



**HALF-YEAR FINANCIAL STATEMENTS  
FOR THE SIX MONTHS ENDED  
31 DECEMBER 2010**

## Corporate Information

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ABN 31 099 355 790

This half year report covers International Ferro Metals Limited and the entities it controlled at the end of, or during, the six months ended 31 December 2010. The functional currency of each entity in the Group and the presentation currency of the Group is South African Rand (“ZAR”).

A description of the Group’s operations and of its principal activities is included in the review of operations and activities in the directors’ report on page 3. The directors’ report is not part of the financial statements.

### Directors

D C Kovarsky  
X Yang  
J F J Muller  
A J Grey  
S J Turner  
T V C Willstedt  
S D Oke  
T Xia  
J C Ballard

### Company Secretary

W J Kernaghan

### Registered office

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Australia, 2000  
Telephone: +61 (2) 8298 2090  
Facsimile: +61 (2) 8298 2060

### South African offices

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Telephone: + 27 (11) 994 9600  
Facsimile: + 27 (11) 994 9611

#### Mooiwoo

Buffelsfontein JQ465  
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Telephone: + 27 (14) 574 6300  
Facsimile: + 27 (14) 574 6307

### Share Register

Australia  
Computershare Investor  
Services (Pty) Ltd  
Yarra Falls  
452 Johnston Street  
Abbotsford Victoria  
Australia, 3067  
  
Australia contact centre:  
+ 61 (3) 9415 4000  
(1300 850 505 within Australia)

#### United Kingdom

Computershare Investor  
Services PLC  
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The Pavilions  
Bridgwater Road  
Bristol, United Kingdom, BS13  
8AE

UK contact centre:  
+ 44 (0) 870 702 000

### Solicitors

Baker & McKenzie  
Level 27, AMP Centre  
50 Bridge Street  
Sydney, NSW,  
Australia, 2000

### Bankers

Bank of China Limited  
Fourth floor South Tower  
Nelson Mandela Square  
Sandown, Sandton  
South Africa, 2146

National Bank of Australia  
Level 36, 100 Miller Street  
North Sydney, NSW,  
Australia, 2060

### Brokers

Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London, United Kingdom, EC4M 7LT

### Auditors

Ernst & Young  
680 George Street  
Sydney, NSW,  
Australia, 2000

## Directors' Report

Your directors submit their report for the half-year ended 31 December 2010.

### DIRECTORS

The names of the Company's directors in office during the six months ended 31 December 2010 and until the date of this report are as below. Directors were in office for this entire period unless otherwise stated.

<i>Name</i>	<i>Current Position</i>	<i>Date of appointment to Board</i>
Anthony John Grey	Non-executive Chairman	9 December 2002
Stephen John Turner	Non-executive Deputy Chairman	26 January 2002
David Chaim Kovarsky	Chief Executive Officer	1 February 2008
Xiaoping Yang	Non-executive Director	12 October 2005
Terence Vincent Coleman Willstead	Non-executive Director	12 October 2005
Johannes Frederick Jacobus Muller	Finance Director	18 March 2010
Stephen Douglas Oke	Non-executive Director	16 November 2005
Tian Xia	Non-executive Director	16 November 2005
John Charles Ballard	Non-executive Director	9 March 2010

### REVIEW AND RESULTS OF OPERATIONS

#### Operational Review

#### Ferrochrome Market Review

The calendar year 2010 experienced record world stainless steel production of 31.3 million tonnes, an increase of 23.3% on 2009. The current status of stainless steel production varies by geographic area, with Asia continuing to show strength. The United States experienced high utilisation levels but represents only 7% of world production. Meanwhile Europe, which represents 23% of global production, was showing sluggish growth. Over the past few weeks global ferrochrome demand has increased in line with higher stainless steel output. Chinese production, accounting for 37.5% of global production, is showing strong growth, as are Taiwan and Korea. The ferrochrome benchmark price decreased by 5¢/lb to \$1.25/lb for the first calendar quarter of 2011. However, the decrease in the benchmark price did not permeate into the Chinese market where prices have firmed by about 8¢/lb during the quarter. International Ferro Metals continues to have good relationships in Asia where we have focused on higher-value markets such as Korea and Taiwan.

In all markets there appears to be general tightness in ferrochrome supply which is causing spot prices to increase.

