 August 2003	833 333	One third per year over the period 31 December 2006 to 31 December 2008
Options granted to key management on 1 December 2005	20 144 799	One third per year over the period 31 December 2008 to 31 December 2010
Options granted to key management on 30 June 2006	1 768 432	One third per year over the period 30 June 2009 to 30 June 2011
Options granted to senior employees on 27 July 2006	1 916 667	One third per year over the period 30 June 2009 to 30 June 2011
Options granted to key management on 1 March 2008	10 717 253	One third per year over the period 1 March 2011 to 1 March 2013
Options granted to senior employees on 1 March 2008	3 634 935	One third per year over the period 1 March 2011 to 1 March 2013
Options granted to a senior employee on 9 March 2009	3 000 000	One third per year over the period 1 March 2012 to 1 March 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
	48 959 100	

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 of by the directors or in the event of the employee's death, the employee or his/her estate has 12 and 24 months respectively to exercise and/or implement options granted to that employee.

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

for the year ended 31 December 2010

8.1 Equity-settled share-based payment reserve (continued)

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

	2010		2009	
	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	105	72 041	111	72 317
Options granted during the year	134	5 425	69	3 000
Options exercised during the year	56	(17 397)	–	–
Options forfeited during the year	174	(11 110)	125	(3 276)
Outstanding balance at end of year	116*	48 959	105*	72 041
Exercisable at end of year	56**	7 971	56**	33 197

* 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	
	2010 000's	2009 000's
45 cents	1 467	1 467
54 cents	–	6 534
55 cents	20 145	30 218
56 cents	1 768	2 653
60 cents	–	3 000
67 cents	1 917	2 000
69 cents	3 000	3 000
73 cents	833	833
98 cents	167	333
136 cents	5 310	–
227 cents	14 352	22 003
	48 959	72 041

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

for the year ended 31 December 2010

8.1 Equity-settled share-based payment reserve (continued)

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

	Company	
	2010 000's	2009 000's
31 December 2004	450	450
31 December 2005	500	500
31 December 2006	500	500
30 June 2007	–	3 267
31 December 2007	17	17
30 June 2008	167	3 600
31 December 2008	7 549	11 572
30 June 2009	589	1 884
31 December 2009	7 298	11 406
30 June 2010	589	884
31 December 2010	7 382	11 406
1 March 2011	4 784	7 334
30 June 2011	589	884
31 December 2011	667	667
1 March 2012	4 784	7 335
30 June 2012	1 000	1 000
1 March 2013	4 784	7 335
30 June 2013	1 000	1 000
30 June 2014	1 000	1 000
1 October 2013	885	–
1 October 2014	1 770	–
1 October 2015	1 770	–
1 October 2016	885	–
	48 959	72 041

The following share options were outstanding at 31 December 2010 in favour of directors of the company:

	SP Elliot	ZJ Matlala	B McBride
Average exercise price (cents)	119	136	103
	000's	000's	000's
Exercisable on 31 December 2007	9	–	9
Exercisable on 31 December 2008	3 357	–	3 357
Exercisable on 30 June 2009	295	–	295
Exercisable on 31 December 2009	3 357	–	3 357
Exercisable on 30 June 2010	295	–	295
Exercisable on 31 December 2010	3 357	–	3 357
Exercisable on 1 March 2011	2 165	–	1 407
Exercisable on 30 June 2011	295	–	295
Exercisable on 1 March 2012	2 165	–	1 407
Exercisable on 1 March 2013	2 165	–	1 407
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	–
Total	17 460	5 310	15 186

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

for the year ended 31 December 2010

8.1 Equity-settled share-based payment reserve (continued)

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

	Key management personnel			Senior and other employees		
	2010 Share grants	2010 Share options	2009	2010 Share grants	2010 Share options	2009
Fair value at grant date in cents	146	88	67	158	70	60
Share price in cents (weighted average)	162	200	110	170	156	110
Exercise price in cents (weighted average)	0*	200*	158*	0*	156*	139*
Expected volatility	50%	38%	35%	50%	40%	39%
Option life (expected weighted average)	4,19 years	5 years	5 years	4,02 years	5 years	5 years
Expected dividends	1,41%	1,23%	1,57%	1,38%	0,79%	1,33%
Risk-free interest rate	7,95%	9,31%	9,08%	8,10%	8,71%	8,66%
Weighted average share price of options exercised	–	1,43	–	–	1,52	–

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

8.2 Share grants

The new share incentive scheme was approved by shareholders on 13 April 2010. During 2010, various 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 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 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 issued during 2010 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.

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

for the year ended 31 December 2010

8.2 Share grants (continued)

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:

Vesting condition	Type	Weighting	Probability of achievement		
			3 year option	4 year option	5 year option
Capacity growth*	non-market	25%	100%	75%	50%
Assets under management**	non-market	25%	100%	80%	70%
JSE SRI Index***	non-market	25%	100%	100%	70%
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 payments.

The following assumptions were used in the valuation model:

Assumption	Weighted average
Risk free rate	8,24%
Expected volatility	50%
Expected dividend yield	1,30%
Expected life	4
Vesting periods (years)	3, 4 and 5
Average exercise price	–
Average grant price (Rands)	1,78
Average option value (Rands)	1,43

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

for the year ended 31 December 2010

8.2 Share grants (continued)

The following share grants were issued during the year to key management:

Share grant dates	Number	Vesting conditions
Shares granted on 29 April 2010	1 483 333	One third vesting 29 April 2013
	1 483 333	One third vesting 29 April 2014
	1 483 334	One third vesting 29 April 2015
Shares granted on 1 October 2010	457 094	Vesting 1 October 2013
	914 189	Vesting 1 October 2014
	914 189	Vesting 1 October 2015
	457 094	Vesting 1 October 2016
Total key management share grants	7 192 566	
		SP Elliot
Exercisable on 29 April 2013		930 000
Exercisable on 29 April 2014		930 000
Exercisable on 29 April 2015		930 000
Total		2 790 000
		ZJ Matlala
Exercisable on 1 October 2013		457 094
Exercisable on 1 October 2014		914 189
Exercisable on 1 October 2015		914 189
Exercisable on 1 October 2016		457 094
Total		2 742 566
		B McBride
Exercisable on 29 April 2013		553 333
Exercisable on 29 April 2014		553 333
Exercisable on 29 April 2015		553 334
Total		1 660 000
Total key management share grants		7 192 566

The following share grants were issued during the year to senior employees:

Share grant dates	Number	Vesting conditions
Shares granted on 29 April 2010 to senior employees	641 833	One third vesting 29 April 2013
	641 833	One third vesting 29 April 2014
	641 834	One third vesting 29 April 2015
Shares granted on 1 September 2010 to senior employee	116 666	One third vesting 1 September 2013
	116 667	One third vesting 1 September 2014
	116 667	One third vesting 1 September 2015
Total senior employee share grants	2 275 500	

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

for the year ended 31 December 2010

8.2 Share grants (continued)

A reconciliation of the share grants is presented below:

2010	Key management Number of grants	Senior employees Number of grants	Total
Share grants outstanding at beginning of year	–	–	–
Share grants granted during the year	7 192 566	2 275 500	9 468 066
Share grants outstanding at end of year	7 192 566	2 275 500	9 468 066
Exercisable at end of year	–	–	–

	Group		Company	
	2010	2009	2010	2009
	R'000	R'000	R'000	R'000

9. Loans and borrowings				
9.1 Finance leases – property, plant and equipment	13 617	14 514	–	–
9.2 ABSA Bank Limited	300 000	350 000	–	–
9.3 Horizon Nature Conservation Trust	–	–	1 542	1 481
Total loans and borrowings	313 617	364 514	1 542	1 481
Current portion of loans and borrowings				
– finance leases	(831)	(888)	–	–
Non-current portion of loans and borrowings	312 786	363 626	1 542	1 481

Minimum finance lease repayments:

2010	Capital R'000	Interest R'000	Total R'000
Repayable within the next year	831	1 892	2 723
Repayable later than 1 year but not later than 5 years	2 033	6 826	8 859
Repayable greater than 5 years	10 721	11 857	22 578
	13 585	20 575	34 160
2009			
Repayable within the next year	888	2 042	2 930
Repayable later than 1 year but not later than 5 years	2 415	7 117	9 532
Repayable greater than 5 years	11 211	13 429	24 640
	14 514	22 588	37 102

- 9.1 These loans are secured by finance leases over plant and equipment with a carrying value of R38,9 million (31 December 2009: R40,7 million) as per note 2.2. The loans are repayable in monthly instalments averaging R226 950 (31 December 2009: R431 000) per month. Interest is payable at an average of 14,25% (31 December 2009: 14,81%) per annum.

