



**ANNUAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2011**

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### Corporate Information

ABN 31 099 355 790

This annual report covers International Ferro Metals Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011. 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 pages 13 to 21. The directors' report is not part of the financial report.

#### Directors

C C Jordaan (appointed 1 August 2011)  
D C Kovarsky (resigned 31 July 2011)  
X Yang  
J F J Muller  
A J Grey  
S J Turner  
T V Willstead  
S D Oke  
T Xia  
J C Ballard

#### Company Secretary

W J Kernaghan

#### Registered office

Level 11  
151 Macquarie Street  
Sydney NSW  
Australia, 2000

Telephone: +612 8298 2090  
Facsimile: +612 8298 2060

#### South African offices

Johannesburg  
3rd Floor, Suite 14b  
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Melrose Arch  
South Africa, 2076

Telephone: + 27 11 994 9600  
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Mooiwooi  
Buffelsfontein JQ465  
Private Bag 2223  
Mooiwooi  
South Africa, 0325

Telephone: + 27 14 574 6300  
Facsimile: + 27 14 574 6307

#### Share Register

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

#### United Kingdom

Computershare Investor Services PLC  
PO Box 82  
The Pavilions  
Bridgwater Road  
Bristol, United Kingdom, BS13 8AE  
UK contact centre: + 44 (0) 870 702 0000

#### Bankers

Bank of China Limited  
4<sup>th</sup> 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

#### Solicitors

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

#### Brokers

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

#### Auditors

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

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## CORPORATE PROFILE

International Ferro Metals (IFM) is an integrated ferrochrome producer listed on the London Stock Exchange (LSE: IFL).

The Company's mission is to develop and operate sustainable, profitable and efficient mining and mineral processing operations, with the emphasis being on the production of mineral products for the international steel industry. In the process, the Company strives to utilise ethically, environmentally and socially responsible methods.

IFM produces ferrochrome from chromite ore located in the Bushveld Igneous Complex, one of the world's richest mineral deposits and largest ferrochrome producing regions in the world. IFM's Lesedi chromite mine and integrated beneficiation and smelting operations are situated at Buffelsfontein, 100km north-west of Johannesburg, South Africa.

Ferrochrome is an essential ingredient in stainless steel production. The demand for ferrochrome is expected to be strong in the long term owing to industrial growth and demand for stainless steel, particularly in China. Unlike nickel, ferrochrome cannot be substituted in stainless steel due to its unique properties.

The total operating capacity of IFM is approximately 265,000 tonnes of ferrochrome per annum. In 2008, IFM embarked on the second phase expansion feasibility study to produce 660,000 tonnes of ferrochrome per annum. IFM has updated the feasibility study for alloy expansion of some 250,000 tonnes per annum which was completed in September 2011. The scope of the feasibility study included:

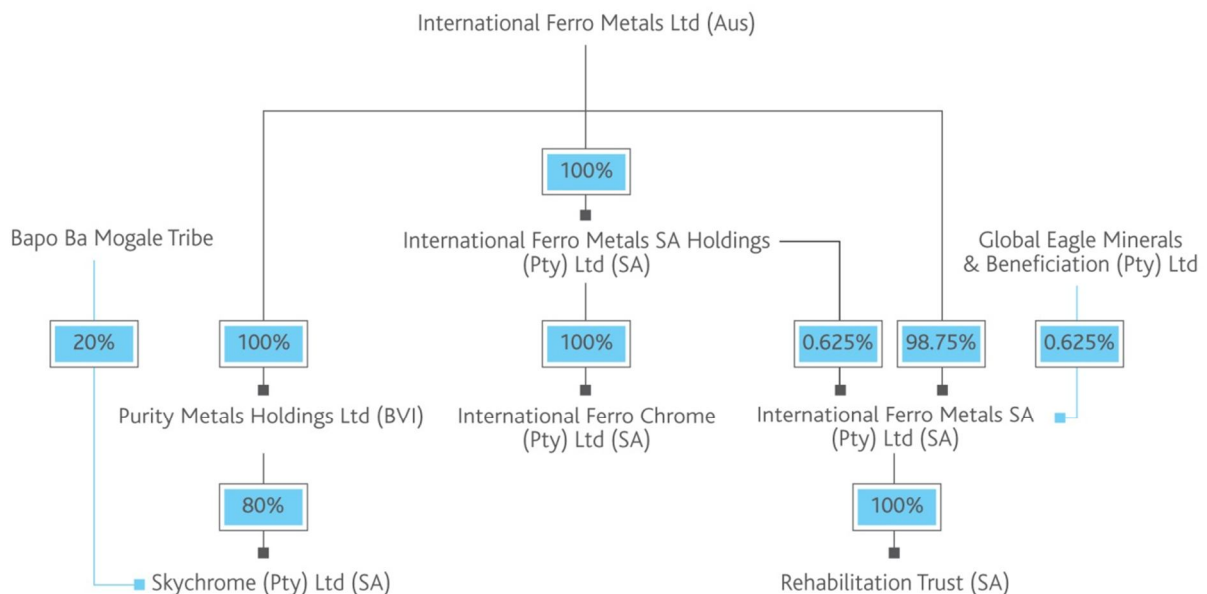
- the phased addition of two 70MW DC furnaces,
- supply of power, ore, reductant;
- process of water; and
- legislative environmental approvals.

All of the above are key aspects to enable expansion. The expansion is planned to coincide with the power supply increase from ESKOM and market conditions.

IFM's strategic relationship with its major shareholder, JISCO, provides a valuable off-take agreement for its product. The Company is also a party to an off-take agreement with CMC Cometals, a New York listed metals trader.

In August 2009, the Company embarked on the construction of its Clean Development Mechanism ("CDM") compliant electricity co-generation plant which was completed on time and within budget. IFM aims to generate an average of about 13.7 MW, being 11% of IFM's overall electricity requirements, which will reduce costs and allow the Company to achieve 100% production capacity once Eskom electricity constraints are legislated.

In addition, the Directors intend to evaluate the various corporate opportunities that exist to take advantage of the Company's position and commercial relationships in the ferroalloys industry. These opportunities may include expansion beyond the ferrochrome market.



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## CORPORATE GOVERNANCE

International Ferro Metals Limited is committed to maintaining high standards of corporate governance. The Directors have, so far as it is possible given the Company's size and the composition of the Board, complied with the UK Corporate Governance Code for the financial year ended 30 June 2011. In addition, the Company has complied with the Australian corporate governance requirements applicable to a company which is not listed on the Australian Securities Exchange.

### The Board of Directors

As at 30 June 2011, the Board of Directors comprised of nine directors. Currently there are three executive directors and six non-executive directors, of which three are considered to be independent. It is the Board's policy to maintain independence by having at least two independent non-executive directors on the Board. The independent non-executive directors are Mr S Oke, Mr T Willstead and Mr J Ballard. Ms T Xia, a non-executive director and Mr X Yang are not considered independent as they are representatives of JISCO, a major shareholder and customer of IFM. Mr Yang is also an executive of International Ferro Metals SA (Pty) Ltd (IFMSA). The Board believes Ms Xia and Mr Yang provide a valuable contribution to the Company through their experience in the ferrochrome and steel industries. Mr Grey and Mr Turner are not considered to be independent non-executive directors as they have held executive positions with the Company until 31 December 2008.

Mr Grey, as non-executive Chairman of the Company, is considered the lead director and utilises his experience, skills and leadership abilities to facilitate the governance process. Inside the boardroom, Mr Grey is responsible for the chairing of meetings and providing guidance to Board members, while outside the boardroom he serves as the spokesperson for the Company and as the major point of contact between the Board and the CEO. As CEO, Mr D Kovarsky (resigned 31 July 2011) and Mr C Jordaan (appointed 1 August 2011), who was/is based in South Africa, is responsible for the attainment of the Company's future goals and visions, in accordance with the strategies, policies, programmes and performance requirements approved by the Board. The CEO's primary objective is to ensure the ongoing success of the Company through the effective management and development of all aspects of the Company. The roles of the Chairman and CEO are separate and their responsibilities are clearly set out in writing. Mr Muller as Finance Director enhances the Company's commitment to sustainable financial reporting and governance.

The Board of Directors is responsible for the corporate governance of the Company. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders by whom they are elected and to whom they are accountable. The primary responsibilities of the Board include:

- formulating and approving the strategic direction, objectives and goals of the Company;
- monitoring the financial performance of the Company, including the approval of the Company's annual financial statements;
- ensuring that adequate internal control systems and procedures are in place and that compliance with these is maintained;
- identifying significant business risks and ensuring that such risks are adequately managed;
- reviewing the performance and remuneration of executive directors; and
- establishing and maintaining appropriate ethical standards.

To enable the Board to perform its duties, each director has full access to all relevant information and to the services of the Company Secretary. If necessary, the non-executive directors may take independent professional advice at the Company's expense. This service was utilised during the financial year to review the Company's remuneration report and compliance with Australian Corporations Act rules and rules associated with LSE listed companies.

Mr Willstead has been appointed Senior Independent Director and, as such, his main duties are to understand and address the concerns of major shareholders if these concerns cannot be resolved by the Chairman or the other executive directors and to meet with other non-executive directors.

### Areas of non-compliance

During the financial year, the Company continued to comply with the applicable recommendations of the UK Corporate Governance Code, save as noted below. The Chairman is not independent within the terms of the UK Corporate Governance Code. The Board considers Mr Grey's continued involvement as non-executive Chairman to be vitally important to the Company at its present stage of development, notwithstanding the fact that the Company is not

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compliant with the UK Corporate Governance Code in this respect. However, the Board believes that the role of the executive directors, who take collective responsibility for the running of the Company, creates a well-balanced structure capable of managing the Company in an effective and successful manner.

The Chief Executive Officer is not required to offer himself for re-election as suggested by the UK Corporate Governance Code. However, Mr Jordaan will offer himself for re-election at the Company's up-coming Annual General Meeting in November 2011 following his appointment in accordance with the Company's Constitution which is consistent with Australian corporate governance requirements and thereafter will not be required to offer himself up for re-election.

### **Terms of appointment as a Director**

The Constitution of the Company provides that a Director, other than the Chief Executive Officer, may not retain office for more than three calendar years or beyond the third Annual General Meeting following his or her election, whichever is longer, without submitting for re-election. One third of the Directors must retire each year and are eligible for re-election. The Directors who retire by rotation at each Annual General Meeting are those with the longest length of time in office since their appointment or last election.

During the year, Mr Grey and Mr Yang retired and both were re-elected by shareholders at the Annual General Meeting of the Company held on 23 November 2010.

The Executive Directors are entitled to serve on the boards of other companies and retain any earnings received from rendering these services. During the financial year, Mr Kovarsky (resigned 31 July 2011) acted as non-executive chairman of Randgold & Exploration Limited and he received total remuneration of ZAR400,000 for the financial year.

### **The Nomination Committee**

The Nomination Committee is chaired by Mr Grey. Other members include Mr Willstead and Mr Oke, who are considered by the Board to be independent in character and judgement, thus ensuring the Nomination Committee complies with the recommendation of the UK Corporate Governance Code as to membership. The role of the Nomination Committee is to identify and nominate candidates for the approval of the Board to fill Board vacancies and make recommendations to the Board on Board composition and balance. The Nomination Committee also prepares the Chairman's job description and other significant commitments for which he is responsible. The Committee met once during the financial year.