#### Smelting

The Company experienced a challenging first half for production due to furnace shut downs in August and November 2010 to repair heat-damaged roof panels. A subsequent root and branch review of the furnaces by Metix, a leading specialist South African furnace engineering firm, discovered that the furnace roofs have certain design deficiencies. The main deficiency being the sub-optimal positioning of the ore feed chutes into the furnaces with the resulting effect of too high gas temperatures at the top of the furnaces which in turn causes damage to the roof panels leading to water leaks. The cost of the rebuild of the furnace feed chutes and roofs is currently estimated to be ZAR40million per furnace and the rebuild will require a six week shut down per furnace. This is planned for June to August 2011 in order to coincide with the period when electricity prices are at their highest.

Since the Production Report issued by the Company on 25 January 2011, considerable progress has been made on the design of the new furnace roofs and gas off take systems. Design work is well advanced and construction should be complete by the end of August 2011. Ramp up should occur during September and October and the furnaces should reach name plate capacity of 265,000 tonnes per annum in October 2011.

## **REVIEW AND RESULTS OF OPERATIONS (continued)**

### **Smelting (continued)**

Metix and management are confident that these improvements will allow production to approach or exceed name plate capacity.

### **Mining operations**

The six month period to December 2010 experienced a continuation of the ramp-up of underground mining from 20,000 tonnes in June 2010 to 28,000 tonnes per month by the end of the calendar year. Further progress is anticipated and by June 2011 it is planned for 40,000 tonnes per month to be mined, with the target of 75,000 tonnes per month expected to be achieved by May 2014. The open pit mining operations have performed well and have averaged 49,000 tonnes per month over the six month period. Lower grade MG3 and MG4 ores not used in the Company's furnaces are being sold into the market.

Open pit operations at Lesedi will cease in July 2011 and the Sky Chrome open pit operations are planned to replace the Lesedi open pit ore production. Further information on Sky Chrome is provided later.

The ore beneficiation plant achieved record feed volumes with 90,000 tonnes being processed in December. In addition, the recovery rates have increased from 56% to consistent recoveries in excess of 62%.

### **Sales and inventory**

The Company achieved sales of 103,808 tonnes of ferrochrome in the six months to 31 December 2010 compared to 119,496 tonnes in the previous half year. Inventories were reduced from 17,976 tonnes at the end of June 2010 to 14,487 tonnes at 31 December 2010 and continue to run at these levels. For the first time the Company has been in a position to sell relatively high volumes of surplus ore, mainly lower grade MG3 and MG4 beneficiated ore and recorded 115,971 tonnes of ore sales for the half year.

Marketing initiatives in the Far East have been fruitful and we are now well established in the Korean and Taiwan markets where prices are generally higher than in China.

### **Financial Review**

The Company reported a loss before tax of ZAR160 million for the six months ended 31 December 2010 ("the period") against a loss of ZAR12 million in the previous six months and a loss of ZAR145 million for the comparative period.

Ferrochrome production increased by 6% from the comparative period but decreased by 5% from the previous six months. Sales volumes increased by 46% to 103,808t from the comparative period but decreased by 13% from the previous six months.

The average European ferrochrome benchmark price of US\$1.30/lb for the period was 34¢ higher than the average price for the comparative period and 11¢ higher than the previous six months. However, lower achieved prices combined with a significantly stronger ZAR/USD exchange rate put pressure on margins. Operating margins turned to a negative 6% compared with a 7% positive margin in the previous six months and negative 13% margin for the comparative period.

The Company has started to sell lower grade chrome ores into the market which contributed ZAR59 million to revenue for the half year. These sales will continue at a similar volume for the next half-year however ore prices have been increasing significantly in 2011.

As at 31 December 2010, the Company had net borrowings of ZAR216 million (ZAR231 million cash less ZAR447 million drawn on the working capital facility), compared with net cash of ZAR47 million at 30 June 2010. Of the ZAR263 million decrease in net cash, the operating loss utilised ZAR124 million, capital expenditure utilised ZAR115 million, UG2 payments utilised ZAR33 million and working capital released ZAR22 million.

**REVIEW AND RESULTS OF OPERATIONS (continued)****Financial Review (continued)**

The budgeted capital expenditure for the remainder of the financial year is ZAR247 million which includes ZAR20 million for the electricity co-generation plant, ZAR33 million for mine development, ZAR95 million for the UG2 plant and ZAR70 million for the furnace roof upgrades (the balance of ZAR10 million falling into the next financial year).