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

for the year ended 31 December 2010

9. Loans and borrowings (continued)

- 9.1 In accordance with the agreement with the Venture, Merafe Ferrochrome receives 20,5% of the Venture's working capital whilst retaining ownership of its assets. The finance lease obligations in the group's statement of financial position and the minimum finance lease repayments 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 This is a long-term loan and is repayable in full on 31 December 2012. R175 million of the loan bears interest at the Johannesburg Interbank Acceptance Rate plus a margin of 1,2958% plus bank costs and R125 million bears interest at a fixed rate of 10,61% plus a margin of 1,2958% plus bank costs. At year end, the variable rate including the margin and bank costs was 7,8% (31 December 2009: 9,0%).

The loan is secured by a General Notarial Bond over all property, plant and equipment owned by Merafe Ferrochrome and a cession of rights, title and interest in and to the participation interest in and under the Pooling and Sharing Agreement with Xstrata and a cession of rights, title and interest of Merafe Ferrochrome in and to the Wonderkop assets, Bokamoso assets and Lion ferrochrome and a cession of rights, title and interest in and to an amount of R40 million held with Prudential Portfolio Managers Unit Trust Limited on call and a guarantee by Merafe Resources Limited.

The security relates to a total carrying value of property, plant and equipment of R2 193 million (31 December 2009: R1 949 million).

The financial covenants relating to the loan during 2009 were as follows:

- The debt service cover ratio should not be less than 1,5:1
- The gearing ratio shall not be more than 50%

In addition, in terms of the agreement with ABSA Bank Limited, should the ferrochrome base (contract) price (ZAR cents per pound) decrease below 572 cents, then the aggregate of the outstanding loans will become due and payable in equal semi-annual instalments over the period from 30 June 2009 to the final maturity date, with the first repayment being due and payable on 31 December 2009.

During the six month period ending 30 June 2009, the ferrochrome base (contract) price (ZAR cents per pound) decreased below 572 cents per pound and the debt service cover ratio financial covenant was less than 1,5:1.

Management reached agreement with ABSA Bank Limited that the covenant breaches as at 30 June 2009 as well as any further potential breaches in the debt service cover ratio to 30 June 2010 are condoned subject to Merafe Ferrochrome ceding all its rights, title and interest in and to an amount of R40 million held on call with Prudential Portfolio Managers Unit Trust Limited.

The debt service cover ratio for the period 1 July 2010 to 31 December 2010 was not breached and therefore the cession will be released.

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

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
10. Provision for closure and restoration costs				
Balance at beginning of year	37 347	29 730	–	–
Utilised during the year	(1 602)	(1 093)	–	–
Provisions made during the year	1 161	6 612	–	–
Unwinding of discount	2 533	2 098	–	–
Balance at end of year	39 439	37 347	–	–
The provision relates to 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.				
For purposes of calculating this provision, management has assumed a long-term inflation rate of 5% and a discounting rate of 8% for both the current and prior year.				
11. Deferred tax (liabilities)/assets				
Recognised deferred tax (liabilities)/assets:				
Property, plant and equipment	(506 869)	(438 635)	(24)	(30)
Provisions and accruals	29 190	20 678	707	209
Finance leases	3 813	4 061	–	–
Tax losses	4 332	32 716	4 332	4 273
	(469 534)	(381 180)	5 015	4 452

Movement in temporary differences during the year

	Balance 1 January 2009	Recognised in profit in 2009	Balance 31 December 2009	Recognised in profit in 2010	Balance 31 December 2010
Property, plant and equipment	(477 079)	38 444	(438 635)	(68 234)	(506 869)
Provisions and accruals	22 982	(2 304)	20 678	8 512	29 190
Finance leases	4 865	(804)	4 061	(248)	3 813
Tax losses	–	32 716	32 716	(28 384)	4 332
	(449 232)	68 052	(381 180)	(88 354)	(469 534)

In 2009, tax losses in the group of R116,8 million were recognised as a deferred tax asset as management considered it probable, based on budgets for the year ahead, that future taxable profits will be available against which the tax losses can be utilised.

During 2010 the tax losses were fully utilised in Merafe Ferrochrome and Mining (Proprietary) Limited and a balance of R15,5 million remains in Merafe Resources Limited.

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
12. Financial liability				
Interest rate swap	11 048	8 568	–	–
The nominal amount of the interest rate swap is R125 million. The instrument ensures that the interest rate, before the margin and the bank costs, on the R125 million nominal amount, which is part of the ABSA loan, is fixed at 10,61% (31 December 2009: 10,61%). Refer note 9.2. Refer to note 20.2 for details regarding liquidity risk.				
13. Trade and other payables				
Trade payables	192 003	163 490	120	503
Employee benefit accruals	77 199	46 896	10 973	3 295
Income received in advance	–	5 548	–	–
Other payables and accruals	39 894	51 504	–	743
The Venture	99 869	11 297	–	–
	408 965	278 735	11 093	4 541

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. Income received in advance is interest bearing, at US\$ Libor.

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	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
14. Revenue				
Revenue from sale of ferrochrome and chrome ore	2 558 441	1 839 169	–	–
Management fee from services rendered to Merafe Ferrochrome	–	–	32 367	17 807
	2 558 441	1 839 169	32 367	17 807

Ferrochrome is the final product produced by the Venture. Most of the product produced is used in the manufacture of stainless steel. Revenue from sales of chrome ore is recognised in operating and other income/(expenses) in the prior year as chrome ore sales now form part of the normal operating activities of the group.

Geographical areas of operation of ferrochrome sales

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

Revenue destination	2010		2009	
	Revenue R'000	% of revenue in relation to total revenue	Revenue R'000	% of revenue in relation to total revenue
Africa*	134 273	5,2	50 097	2,7
Americas**	355 200	13,9	192 497	10,5
Asia***	1 225 712	47,9	994 955	54,1
Australia	1 201	0,1	5 610	0,3
Europe****	842 055	32,9	596 010	32,4
	2 558 441	100,0	1 839 169	100,0

* 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 consolidated and separate annual financial statements *continued*

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
15. Results from operating activities				
<i>The following items have been taken into account in arriving at results from operating activities:</i>				
Dividend income	–	–	123 270	–
Impairment of coal reserves	(206)	–	–	–
Embedded derivative recognised on sales contracts	(6 067)	–	–	–
Project Tswelopele cash flow hedge	700	–	–	–
Profit on disposal of property, plant and equipment – Gross	13 275 ¹	5 302	–	–
Tax	(3 717)	–	–	–
Net	9 558	–	–	–
¹ Relates to insurance recovery proceeds				
Auditors' remuneration	(1 827)	(2 518)	(886)	(1 469)
<i>The company</i>	(886)	(1 469)	(886)	(1 469)
– Audit fees	(664)**	(1 131)*	(664)**	(1 131)*
– Other services	(222)	(338)	(222)	(338)
<i>The Venture</i>	(941)	(1 049)	–	–
– Audit fees – current year	(509)	(722)	–	–
– Other services	(432)	(327)	–	–
* R877 000 relates to the 2008 financial year and R254 000 relates to the 2009 financial year				
** Relates to the 2009 financial year				
Consulting fees	(11 495)	(9 267)	(2 286)	(711)
<i>The company</i>	(2 286)	(711)	(2 286)	(711)
<i>The Venture</i>	(9 209)	(8 556)	–	–
Increase in provision for closure and restoration	(3 694)	(8 710)	–	–
Operating lease expenses	(7 233)	(4 237)	–	(844)
<i>The company</i>	(934)	(844)	(934)	(844)
– Office equipment	(207)	(144)	(207)	(144)
– Buildings	(727)	(700)	(727)	(700)
<i>The Venture</i>	(6 299)	(3 393)	–	–
– Office equipment	(679)	(637)	–	–
– Buildings	(5 620)	(2 756)	–	–
Personnel expenses	(423 234)	(370 723)	6 856	(15 614)
– Salaries and wages	(352 077)	(301 771)	(3 057)	(7 556)
– Defined contribution expense – provident fund	(32 181)	(24 275)	(1 476)	(1 636)
– Defined contribution expense – medical aid	(25 187)	(17 862)	(277)	(267)
– Equity-settled share-based payment expense	(2 282)	(6 523)	(2 282)	(6 523)
– (Increase)/decrease in accrual for leave pay and bonuses	(11 507)	(20 292)	236	368