### **The Remuneration Committee**

The Remuneration Committee comprising of Mr Willstead (Chairman), Mr Oke and Mr Ballard, all of whom are considered by the Board to be independent, met 3 times during the financial year. The Committee is responsible for reviewing the performance of the Executive Directors and for setting the scale and structure of their remuneration, having due regard for the interests of shareholders as a whole and the performance of the Group. The remuneration of the Non-Executive Directors is reviewed by the Board. Where appropriate, the Committee obtains advice from independent remuneration consultants.

### **The Audit Committee**

The Audit Committee comprises Mr Oke (Chairman), Mr Willstead and Mr Ballard, all of whom are considered by the Board to be independent and both Mr Oke and Mr Ballard are considered to have recent and relevant financial experience. The Committee met 3 times during the financial year. The Committee reviews the Company's half-year and annual financial statements before submission to the Board for approval as well as any announcements relating to financial performance. Regular reports from management, the internal audit and the external auditors are also managed by the Committee. Deloitte, as internal auditors to IFM, provide their services which include reviews of financial and operating controls and the adequacy and effectiveness of the internal control environment of the various business processes that the board requires to be reviewed. The audit committee also monitors the external auditors in respect to the provision of any non-audit services to ensure auditor objectivity and independence is safeguarded. During the year the external auditors provided non-audit services to the value of ZAR153,350.

### **The Risk Committee**

The Board determines the Company's Risk Profile and is responsible for overseeing and approving risk management strategies and policies, internal compliance and internal control. Management is required by the Board to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of risk management. The Company's process of risk management and internal compliance control includes:

- establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these;

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- continuously identifying and measuring risks that might impact on the achievement of the Company's goals and objectives;
- formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls;
- monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls;

Comprehensive practices which are in place are directed towards achieving the following objectives:

- effectiveness and efficiency in the use of the Company's resources;
- compliance with applicable laws and regulations; and
- preparation of reliable published financial information.

The Risk Committee consists of Mr Grey (Chairman), Mr Turner, Mr Kovarsky (resigned 31 July 2011), Mr Willstead and Mr Muller. The Risk Committee met once during the year.

### **The Treasury Committee**

The Treasury Committee was chaired by Mr Muller throughout the year. Other members include Mr Russouw (resigned 30 June 2011), Mr Van Dyk, the Chief Financial Officer of IFMSA and Mr Botha. The Committee met 7 times during the year. The purpose of the Treasury Committee is to monitor the Group's financial affairs. The overall treasury objectives are to support the Group's development by ensuring:

- sufficient liquidity, thereby ensuring that the Group is at all times in a position to meet its obligations as they fall due in a timely manner and in all reasonably foreseeable circumstances;
- the most competitive return on surplus cash balances (within acceptable risk levels);
- availability of flexible and competitively-priced funding at all times;
- identification and management of the financial risks arising from operational activities (this would include the hedging of foreign exchange and interest rates movements);
- professional interaction with financial markets; and
- clear accountability within the treasury function.

The monthly treasury reports are included in the board meetings and information papers.

### **The Investment Committee**

The Investment Committee's role is to:

Evaluate potential business investments and acquisitions consistent with taking a long term view of value and the existing business plan of IFM based on selection criteria which, in summary, includes:

- formulation and execution of the business strategy of the Company and its underlying business value;
- key financial indicators, including prospective price earnings relative to projected growth, sustainability of earnings and dividend yield (if applicable), including balance sheet position, gearing, interest cover and cash flow; and
- corporate governance practices, including sound and well-constructed boards.

All new business investment and acquisition proposals presented by management must contain the pre-agreed supporting documentation, including executive summary and management recommendation.

The Company may utilise new or existing lines of credit, which allows the Company to gear its balance sheet when appropriate investment opportunities are available to enhance shareholder returns.

The Investment Committee consists of Mr Grey (Chairman), Mr Turner, Mr Kovarsky (resigned 31 July 2011) and Mr Muller. The Committee did not meet during the year.

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### Performance evaluation of the Board and Committees

The Chairman is responsible for undertaking an annual evaluation of the Board's performance and that of its committees and individual directors.

It is the responsibility of the senior independent director for the annual evaluation of the chairman, taking into account the views of executive directors within the Company.

It is envisaged that an externally facilitated review will be carried out every three years.

### Attendance at Meetings

Attendance at Board meetings, Nomination Committee meetings, Remuneration Committee meetings and Audit Committee meetings is set out on page 23.

### Terms of reference

The terms of reference for the Nomination, Remuneration, Audit, Treasury and Investment Committees, explaining their role and the authority delegated to them by the Board, can be viewed on the Company's website at [www.ifml.com](http://www.ifml.com).

### Model code

The Company has complied with a code of securities dealings in relation to the ordinary shares which is consistent with the Model Code, set out in the Listing Rules. The code adopted applies to the Directors and other relevant employees of the Group.

### Share trading

Dealings are not permitted at any time whilst in the possession of price sensitive information not already available to the market. In addition, the Corporations Act 2001 prohibits the purchase or sale of securities whilst a person is in possession of inside information.

### Hedging

Directors and executives are not generally permitted to hedge their shareholdings except as prescribed in the Securities Dealing Policy.

"Hedging" includes entering into any transaction or arrangement in financial products which operates to limit the economic risk of a security holding in the Company, including equity swaps and contracts for difference. Details of the Company's policy in relation to hedging are contained in the Remuneration Report on page 27 of the annual report.

### Communication to market and shareholders

The Board of Directors aims to ensure that the shareholders, on behalf of whom they act, are informed of all information necessary to assess the performance of the Directors and the Company. Information is communicated to shareholders and the market through:

- the annual report which is distributed to all shareholders;
- other periodic reports which are lodged with the LSE and are available for shareholder scrutiny;
- other announcements made in accordance with LSE Rules;
- special purpose information memoranda issued to shareholders as appropriate; and
- the Annual General Meeting and other meetings called to obtain approval for Board action as appropriate.

### Independent professional advice

Directors have the right, in connection with their duties and responsibilities as Directors, to seek independent professional advice at the Company's expense. Prior approval of the Chairman is required (only above A\$50,000), which will not be unreasonably withheld.



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### **Ethical standards**

All Directors, Management and staff are expected to consistently apply the highest ethical standards to their conduct to ensure that the Company's affairs and reputation are at all times maintained at the uppermost level.

### **Going concern**

A statement on the Directors' position regarding the Company as a going concern is contained in the Directors' Report on page 23.

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### DIRECTORS' REPORT

The Directors present their report together with the financial report for the year ended 30 June 2011. Directors were in office for this entire year unless otherwise stated.

International Ferro Metals Limited is an integrated ferrochrome producer listed on the London Stock Exchange (LSE: IFL). The head office is in Sydney, Australia and the production facilities are located in the North West Province of South Africa.

#### The Directors

Name	Age	Current Position	Date of appointment to Board
Anthony John Grey	74	Non-executive Chairman	9 December 2002
Stephen John Turner	50	Non-executive Deputy Chairman	26 January 2002
David Chaim Kovarsky	64	Chief Executive Officer to 31 July 2011	1 February 2008
Christiaan Cornelius Jordaan	42	Chief Executive Officer from 1 August 2011	1 August 2011
Xiaoping Yang	56	Executive director – IFMSA & Non- executive director - IFML	12 October 2005
Johannes Frederick Jacobus Muller	42	Finance Director & Chief Financial Officer	18 March 2010
Terence Vincent Coleman Willsteed	77	Non-executive Director	12 October 2005
Stephen Douglas Oke	57	Non-executive Director	16 November 2005
Tian Xia	41	Non-executive Director	16 November 2005
John Charles Ballard	65	Non-executive Director	9 March 2010

#### EXECUTIVE DIRECTORS

##### **Mr David Kovarsky** – *Chief Executive Officer to 31 July 2011 (64)*

After studying at The University of Witwatersrand, David qualified as a Chartered Accountant in 1971 and was appointed an audit manager at Arthur Andersen. In 1983 he joined JCI as head of corporate finance, and in 1992 headed JCI's ferrochrome arm, CMI. Thereafter he headed Times Media Limited (TML) and served on various boards including TML, SA Breweries, M-Net and Premier Milling. Between 1994 and 2002 he was involved in finance and strategy consulting projects. During this period he served as Chief Financial Officer of two listed gold mining companies. From 2002 to early 2008 he was Chief Executive Officer (CEO) of Pyromet Technologies who supplied IFM with its furnace and ancillary equipment. Currently he is the non-executive chairman of Randgold and Exploration Company. He resigned as director and CEO of the Company on 31 July 2011.

##### **Mr Christiaan Jordaan** – *Chief Executive Officer from 1 August 2011 (42)*

Chris is a mechanical engineer who joined IFM from BHP Billiton, where he was General Manager of its Metalloys division, one of the largest producers of manganese alloys in the world since 2008. Based in South Africa, Metalloys operates an eight submerged arc furnace ferromanganese and silicomanganese plant including a pelletising plant, metal recovery plant, briquetting plant and electrical power co-generation plant. His role encompassed all operations, human resources, finance and administration, safety, health, environment and community, capital investment and projects. Prior to managing Metalloys, Chris was General Manager of Kermas' Tubatse Chrome plant (previously BHP Billiton's Samancor Chrome) until 2007. His role included the management of a six submerged arc furnaces ferrochrome plant including pelletising, sintering and chrome recovery producing 400,000 tonnes per annum of ferrochrome. He worked at Samancor Chrome for eight years. Chris holds a Masters degree in Mechanical Engineering as well as a Masters Degree in Business Administration

##### **Mr Xiaoping Yang** – *Executive Director of IFMSA & Non-executive Director of IFML (56)*

Xiaoping Yang holds a Masters Degree from the Beijing University of Science and Technology. He joined Sinosteel Co as a Project Manager and became Branch General Manager in 1994. Xiaoping moved to South Africa in 1998 where he undertook the role of Managing Director and Chief Executive Officer of ASA Metals (Pty) Ltd, a South African chrome mining and smelter business. Xiaoping joined JISCO as Assistant President in July 2002.

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### **Mr Johannes (Jannie) Muller** – *Finance Director & Chief Financial Officer (42)*

Jannie Muller obtained his Bachelor in Accounting honours degree at the University of Stellenbosch in 1994. After completing his articles with Deloitte & Touche, and qualifying as a Chartered Accountant in 1997, he spent two years in London working for three international investment banks where he gained extensive experience in financial instruments and international financial markets. Upon returning to South Africa he worked as a treasury manager for the Old Mutual group for four years during which time he qualified as a Chartered Financial Analyst. Thereafter he worked for ABSA Bank for two years as investment specialist. He joined IFM in 2007 as Group Financial Manager and was appointed Chief Financial Officer in 2009 and Finance Director in March 2010.

### **NON-EXECUTIVE DIRECTORS**

### **Mr Anthony (Tony) Grey** – *Non-executive Chairman (74)*

Tony Grey graduated with a BA (Hons) in History and a Juris Doctor from the University of Toronto. Thereafter, he practiced law with a major law firm in Toronto for seven years. He immigrated to Australia in 1972 and founded Pancontinental Mining, which he built into a publicly-listed major diversified mining house with interests in gold, base metals, coal, industrial minerals and uranium. He left Pancontinental Mining in 1992 and became a director of National Mutual Royal Bank for four years. Thereafter, Tony was appointed Chairman of Kingsgate Consolidated, a gold mining company listed on the Australian Stock Exchange. In 1992, Tony became a major shareholder and Executive Chairman of Polartech Ltd, an Australian Stock Exchange-listed biomedical company developing the revolutionary Australian invention of an optoelectronic means of diagnosing pre-cancer cells and cancer. He is also non-executive chairman of Timpetra Resources Limited and non-executive director of International Potash Limited. Tony is also a director of Mega Uranium Limited. Tony has written three books and numerous articles about the mining industry.