The Company is negotiating a term loan facility to fund the UG2 project and expects to conclude an agreement by the end of April 2011.

EBITDA loss for the period was ZAR99 million, reduced from a loss of ZAR102 million for the comparative period and a profit of ZAR43 million for the previous six months. The positive tax charge of ZAR53 million to the income statement is a deferred tax credit resulting from the Company's unclaimed calculated tax losses available for offset against future profits. Headline earnings per share decreased from a profit of ZAR0.04 per share for the comparative period to a loss of ZAR0.19 per share.

**Costs**

Ferrochrome production cost per pound for the period was US\$0.91/lb at an average exchange rate of ZAR7.10/\$ and consists of: ore 24.6¢ (27%); reductant 24.8¢ (27%); electricity 20.9¢ (23%); operating costs 5.9¢ (7%); fixed costs 10.4¢ (11%); and depreciation 4.8¢ (5%).

The production cost for the financial year ended 30 June 2010 was US\$0.83/lb at ZAR7.54/\$, which equates to US\$0.88/lb at this period's exchange rate of ZAR7.10/\$, an increase of 3.4%. The main drivers behind costs compared to the financial year ended 30 June 2010 (adjusted for effect of exchange rate changes) and their outlook once the furnace roof upgrades have been completed are given below:

- Ore costs decreased by 1.7¢/lb (6.6%) as a result of increased ore volumes from both the open pit and underground operations at Lesedi, as well as significantly better recoveries from the ore beneficiation plant. The UG2 supply agreement is scheduled to commence in January 2012 and is expected to further reduce ore costs by an estimated 3.0¢/lb.
- Reductant costs increased by only 0.5¢/lb (2%) despite an average increase of 12% in coke prices. This was achieved through increased use of anthracite. The planned increase in anthracite consumption is expected to decrease reductant costs by an additional 2.0¢/lb.
- Electricity costs increased by 4.6¢/lb (28%) mainly due to Eskom price increases and partly because of higher consumption due to the furnace roof leaks. Improved consumption after the furnace roof upgrades and the full commissioning of the co-generation plant is expected to reduce electricity costs by an additional 2.3¢/lb.
- Operating costs remained unchanged.
- Fixed costs increased by 1.6¢/lb (12%) mainly as a result of inflation and higher maintenance costs from furnace roof maintenance. Achieving nameplate production volume following the furnace roof upgrades from June to August is expected to decrease fixed costs by an additional 3.0¢/lb.

Administration and other expenses increased from ZAR67 million in the comparative period to ZAR82 million. This was primarily due to inventory write-downs and unabsorbed fixed costs.

Management continue to focus on minimising costs and controllable rand production costs with significant scope for further decreases once the furnace roof upgrades are completed.

## **REVIEW AND RESULTS OF OPERATIONS (continued)**

### **Sky Chrome**

Sky Chrome, an 80% subsidiary of the Company was awarded a mining licence in November 2010. The intention is to commence open pit mining by the end of April 2011. Since the conclusion of the feasibility study in 2008 the mine plans have been refined and indications are that 12 million tonnes of open pit material are available along the MG1, 2, 3 and 4 reefs. Due to the proximity of open pit operations to local communities, extensive discussions have been held with those communities to ensure that they are not adversely impacted.

The Company is in the final stage of adjudicating the tenders for appointing the mining contractor and the intention is to ramp up open pit mining to 100,000 tonnes per month by January 2012. A feasibility study will be completed within six months for the construction of an ore beneficiation plant. Approximately 35,000 tonnes per month will be treated at IFM's existing ore beneficiation plant. At full production, and until the plant commissioning, 25,000 tonnes per month will be mined in a saleable form without having to be treated. The balance will be stockpiled until the ore beneficiation plant has been commissioned. Until the commissioning, about 38,000 tonnes will be sold into the market. After commissioning and the utilisation of the stockpile in 2015, approximately 700,000 tonnes per annum will be sold into the market. The Company is in negotiations with various parties to secure an off take agreement.

### **Co-generation plant**

The construction of the electricity co-generation plant was completed on time and within budget. However, during the commissioning process it became apparent that hydrogen levels in the off-take gases feeding the plant were higher than had been anticipated. This is due to the conversion of sand seals to water seals in the scrubber system and different reductant being utilised in the furnaces.

The gas composition is expected to normalise once the furnace roofs have been upgraded which will allow the plant to operate at design capacity.