The provident fund is governed by the Pension Funds Act and is a defined contribution benefit plan. There is no commitment of the group to meet unfunded benefits. The proportion of the group's employees covered by the plan is as follows:

	% of employees covered by the plan	
	2010	2009
Merafe Resources Limited	100	100
The Venture	100	100

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
16. Net finance (expense)/income recognised in profit and loss				
Finance expense	(33 853)	(39 568)	(1)	(1)
Finance expense on financial liabilities measured at amortised cost	(31 373)	(39 568)	(1)	(1)
Interest on loans and borrowings	(31 372)	(39 359)	–	–
Finance expense on bank overdraft	(1)	(209)	(1)	(1)
Fair value adjustment on interest rate swap	(2 480)	–	–	–
Finance income	8 856	27 593	5 882	22 696
Interest income on bank deposits	705	15 925	627	15 506
Dividend income	8 151	8 770	5 255	7 190
Fair value adjustment on interest rate swap	–	2 898	–	–
Net finance (expense)/income	(24 997)	(11 975)	5 881	22 695
Net finance (expense)/income per financial instrument category				
Loans and receivables	8 855	24 486	5 881	22 695
Interest income on bank deposits	705	15 925	627	15 506
Dividend income	8 151	8 770	5 255	7 190
Finance expense on bank overdraft	(1)	(209)	(1)	(1)
Financial liabilities measured at amortised cost	(31 372)	(39 359)	–	–
Interest expense on borrowings	(31 372)	(39 359)	–	–
Financial liabilities at fair value through profit and loss	(2 480)	2 898	–	–
Fair value adjustment on interest rate swap	(2 480)	2 898	–	–
	(24 997)	(11 975)	5 881	22 695

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
17. Income tax				
Normal taxation	(108 534)	66 150	563	(795)
Current tax	(20 180)	(1 902)	–	(1 883)
– current year	(20 180)	(19)	–	–
– prior year underprovision	–	(1 883)	–	(1 883)
Deferred tax				
Deferred taxation – current charge	(88 354)	68 052	563	1 088
Secondary tax on companies (STC)	(4 045)	–	(4 045)	–
Total taxation	(112 579)	66 150	(3 482)	(795)
The total estimated unredeemed capital expenditure in the group is R252 million (31 December 2009: R252 million).				
The company has unutilised STC credits of R344 279 (31 December 2009: R719 000).				
Profit/(loss) before income tax	391 283	(218 475)	122 955	668
	%	%	%	%
Taxation on profit/(loss) before taxation at standard rate	28	(28,0)	28,0	28,0
Taxation effect of non-deductible expenditure	1,0	3,6	0,8	295,0
Taxation effect of non-taxable income	(1,9)	(6,8)	(29,3)	(485,6)
Taxation effect of temporary differences	0,7	–	–	–
Prior year underprovision	–	0,9	–	281,8
Secondary taxation on companies	1,0	–	3,3	–
Effective tax rate	28,8	(30,3)	2,8	119,2
			2010 cents	2009 cents
18. Earnings/(loss) per share				
18.1 <i>Basic earnings/(loss) per share</i>			11	(6)

The calculation of basic earnings/(loss) per share is based on profit attributable to ordinary shareholders of R279 million for the year ended 31 December 2010, loss attributable to ordinary shareholders of R152 million for the year ended 31 December 2009, and a weighted average number of ordinary shares outstanding during the year of 2 463 152 779 (31 December 2009: 2 459 258 860).

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

for the year ended 31 December 2010

		Number of shares	
		2010	2009
18.	Earnings/(loss) per share (continued)		
18.1	<i>Basic earnings/(loss) per share (continued)</i>		
	Calculation of weighted average number of shares		
	Issued ordinary shares at 1 January	2 459 258 860	2 459 258 860
	Effect of share options exercised	3 893 919	–
	Weighted average number of shares at 31 December	2 463 152 779	2 459 258 860
		2010 cents	2009 cents
18.2	<i>Headline earnings/(loss) per share</i>	11	(6)
	The calculation of headline earnings/(loss) per share is based on profit attributable to ordinary shareholders of R269 million for the year ended 31 December 2010, loss attributable to ordinary shareholders of R158 million for the year ended 31 December 2009 and a weighted average number of shares outstanding during the year of 2 463 152 779 (31 December 2009: 2 459 258 860).		
		2010 R	2009 R
	Headline earnings/(loss) is calculated as follows:		
	Total comprehensive income/(loss) for the year	278 704 000	(152 325 000)
	Profit on disposal of property, plant and equipment	(9 558 000)	(5 302 000)
	Impairment of coal reserves	206 000	–
	Headline earnings/(loss)	269 352 000	(157 627 000)
		2010 cents	2009 cents
18.3	<i>Diluted earnings/(loss) per share</i>	11	(6)
	The calculation of diluted earnings/(loss) per share is based on profit attributable to ordinary shareholders of R279 million for the year ended 31 December 2010, loss attributable to ordinary shareholders of R152 million for the year ended 31 December 2009 and a weighted average number of shares outstanding during the year of 2 481 965 326 (31 December 2009: 2 482 014 143).		
		Number of shares	
		2010	2009
	Calculation of weighted average number of shares		
	Weighted average number of ordinary shares used in calculating diluted earnings/(loss) per share	2 463 152 779	2 459 258 860
	Deemed issue of ordinary shares in respect of share options and share grants	18 812 547	22 755 283
	Weighted average number of ordinary shares used in calculating diluted (loss)/earnings per share	2 481 965 326	2 482 014 143
		2010 cents	2009 cents
18.4	<i>Diluted headline earnings/(loss) per share</i>	11	(6)
	The calculation of diluted headline earnings/(loss) per share is based on profit attributable to ordinary shareholders of R269 million for the year ended 31 December 2010, loss attributable to ordinary shareholders of R158 million for the year ended 31 December 2009 and a weighted average number of shares outstanding during the year of 2 481 965 326 (31 December 2009: 2 482 014 143).		