### **Mr Stephen Turner** – *Non-executive Deputy Chairman (50)*

Stephen Turner, founder of IFM, has extensive experience in financial markets and has specialised in the natural resources sector. Stephen has delivered resource projects in Australia, Southern Africa, Brazil, Fiji, New Caledonia and the Solomon Islands. He is also non-executive chairman of Vantage Goldfields Limited, and a non-executive director of Iluka Resources Limited, Timpetra Resources Limited and South American Ferro Metals Limited. He was a founding director of the Australian subsidiary of PSG Investment Group, then South Africa's sixth largest investment bank. He has an extensive network of business contacts and has raised equity capital in Australia, the UK, Hong Kong, Malaysia and the USA. Stephen is an Australian Chartered Accountant.

### **Mr Terence Willsteed** – *Non-executive Director (77)*

Terence Willsteed holds a Bachelor of Engineering (Mining) with Honours and a Bachelor of Arts and is a Fellow of the Australasian Institute of Mining and Metallurgy. Since 1973 he has been the principal of consulting mining engineers Terence Willsteed & Associates.

His 50 year career in the mining industry has included senior operational and engineering management positions with Zinc Corporation, Mt Isa Mines Limited and Consolidated Goldfields Limited. His recent public directorships include European Gas Limited, Austral Gold Limited, Citigold Corporation Limited, Vantage Goldfields Limited, Goldsearch Limited, Timpetra Resources Limited and South American Ferro Metals Limited. In his consulting experience, he has been involved in the assessment and development of a wide range of mineral, coal and oil shale projects, and has participated in the management of developing and operating mineral projects both in Australia and internationally.

### **Mr Stephen Oke** – *Non-executive Director (57)*

Stephen Oke holds a BSc Honours degree in Geology from the University of Southampton and an MBA from the University of the Witwatersrand Graduate School of Business. He has over thirty years' experience in the mining and metals industry of which some twelve years was spent in various operational management positions for the National Coal Board, Anglovaal Ltd, BP Coal and Johannesburg Consolidated Investment Co Ltd. Subsequently he has held senior positions in the investment banking industry for Smith New Court, Merrill Lynch, NM Rothschild and Sons and Standard Bank, specialising in the metals and mining sector where he advised on a number of transactions and equity capital fund raisings worldwide. Stephen is currently chairman of African Mining and Exploration Plc and a director of Shaft Sinkers Holdings Plc, Kolar Gold Limited and various private natural resource companies.

### **Ms Tian Xia** – *Non-executive Director (41)*

Tian Xia received a Bachelor of Industrial Accounting degree in 1992 from the East China University of Metallurgy. In the same year she joined JISCO as an accountant. Tian became a Certified Public Accountant of China in 1996 and received an MBA Degree in 2000 from Xi'an University of Science and Technology. She was appointed Chief Financial Officer of the JISCO Group in 2008.

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### **Mr John Ballard – Non-executive Director (65)**

John Ballard has extensive experience across a wide range of industries as both a senior executive and a Non-Executive Director. He was previously Managing Director and Chief Executive Officer of Southcorp Limited, Managing Director of Asia Pacific, United Biscuits Limited and Managing Director Snack Foods, Coca-Cola Amatil Limited, a Director of Woolworths Limited and Email Limited, Chairman of Wattyl Limited, a Director of CSR Limited and subsequently Rinker Limited and a Trustee of the Sydney Opera House Trust. He is currently a Director of Fonterra Co-operative Group Limited, a Director of Magellan Flagship Fund Limited, Chairman of the Advisory Funds at Pacific Equity Partners, a Director of the Sydney Neuro Oncology Group and Chairman of Elders Limited. John is a Fellow of the Australian Institute of Company Directors and holds an MBA from Columbia University, New York.

### **MANAGEMENT**

The Management of the Group, excluding the executive directors mentioned above include:

### **Mr Willem (Wimpie) Van Wyk – General Manager Mining (44)**

Wimpie van Wyk has more than twenty-two years' mining experience in the gold and chrome industries. He holds a Higher National Diploma in Metalliferous Mining and is a registered professional engineer with the Engineering Council of South Africa and holds a Mine Managers certificate and a Mine Overseers Certificate of Competency. Prior to joining IFM in January 2010, he was employed by a leading global ferrochrome producer and was responsible for 660,000 tonnes per annum run-of-mine from opencast operations and 5 million tonnes per annum run-of-mine from underground operations. He has managed five underground mines, one quartz mine and two open pit mines. Wimpie has extensive experience in managing expansion projects. Wimpie resigned in August 2011.

### **Mr Ben Fourie - General Manager Mining (47)**

Ben has more than twenty-two years' experience in the mining industry. He holds a B. Eng (Mining) degree from the University of Pretoria as well as a mine manager's certificate. Prior to joining IFM-SA's mining division in September 2011, Ben was employed by one of the world's largest platinum producers. From a graduate in training, he received regular promotions to Section Manager, Unit Business Manager, General Manager and ultimately Vice-President responsible for Mine Services. In the process, Ben managed sites with large numbers of employees (6,500 being the largest) producing 360,000 tonnes per month with 340,000 tonnes per month through metallurgical plants. In his capacity as vice president, he was among others, Chairman of the Development Trust and a member of the Executive Working Committee of the ICMM. He was further responsible for long term and strategic planning, resource management, and other mining services on group level. Ben joined IFM in September 2011.

### **Mr Michael Lillja – General Manager Marketing (49)**

Michael graduated in 1987 in International Sales and Marketing, with a Master Science of Economics degree in Helsinki Finland, and has an MBA. From 1987 he spent 2½ years in Greece working in the crude oil sector as Head of Black Sea operations, after which he spent seven years in Former Soviet Union as purchasing manager for crude oil and oil-refined products. In 1996 he joined Alloys Finland/Millennium 2000 (Alloy 2000/ENRC), responsible for the logistics, sales and marketing of Kazkrom-Kazakh ferrochrome producer, until 2002 when he moved to work for two years in the carbon steel sector as Head of Sales. In 2005 he returned to the ferrochrome industry where he was responsible for the marketing and selling of chrome ores and charge chrome. Michael resigned in March 2011.

### **Mr Maarten Nienaber – General Manager Works (49)**

Maarten Nienaber is a qualified Electronic Engineer from the University of Pretoria. He is currently studying towards obtaining an MBL degree at the University of South Africa. Prior to joining the Company, he worked for a leading global ferrochrome producer and was responsible for introducing the "South African" cost model and operating philosophy to the Australian Vanadium environment. He has also been extremely successful in ensuring the consistent achievement of lower production costs coupled with high efficiencies and throughput. Maarten joined IFM in May 2010 as General Manager Works.

### **Mr Hannes van Dyk – Chief Financial Officer – IFMSA (44)**

After qualifying in financial management in 1990, Hannes was involved in operational finance in different corporate manufacturing environments in South Africa up until 1996 when he joined the mining and smelting industry at one of the leading ferrochrome producers in South Africa. In 1999 he was awarded a Masters degree in Accounting after completion of his dissertation. His experience has ranged from cost and financial management, tax, accounting, governance and internal control as well as extensive management experience within the ferrochrome industry. Hannes also held various positions with extensive board exposure to multinational corporate shareholders. He joined IFM in December 2008.

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### COMPANY SECRETARY

#### Mr Wayne Kernaghan

Wayne is a member of the Institute of Chartered Accountants in Australia with a number of years' experience in various areas of the mining industry. He is also a Fellow of the Australian Institute of Company Directors and a Chartered Secretary.

### INTERESTS IN THE SHARES AND OPTIONS OF THE COMPANY AND RELATED BODIES CORPORATE

As at the date of this report, the interests of the directors in the shares and options of International Ferro Metals Limited were:

	<b>Number of Ordinary Shares</b>
D C Kovarsky (resigned 31 July 2011)	100,000
X Yang	166,667
J F J Muller	150,000
A J Grey	1,466,667
S J Turner	7,291,667
T V Willstead	1,250,000
S D Oke	150,000
T Xia	166,667
J C Ballard	400,000
C C Jordaan (appointed 1 August 2011)	200,000

There were no options held over Ordinary Shares at the date of this report.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### PRINCIPAL ACTIVITIES

IFM produces ferrochrome from chromite ore located in the Bushveld Igneous Complex, one of the world's richest mineral repositories and the largest ferrochrome producing regions in the world. IFM's Lesedi chromite mines and integrated beneficiation and smelting operations are situated at Buffelsfontein, 100km north-west of Johannesburg, South Africa. The Company is currently developing the nearby Sky Chrome deposit in which it holds an 80% interest and which will allow the Company to significantly increase production.

### OPERATIONS REVIEW

#### Overview

The past financial year brought many challenges with it, both globally and within the organisation. At the same time, however, significant operational achievements were attained including a major engineering project in the form of the furnace roof upgrades and the successful commencement of mining at Sky Chrome.

#### Strategy

The Company's strategy remains to be a low cost producer of chrome ore and alloy related products for the global stainless steel industry. To this end a portfolio of capital and operational improvement projects were commissioned with very pleasing progress made to date. These projects will contribute to the overall repositioning of the Company towards the lower end of the cost curve as well as increasing its revenue base. This in turn will afford the Company the right to grow in current and related markets in line with its long-term strategy to invest and grow in a diversified portfolio of long-life, low cost assets.

#### Operations

Mining, ore beneficiation and agglomeration performed at record levels in the year. Improved levels of ore hoisted, beneficiation efficiency and pelletising throughput all contributed to this achievement. Roof failures on the furnaces negatively influenced smelting performance. Excellent progress was however made in changing reductant mixes to the furnaces resulting in lower cost of production. Some efficiency improvements were achieved especially power consumption. To augment the low cost strategy a number of projects (outlined below) were commissioned.

The furnace roof rebuild has been completed according to plan. Performance will be closely monitored for the next three months to ensure the redesign has achieved its objective.

#### *Cost reduction projects*

IFM has embarked on a number of strategic projects to reduce input costs and improve efficiencies to reposition the Company lower down on the cost curve. The projects include the furnace roof rebuilds, the co-generation plant, the development of the Sky Chrome mine, and the UG2 project.

At the beginning of 2011 the Company decided to make major modifications to the furnace roofs, feed chutes and gas off-take arrangements. Subsequently, the furnaces were shut down on a staggered basis, in June 2011 and July 2011 respectively. The shut downs coincided with the high electricity tariff months. Furnace 1 was switched in at the beginning of August and has ramped up to full load in early September 2011. Furnace efficiencies achieved in the ensuing period were and remain at expected levels, which compare favourably with previous best performance. Furnace 2 was switched in early September 2011 and is expected to ramp up to full load by mid-October 2011.

The co-generation plant was commissioned in November 2010. Due to elevated hydrogen levels and the lack of stable gas supply from the furnaces, the plant operated at minimal levels until the furnaces were switched out for roof replacements. Following the start-up of the furnaces in August and September 2011, the co-generation plant was restarted and 7 of the 10 engines are currently operational, and are operating at 65% of capacity. Output from the plant is proportional to furnace gas supply and as such the plant is not yet running at full capacity. At full production the co-generation plant should provide IFM with approximately 11% of its energy requirements.

Sky Chrome's open pit mining operations commenced in June 2011 and should ramp up to 50ktpm run of mine by the first quarter of calendar 2012 and full production of 100ktpm is expected in 2013.