The plant is currently operating but at a minimal level while various short-term approaches to the gas composition are being examined.

### **UG2 Plant**

In February 2010, IFM entered into an agreement with Rustenburg Platinum Mines Limited ("RPM") a subsidiary of Anglo Platinum Limited, under which IFM shall pay ZAR161 million for the construction of a Chrome Re-Treatment Plant ("CRP") to treat the tailings arising from RPM's UG2 concentrator, situated at their Waterval section. The CRP's primary objective is to extract chrome concentrate from the tailings, allowing IFM to reduce its input cost. Construction by Anglo Platinum of the CRP at Anglo Platinum's operations is running behind schedule due to construction starting three months late and slower than anticipated progress at the site. IFM expects that the first feed of chrome concentrate will be received in January 2012.

## **DIVIDENDS**

The Board of Directors resolved not to declare an interim dividend for the half-year ended 31 December 2010.

## **SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

Other than the above there were no significant changes in the state of affairs of the Group for the half-year ended 31 December 2010.

## **ROUNDING**

The amounts contained in the half-year financial statements have been rounded to the nearest ZAR1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

**AUDITOR'S INDEPENDENCE DECLARATION**

We have obtained the Auditor's Independence Declaration from our auditors, Ernst & Young, which immediately follows this Directors report.

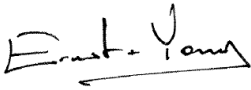
Signed in accordance with a resolution of the directors.

A handwritten signature in black ink that reads "David Kovarsky". The signature is written in a cursive style with a large initial 'D' and a long, sweeping tail on the 'y'.

David Kovarsky  
Chief Executive Officer  
South Africa,  
21 February 2011

## Auditor's Independence Declaration to the Directors of International Ferro Metals Limited

In relation to our review of the financial report of International Ferro Metals Limited for the half-year ended 31 December 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Anton Ivanyi'.

Anton Ivanyi  
Partner  
Sydney  
21 February 2011

**Consolidated Income Statement**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

		CONSOLIDATED	
		31 Dec 2010 ZAR'000	31 Dec 2009 ZAR'000
Sales revenue		850,944	451,917
Cost of goods sold		(904,942)	(509,055)
<b>Gross loss</b>		<b>(53,998)</b>	<b>(57,138)</b>
<b>Other income / expenses</b>			
Other income	4	26,112	-
Administrative and other expenses	5	(82,356)	(67,147)
Share-based payment expense		(2,941)	(2,848)
Foreign exchange loss		(21,640)	(9,608)
Loss before interest and tax		(134,823)	(136,741)
Finance income		3,472	6,540
Finance costs		(28,744)	(14,641)
Loss before tax		(160,095)	(144,842)
Deferred tax		52,923	39,867
Current tax expense		168	(118)
<b>Loss after tax for the period</b>		<b>(107,004)</b>	<b>(105,093)</b>
Attributable to:			
Non-controlling interests		(980)	(1,134)
Equity holders of the parent		(106,024)	(103,959)
		(107,004)	(105,093)
Earnings per share (cents per share)	6		
- basic loss per share		(19.14)	(19.08)
- diluted loss per share		(19.14)	(19.08)

**Consolidated Statement of Comprehensive Income**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	31 Dec 2009 ZAR'000
Loss for the period	(107,004)	(105,093)
Other comprehensive income	-	-
<b>Total comprehensive loss for the period, net of tax</b>	<b>(107,004)</b>	<b>(105,093)</b>
Attributable to:		
Non-controlling interests	(980)	(1,134)
Equity holders of the parent	(106,024)	(103,959)
	<b>(107,004)</b>	<b>(105,093)</b>