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
19. Cash generated from operating activities				
Profit/(loss) before income tax	391 283	(218 475)	122 955	668
<i>Adjustments for:</i>				
Depreciation of property, plant and equipment	113 535	106 189	208	222
Impairment of coal reserves	206	–	206	–
Finance income	(8 856)	(27 593)	(5 882)	(22 696)
Finance expense	33 853	39 568	1	1
Equity-settled share-based payment expense	2 282	6 523	2 282	6 523
Provision for closure and restoration	2 092	7 617	–	–
Fair value adjustment on interest rate swap	2 480	(2 898)	–	–
Effect of exchange rate fluctuations on cash held during the year	22 830	58 803	–	–
	559 705	(30 266)	119 770	(15 282)
Change in inventories	(105 612)^a	312 124 ^a	–	–
Change in trade and other receivables	(201 168)	52 100 ^b	1 687	524
Change in trade and other payables	41 609^c	(67 255) ^c	6 552	(12 638)
Cash generated from/(utilised in) operating activities	294 534	266 703	128 009	(27 396)
^a net of depreciation capitalised to stock of R2,2 million (2009: R2,4 million)				
^b net of interest accrual of R0,175 million				
^c net of movement in loan account with the Venture of R88,6 million (2009: R14,3 million) and net of current portion of loans and borrowings of R0,57 million (2009: R0,312 million)				
19.1 Cash and cash equivalents				
Bank balances	190 015	163 534	4 344	898
Call deposits	130 655	261 206	81 954	143 696
Cash on hand	54	23	6	2
Cash held by Xstrata	–	37 869**	–	–
Cash and cash equivalents in statement of cash flows	320 724*	462 632*	86 304	144 596
<i>*Reconciliation of cash in the group</i>				
Cash in the Venture	184 621	183 165		
Cash in Merafe Ferrochrome, the company and Merafe Kroondal Rehabilitation Trust	136 103	279 467		
Total	320 724	462 632		

**This cash balance was held by Xstrata on behalf of Merafe Ferrochrome at 31 December 2009 and relates to cash distributed by the Venture during December 2009 of US\$5 125 000. The cash was subsequently banked by Merafe Ferrochrome during 2010

R40 million of the call deposits held with Prudential Portfolio Managers Unit Trust Limited is ceded to ABSA Bank Limited as security for the R300 million loan more fully described in note 9.2.

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 a sensitivity analysis for financial assets and liabilities are disclosed in note 20.

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
19. Cash generated from operating activities (continued)				
19.2 Taxation paid				
Income tax	(23 715)	(87 728)	–	(10 194)
Secondary tax on companies	(4 045)	–	–	–
Taxation paid	(27 760)	(87 728)	–	(10 194)

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
- Market risk

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

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

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

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

Whilst 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 other market risks in accordance with the group's strategy. Other responsibilities of the 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 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, financial liabilities measured at amortised cost and financial liabilities at fair value through profit and loss. 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.

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

for the year ended 31 December 2010

20. Financial instruments (continued)

20.1 Credit risk (continued)

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 Xstrata-Merafe Chrome Venture agreement. As a result, the group believes that no concentration of credit risk exists with regard to sales to these customers.

The marketing agent, Glencore, which is a related party to the Xstrata group, accepts 60% of the risk related to non-payment of credit sales of ferrochrome. In general, Glencore acts as a sales and marketing agent, on-selling purchases from the group to a wide variety of purchasers. 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 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.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
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:				
Loans to subsidiaries	–	–	1 264 957	1 116 336
Trade and other receivables	435 514	234 346	157	1 844
Cash and cash equivalents	320 724	462 632	86 304	144 596
	756 238	696 978	1 351 418	1 262 776
The ageing of trade receivables at the reporting date was:				
Not past due	407 863	212 579	157	432
Past due 31 – 120 days	27 651	21 767	–	1 412
	435 514	234 346	157	1 844

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

for the year ended 31 December 2010

20. Financial instruments (continued)

20.2 Liquidity risk

Liquidity risk is the risk that the group will not be able to meet its financial obligations on time or at a reasonable price. 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 lines of credit:

Merafe Resources Limited

- ABSA Bank Limited: R1 million credit card facilities. Interest is payable at ABSA Bank Limited's prime lending rate. At year end the prime lending rate was 9%.
- ABSA Bank Limited: R0,3 million guarantee facility.

Merafe Ferrochrome and Mining (Proprietary) Limited

- ABSA Bank Limited: R15 million general banking facility and/or customer foreign currency account facility. Interest would be payable at the prime overdraft rate.
- ABSA Bank Limited: R20,2 million financial guarantee facility.
- ABSA Bank Limited: R0,5 million credit card facility. Interest on arrears is payable at prime overdraft rate plus 4,5%.
- ABSA Bank Limited: R29,4 million foreign exchange contracts.
- ABSA Bank Limited: R1,9 million foreign exchange settlements.
- ABSA Bank Limited: R300 million long-term loan. (See note 9.2 for interest rates)

The Venture

- ABSA Bank Limited: US\$50 million foreign currency overdraft account. Interest 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\$135 million. Interest is charged at US\$ LIBOR plus a margin of 1,5%. At year end US\$ LIBOR was 0,3% (31 December 2009: 0,2%).

The following guarantee facilities are in place:

	ABSA R'000	Nedbank R'000	Total R'000
31 December 2010			
Facility available	47 192	5 480	52 672
Facility utilised	47 192	5 480	52 672
Eskom	21 606	–	21 606
DMR	23 907	5 480	29 387
Customs and Excise	314	–	314
Town Councils and Water Boards	1 365	–	1 365
Percentage utilised	100%	100%	100%
31 December 2009			
Facility available	31 227	5 433	36 660
Facility utilised	31 227	5 433	36 660
Eskom	21 580	–	21 580
DMR	8 191	5 433	13 624
Customs and Excise	109	–	109
Town Councils and Water Boards	1 347	–	1 347
Percentage utilised	100%	100%	100%

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

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

for the year ended 31 December 2010

20. Financial instruments (continued)

20.2 Liquidity risk (continued)

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

	Year ended 31 December 2011 R'000	Year ended 31 December 2012 R'000	Year ended 31 December 2013 R'000	Year ended 31 December 2014 and onwards R'000	Total R'000
ABSA Bank Limited	22 050	322 110	–	–	344 160
Finance lease liabilities	2 722	2 329	2 378	26 731	34 160
Trade and other payables*	408 964	–	–	–	408 964
Interest rate swap	6 365	5 365	–	–	11 730
Total	440 101	329 804	2 378	26 731	799 014

* This amount will be settled between 30 and 45 days from 31 December 2010

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. The group does not hedge its foreign currency exposure on US\$ revenue, however, ferrochrome prices are fixed quarterly which provides the group with the ability to negotiate price adjustments taking into account both macro and micro ferrochrome market developments.

Currency risk

Foreign currency

In the normal course of business, the group enters into transactions denominated in foreign currencies (primarily US\$). As a result, the group was subject to transaction and translation exposure from fluctuations in foreign currency exchange rates. The group does not hedge its foreign currency exposure to the ferrochrome price fluctuation risk or Rand:US\$ exchange rate. The group endeavours to ensure that its short-term US\$ denominated assets equal or exceed its short-term US\$ denominated liabilities by actively managing any distributions from and to these accounts.

	31 December 2010 US\$	31 December 2009 US\$
Exposure to currency risk		
The group's exposure to foreign currency risk based on notional amounts was as follows:		
Trade receivables	75 379	44 212
Trade receivables sold	(26 949)	(22 059)
CFC account	26 825	19 382
Cash held by Xstrata on behalf of Merafe Ferrochrome	–	5 125
Net exposure	75 255	46 660

	Average rate		Reporting date spot rate	
	2010	2009	2010	2009
The following exchange rates applied during the year				
Rand: United States dollar	7,32	8,41	6,63	7,39

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

for the year ended 31 December 2010

20. Financial instruments (continued)

20.3 Market risk (continued)

Currency risk (continued)

Sensitivity analysis

A 10 percent (strengthening)/weakening of the rand against the US\$ would have (decreased)/increased equity and profit before tax by R75,6 million. A 10 percent (strengthening)/weakening of the rand at 31 December 2009 against the US\$ would have(decreased)/increased equity and (increased)/decreased loss by R49,1 million. 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.

Interest rate risk

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

Profile

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

	2010		2009	
	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	8,37	(175 000)	10,75	(225 000)
Finance leases – plant and equipment	14,25	(13 617)	14,81	(14 505)
Cash and cash equivalents				
– local currency	3,96*	142 939	8,64	281 549
– foreign currency	0,08**	177 785	0,57	181 083
Total variable rate instruments		132 107		223 127

* Cash balances in local currency receive interest as follows:

- The Venture: prime less 4,15%
- The company and Merafe Ferrochrome:
 - Call deposits: daily call deposit rates. At year end the call deposit rate was 5%
 - Current account balances – favourable: 1,6%
 - unfavourable: prime
 - At year end prime was 9%
 - Prudential: effective daily rates. At year end the rate was 4,4%

** Cash balances in foreign currency bear interest at LIBID (London Interbank Bid Rate) less 0,05%. At year end the LIBID was 0,13%

Fair value sensitivity analysis for fixed rate instruments

31 December 2010

An increase in interest rates of 100 basis points at the reporting date would have increased profit before taxation and increased equity by R2,4 million. A decrease in interest rates of 100 basis points at the reporting date would have decreased profit before taxation and decreased equity by R2,5 million. This analysis assumes that all other variables remain constant.