Construction of the UG2 plant is on track to start commissioning during October and to deliver 15ktpm of concentrate from January 2012. The UG2 feed will represent about 30% of IFM's beneficiated ore requirements and contribute to a more stable feed to the furnaces.

The successful implementation and integration of these projects will deliver a lower cost, competitive ferroalloy operation and will enable the Company to achieve its strategic goal to become a low cost producer of chrome ore and ferrochrome related products for the stainless steel industry. Rand production costs improved significantly, reducing by 0.5% from the previous year, despite Eskom's average 23.4% price increase and general inflationary pressures.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### *Other operations*

Lesedi mine continued with its ramp-up and recorded total run of mine production of 823kt compared to 511kt in the previous year. Especially pleasing was the Lesedi underground run of mine production of 275kt compared to 101kt in the previous year. It is expected that Lesedi will produce in excess of 630kt underground run of mine in FY2012 as underground development continues.

The ore beneficiation plant achieved record production both in terms of volume and ore recovery. The plant produced 638kt for the year with a 64% recovery yield compared to 503kt at a 53% recovery in FY2010. Beneficiated ore cost reduced by 14% year-on-year. Although the recovery is expected to be negatively influenced by the initial lower quality shallow ore from Sky Chrome mining, it is expected that these levels will be sustainable as Sky Chrome ramps up to full production.

The operations had mixed success. The pelletising and sintering plant achieved record production of 379kt compared to 366kt in the previous year. The smelting process remained challenged until the furnace roof replacements were complete; 195kt produced compared to 200kt in the previous year.

The combination of the furnace shutdowns and improved mining operations resulted in a build-up of beneficiated ore stocks which enabled the Company to increase its revenue from low grade ore sales.

### **Sales & Marketing**

IFM continues to expand its markets and during the year sales to Japan and Sweden were recorded for the first time. The Company also entered the chrome ore market and 288kt of low grade ore was sold during the year. Ferrochrome sales for the year were 186kt, down 3kt from the prior year.

### **Sustainability**

IFM will only be successful if no-one is injured and if the Company operates in an environmentally acceptable manner. Zero fatalities and an ever declining total recordable injury rate are key goals in this approach. In order to achieve this IFM strives to operate in a disciplined and professionally led manner.

IFM's integrated sustainable development management system has earned the it re-certification in terms of ISO 14001:2004, ISO 9001:2008 and OHSAS 18001:2007 in May 2011 and June 2011 respectively; the certifications are valid until December 2013.

### *Health & Safety*

The Company has a zero fatality rate and is focused on the continuing improvement of our health and safety standards.

IFM improved its record of fatality free man hours by achieving, since establishment in 2005, 17,955,111 fatality-free man-hours which equates to 2,244,388 fatality free shifts. During the year, management was concerned by the rise in lost time injury frequency (LTIF) from 4.44 in FY10 to 5.94 in FY11 and took prompt action. The corrective steps taken mean that LTIF has improved over the last few months and the 12 month moving average has subsequently reduced to 4.48 by mid-September 2011. The FY2012 YTD LTIF is currently at a pleasing 0.94.

This improvement was achieved through a relentless focus on safety. Safety management structures with clearly articulated roles and responsibilities, simple processes and systems of risk assessment and incident reporting and investigation are implemented and diligent implementation of corrective actions are introduced. This allows the operations to focus on leading practices so as to pro-actively influence safety performance in a positive manner.

### *Environmental impact*

The Company continues to focus on environmentally sustainable operations and two of our key projects both improve our sustainability and reduce costs.

The co-generation plant is a Clean Development Mechanism project as defined by the Kyoto Protocol, and harnesses furnace off-gases to generate electricity. It is expected to provide 11% of our electricity needs at full production.

Under the agreement with Rustenburg Platinum Mines signed in the prior financial year, the Company will pay for a chrome retreatment plant to produce UG2 chrome concentrate from Rustenburg's UG2 concentrator tailings. The plant is on track to start commissioning during the beginning of October and to deliver 15ktpm of concentrate from January 2012 to IFM. The UG2 feed will represent about 30% of IFM's beneficiated ore requirements and contribute to a more stable feed to the furnaces.

The furnace roof replacement programme also included improving gas quenching and cleaning processes. Although current indications are positive in that a reduction in emissions may be expected, annual emission analysis will be used to confirm this initial view.

Sustainability will remain a fundamental principle on which the Company will move forward. The ability to operate in a sustainable manner will be strengthened by means of solid leadership and inclusive management of personal safety.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### **Black Economic Empowerment (BEE) transaction**

In April 2009 the Company lodged its proposed BEE transaction with the former South African Department of Minerals and Energy, now the Department of Mineral Resources (“DMR”), as the final element of its previously submitted application to convert its old order mining rights to new order mining rights under the South African Minerals and Petroleum Resources Development Act. The Company is actively engaging the relevant stakeholders and the DMR to finalise the BEE transaction which is expected to be concluded in the near future.

### **Ferrochrome Market Update**

During the year alloy prices improved but this was overshadowed by a downward trend in Q2 2011. Discount structures remained under pressure over this period allowing little room for improvement.

The year under review saw the European contract price set within a tight band between US\$1.25/lb and US\$1.35/lb. Subsequent to financial year-end, the price was settled at US\$1.20/lb for Q3 2011. These prices do not however paint the full picture. The Rand strengthened from levels of ZAR7.50/US\$ in July 2010 to ZAR6.80/US\$ by 30 June 2011 and electricity tariffs increased by 26.7% in April 2011. The low subsequent ferrochrome contract price is mainly attributable to declining nickel prices, which resulted in the destocking of stainless steel and ferrochrome inventories. The destocking in stainless steel in turn led to an unusual overcapacity of ferrochrome production and as a result thereof, the past six months have seen production cutbacks in ferrochrome production.

### **Outlook**

Costs have been reduced significantly over the last six months and this is expected to continue in the first half of the new financial year as the co-generation plant moves to full capacity and the furnaces ramp up to full production. Additional cost reductions are also expected after the introduction of low cost UG2 concentrate and further decreases in reductant costs.

Demand for FeCr is directly proportional to stainless steel production. The long-term outlook for stainless steel production remains strong and record production of 33Mt is expected in 2011 (2010: 31.7Mt) with a further increase at an average rate of 6.8% p.a. to 2015, according to CRU. The lower scrap ratio trend seen in China leads to a higher primary chrome demand. More than 50% of stainless steel growth is expected to emanate from China, with China therefore to lead demand growth of ferrochrome in the coming years. It is not expected that ferrochrome supply in China will grow commensurate to the growth in demand. The Company remains confident that the ferrochrome market is sustainable and attractive, and that IFM is increasingly well-positioned to benefit from market growth.

As the macro ferrochrome market improves the Company remains confident that the long term ferrochrome growth story remains intact. The combination of a sustainable long term market for stainless steel and ferrochrome, and measures being taken within the Company to ensure it is a low-cost producer with robust operations, mean the Company is confident that it is better positioned than it has been for some time.

**INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT**

**RESERVE AND RESOURCE STATEMENT**

Table 1:

Mineral Resource and Mineral Reserve Statement of International Ferro Metals Limited as at 30 June 2011.

Mineral Reserves <sup>1</sup> (ROM Feed numbers)					Mineral Resources (Geological Losses Applied)				
	Attributable (%)	Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio		Attributable (%)	Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio
<b>PROVED:</b>					<b>MEASURED:</b>				
<b>Lesedi Underground</b>	99.375				<b>Lesedi Underground</b>	99.375			
MG2		10,191	22.34	1.06	MG2		6,630	37.20	1.34
MG1		5,930	32.15	1.35	MG1		4,867	40.26	1.49
<b>Lesedi Open Pit</b>	99.375				<b>Lesedi Open Pit</b>	99.375			
MG3		79	30.27	1.24	MG3		68	35.40	1.28
MG2		152	34.51	1.31	MG2		137	35.99	1.33
MG1		83	36.16	1.39	MG1		70	41.27	1.46
<b>Sky Chrome; Underground</b>	80				<b>Sky Chrome; Underground</b>	80			
MG2		16,580	28.39	1.22	MG2		24,659	32.29	1.29
MG1		17,257	28.91	1.30	MG1		25,148	34.91	1.43
<b>Sky Chrome; Open Pit</b>	80				<b>Sky Chrome; Open Pit</b>	80			
MG4		635	28.94	1.23	MG4		671	30.67	1.26
MG3		355	24.29	1.19	MG3		310	27.25	1.22
MG2		930	27.14	1.19	MG2		704	32.75	1.29
MG1		742	33.55	1.36	MG1		666	36.53	1.42
MG0		204	30.49	1.32	MG0		179	33.30	1.38
<b>Total Proved</b>		<b>53,138</b>	<b>27.89</b>	<b>1.23</b>	<b>Total Measured</b>		<b>64,109</b>	<b>34.36</b>	<b>1.37</b>

**INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT**

**RESERVE AND RESOURCE STATEMENT (continued)**

Mineral Resource and Mineral Reserve Statement of International Ferro Metals Limited as at 30 June 2011 (continued)

Mineral Reserves <sup>1</sup> (ROM Feed numbers)					Mineral Resources (Geological Losses Applied)				
	Attributable (%)	Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio		Attributable (%)	Tonnage (kt)	Cr <sub>2</sub> O <sub>3</sub> (%)	Cr:Fe ratio
<b>PROBABLE:</b>					<b>INDICATED:</b>				
<b>Lesedi Underground</b>	99.375				<b>Lesedi Underground</b>	99.375			
MG2		3,283	22.34	1.11	MG2		1,932	37.81	1.43
MG1		2,511	31.87	1.39	MG1		2,084	39.77	1.54
<b>Lesedi Open Pit</b>	99.375				<b>Lesedi Open Pit</b>	99.375			
MG4					MG4		237	31.67	1.24
<b>Sky Chrome; Underground</b>	80				<b>Sky Chrome; Underground</b>	80			
MG2		10,556	29.56	1.23	MG2		12,224	33.48	1.30
MG1		11,262	28.13	1.28	MG1		12,047	33.58	1.40
<b>Sky Chrome; Open Pit</b>	80				<b>Sky Chrome; Open Pit</b>	80			
MG4		721	27.31	1.20	MG4		768	28.68	1.23
MG3		832	23.39	1.18	MG3		648	29.07	1.26
MG2		3,112	28.04	1.21	MG2		2,346	34.03	1.31
MG1		2,016	33.85	1.36	MG1		1,805	36.95	1.42
MG0		290	28.84	1.26	MG0		260	30.60	1.30
<b>Total Probable</b>		<b>34,583</b>	<b>28.49</b>	<b>1.25</b>	<b>Total Indicated</b>		<b>34,351</b>	<b>34.06</b>	<b>1.36</b>
<b>Proved &amp; Probable Reserves</b>		<b>87,721</b>	<b>28.12</b>	<b>1.24</b>	<b>Measured &amp; Indicated Resources</b>		<b>98,460</b>	<b>34.32</b>	<b>1.36</b>
					<b>INFERRED Lesedi Underground</b>	99.375			
					MG2		2,766	37.75	1.45
					MG1		2,745	40.09	1.57
					<b>Sky Chrome; Underground</b>	80			
					MG2		10,902	33.63	1.30
					MG1		8,789	35.75	1.45
					<b>Sky Chrome; Open Pit</b>	80			
					MG4		2,005	30.48	1.28
					MG3		159	32.85	1.32
					MG0		187	30.17	1.29
					<b>Inferred Resources</b>		<b>27,553</b>	<b>35.11</b>	<b>1.39</b>
<b>Total Reserves</b>		<b>87,721</b>	<b>28.12</b>	<b>1.24</b>	<b>Total Resources</b>		<b>126,013</b>	<b>34.49</b>	<b>1.37</b>

- <sup>1</sup>Mineral Reserves used in SAMREC and IMMM Codes whereas termed Ore Reserves in the JORC Code
- Tonnages and grades for the MG2 reserves include the parting between the individual reefs.