## Consolidated Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

CONSOLIDATED	Contributed equity ZAR'000	Accumulated losses ZAR'000	Share based payment reserve ZAR'000	Non-Distributable reserve ZAR'000	Non-Controlling Interests ZAR'000	Total Equity ZAR'000
<b>At 1 July 2009</b>	2,814,380	(489,313)	8,272	(6,044)	1,817	2,329,112
Loss for the period	-	(103,959)	-	-	(1,134)	(105,093)
<b>Total comprehensive income</b>	-	<b>(103,959)</b>	-	-	<b>(1,134)</b>	<b>(105,093)</b>
<b>Equity Transactions:</b>						
Issue of ordinary shares	286,755	-	-	-	-	286,755
Share placement costs	(12,895)	-	-	-	-	(12,895)
<b>Balance at 31 December 2009</b>	<b>3,088,240</b>	<b>(593,272)</b>	<b>8,272</b>	<b>(6,044)</b>	<b>683</b>	<b>2,497,879</b>
<b>At 1 July 2010</b>	3,088,240	(573,905)	8,272	(6,044)	603	2,517,166
Loss for the period	-	(106,024)	-	-	(980)	(107,004)
<b>Total comprehensive income</b>	-	<b>(106,024)</b>	-	-	<b>(980)</b>	<b>(107,004)</b>
<b>Equity Transactions:</b>						
Issue of ordinary shares	-	-	-	-	-	-
<b>Balance at 31 December 2010</b>	<b>3,088,240</b>	<b>(679,929)</b>	<b>8,272</b>	<b>(6,044)</b>	<b>(377)</b>	<b>2,410,162</b>

**Consolidated Statement of Financial Position**

AS AT 31 DECEMBER 2010

	Notes	CONSOLIDATED	
		31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		230,952	396,926
Trade and other receivables		116,007	230,031
Prepayments		9,873	4,792
Inventories	7	400,683	446,241
<b>Total current assets</b>		<b>757,515</b>	<b>1,077,990</b>
<b>Non-current assets</b>			
Other financial assets	8	53,870	45,465
Deferred tax asset	9	191,017	138,094
Financial investments		18,116	13,946
Property, plant & equipment		2,038,177	1,962,028
Intangible assets	10	42,697	9,701
<b>Total non-current assets</b>		<b>2,343,877</b>	<b>2,169,234</b>
<b>Total assets</b>		<b>3,101,392</b>	<b>3,247,224</b>
<b>Equity and liabilities</b>			
<b>Current liabilities</b>			
Provisions		27,140	25,444
Trade and other payables		131,807	273,353
<b>Total current liabilities</b>		<b>158,947</b>	<b>298,797</b>
<b>Non-current liabilities</b>			
Interest-bearing loans and borrowings	11	508,480	409,707
Provisions		23,803	21,554
<b>Total non-current liabilities</b>		<b>532,283</b>	<b>431,261</b>
<b>Total liabilities</b>		<b>691,230</b>	<b>730,058</b>
<b>Net assets</b>		<b>2,410,162</b>	<b>2,517,166</b>
<b>Shareholders' equity</b>			
Contributed equity	12	3,088,240	3,088,240
Share-based payment reserve		8,272	8,272
Accumulated losses	13	(679,929)	(573,905)
Non-distributable reserve		(6,044)	(6,044)
<b>Equity attributable to equity holders of the parent</b>		<b>2,410,539</b>	<b>2,516,563</b>
<b>Non-controlling interests</b>		<b>(377)</b>	<b>603</b>
<b>Total shareholders' equity</b>		<b>2,410,162</b>	<b>2,517,166</b>

**Consolidated Statement of Cash Flows**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	31 Dec 2009 ZAR'000
<b>Cash flows from operating activities</b>		
Receipts from customers	965,778	464,033
Payments and advances to suppliers and employees (inclusive of goods and services tax)	(1,042,356)	(724,030)
Phantom options exercised and paid	-	(427)
Taxation paid	(103)	-
Interest paid	(25,572)	(13,530)
<b>Net cash flows utilised in operating activities</b>	<b>(102,253)</b>	<b>(273,954)</b>
<b>Cash flows from investing activities</b>		
Payments for property, plant & equipment	(114,716)	(60,772)
Restricted cash payments	(12,469)	(58,157)
Payments for intangible assets	(33,176)	-
Sale of net profit interest - Phoenix	25,000	-
Interest received	3,472	6,540
<b>Net cash flows utilised in investing activities</b>	<b>(131,889)</b>	<b>(112,389)</b>
<b>Cash flows from financing activities</b>		
Proceeds from issues of shares	-	286,755
Proceeds from borrowings	96,890	200,000
Repayment of borrowings	(6,469)	(21,797)
Payment of share issue costs	-	(12,895)
<b>Net cash flows from financing activities</b>	<b>90,421</b>	<b>452,063</b>
Net (decrease)/increase in cash held	(143,721)	65,720
Cash at the beginning of the financial period	396,926	340,089
Effects of exchange rate changes on cash	(22,253)	(10,465)
<b>Cash and cash equivalents at the end of the period</b>	<b>230,952</b>	<b>395,344</b>

## Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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### 1. CORPORATE INFORMATION

The financial statements of International Ferro Metals Limited (the Company) for the half year ended 31 December 2010 were authorised for issue in accordance with a resolution of the directors on 21 February 2010.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with AASB 134 *“Interim Financial Reporting”* and the Corporations Act 2001. The financial report has also been prepared on a historical cost basis, except for certain financial instruments which have been measured at fair value. The principal accounting policies used by the Company comply with International Financial Reporting Standards (IFRS).