31 December 2009

An increase in interest rates of 100 basis points would have decreased loss before taxation and increased equity by R3,4 million. A decrease in interest rates of 100 basis points would have increased loss before taxation and decreased equity by R3,5 million. This analysis assumes that all other variables remain constant.

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
20. Financial instruments (continued)				
20.4 Financial instruments carrying amounts				
Loans and receivables	752 314	691 072	1 351 289	1 262 615
Investments	–	–	1 264 957	1 116 336
Trade and other receivables (excluding prepayments)	431 590	228 440	28	1 683
Trade and other receivables (including prepayments)	435 514	234 346	157	1 846
Prepayments	(3 924)	(5 906)	(129)	(163)
Cash and cash equivalents	320 724	462 632	86 304	144 596
Financial liabilities measured at amortised cost	(631 766)	(576 291)	(1 662)	(2 727)
Loans and borrowings (excluding finance lease liabilities)	(300 000)	(350 000)	(1 542)	(1 481)
Loans and borrowings (including finance lease liabilities)	(313 617)	(364 514)	(1 542)	(1 481)
Finance lease liabilities	13 617	14 514	–	–
Trade and other payables (excluding income received in advance and employee benefit accruals)	(331 766)	(226 291)	(120)	(1 246)
Trade and other payables (including income received in advance and employee benefit accruals)	(408 965)	(278 735)	(11 093)	(4 541)
Income received in advance	–	5 548	–	–
Employee benefit accruals	77 199	46 896	10 973	3 295
Financial liabilities at fair value through profit and loss	11 048	8 568	–	–
Interest rate swap*	11 048	8 568	–	–

* 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 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 a resources business.

The board has actively pursued a policy of debt reduction and its objective is to maintain its gearing level to a maximum of 25% versus equity, excluding cash balances at year end. At year end, the gearing level excluding cash balances was 12% (31 December 2009: 16%), whereas if cash balances are included, the net gearing is 0% (31 December 2009: 0%).

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

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

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).

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

for the year ended 31 December 2010

22. Related parties

Identity of related party	Relationship	Transactions and balances
The Venture	In July 2004, Xstrata and Merafe Ferrochrome and Mining (Proprietary) Limited pooled and shared ferrochrome assets to form the Xstrata-Merafe Chrome Venture	Refer note 22.2 for the amounts that are included in the consolidated financial statements of the group.
Merafe Ferrochrome and Mining (Proprietary) Limited	Merafe Ferrochrome and Mining (Proprietary) Limited is a wholly-owned subsidiary of Merafe Chrome and Alloys (Proprietary) Limited	Merafe Resources Limited charges Merafe Ferrochrome and Mining (Proprietary) Limited 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 and Mining (Proprietary) Limited
Southwits Mining Company (Proprietary) Limited	Wholly-owned subsidiary of Merafe Resources Limited.	No transactions occurred during the year.
Horizon Nature Conservation Trust	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 and Mining (Proprietary) Limited'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 Manganese (Proprietary) Limited	Merafe Manganese (Proprietary) Limited is a wholly owned subsidiary of Merafe Resources Limited	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
South African Chrome and Alloys (Proprietary) Limited	South African Chrome and Alloys (Proprietary) Limited is a wholly-owned subsidiary of Merafe Resources Limited	No transactions occurred during the year

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

for the year ended 31 December 2010

22. Related parties (continued)

Identity of related party	Relationship	Transactions and balances
South African Ferrochrome and Mining (Proprietary) Limited	South African Ferrochrome and Mining (Proprietary) Limited is a wholly-owned subsidiary of Merafe Resources Limited	No transactions occurred during the year
PSV Resources Kroondal (Proprietary) Limited	Merafe Ferrochrome and Mining (Proprietary) Limited 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 and Mining (Proprietary) Limited owns 26% of the issued share capital of PSV Resources Marikana (Proprietary) Limited	No transactions occurred during the year
PSV Resources Waterval (Proprietary) Limited	Merafe Ferrochrome and Mining (Proprietary) Limited owns 41% of the issued share capital of PSV Resources Waterval (Proprietary) Limited	No transactions occurred during the year
Merafe Kroondal Rehabilitation Trust	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 Resources Limited's share 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	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 22,1% 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 T Ramantsi and M Mamathuba as disclosed in note 22.1

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

for the year ended 31 December 2010

22. Related parties (continued)

Identity of related party	Relationship	Transactions and balances
Royal Bafokeng Resources Holdings (Proprietary) Limited (RBR)	RBR holds 29,1% 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	During the year the Venture approved the construction of Project Tswelopele, a 600 000 tonnes per annum pelletising and sintering facility at the Rustenburg Plant. A black empowered company, RB Met Engineering (Proprietary) Limited, was awarded the contract. RB Met Engineering (Proprietary) Limited is a joint venture between Metix (Proprietary) Limited and Royal Bafokeng Metix (Proprietary) Limited. RBR holds 30% of the issued share capital of Royal Bafokeng Metix (Proprietary) Limited. The contract was awarded at arm's length between knowledgeable willing parties
C Molefe, M Mamathuba, T Ramantsi ² , BN Majova, S Phiri ¹ , A Mngomezulu ³ , C Fauconnier ⁵ , M Mthenjane ⁶ , K Nondumo ⁷ , M Salanje ⁸	Non-executive directors of Merafe Resources Limited.	Refer to note 22.1.
SP Elliot, B McBride, ZJ Matlala ⁴ , S Phiri ¹	Executive directors of Merafe Resources Limited.	Refer to note 22.1.

¹ Resigned 31 March 2010 as an executive director and remained on the board as a non-executive director

² Resigned 19 November 2010

³ Appointed 9 September 2010

⁴ Appointed 1 October 2010 as an executive director and resigned as a non-executive director

⁵ Resigned 5 May 2010

⁶ Resigned 9 September 2010

⁷ Appointed 1 December 2010

⁸ Appointed 1 December 2010

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

for the year ended 31 December 2010

22. Related parties (continued)

22.1 Transactions with key management personnel

Key management personnel of the company and their immediate families control 0,46% (31 December 2009: 0,72%) of the voting shares of the company. In addition to their salaries, the company also contributes to a provident fund (defined contribution plan) and medical aid fund on their behalf. Executive directors also participate in the company's share incentive schemes (refer note 8).

	Company	
	2010 R'000	2009 R'000
Directors' fees		
Non-executive directors		
C Molefe	(321)	(212)
M Mthenjane	(94)	(115)
M Mamathuba	(117)	(65)
BN Majova	(191)	(129)
J Matlala	(140)	(134)
T Ramantsi	(26)	(78)
C Fauconnier	(54)	(165)
S Phiri	(26)	–
	(969)	(898)
Directors' remuneration		
Executive directors		
SP Elliot		
Salary	(2 493)	(2 208)*
Bonus	(3 419) ¹	(6 625)**
Fringe benefits	(198)	(147)
Provident fund contributions	(374)	(331)
	(6 484)	(9 311)
Cost of share options exercised		
Proceeds on disposal of share options exercised		
ZJ Matlala****		
Salary	(601)	–
Bonus	(552) ¹	–
Fringe benefits	(38)	–
Provident fund contributions	(90)	–
	(1 281)	–
B McBride		
Salary	(2 315)	(2 153)*
Bonus	(2 299) ¹	(4 205)**
Fringe benefits	(309)	(244)
Provident fund contributions	(347)	(323)
	(5 270)	(6 925)
S Phiri***		
Salary	(994)	(2 354)*
Bonus	–	(6 894)**
Fringe benefits	(48)	(182)
Provident fund contributions	(91)	(353)
	(1 133)	(9 783)
Cost of share options exercised	8 088	–
Proceeds on disposal of share options exercised	21 120	–

* Directors' salaries are reviewed on 1 March each year. The directors' salaries were not increased on 1 March 2009.