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### RESERVE AND RESOURCE STATEMENT (continued)

The information in this report that relate to exploration results are based on information compiled by the IFM appointed Competent Person, HB Swart (Pr.Sci.Nat). The Competent Person has sufficient experience which is relevant to the style of mineralisation and types of deposits under consideration, and to the activity which has been undertaken, to qualify as a Competent Person as defined by the 2004 edition of the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (JORC), as well as the 2007 edition of the South African Code for Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC).

The Measured and Indicated Mineral Resources for Sky Chrome declared at 30 June 2011 remained at approximately the same levels from that declared in June 2010, however the open pit resources decreased and the underground resources increased. Mining commenced in the open pit which revealed anomalies in the previous Lefatshe geology model:

- The outcrop positions were exposed further north than in the previous model, which reduced the available open pit area.
- The seams were thinner than previously indicated, which reduced the open pit volumes.
- The dip increased from what was indicated before, which also reduced the available open pit area.

As a result all the boreholes were re-evaluated and a new database created, which resulted in a new geology model. At the same time industry benchmark categorization methodology was employed, which resulted in a large amount of underground Indicated Resources converting to Measured Resources. This also resulted in the abovementioned increase in underground resources.

The Lesedi Mineral Resources declared at 30 June 2011 decreased slightly from that declared in June 2010 due to:

- Mining depletion.
- The removal of the MG1 between strike 0 and strike 1, between two major faults as a result of poor ground conditions.
- The removal of the MG2 resource above the main shaft system which was erroneously reported in the past.

The decrease was positively impacted by the inclusion of open pit resources and a new underground MG2 area adjacent to the current Lesedi open pit.

The combined Sky Chrome and Lesedi Mineral Resources declared at 30 June 2011 decreased from that declared in June 2010 by 2.222 million tonnes and the Cr<sub>2</sub>O<sub>3</sub> grade by 3.36% and the Cr to Fe ratio by 0.05.

The Mineral Reserves for Lesedi declared at 30 June 2011 increased from that declared in June 2010 due to the amount of waste mining as reported by Mineral Resource Management staff. The Mineral Reserves for Sky Chrome declared at 30 June 2011 increased from that declared in June 2010 due to the increase in Measured and Indicated Resources as mentioned above. The combined Sky Chrome and Lesedi Mineral Reserves declared in June 2011 increased from that declared at 30 June 2010 by 13.230 million tonnes and the Cr<sub>2</sub>O<sub>3</sub> grade decreased by 2.08% and the Cr to Fe ratio by 0.05.

### DIVIDENDS

The Board of Directors resolved not to declare a dividend for the year ended 30 June 2011.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### FINANCIAL REVIEW

#### Income statement

The Company reported a loss before tax of ZAR214 million for the year ended 30 June 2011, compared to a loss of ZAR157 million for the prior year.

The table below reflects the consolidated results for IFM for the year ended 30 June 2011. Both the functional currency and the presentation currency of the Company is South African Rand (“ZAR”) unless otherwise stated.

Summary of Income Statement	FY 2011 H1	FY 2011 H2	FY 2011	FY 2010 H1	FY 2010 H2	FY 2010
	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR'000
FeCr production (tonnes)	100,839	94,030	194,869	94,715	105,725	200,440
FeCr sales (tonnes)	103,808	83,155	186,963	70,936	119,496	190,432
Sales Revenue	850,944	724,515	1,575,459	451,917	981,678	1,433,595
Cost of goods sold	(904,942)	(714,456)	(1,619,398)	(509,055)	(915,762)	(1,424,817)
Gross profit/(loss)	(53,998)	10,059	(43,939)	(57,138)	65,916	8,778
Other (expenses)/income	(80,825)	(35,426)	(116,251)	(79,603)	(53,357)	(132,960)
Net finance costs	(25,272)	(28,625)	(53,897)	(8,101)	(24,449)	(32,550)
Loss before tax	(160,095)	(53,992)	(214,087)	(144,842)	(11,890)	(156,732)
Taxation	53,091	26,045	79,136	39,749	31,177	70,926
Net loss after tax	(107,004)	(27,947)	(134,951)	(105,093)	19,287	(85,806)
EBITDA	(98,834)	26,923	(71,911)	(102,258)	43,404	(58,854)
Net operating cash flow	(102,253)	43,222	(59,031)	(273,954)	5,502	(268,452)
EPS (SA cents per share)	(19.1)	(5.0)	(24.1)	(19.1)	3.7	(15.4)
Weighted avg # shares (m)	554.0	554.0	554.0	544.9	549.4	549.4
DPS (pence)	0p	0p	0p	0p	0p	0p

Ferrochrome production of 195kt was 3% below that of the previous year and 26% below nameplate capacity of 265kt, due to water leaks on the furnace roofs which resulted in reduced efficiencies and availabilities on the furnaces. Both furnaces were switched out for maintenance in November 2010 and furnace 1 was switched out in June 2011 for roof replacement.

Sales revenue increased by 10% to ZAR1.58 billion as a result of ore sales of ZAR179 million during the year. The average European benchmark price increased by 21% year on year, however this was negatively impacted by lower achieved prices and an average 8% strengthening of the Rand against the Dollar. At 30 June 2011, ferrochrome sales of 29,674 tonnes have ongoing pricing exposure with pricing expected to be settled by the end of September 2011.

Other expenses/income include

- Other income comprised ZAR77 million received from Phoenix Platinum for the sale of net profit interest in PGM recovery from tailings.
- Administration and other expenses increased by ZAR24 million to ZAR113 million
- Net realisable value adjustments of ZAR43 million (FY2010: ZAR22 million) on stock held at 30 June 2010 and unabsorbed fixed costs of ZAR25 million (FY2010: ZAR3 million) for furnace standing time during maintenance were charged directly to the income statement.

The improvement in EBITDA in the second half of the year is due to ore sales and lower production costs. EBITDA increased to ZAR27 million, from a loss of ZAR99 million in the first half resulting in a full-year loss of ZAR72 million, up ZAR13 million from the prior year.

Net finance cost increased from ZAR33 million to ZAR54 million due to the draw downs on the working capital facility.

The positive tax charge of ZAR79 million (FY2010: ZAR71 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 increased from a loss of ZAR86 million (ZAR0.15 per share) in FY2010 to a loss of ZAR135 million (ZAR0.24 per share) for FY2011.

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### Production costs

The Company was highly successful in reducing controllable costs and exceeded budget expectations in the second half of the year. In Rand terms ferrochrome production cost for the year decreased by 0.5% from prior year and by 7.6% from H1 to H2.

In Dollar terms, production cost for the year was 89.4¢/lb at an average exchange rate of ZAR7.00/US\$ compared with 83.4¢/lb for the prior year at an average exchange rate of ZAR7.54/US\$. The table below provides the breakdown of production cost and restates FY2010 costs at an exchange rate of ZAR7.00/US\$ to remove the effects of exchange rate for comparison purposes in US¢/lb.

Table 1:	FY2010 restated	FY2011 actual		
ZAR/US\$	ZAR7.00	ZAR7.00	change	change %
Ore	26.7¢	24.4¢	-2.4¢	-8.8%
Reductants	24.7¢	22.1¢	-2.6¢	-10.6%
Electricity	16.5¢	21.1¢	4.6¢	28.0%
Operating	6.0¢	5.9¢	-0.2¢	-2.9%
Depreciation	4.6¢	4.9¢	0.3¢	6.6%
Fixed costs	11.2¢	11.0¢	-0.2¢	-1.7%
<b>Total</b>	<b>89.8¢</b>	<b>89.4¢</b>	<b>-0.4¢</b>	<b>-0.5%</b>

- **Ore:** The continued ramping up of underground mining operations, together with improving beneficiation yields have significantly contributed to lowering the cost of ore. Open pit mining at Sky Chrome has started during June 2011 which will substitute the open pit operation at Lesedi (which is nearing its end of mine life) at a lower cost. The supply of 15ktpm of low cost UG2 concentrate from Anglo Platinum from January 2012 should further reduce the cash cost of ore by about 3.0¢/lb.
- **Reductants:** Coke prices on average increased by 8.5% from the prior financial year, however with the introduction of lower cost anthracite, at levels far exceeding original expectations, overall reductant costs were reduced by 11%. The Company's objective is to further decrease reductant costs by about 1.3¢/lb (6%) in FY2012.
- **Electricity:** Eskom unit prices on average increased by 23.4% from the prior financial year but due to the water leaks on the furnace roofs electricity consumption efficiencies were negatively affected resulting in an overall 28% increase in electricity cost. After the furnace roof replacements, electricity consumption is expected to normalize which should reduce the impact of future Eskom tariff increases by 1.6¢/lb (8%).
- **Co-generation:** The electricity co-generation plant is expected to generate about 11% of the operation's overall electricity requirements at significantly lower cost than Eskom. Once operating at full capacity, electricity cost should reduce by a further 2.0¢/lb.
- **Fixed costs:** Overall costs were well contained during the year with per unit fixed cost expected to decrease by 3.0¢/lb at full production capacity which is expected from November 2011.

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### Cash flow

Summary Of Cash Flow Statement	H1 2011 ZAR'000	H2 2011 ZAR'000	FY 2011 ZAR'000	FY 2010 ZAR'000
Net cash flows from operating activities	(102,253)	43,222	(59,031)	(268,452)
Net cash flows from investing activities	(131,889)	(81,730)	(213,619)	(246,929)
Net cash flows from financing activities	90,421	(132,106)	(41,685)	587,997
Net increase / (decrease) in cash held	(143,721)	(170,614)	(314,335)	72,616
Cash at the beginning of the period	396,926	230,952	396,926	340,089
Effects of exchange rate changes on cash	(22,253)	7,144	(15,109)	(15,779)
Cash at the end of the period	230,952	67,482	67,482	396,926

Operating activities utilised cash of ZAR59 million, resulting from the cash loss ZAR97 million offset by a net decrease in working capital of ZAR38 million

Investing activities utilised ZAR214 million which includes ZAR196 million for capital expenditure and ZAR115 million for UG2 pre-payments, offset by ZAR77 million of proceeds on disposal of PGM net profit interest to Phoenix Platinum and ZAR14 million from the release of DMR guarantees. Capital expenditure mainly comprised of underground mine development of ZAR38 million, co-generation plant of ZAR86 million, and furnace roof replacements of ZAR34 million.

Financing activities utilised ZAR42 million comprising ZAR35 million for working capital facility repayments and other repayments of ZAR7 million.

The Company had net borrowings at 30 June 2011 of ZAR248 million (ZAR67 million cash on balance sheet less ZAR315 million drawn on the working capital facility).

### Balance Sheet

Working capital decreased by ZAR85 million (including non-cash items), of which ZAR69 million is as a result of a decrease in inventories (ZAR25 million increase for ferrochrome and ZAR94 million decrease for raw materials, ore and consumables), a decrease of ZAR121 million in receivables and a decrease of ZAR105 million in payables.

The increase in the deferred tax asset of ZAR79 million is due to the increase in the calculated tax loss. The unredeemed capital expenditure balance is estimated at ZAR1.7 billion at 30 June 2011.