These half-year financial statements do not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. These half-year financial statements should be read in conjunction with the Annual Report of International Ferro Metals Limited as at 30 June 2010.

It is also recommended that the half-year financial statements be considered together with any public announcements made by International Ferro Metals Limited and its controlled entities during the half-year ended 31 December 2010 and up to the issue date of this report, in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report except for the adoption of new and revised Accounting Standards listed under (c).

#### (b) Basis of accounting

For the purpose of preparing the half-year financial statements, the half-year has been treated as a discrete reporting period.

These financial statements are presented in South African Rand and all values are rounded to the nearest thousand Rand (ZAR'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

In the application of IFRS, management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. 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 judgements. Actual results may differ from 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.

## Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

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### (b) Basis of accounting (continued)

Judgements made by management in the application of IFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable in the relevant notes to the financial statements.

### (c) Significant accounting policies

The accounting policies applied by the Group in these financial statements are the same as those applied by the Group in the consolidated financial statements for the year ended 30 June 2010, except for the adoption of the following new and revised Accounting Standards.

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 January 2010:

*AASB 2009-9 Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions (AASB 2)* effective 1 January 2010. The amendments did not have an impact on the financial position or performance of the Group.

*AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (AASB 5, 8, 101, 107, 117, 118, 136 & 139)* effective 1 January 2010. The amendments did not have an impact on the financial position or performance of the Group.

### (d) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by International Ferro Metals Limited (IFM) at the end of the reporting period. The Company and its controlled entities together are referred to as the Group. The effects of all transactions between entities in the Group are eliminated in full. Outside equity interest in the results and equity of controlled entities are shown separately in the consolidated Income Statement and Statement of Financial Position respectively.

Where control of an entity is obtained during a financial period, its results are included in the consolidated Income Statement from the date on which control commences. Where control of an entity ceases during a financial period, its results are included for that part of the period during which control existed.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

## 3 SEGMENT INFORMATION

### Identification of reportable segments.

The Group has determined operating segments based on the information provided to the Board of Directors (Chief Operating Decision Maker).

The Group operates predominately in one business segment, being the mining and processing of chromite in South Africa and sale of ferrochrome. There are no material differences between the financial information presented to the Chief Operating Decision Maker and the financial information presented in this report.

### Sales revenue by geographic location

Revenue obtained from external customers is attributed to individual countries based on the location of the customer.

**Notes to the Financial Statements (continued)**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**3 SEGMENT INFORMATION (continued)**

	CONSOLIDATED	
	31 Dec 2010	31 Dec 2009
	ZAR'000	ZAR'000
<b>Ferrochrome sales</b>		
China	332,249	137,343
Europe	261,556	218,900
South Africa	-	56,484
South Korea	32,249	-
Taiwan	72,106	-
United States of America	93,391	35,679
South America	180	-
Total ferrochrome sales	791,731	448,406
<b>Chrome ore sales</b>		
South Africa	59,213	3,511
Total chrome ore sales	59,213	3,511
<b>Total External Revenue</b>	<b>850,944</b>	<b>451,917</b>

Major customers

The Group received 75% of its external revenue from China and Europe (2009: 79%). During the half year ended 2010 the Group received 42% (2009:56%) of its external revenue from CMC Cometals and 51% (2009:30%) from Jiuquan Iron & Steel Group Company Ltd (JISCO).

There are no additional customers which account for more than 10% of the Group's external revenues.