** This relates to the bonus for the 2008 financial year of which 75% was paid in March 2009 and 25% was paid in December 2009. No bonuses were paid to directors for the 2009 financial year

*** Resigned as executive director on 31 March 2010

**** Appointed as executive director on 1 October 2010

¹Relates to the 2010 financial year. 75% of the bonus will be paid in March 2011 and 25% will be payable in December 2011, provided the executive is still in the employ of the company

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

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

for the year ended 31 December 2010

22. Related parties (continued)

22.1 Transactions with key management personnel (continued)

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 Transactions with the Xstrata-Merafe Chrome Venture

The Venture resulted in Xstrata South Africa (Proprietary) Limited and Merafe Ferrochrome and Mining (Proprietary) Limited ("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 working capital and earnings before interest, tax, depreciation and amortisation (EBITDA).

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

	Year ended 31 December 2010 R'000	Year ended 31 December 2009 R'000
Inventories	865 960	754 379
Trade and other receivables	427 902	225 050
Bank and cash	184 621	183 165
Finance leases	(13 617)	(14 514)
Provisions	(39 439)	(37 347)
Trade and other payables	(389 360)	(267 763)**
Net assets	1 036 067	842 970
Revenue	2 558 441	1 839 169
Foreign exchange losses	(41 215)	(81 753)
Operating expenses: the Venture	(1 953 699)	(1 817 453)
Earnings/(losses) before interest taxation depreciation and amortisation	563 527	(60 037)

** Included in trade and other payables in 2010 is a loan account with the Venture of R99,9 million (2009: R11,3 million)

23. Contingencies

To the best of our knowledge and belief there are no contingent liabilities to third parties and/or contingent assets which may materially affect the financial position of the group.

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
24. Operating leases				
Non-cancellable operating lease rentals are payable as follows:				
Less than one year	(224)	(1 226)	(795)	(727)
Between one and five years	(1 115)	(1 736)	(273)	(1 068)
Greater than five years	(6 405)	(6 527)	-	-
	(7 744)	(9 489)	(1 068)	(1 795)

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 and current year.

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

for the year ended 31 December 2010

	Group		Company	
	2010 R'000	2009 R'000	2010 R'000	2009 R'000
25. Capital commitments				
The group's capital commitments at year end were:				
– contracted for but not provided for	21 906	33 980	–	–
– authorised but not contracted for	353 379	234 122	–	–
	375 285	268 102	–	–

All capital commitments relate to property, plant and equipment.

26. Dividends per share

At the board meeting on 25 February 2011, a final dividend of 2 cents per share amounting to R49,5 million was approved. The secondary tax on companies (STC) on the dividend will amount to R4,95 million, before taking the deferred tax asset into account. A deferred tax asset has not been recognised on unutilised STC credits at 31 December 2010.

These financial statements do not reflect this dividend and related STC payable. The dividend will be accounted for in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

Shareholder information

Analysis of ordinary shareholders as at 31 December 2010

	Number of members	% of all members	Number of shares held	% of shares issued
Analysis of shareholdings				
Range				
1 – 1 000	1 325	12,32	799 255	0,03
1 001 – 5 000	2 789	25,94	8 616 663	0,35
5 001 – 10 000	1 957	18,20	16 247 785	0,66
10 001 – 100 000	3 879	36,08	132 486 787	5,35
100 001 – 1 000 000	659	6,13	185 655 070	7,50
1 000 001 and more	142	1,33	2 132 850 483	86,11
Totals	10 751	100,00	2 476 656 043	100,00
Distribution of shareholders				
Category				
Diluted funds	44	0,41	131 516 509	5,31
Pension funds	36	0,33	38 103 790	1,54
Private companies	172	1,60	791 055 628	31,94
Individuals	9 563	88,95	298 740 902	12,06
Close corporations	171	1,59	12 219 370	0,49
Other corporations	487	4,53	816 394 542	32,96
Nominees and other institutions	246	2,29	187 312 909	7,56
Banks	32	0,30	201 312 393	8,14
Totals	10 751	100,00	2 476 656 043	100,00
Holders holding 5% or more of shares in issue				
Name				
Royal Bafokeng Resources Holdings (Pty) Limited			720 163 887	29,08
Industrial Development Corporation			546 830 100	22,08
JP Morgan Asset Management (UK) Limited			176 807 832	7,14
Abax Investments (Pty) Limited			128 198 981	5,18
Shareholder spread				
Public	10 741	99,91	888 558 461	35,88
Non-public	10	0,09	1 588 097 582	64,12
Directors	5	0,04	11 417 225	0,46
Associates	1	0,01	4 679 557	0,18
Royal Bafokeng Resources Holdings (Pty) Limited	1	0,01	720 163 887	29,08
Industrial Development Corporation	1	0,01	546 830 100	22,08
JP Morgan Asset Management (UK) Limited	1	0,01	176 807 832	7,14
Abax Investments (Pty) Limited	1	0,01	128 198 981	5,18
Totals	10 751	100,00	2 476 656 043	100,00

JSE Limited Share Statistics

as at 31 December 2010

Share statistics

Share price (cents)

High	190
Low	117
Closing price as at 31 December 2010	166

Shares traded

Volume of shares traded	958 293 040
Value of shares	R1 435,25 million
Volume traded as a percentage of weighted average shares in issue	39%

Market capitalisation

As at 31 December 2010	R4 111 million
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Shares in issue as at 31 December 2010	2 476 656 043
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Shareholders' diary

Meetings

Annual general meeting for the 2010 financial year to be held on 14 April 2011.

Reports

Interim reports for the six months to 30 June 2011 to be released on 2 August 2011

Annual results for the 12 months to 31 December 2011 to be released in March 2012

Annual report for the 12 months to 31 December 2011 to be published in March 2012

Glossary of terms

for the year ended 31 December 2010

ABET	Adult Basic Education and Training. ABET assists adult learners to become functionally literate and numerate
AIDS	Acquired Immune Deficiency Syndrome
BBBEE	Broad-Based Black Economic Empowerment – a form of Black economic empowerment initiated by the South African government with the goal of distributing wealth across as broad a spectrum of South African society as possible
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 ₂ -e) emissions per tonne of product
CO₂	Carbon Dioxide
CO₂-e	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

Glossary of terms *continued*

for the year ended 31 December 2010

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 environmental 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	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IISI	International Iron and Steel Institute
ILO	International Labour Organisation
ISO	Organisation for Standardisation
ISO 14001	The ISOs 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
kW	A kW (kilowatt) is a measure of the rate of energy use or production. 1kW = 1 000 Watts
ktpa	Kilotonnes per annum
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

Glossary of terms *continued*

for the year ended 31 December 2010

LTIFR	Lost Time Injury Frequency Rate. The number of LTIs per million hours worked $(=(LTI/hrs\ worked) \times 1\ 000\ 000) = LTIS/(Hours\ worked/1\ 000\ 000)$
m³	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 (Pty) Ltd
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
MI	Megalitre (1MI = 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
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
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/re-used 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 re-used, would require the input of raw water
ROM	Run of Mine
Royal Bafokeng Resources/RBR	Royal Bafokeng Resources Holdings (Pty) Limited
RWI	Restricted Work Injury

Glossary of terms *continued*

for the year ended 31 December 2010

SABS	South African Bureau of Standards
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
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, ground water, rain water 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
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 (Pty) Ltd