### Capex

Capital expenditure for the year was ZAR307 million which includes ZAR86 million for the co-generation plant, ZAR38 million for underground mine development, ZAR115 million for UG2 CRP project and ZAR24 million for the furnace roof replacements.

The budgeted capital expenditure for FY2012 is ZAR216 million which includes ZAR58 million for the furnace roof upgrades, ZAR48 million for underground mining development, ZAR46 million for the UG2 project and ZAR23 million for Sky Chrome infrastructure.

### Funding

The Company has a three year ZAR500 irrevocable working capital facility with Bank of China which expires 25 June 2012. At 30 June 2011, ZAR315 million had been drawn on the facility. The Company is confident that this facility will be renewed in the current financial year.

The Company is in the final stages of securing a term loan facility to fund the UG2 project and expects to conclude an agreement by the end of November 2011.

## **INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT**

### **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 year ended 30 June 2011.

### **MATTERS SUBSEQUENT TO BALANCE SHEET DATE**

Other than those outlined in note 34 to the Financial Statements, no matters or circumstances have arisen since 30 June 2011 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.

### **LIKELY DEVELOPMENTS**

Further information on likely developments in the operations of the entity and the expected results of operations have not been included in this report because the Directors believe it would be likely to result in unreasonable prejudice to the entity.

### **ENVIRONMENTAL REGULATION**

The Group is compliant with all the applicable environmental regulations.

### **INSURANCE OF OFFICERS**

During the financial year, a premium was paid to insure the Directors, Officers and Secretary of International Ferro Metals Limited.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### DIRECTORS' MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the numbers of meetings attended by each director were as follows:

Attendance at meetings up to and including the date of this annual report, namely 30 June 2011, is indicated below:

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee
<b>Meetings held</b>	<b>15</b>	<b>3</b>	<b>3</b>	<b>Nil</b>
David Kovarsky (resigned 31 July 2011)	14	n/a	n/a	n/a
Anthony Grey	14	n/a	n/a	-
Stephen Turner	15	n/a	n/a	n/a
Xiaoping Yang	13	n/a	n/a	n/a
Jannie Muller	15	n/a	n/a	n/a
Terence Willsteed	15	3	3	-
Stephen Oke	14	3	3	-
Tian Xia	9	n/a	n/a	n/a
John Ballard	14	3	3	n/a

### GOING CONCERN

As at the date of this report, the Company has drawn down ZAR400 million on the Bank of China (BOC) working capital facility which is due to be repaid on 25 June 2012. The Board of Directors are progressing plans to renew the BOC facility before it expires. In addition, the Board is confident that the Company has additional avenues of funding available to it which could be used with forecast operating cash flows, to repay this facility should it not be renewed. For this reason, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and hence, we continue to adopt the going concern basis in preparing the accounts.

### ROUNDING

The amounts contained in the financial report for the year ended 30 June 2011 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 INDEPENDENCE

The directors received a declaration from Ernst & Young, which is on page 42.

### NON-AUDIT SERVICES

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	ZAR
Other assurance services	<u>153,350</u>
	<u><u>153,350</u></u>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## REMUNERATION REPORT (Audited)

### Introduction

The Directors of International Ferro Metals Limited present the Remuneration Report for the Group for the year ended 30 June 2011. This Remuneration Report forms part of the Directors' Report in accordance with the requirements of the Corporation Act 2001 and its Regulations. The Remuneration Committee believes the report complies with the requirements of the UK Companies Act 2006 (and the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made thereunder) and the relevant requirements of the Listing Rules of the UK Listing Authority. A resolution to approve the report will be proposed at the Annual General Meeting ("AGM") of the Company on 23 November 2011.

For the purposes of this report Key Management Personnel of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the Parent Company, and includes the five executives of the Parent and the Group receiving the highest remuneration.

**Table 1- The details of the Key Management Personnel are:**

Name	Position
Anthony Grey*	Non-executive Chairman
Stephen Turner*	Non-executive Deputy Chairman
David Kovarsky	Chief Executive Officer "CEO" to 31 July 2011
Christiaan Jordaan	Chief Executive Officer "CEO" from 1 August 2011
Xiaoping Yang	Executive director – IFMSA and Non-executive director - IFML
Jannie Muller	Finance director and Chief Financial Officer
Terence Willsteed*	Independent Chairman – Remuneration Committee
Stephen Oke*	Independent Chairman – Audit Committee
Tian Xia*	Non-executive director – IFML
John Ballard*	Independent Non-executive director – IFML
Wimpie van Wyk	General Manager - Mining (resigned August 2011)
Ben Fourie	General Manager - Mining (appointed September 2011)
Michael Lillja	General Manager - Marketing (resigned March 2011)
Maarten Nienaber	General Manager – Works
Hannes van Dyk	Chief Financial Officer – IFMSA

\*non executive director

### Remuneration committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing remuneration arrangements for the directors and executive management. The Committee members who served at any time during the year were as follows:

- Terence Willsteed (Chairman)
- Stephen Oke
- John Ballard

The number of meetings held during the year and the numbers of meetings attended by each committee member follows:

Terence Willsteed	3 out of 3
Stephen Oke	3 out of 3
John Ballard	3 out of 3

The Chief Executive Officer attends meetings of the Remuneration Committee at the invitation of the Chairman of the Remuneration Committee. In the course of its deliberations, the Committee considered the views of the Chief Executive on the remuneration and performance of senior executives. No Director is present when his or her own remuneration is being discussed.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### Remuneration policy and principles

The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum shareholder benefit from the retention of high quality directors and executive management.

The Company's remuneration policies are still under review and will embrace the following principles:

- The remuneration structures are simple and transparent and are benchmarked against other international miners and against other companies of similar size. The Company's remuneration is structured to deliver approximately median total remuneration for median performance and upper quartile remuneration for upper quartile performance.
- A meaningful proportion of senior executive remuneration will be delivered through long-term share-based pay. Long-term pay will accrue to the executive on the achievement of long term goals that will be compared to industry peers and Company performance. Where possible, senior executives will be encouraged to retain shares vesting from the Company's incentive schemes until a minimum shareholding is achieved.
- Annual bonuses will be based on Company financial, operational and individual performance.
- Incentive targets may be adjusted by the Remuneration Committee for significant non-performance related items which are wholly outside management control and may otherwise distort the measurement of performance, such as changes in accounting standards. The rules governing vested-but-deferred awards will incorporate a provision allowing the Remuneration Committee to claw back incentive payments if the performance that justified their payment is subsequently found to have been misjudged or misstated.

The Committee will consult with its shareholders on proposed changes in due course.

### Remuneration Structure

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

#### *Non-executive director remuneration*

##### Objective

To enable the Company to attract and retain the services of suitable individuals to serve as non-executive directors, the Board seeks to remunerate at a level that provides the Company with this objective, while incurring a cost that is acceptable to shareholders.

##### Structure

The LSE Listing rules and Board Charter specify that the maximum aggregate cash fees of non-executive directors shall be approved by shareholders. The shareholders have approved the maximum aggregate cash remuneration of £750,000 per annum.

Each non-executive director receives a base fee per annum, as detailed in Table 2, with additional fees for Committee activities. Non-executive director fees do not vary according to the performance of the Company nor do non-executive directors receive retirement benefits other than those required by legislation.

Non-executive director fees have previously included the possibility of share options, but the Board has decided not to make any further option grants to non-executive directors. Only two non-executive directors, Anthony Grey and Stephen Turner, continue to hold phantom options and these were granted to them while they were executives.

The remuneration of non-executive directors for the years ended 30 June 2011 and 30 June 2010 is detailed in Tables 2 and 3 of this report respectively.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### *Executive Remuneration*

#### Objective

The Group aims to reward executives with a level and mix of remuneration that is commensurate with their position and responsibilities within the Group so as to align the interests of executives with those of shareholders and ensure total remuneration is competitive by industry standards.

#### Structure

The remuneration levels for executives are market-aligned by comparison against equivalent roles in similar operations and industries. The Remuneration Committee engages external consultants to provide independent advice on salary levels and incentives for comparable executive positions in similar company structures.

The Group has entered into detailed contracts of employment with Key Management Personnel and standard contracts with other executives. Details of these contracts are provided below.

Remuneration consists of the following key elements:

- Fixed remuneration (base salary, superannuation, consulting fees and non-monetary benefits);
- Variable remuneration, consisting of:
  - short term incentive (STI); and
  - long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration (potential short term and long term incentives) for each executive is set out in Table 2.

### **Fixed Remuneration**

#### Objective

Fixed remuneration is reviewed annually by the Remuneration Committee. The last review was performed during May 2011. The process consists of a review of relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the Committee has access to external advice independent of management.

#### Structure

Executives receive their fixed remuneration in cash. Details of the fixed remuneration component of executives are detailed in Table 2. Executive directors have not received a salary increase since 1 July 2008.

### **Variable Remuneration - Short Term Incentive (STI)**

#### Objective

The objective of the STI is to link the achievements of the Group's production and cost control targets with the remuneration received by the executives and employees responsible to meet those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executives and employees to achieve the operational targets and at a cost to the Group that is reasonable in the circumstances.

#### Structure

Actual STI payments granted to each executive and employee depends on the extent to which specific targets are met. Provisions are accrued in the financial year in which the targets are set, with payments delivered as a cash bonus in the following reporting period.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### STI awards for the 2011 financial year

#### *Executive directors*

The three executive directors of the Group did not participate in the bonus for the year ended 30 June 2011, and did not receive bonuses in respect of the 2009 or 2010 financial years.

#### *Key management and selected employees*

During the 2011 financial year STI bonuses were approved for key management and selected employees. Bonuses awarded in respect of the year ended 30 June 2011 are to be paid in three equal annual instalments commencing 30 June 2011 and ending 30 June 2013 (refer to Table 2 for further details of tranche 1 payments). To qualify for the each of the three bonus payments, employees must be in the employment of IFM on 30 June 2011, 30 June 2012 and 30 June 2013 respectively.

### **Variable Remuneration – Long Term Incentive (LTI)**

#### Objective

The objective of the LTI plan is to reward executives in a manner that provides incentives aimed at increasing the market value of the Group and as a retention mechanism. This incentive is separate from the bonus schemes which are related to short term performances.

#### Structure

A Phantom Option Scheme was introduced on 15 November 2006 as a long term incentive scheme. Options are offered to eligible Key Management Personnel and employees subject to the satisfaction of certain vesting and exercise conditions. A cash amount is determined by reference to the excess of the market price of an ordinary share in the Company over the exercise price at the time the options are exercised. The options, in most cases, vest in equal tranches over three years subject to the recipients' continued employment by the Company. The options may also vest immediately. Vesting and exercise conditions are determined by the Board. Executives are able to exercise the share options for up to five years from the grant of the options.

Each tranche of these options has a price cap of £1.00. Historically no supplementary performance conditions have been attached to the vesting of option grants (in line with South African practice). For each phantom option issuance, specific terms relating to vesting conditions, term and pricing are recommended by the Remuneration Committee and, if deemed appropriate, approved by the Board. Refer to Table 4 of this report for details of the phantom options granted. No options were granted in the year under review.

As mentioned in the 2010 Remuneration Report, the long term incentive structure is still under review and the Company intends to introduce a performance share scheme, which will require shareholder approval. Details of the scheme will be announced once the Board have approved the scheme.

Equity settled share options have been granted to certain executive directors at the time of joining the Board. There are no outstanding equity options at year end.