**4 OTHER INCOME**

	CONSOLIDATED	
	31 Dec 2010	31 Dec 2009
	ZAR'000	ZAR'000
Other income	26,112	-

Other income represents the following:

- (a) The Company signed an agreement with Phoenix Platinum Mining (Pty) Ltd ('Phoenix') who aims to develop a Chrome Tailings Retreatment Plant (the 'CTRP') to extract primarily the residual Platinum Group Metals and other saleable minerals through the retreatment of the tailings dams and current arisings from IFM's existing chrome operations. IFM is entitled to receive an aggregate of ZAR80 million in exchange for its existing 25% Net Profit Interest in the tailings of which ZAR25 million was received during November 2010. The balance payable is split into two tranches with the first tranche of ZAR25 million payable upon 'breaking ground', and the second tranche of ZAR30 million payable upon all other suspensive conditions of the contract being fulfilled.
- (b) Profit of ZAR1.1 million on the sale of fixed assets.

**Notes to the Financial Statements (continued)**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**5 ADMINISTRATIVE AND OTHER EXPENSES**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	31 Dec 2009 ZAR'000
Write down of ferrochrome & raw material inventories to net realisable values	25,914	19,216
Unabsorbed fixed costs due to plant shutdown	12,799	2,577
Other administrative expenses	43,643	45,354
	<b>82,356</b>	<b>67,147</b>

**6 EARNINGS PER SHARE**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	31 Dec 2009 ZAR'000
Basic loss per share (cents per share)	(19.14)	(19.08)
Diluted loss per share (cents per share)	(19.14)	(19.08)
Loss used in calculating basic earnings per share (ZAR'000)	(106,024)	(103,959)
Weighted average number of ordinary shares used in the calculation of basic loss per share	554,008,047	544,925,948
Weighted average number of ordinary shares used in the calculation of diluted loss per share	554,008,047	544,925,948

**7 INVENTORIES**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
Consumable stock at cost	19,358	18,249
Consumable stock at net realisable value	2,795	2,795
Ore stock at cost	131,589	131,438
Ore stock at net realisable value	36,423	12,517
Raw materials at cost	55,197	145,171
Raw materials at net realisable value	62,819	1,472
Finished product at cost	-	37,136
Finished product at net realisable value	92,502	97,463
	<b>400,683</b>	<b>446,241</b>

**8 OTHER FINANCIAL ASSETS**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
<b>Non-current financial assets</b>		
Restricted cash (a)	52,690	44,306
Deposits	1,180	1,159
	<b>53,870</b>	<b>45,465</b>

- (a) Restricted cash represents cash set aside for bank guarantees to the Department of Mineral Resources as well as to certain suppliers.

**Notes to the Financial Statements (continued)**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**9 DEFERRED TAX ASSET**

The Group has recognised a deferred tax asset as it is considered probable that it will be recovered through future taxable profits.

**10 INTANGIBLE ASSETS**

	CONSOLIDATED		
	Licence fees <sup>a</sup> ZAR'000	UG2 asset <sup>b</sup> ZAR'000	Total ZAR'000
<b>30 June 2010</b>			
At 1 July 2009 net of accumulated amortisation	10,062	-	10,062
Additions	-	-	-
Amortisation	(361)	-	(361)
At 30 June 2010 net of accumulated amortisation	9,701	-	9,701
Cost (gross carrying amount)	10,837	-	10,837
Accumulated amortisation	(1,136)	-	(1,136)
Net carrying amount	9,701	-	9,701
<b>31 December 2010</b>			
At 1 July 2010 net of accumulated amortisation	9,701	-	9,701
Additions	-	33,176	33,176
Amortisation	(180)	-	(180)
At 31 December 2010 net of accumulated amortisation	9,521	33,176	42,697
Cost (gross carrying amount)	10,837	33,176	44,013
Accumulated amortisation	(1,316)	-	(1,316)
Net carrying amount	9,521	33,176	42,697

(a) Licence fees relate to the fees paid for the use of patented technology.

(b) In February 2010 the Company concluded and announced a UG2 ore supply agreement with Rustenburg Platinum Mines Limited ("RPM"), a subsidiary of Anglo Platinum Limited. Under the agreement IFM will fund the construction of a chrome re-treatment plant ("CRP") to extract chrome concentrate from RPM's UG2 concentrator tailings. The CRP will be owned, maintained and operated by RPM. The contract has a 10 year life commencing on the construction start date and entitles IFM to 15,000 tonnes of concentrate per month from the commissioning date, at no additional cost other than the cost of transporting the concentrate to its facilities at Buffelsfontein and any government royalties that may be payable. The asset constitutes progress payments for the right to receive UG2 ore in the future.