Merafe Global Reporting Index (GRI) Content Index 2009

GRI Indicator	Description	Page No
	STANDARD DISCLOSURE PART 1	
1.	Strategy and analysis	
1.1	Statement from the most senior decision-maker of the organisation	4 -11
1.2	Description of key impacts, risks, and opportunities.	2, 12-15
2.	Organisational profile	
2.1	Name of the organisation.	Throughout
2.2	Primary brands, products, and/or services.	2, 12-15
2.3	Operational structure of the organisation, including main divisions, operating companies, subsidiaries, and joint ventures	2
2.4	Location of organisation's headquarters.	Inside back cover
2.5	Number of countries where the organisation operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report	2, 12-15
2.6	Nature of ownership and legal form	2
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries)	2, 9-10
2.8	Scale of the reporting organisation	2, 12-13, 31
2.9	Significant changes during the reporting period regarding size, structure, or ownership	5, 10,13
2.10	Awards received in the reporting period	6 & 69
3.	Report parameters	
3.1	Reporting period for information provided	Inside front cover (IFC)
3.2	Date of most recent previous report	IFC
3.3	Reporting cycle	IFC
3.4	Contact point for questions regarding the report or its contents	IFC
3.5	Process for defining report content	IFC, 4
3.6	Boundary of the report (e.g., countries, divisions, subsidiaries, leased facilities, joint ventures, suppliers)	8, 12-15
3.7	State any specific limitations on the scope or boundary of the report	4
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organisations	IFC
3.9	Data measurement techniques and the bases of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report	IFC
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods)	9
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report	IFC
3.12	Table identifying the location of the Standard Disclosures in the report	14, 6
3.13	Policy and current practice with regard to seeking external assurance for the report	IFC, 78-81
4.	Governance, commitments, and engagement	
4.1	Governance structure of the organisation, including committees under the highest governance body responsible for specific tasks, such as setting strategy or organisational oversight	53-57
4.2	Indicate whether the Chair of the highest governance body is also an executive officer	53

Merafe Global Reporting Index (GRI) Content Index 2009 *continued*

GRI Indicator	Description	Page No
4.3	For organisations that have a unitary board structure, state the number of members of the highest governance body that are independent and/or non-executive members	53, 55-57
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body	61
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives (including departure arrangements), and the organisation's performance (including social and environmental performance)	59, 60
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided	54
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organisation's strategy on economic, environmental, and social topics	55-57
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation	16-21
4.9	Procedures of the highest governance body for overseeing the organisation's identification and management of economic, environmental, and social performance, including relevant risks and opportunities, and adherence or compliance with internationally agreed standards, codes of conduct, and principles	22-27, 65
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	58
4.11	Explanation of whether and how the precautionary approach or principle is addressed by the organisation.	65
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives to which the organisation subscribes or endorses.	69
4.13	Memberships in associations (such as industry associations) and/or national/international advocacy organizations in which the organization: has positions in governance bodies; participates in projects or committees; provides substantive funding beyond routine membership dues; or views membership as strategic	19 & 69
4.14	List of stakeholder groups engaged by the organisation	70 - 77
4.15	Basis for identification and selection of stakeholders with whom to engage	70
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group	70 - 77
4.17	Key topics and concerns that have been raised through stakeholder engagement, and how the organization has responded to those key topics and concerns, including through its reporting	70 - 77
	STANDARD DISCLOSURES PART II	
DMA EC	Disclosure on Management Approach EC	8-15
DMA EN	Disclosure on Management Approach EN	6
DMA LA	Disclosure on Management Approach LA	17 -18
DMA HR	Disclosure on Management Approach HR	19 & 21
DMA SO	Disclosure on Management Approach SO	20 -21
DMA PR	Disclosure on Management Approach PR	21
	Economic performance indicators	
EC1	Direct economic value generated and distributed, including revenues, operating costs, employee compensation, donations and other community investments, retained earnings, and payments to capital providers and governments	2, 33, 133
EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	5

Merafe Global Reporting Index (GRI) Content Index 2009 *continued*

GRI Indicator	Description	Page No
EC3	Coverage of the organisation's defined benefit plan obligations	18 & 59 – the organisation does not have a defined benefit scheme
EC4	Significant financial assistance received from government	No financial assistance received from government
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation	N/A
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation	21
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	17
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement	21, 33, 35
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	22, 23,
EN1	Materials used by weight or volume.	43 – see website for more information
EN2	Percentage of materials used that are recycled input materials.	26, 28 – see website for more information
EN3	Direct energy consumption by primary energy source.	14, 15, 39
EN4	Indirect energy consumption by primary source.	39
EN5	Energy saved due to conservation and efficiency improvements.	6&39
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	6, 12-15
EN7	Initiatives to reduce indirect consumption and reductions achieved	14-15
EN8	Total water withdrawal by source.	38
EN9	Water sources significantly affected by withdrawal of water	N/A
EN10	Percentage and total volume of water recycled and reused.	38
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	41-42 – see website for more information
EN12	Description of significant impacts of activities, products and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	See website
EN13	Habitats protected or restored.	46 – see website for more information
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	46
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations by level of extinction risk	See website
EN16	Total direct and indirect greenhouse gas emissions by weight.	39
EN17	Other relevant indirect greenhouse gas emissions by weight.	39
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	6
EN19	Emissions of ozone-depleting substances by weight.	See website
EN20	NO _x , SO _x , and other significant air emissions by type and weight	See website
EN21	Total water discharge by quality and destination.	26, 38
EN22	Total weight of waste by type and disposal method	See website
EN23	Total number and volume of significant spills.	N/A
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex, I, II, III, and VIII and percentage of transported waste shipped internationally	N/A

Merafe Global Reporting Index (GRI) Content Index 2009 *continued*

GRI Indicator	Description	Page No
EN25	Identify size, protected status and biodiversity value of water bodies and related habitats significantly affected by the reporting organisation's discharges of water and runoff	37 – see website for more information
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	46
EN27	Percentage of products sold and their packaging materials that are reclaimed by category	N/A
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	No fines or sanctions were received for non-compliance with environmental laws and regulations
EN29	Significant environmental impacts of transporting products and other goods and material used for the organisation's operations and transporting members of the workforce	N/A
EN30	Total environmental protection expenditures and investments by type.	121 – see website for more information
Social performance indicators		
LA1	Total workforce by employment type, employment contract, and region.	31
LA2	Total number and rate of employee turnover by age group, gender, and region.	17
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	18
LA4	Percentage of employees covered by collective bargaining agreements.	68 – see website for details of union membership
LA5	Minimum notice periods regarding operational changes, including whether it is specified in collective agreements	See website
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes.	19
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	29, 30
LA8	Education, training, counselling, prevention, and risk-control programmes in place to assist workforce members, their families, or community members regarding serious diseases.	30
LA9	Health and safety topics covered in formal agreements with trade unions.	77 – see website
LA10	Average hours of training per year per employee by employee category.	32
LA11	Programmes for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	32, 33
LA12	Percentage of employees receiving regular performance and career development reviews.	76 – see website
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	31, 32
LA14	Ratio of basic salary of men to women by employee category.	18
Human rights performance indicators		
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	67
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	.67

Merafe Global Reporting Index (GRI) Content Index 2009 *continued*

GRI Indicator	Description	Page No
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained.	67
HR4	Total number of incidents of discrimination and actions taken.	67
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	68
HR6	Operations identified as having significant risk for incidents of child labour, and measures taken to contribute to the elimination of child labour.	67
HR7	Operations identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of forced or compulsory labour.	67
HR8	Percentage of security personnel trained in the organisation's policies or procedures concerning aspects of human rights that are relevant to operations.	67
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	67
Society performance indicators		
SO1	Nature, scope, and effectiveness of any programmes and practices that assess and manage the impacts of operations on communities, including entering, operating, and exiting.	20
SO2	Percentage and total number of business units analysed for risks related to corruption.	67
SO3	Percentage of employees trained in organisation's anti-corruption policies and procedures.	67
SO4	Actions taken in response to incidents of corruption.	67
SO5	Public policy positions and participation in public policy development and lobbying.	69
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	No financial or in-kind contributions were made to political parties, politicians or related institutions
SO7	Total number of legal actions for anti-competitive behaviour, anti-trust, and monopoly practices and their outcomes.	No legal actions for anti-competitive behaviour, anti-trust and monopoly practices and their outcomes
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	No significant fines or non-monetary sanctions were received for non-compliance with laws and regulations
Product responsibility		
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures	21
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes	21
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements	21