### **Share Trading and Margin Loans by Directors and Executives**

Directors and executives are not permitted to hedge their shareholdings or share options except where each of the following requirements has been satisfied:

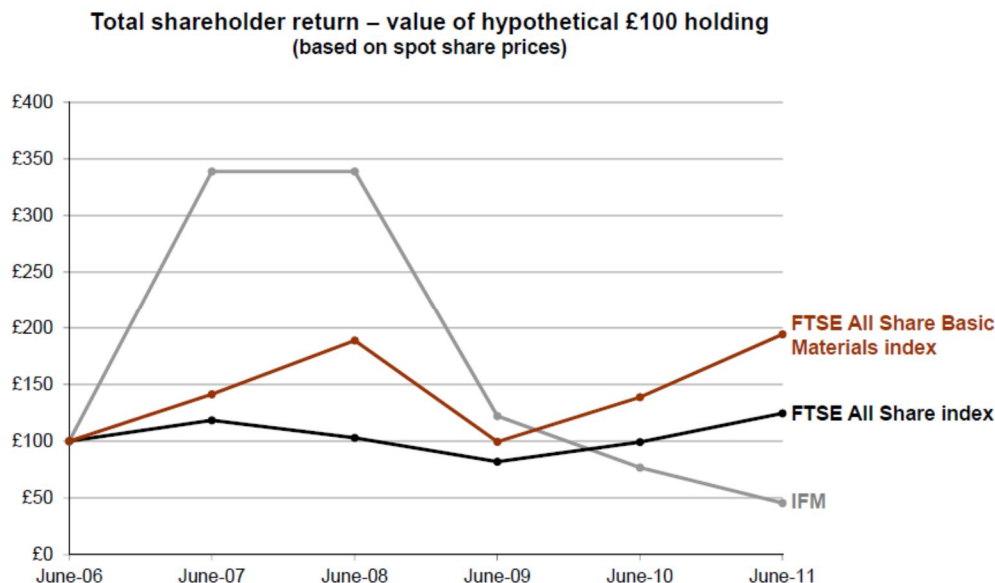
- permission has been obtained from the Chairman;
- the shares have fully vested and are not subject to any hurdles or transfer restriction;
- the hedge transaction is treated as a sale or purchase of shares by the director or executive and the relevant approvals, disclosures (to the LSE, as appropriate) and notifications are made on this basis;
- the hedge transaction may not be entered into, renewed, altered or closed out when the director or executive is in possession of price sensitive information; and
- all costs or expenses associated with any hedging arrangement are to the director's or executive's own account.

No such requests for hedging shareholdings or share options have been received.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### Performance review

Set out below is the Company's share price performance between June 2006 and June 2011.



Source: Bloomberg

Notes: TSR based on year-end prices

The graph above compares the Company's total shareholder return over the period from June 2006 to June 2011 with the FTSE All Share Index.

The Company is a member of the FTSE All Share Index and, accordingly, this is considered to be an appropriate broad equity market index for the purpose of demonstrating the Company's relative performance.

### Employment Contracts

The following should be read with reference to the "STI" structure, "LTI" structure (above) and tables 2 and 4 (below).

#### Mr Anthony Grey

*Non-Executive Chairman (appointed 1 January 2009)*

The current service agreement commenced 1 January 2009. Under the terms of the present contract:

- Mr Grey is paid a service fee, in his current role as Non-Executive Chairman, of A\$275,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Grey will provide his services as director for four days per month.
- Additional consulting work for the Company undertaken by Mr Grey for more than four days in any month is paid at the rate of A\$450 per hour.
- Mr Grey did not undertake additional work for the Company during the year.
- Mr Grey was not granted any equity settled share options during the year ended 30 June 2011.
- Mr Grey was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Grey giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months' written notice or by making a lump sum payment in lieu of any such period of notice. Payment is also applicable if there is a 50% or more takeover bid and any options outstanding will immediately vest and be exercisable, and only applies if employment is terminated. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Grey's employment at any time without any compensation payable.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### **Mr Stephen Turner**

*Non-Executive Deputy-Chairman (appointed 1 January 2009)*

The current service agreement commenced 1 January 2009. Under the terms of the present contract:

- Mr Turner is paid a service fee, in his current role as Non-Executive Deputy Chairman, of A\$200,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees..
- Mr Turner will provide his services as director for four days per month.
- Additional consulting work for the Company undertaken by Mr Turner for more than four days in any month is paid at the rate of A\$450 per hour.
- Mr Turner did not undertake additional work for the Company during the year.
- Mr Turner was not granted any equity settled share options during the year ended 30 June 2011.
- Mr Turner was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Turner giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. Payment is also applicable if there is a 50% or more takeover bid and any options outstanding will immediately vest and be exercisable and only applies if employment is terminated. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Turner's employment at any time without any compensation payable.

### **Mr Terence Willstead**

*Non-Executive Director*

Mr Willstead was appointed non-executive director on 12 October 2005. Under the terms of the present contract:

- Mr Willstead is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Willstead will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Willstead did not undertake additional work for the Company during the year.
- Mr Willstead was not granted any share options during the year ended 30 June 2011.
- Mr Willstead was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Willstead giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. On 12 November 2009, Mr Willstead voluntarily agreed to cancel the provision in his contract that would allow him to receive a payment in the event of a successful acquisition of IFM. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Willstead's employment at any time without any compensation payable.

### **Mr Stephen Oke**

*Non-Executive Director*

Mr Oke was appointed a non-executive director on 16 November 2006. Under the terms of the present contract:

- Mr Oke is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Oke will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Oke did not undertake additional work for the Company during the year.
- Mr Oke was not granted any share options during the year ended 30 June 2011.
- Mr Oke was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Oke giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. On 12 November 2009, Mr Oke voluntarily agreed to cancel the provision in his contract that would allow him to receive a payment in the event of a successful acquisition of IFM. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Oke's employment at any time without any compensation payable.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### **Ms Tian Xia**

*Non-Executive Director*

Ms Xia was appointed a Non-Executive director on 16 November 2006. Under the terms of the present contract:

- Ms Xia is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for each Board committee of which she is a Chairperson acting as Chairperson of such committees.
- Ms Xia will provide her services as director for two days per month.
- If her Board activities require her to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Ms Xia did not undertake additional work for the Company during the year.
- Ms Xia was not granted any share options during the year ended 30 June 2011.
- Ms Xia was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Ms Xia giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. If a successful acquisition is accepted by holders of at least 50% of shares, Ms Xia will receive a fee of £42,500 for an offer of 50 pence per share increasing by £1,250 for each 1 pence variation per share above 50 pence, with any increase capped at an offer price of £1 per share. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Ms Xia's employment at any time without any compensation payable.

### **Mr John Ballard**

*Non-Executive Director*

Mr Ballard was appointed a Non-Executive director on 9 March 2010. Under the terms of the present contract:

- Mr Ballard is paid a service fee of A\$125,000 per annum, an additional fee of A\$25,000 per annum for all Board committees and an additional fee of A\$12,500 per annum for acting as Chairman of such committees.
- Mr Ballard will provide his services as director for two days per month.
- If his Board activities require him to allot more time than this, the fee will be adjusted on a pro rata per diem basis at the discretion of the Board.
- Mr Ballard did not undertake additional work for the Company during the year.
- Mr Ballard was not granted any share options during the year ended 30 June 2011.
- Mr Ballard was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Ballard giving the Company not less than twelve months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice or by making a lump sum payment in lieu of any such period of notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Ballard's employment at any time without any compensation payable.

### **Mr David Kovarsky**

*Chief Executive Officer to 31 July 2011*

Mr Kovarsky was employed under a fixed contract commencing from 1 February 2008. The employment term was for four years, subject to termination provisions. Under the terms of the contract:

- Mr Kovarsky was paid an annual salary of ZAR3,564,281.
- A retention fee of ZAR8,997,492, was paid for the services that Mr Kovarsky will provide over the period of his employment contract. The amortised value of this retention fee amounted to ZAR2,561,786 for the year ended 30 June 2011. Had Mr Kovarsky resigned prior to the end of his employment contract, he would have repaid the unamortised value as at the date of his resignation. On termination or death, the fee was not repayable.
- Mr Kovarsky was not granted any share options during the year ended 30 June 2011.
- Mr Kovarsky was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Kovarsky giving the Company not less than six months' notice in writing. The Company may terminate the agreement without cause by providing not less than twelve months written notice provided that such notice cannot be given by IFM within the first six calendar months of Mr Kovarsky's employment or on expiry of the first six calendar months of Mr Kovarsky's employment by paying his cost to company for the twelve months immediately prior to ceasing employment, including bonuses, in lieu of such notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Kovarsky's employment at any time. A termination payment will not be payable on resignation or dismissal for serious misconduct.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

- Mr Kovarsky's employment with the Company terminated on 31 August 2011 and Mr Kovarsky resigned as director and Chief Executive Officer of the Company on 31 July 2011. As part of Mr Kovarsky's termination agreement, he will be paid a termination fee of ZAR3,564,281 and will not repay the unamortised value of the retention fee. He will also be entitled to the third tranche of options in terms of the Phantom Option Scheme. These shall vest on 1 August 2011. Mr Kovarsky will have until 31 December 2011 to exercise any rights in terms of these options and the scheme.

### **Mr Christiaan Jordaan**

*Chief Executive Officer from 1 August 2011*

Mr Jordaan was employed under a fixed contract commencing from 1 August 2011. The employment term is for four years, subject to termination provisions. Under the terms of the present contract:

- Mr Jordaan will be paid an annual salary of ZAR3,500,000.
- Mr Jordaan will be granted 4,000,000 share options, subject to shareholder approval and vesting conditions as the parties agree. Mr Jordaan will also receive, ZAR6,000,000 worth of Shares, subject to shareholder approval and certain performance conditions as the parties agree.
- Mr Jordaan will not be granted phantom options under the current terms of the contract.
- The service agreement may be terminated at any time by Mr Jordaan giving the Company six months written notice at any time after six months from the commencement date of the contract. The Company may terminate the contract at any time by giving Mr Jordaan 12 months' prior written notice of termination at any time after 6 months from the commencement date of the contract. Instead of giving such notice of termination, the Company may make a lump sum payment in lieu of any such period of notice equal to 100% of the amount of Mr Jordaan's cost to company payable to him for the 12 months prior to the termination date. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Jordaan's employment at any time. A termination payment will not be payable on resignation or dismissal for serious misconduct.

### **Mr Xiaoping Yang**

*Non-Executive director of the Company and executive director of IFMSA*

Mr Yang was appointed Non-Executive director of the Company and as an Executive Director of IFMSA on 12 October 2005. Mr Yang is not entitled to an additional annual director's fee for acting as a director of the Company. IFMSA entered into a service contract on 20 March 2006 with Mr Yang. He is employed under a rolling contract. Under the terms of the present contract:

- Mr Yang is paid an annual salary of ZAR2,212,308.
- Mr Yang was not granted any share options during the year ended 30 June 2011.
- Mr Yang was not granted any phantom options during the year ended 30 June 2011.
- The service contract may be terminated without cause by either party giving not less than thirty day's notice in writing, or by IFMSA paying Mr Yang his remuneration for such period in lieu of notice. IFMSA may also terminate the service contract without notice if Mr Yang is in breach of the service contract without making any termination payment.