**Notes to the Financial Statements (continued)**

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

**11 INTEREST-BEARING LOANS AND BORROWINGS**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
Long-term portion of finance lease liability (a)	58,412	58,374
Bank debt (b)	446,890	350,000
Debt establishment costs and accrued interest (b)	(1,835)	(3,596)
Other loans (c)	5,013	4,929
	<b>508,480</b>	<b>409,707</b>

- (a) The weighted average effective interest rate on finance leases is 12.54%.
- (b) On 29 June 2009, the Company entered into a working capital facility agreement with the Bank of China for an amount of ZAR500 million. The facility interest is charged at the South African JIBAR rate plus 1.9%. The original term of the facility is 36 months. The parent company, IFML, guarantees the facility on behalf of IFMSA. The entire balance sheet of IFMSA is pledged as collateral for the loan facility. Bank of China has the option to cancel the loan facility and call upon any balance outstanding in the event of a material deterioration in the financial position of IFMSA.
- (c) Other loans constitute the 20% tribal participation of funding provided to Sky Chrome by IFM. The loan is interest free with no fixed repayment terms.

**12 CONTRIBUTED EQUITY**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
<b>Movement in ordinary shares on issue</b>		
Opening balance	3,088,240	2,814,380
Issue of ordinary shares (a)	-	286,755
Share placement costs	-	(12,895)
Closing balance	<b>3,088,240</b>	<b>3,088,240</b>

	Shares	Shares
Opening balance	554,008,047	503,643,680
Issue of ordinary shares (a)	-	50,364,367
Closing balance	<b>554,008,047</b>	<b>554,008,047</b>

- (a) On 3 August 2009 IFM raised GBP22.2 million (ZAR286 million) (before expenses) through the placing of 50,364,367 new ordinary shares with certain existing shareholders including JISCO and new institutional investors at 44 pence per share.

**13 ACCUMULATED LOSSES**

	CONSOLIDATED	
	31 Dec 2010 ZAR'000	30 June 2010 ZAR'000
Opening balance	(573,905)	(489,313)
After tax loss attributable to the owners of the parent	(106,024)	(84,592)
Closing balance	<b>(679,929)</b>	<b>(573,905)</b>

## Notes to the Financial Statements (continued)

FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

### 14 DIVIDENDS

The Board of Directors resolved not to declare an interim dividend for the period ended 31 December 2010.

### 15 CAPITAL COMMITMENTS

The only changes to the commitments disclosed in the most recent annual financial statements are:

- Contractual obligations relating mainly to the Clean Development Mechanism compliant electricity co-generation plant project of ZAR62 million and the upgrading of the metal recovery plant of ZAR11 million have been settled.
- An amount of ZAR33 million has been spent to date on the UG2 project. This amount has been recorded in the financial statements as an intangible asset. The remaining outstanding cost of the contract is ZAR129 million.
- An amount of ZAR35 million has been approved by the Board for expenditure relating to furnace upgrades.

### 16 CONTINGENT ASSETS AND LIABILITIES

- The Group has a contingent asset being the receipt of a further ZAR54.5 million from Phoenix Platinum Mining Pty Ltd contingent on future events as discussed in note 4 (a).
- There are no contingent liabilities outstanding or recorded at 31 December 2010.

### 17 EVENTS AFTER THE END OF REPORTING PERIOD

No other material matters or circumstances, other than those announced have arisen since 31 December 2010 that have significantly affected or may significantly affect:

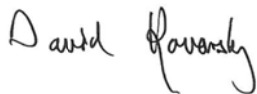
- the Company's operations in future financial years; or
- the result of those operations in future financial years; or
- the Company's state of affairs in future financial years.

**DIRECTORS' DECLARATION**

In accordance with a resolution of the directors of International Ferro Metals Limited, I state that:

1. In the opinion of the directors:
  - (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
    - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the period ended on that date; and
    - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001;
  - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



David Kovarsky  
Chief Executive Officer  
South Africa  
21 February 2011

To the members of International Ferro Metals Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of International Ferro Metals Limited, which comprises the statement of financial position as at 31 December 2010, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the half-year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of International Ferro Metals Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

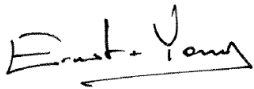
### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration.

## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of International Ferro Metals Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A stylized, handwritten signature of the Ernst & Young firm, written in black ink.

Ernst & Young

A handwritten signature in black ink, appearing to read 'A. Ivanyi'.

Anton Ivanyi  
Partner  
Sydney  
21 February 2011