Merafe Global Reporting Index (GRI) Content Index 2009 *continued*

GRI Indicator	Description	Page No
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling, by type of outcomes	21 – there were no incidents of non-compliance with regulatory or voluntary codes
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction	21
PR6	Programmes for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship	N/A
PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship by type of outcomes	N/A
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	N/A
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	N/A
SECTOR SUPPLEMENT FOR MINING AND METALS		
MM1 – MM3	See website for details on these indicators	
MM4	Number of strikes and lock-outs exceeding one week's duration by country	68
MM5 – MM12	See website for details on these indicators	

Notice of Annual General Meeting

Merafe Resources Limited

(Incorporated in the Republic of South Africa)

(Registration number 1987/003452/06)

ISIN: ZAE000060000

Share code: MRF

(Merafe Resources or the company)

Notice is hereby given that the twenty fourth annual general meeting of members of Merafe Resources Limited will be held at 1st Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton at 11:00 on Thursday, 14 April 2011, for the purpose of conducting the following business:

1. To receive, consider and adopt the annual financial statements for the company for the year ended 31 December 2010.
2. To elect the following directors, who retire by rotation and, being eligible, offer themselves for re-election:
 - 2.1 Belese Majova
 - 2.2 Bruce McBride
 - 2.3 Steve Phiri

Brief *curriculum vitae* of all the directors are set out on pages 56 and 57 of this annual report.

3. To approve the non-executive directors' fees for the year ended 31 December 2010 as set out on page 137 of the annual report.
4. To present the proposed members of the Audit Committee for 2011 to the shareholders for their approval:
 - 4.1 Mfanyana Salanje – Chairman
 - 4.2 Belese Majova
 - 4.3 Abiel Mngomezulu
 - 4.4 Karabo Nondumo
5. To re-appoint KPMG Inc. as auditors for the ensuing year and to note Riaan Davel as the designated audit partner.
6. To authorise the directors to determine the auditors' remuneration for the forthcoming financial year.
7. To approve the auditors' remuneration for the year ended 31 December 2010.
8. Ordinary resolution number 1
Control of authorised but unissued shares
"Resolved that 10% (ten percent) or 102 334 395 ordinary shares of the authorised but unissued share capital of the company be placed under the control of the directors of the company until the next annual general meeting, with the authority to allot and issue all or part thereof on such terms and conditions as they may deem fit, subject to the provisions of sections 221 and 222 of the Companies Act, 61 of 1973, as amended, the articles of association of the company and the JSE Limited Listings Requirements."
9. Ordinary resolution number 2
"Resolved that the directors of the company be authorised, until the next annual general meeting, to allot and issue shares in terms of the Merafe Resources Limited Share Incentive Scheme, subject to the provisions of sections 221 and 222 of the Companies Act, 61 of 1973, as amended, the articles of association of the company and the JSE Limited Listings Requirements."

Notice of Annual General Meeting *continued*

10. Ordinary resolution number 3

Issue of shares for cash

“Resolved that, in terms of the JSE Limited Listings Requirements, the directors to be given general authority to issue all or any of the authorised but unissued ordinary shares of one cent each for cash as and when suitable situations arise, subject to the Companies Act, 61 of 1973, as amended, the articles of association of the company and subject to the following conditions:

- (a) that this authority shall not extend beyond 15 (fifteen) months from the date of this annual general meeting or the date of the next annual general meeting, whichever is the earlier date;
- (b) that a press announcement giving full details, including the effect on net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within one financial year, 5% (five percent) of the company's issued share capital;
- (c) that issues in the aggregate in any one financial year will not exceed 10% (ten percent) of the company's issued ordinary share capital, including instruments which are compulsorily convertible into shares of that class;
- (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 of the shares in question, as determined 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;
- (e) that there will be no restrictions in regard to the persons to whom shares may be issued, provided that such shares are to be issued to public shareholders as defined by the JSE Limited Listings Requirements and not to any related parties.”

The approval of a 75% (seventy five percent) majority of the votes cast by shareholders present or represented by proxy at this meeting is required for ordinary resolution number 3 to become effective.

11. Ordinary resolution number 4

This ordinary resolution is required, in accordance with the King III recommendation that an advisory vote by the company, in general meeting, should be obtained on the remuneration policy applicable to all employees and directors of the company, and any of its subsidiaries or divisions. The vote will not be binding on the company.

12. Ordinary resolution number 5

This ordinary resolution is required in accordance with King III recommendations that an advisory vote by the company, in general meeting, should be obtained on the non-executive directors' fees for the year ended 31 December 2011. The vote will not be binding on the company.

Voting and attendance at the annual general meeting

Any member entitled to attend and vote at the annual general meeting is entitled to appoint a proxy to attend and to vote at the meeting in his/her stead. The proxy so appointed need not be a member of the company. Proxy forms should be forwarded to reach the registered office of the transfer secretaries or the company's registered office by no later than 11:00 on Tuesday, 12 April 2011.

Members who have not dematerialised their shares or who have dematerialised their shares with own name registration are entitled to attend and vote at the meeting and are entitled to appoint a proxy or proxies to attend, speak and vote in their stead. The person so appointed need not be a member. Proxy forms should be forwarded to reach the registered office of the transfer secretaries of the company or the company's registered office by no later than 11:00 on Tuesday, 12 April 2011.

Notice of Annual General Meeting *continued*

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

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

In terms of the JSE Limited Listings Requirements, equity securities held by a share trust or scheme will not have their votes at a general meeting or annual general meetings taken into account for purposes of resolutions proposed in terms of the JSE Limited Listings Requirements.

In terms of the Companies Act, 61 of 1973, as amended, no voting rights attaching to treasury shares or repurchased shares may be exercised.

By order of the board,



A Mahendranath
Company Secretary

Sandton
25 February 2011

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 fourth annual general meeting

I/We (name in block letters)

Of (address)

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 1st Floor, Block B, Sandton Place, 68 Wierda Road East, Wierda Valley, Sandton at 11:00 on Thursday, 14 April 2011, or at any adjournment thereof.

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

		Number of votes		
		For	Against	Abstain
1	To receive, consider and adopt the annual financial statements			
2	To elect the following directors who retire by rotation			
	2.1 Belese Majova			
	2.2 Bruce McBride			
	2.3 Steve Phiri			
3	To approve the non-executive directors' fees for the year ended 31 December 2010			
4	To present the proposed members of the Audit Committee for 2011 to the shareholders for their approval			
	4.1 Mfanyana Salanje – Chairman			
	4.2 Belese Majova			
	4.3 Abiel Mngomezulu			
	4.4 Karabo Nondumo			
5	To re-appoint KPMG Inc. as auditors for the ensuing year and to note Riaan Davel as the designated audit partner			
6	To authorise the directors to determine the auditors' remuneration for the forthcoming financial year			
7	To approve the auditors' remuneration for the year ended 31 December 2010			
8	Ordinary resolution number 1: To place the unissued shares under the control of the directors			
9	Ordinary resolution number 2: To authorise the directors to allot and issue shares in terms of the Merafe Resources Limited Share Incentive Scheme			
10	Ordinary resolution number 3: To authorise the company to issue shares for cash			
11	Ordinary resolution number 4: To approve the company's remuneration policy as summarised on pages 58 to 60 of the Governance section of the annual report			
12	Ordinary resolution number 5: To approve the non-executive directors' fees for the year ended 31 December 2011, as set out on page 60 of the Governance section of the annual report			

Signed at _____ on _____ 2011

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 (Pty) Limited, 16th Floor, 11 Diagonal Street, Johannesburg, 2001 (PO Box 4844, Johannesburg, 2000), or +27 11 834 4398, 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 on Tuesday, 12 April 2011.
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 52157
Benmore
2010

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

Company Secretary

A Mahendranath

Auditors

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

Bankers

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

Attorneys

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

Transfer Secretaries

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

Sponsor

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

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