### **Mr Jannie Muller**

*Finance Director and Chief Financial Officer*

Mr Muller entered into a service agreement with IFML on 1 June 2007 as Group Financial Manager. On 23 July 2009, Mr Muller was appointed Chief Financial Officer. Mr Muller has since been appointed to the Board of Directors as Finance Director effective 18 March 2010. Mr Muller is employed under a rolling contract. Under the terms of the present contract:

- Mr Muller is paid an annual salary of ZAR2,400,000.
- Mr Muller was not granted any share options during the year ended 30 June 2011.
- Mr Muller was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Muller giving the Company not less than six months' notice in writing. The Company may terminate the agreement without cause by providing not less than six months written notice or by making a lump sum payment in lieu of any such period of notice equal to 50% of the then current annual salary at the termination date. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Muller's employment at any time without any compensation payable.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### **Mr Wimpie van Wyk**

*General Manager – Mining – IFMSA (Resigned 31 August 2011)*

- Mr van Wyk was paid an annual salary of ZAR2,905,000.
- In respect of Mr van Wyk's service, an incentive payment of ZAR968,000 was accrued at 30 June 2011, with payment made in July 2011. Refer to STI structure for further details.
- Mr van Wyk was not granted any share options during the year ended 30 June 2011.
- Mr van Wyk was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr van Wyk giving the Company not less than three months' notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr van Wyk's employment at any time without any compensation payable.

### **Mr Ben Fourie**

*General Manager – Mining – IFMSA (Appointed 1 September 2011)*

- Mr Fourie will be paid an annual salary of ZAR2,500,000.
- Mr Fourie will not be granted any share options .
- Mr Fourie will be granted 500,000 phantom options.
- The service agreement may be terminated at any time by Mr Fourie giving the Company not less than three months' notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Fourie's employment at any time without any compensation payable.

### **Mr Michael Lillja**

*General Manager - Marketing (Resigned 31 March 2011)*

- Mr Lillja was paid an annual salary of €235,000.
- Mr Lillja was not granted any share options during the year ended 30 June 2011.
- Mr Lillja was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Lillja giving the Company not less than three months' notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Lillja's employment at any time without any compensation payable.

### **Mr Maarten Nienaber**

*General Manager - Works*

- Mr Nienaber is paid an annual salary of ZAR2,580,000.
- In respect of Mr Nienaber's service, an incentive payment of ZAR50,667 was paid in November 2010 and ZAR1,075,000 was accrued at 30 June 2011, with payment made in July 2011. Refer to STI structure for further details.
- Mr Nienaber was not granted any share options during the year ended 30 June 2011.
- Mr Nienaber was not granted any phantom options during the year ended 30 June 2011.
- The service agreement may be terminated at any time by Mr Nienaber giving the Company not less than three months' notice in writing. The Company may terminate the agreement without cause by providing not less than three months written notice. In the event of a material breach of any of the terms of the agreement or serious misconduct, the Company can terminate Mr Nienaber's employment at any time without any compensation payable.

### **Mr Hannes van Dyk**

*Chief Financial Officer – IFMSA*

Mr van Dyk entered into a service agreement with IFMSA on 1 December 2008, as Chief Financial Officer of IFMSA.

Mr van Dyk is employed under a rolling contract. Under the terms of the present contract:

- Mr van Dyk is paid an annual salary of ZAR2,354,521.
- In respect of Mr van Dyk's service, an incentive payment of ZAR843,000 was accrued at 30 June 2011, with payment made in July 2011. Refer to STI structure for further details.
- Mr van Dyk was not granted any share options during the year ended 30 June 2011.
- Mr van Dyk was not granted any phantom options during the year ended 30 June 2011.
- The service contract may be terminated without cause by either party giving not less than thirty days notice in writing, or by IFMSA paying Mr van Dyk his remuneration for such period in lieu of notice. IFMSA may also terminate the service contract without notice if Mr van Dyk is in breach of the service contract without making any compensation payable.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 2: Remuneration for the year ended 30 June 2011

	Fixed					STI	LTI	Total	Fixed	STI	LTI
	Salary & Fees	Leave accrued <sup>2</sup>	Other Fees <sup>3</sup>	Termination Payments <sup>4</sup>	Post-employment Super-Annuation <sup>5</sup>	Incentive Payments <sup>6</sup>	Fair value of Phantom Options (cash settled) <sup>7</sup>				
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%			
<b>Non-executive directors</b>											
<i>Anthony Grey</i>	2,181,750	-	-	-	-	-	(436,822)	1,744,928	100	-	-
<i>Stephen Turner</i>	1,500,274	-	-	-	75,102	-	(436,822)	1,138,554	100	-	-
<i>Terence Willsteed</i>	1,126,125	-	-	-	-	-	-	1,126,125	100	-	-
<i>Stephen Oke</i>	1,126,125	-	-	-	-	-	-	1,126,125	100	-	-
<i>Tian Xia</i>	851,584	-	-	-	-	-	-	851,584	100	-	-
<i>John Ballard</i>	953,670	-	-	-	85,830	-	-	1,039,500	100	-	-
<b>Sub-total non-executive directors</b>	<b>7,739,528</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>160,932</b>	<b>-</b>	<b>(873,644)</b>	<b>7,026,816</b>			
<b>Executive directors</b>											
<i>David Kovarsky<sup>1</sup></i>	3,564,281	(17,819)	2,561,786	3,564,281	-	-	(281,820)	9,390,709	100	-	-
<i>Xiaoping Yang<sup>1</sup></i>	2,212,308	17,012	-	-	-	-	(142,557)	2,086,763	100	-	-
<i>Jannie Muller<sup>1</sup></i>	2,400,000	92,287	-	-	-	-	(69,730)	2,422,557	100	-	-
<b>Sub-total executive directors</b>	<b>8,176,589</b>	<b>91,480</b>	<b>2,561,786</b>	<b>3,564,281</b>	<b>-</b>	<b>-</b>	<b>(494,107)</b>	<b>13,900,029</b>			

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### Remuneration and pension entitlements of Key Management Personnel

**Table 2: Remuneration for the year ended 30 June 2011 (continued)**

	Fixed					STI	LTI	Total			
	Salary & Fees	Leave accrued <sup>2</sup>	Other Fees <sup>3</sup>	Termination Payments <sup>4</sup>	Post-employment Super-Annuation <sup>5</sup>	Incentive Payments <sup>6</sup>	Fair value of Phantom Options (cash settled) <sup>7</sup>		Fixed	STI	LTI
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
<b>Other “KMP”</b>											
<i>Wimpie van Wyk</i> <sup>1</sup>	2,905,000	72,071	-	-	-	968,000	13,828	3,958,899	75	25	-
<i>Michael Lillja</i> <sup>1</sup>	1,670,915	126,899	-	-	-	-	(19,834)	1,777,980	100	-	-
<i>Maarten Nienaber</i> <sup>1</sup>	2,580,000	229,691	-	-	-	1,125,667	48,521	3,983,879	71	28	1
<i>Hannes van Dyk</i> <sup>1</sup>	2,354,521	12,367	-	-	-	843,000	(79,864)	3,130,024	74	26	-
<b>Sub-total other KMP</b>	<b>9,510,436</b>	<b>441,028</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,936,667</b>	<b>(37,349)</b>	<b>12,850,782</b>			
<b>Total Remuneration</b>	<b>25,426,553</b>	<b>532,508</b>	<b>2,561,786</b>	<b>3,564,281</b>	<b>160,932</b>	<b>2,936,667</b>	<b>(1,405,100)</b>	<b>33,777,627</b>			

<sup>1</sup> Refer to Table 1 for details of the KMP position.

<sup>2</sup> These amounts represent movement in leave accruals during the year.

<sup>3</sup> Included in other fees is an amortised portion of Mr Kovarsky's retention fee which represents ZAR2,561,786.

<sup>4</sup> Termination payment for Mr Kovarsky was provided with payment due 31 August 2011.

<sup>5</sup> Includes superannuation payments and any voluntary fee sacrifice to superannuation.

<sup>6</sup> “STI” retention bonuses were approved during the 2011 financial year. Refer to the Remuneration Report for further details.

<sup>7</sup> Options are granted with certain vesting and exercise conditions, with the fair value recorded at each reporting date until it is settled, by using an option-pricing model. No Options have been exercised or paid.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Remuneration and pension entitlements of Key Management Personnel

Table 3: Remuneration for the year ended 30 June 2010

	Fixed					STI	LTI	Total			
	Salary & Fees <sup>2</sup>	Leave accrued <sup>3</sup>	Other Fees <sup>4</sup>	Termination Payments <sup>5</sup>	Post-employment Super-Annuation <sup>6</sup>	Incentive Payments <sup>7</sup>	Fair value of Phantom Options (cash settled) <sup>8</sup>		Fixed	STI	LTI
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
<b>Non-executive directors</b>											
<i>Anthony Grey</i>	2,061,924	-	-	-	-	-	679,677	2,741,601	76	-	24
<i>Stephen Turner</i>	1,484,588	-	-	-	-	-	679,677	2,164,265	69	-	31
<i>Terence Willsteed</i>	1,151,215	-	-	-	-	-	-	1,151,215	100	-	-
<i>Ian Watson</i>	341,252	-	-	837,000	-	-	-	1,178,252	100	-	-
<i>Stephen Oke</i>	1,072,205	-	-	-	-	-	-	1,072,205	100	-	-
<i>Tian Xia</i>	824,783	-	-	-	-	-	-	824,783	100	-	-
<i>John Ballard</i>	243,745	-	-	-	21,937	-	-	265,682	100	-	-
<b>Sub-total non-executive directors</b>	<b>7,179,712</b>	<b>-</b>	<b>-</b>	<b>837,000</b>	<b>21,937</b>	<b>-</b>	<b>1,359,354</b>	<b>9,398,003</b>			
<b>Executive directors</b>											
<i>David Kovarsky<sup>1</sup></i>	3,504,877	54,224	<sup>4</sup> 2,249,373	-	-	-	438,501	6,246,975	93	-	7
<i>Xiaoping Yang<sup>1</sup></i>	2,175,437	79,982	-	-	-	-	157,561	2,412,980	93	-	7
<i>Jannie Muller<sup>1</sup></i>	2,035,269	253,801	-	-	-	-	76,118	2,365,188	97	-	3
<b>Sub-total executive directors</b>	<b>7,715,583</b>	<b>388,007</b>	<b>2,249,373</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>672,180</b>	<b>11,025,143</b>			

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### Remuneration and pension entitlements of Key Management Personnel

**Table 3: Remuneration for the year ended 30 June 2010 (continued)**

	Fixed					STI	LTI	Total			
	Salary & Fees <sup>2</sup>	Leave accrued <sup>3</sup>	Other Fees <sup>4</sup>	Termination Payments <sup>5</sup>	Post-employment Super-Annuation <sup>6</sup>	Incentive Payments <sup>7</sup>	Fair value of Phantom Options (cash settled) <sup>8</sup>		Fixed	STI	LTI
	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	ZAR	%	%	%
<b>Other “KMP”</b>											
<i>Wimpie van Wyk</i> <sup>1</sup>	1,400,000	134,592	<sup>4</sup> 600,000	-	-	295,000	52,811	2,482,403	86	12	2
<i>Michael Lillja</i> <sup>1</sup>	738,374	78,073	-	-	-	-	21,370	837,817	97	-	3
<i>Maarten Nienaber</i> <sup>1</sup>	400,000	19,996	-	-	-	-	-	419,996	100	-	-
<b>Sub-total other KMP</b>	<b>2,538,374</b>	<b>232,661</b>	<b>600,000</b>	<b>-</b>	<b>-</b>	<b>295,000</b>	<b>74,181</b>	<b>3,740,216</b>			
<b>Total Remuneration</b>	<b>17,433,669</b>	<b>620,668</b>	<b>2,849,373</b>	<b>837,000</b>	<b>21,937</b>	<b>295,000</b>	<b>2,105,715</b>	<b>24,163,362</b>	<b>90</b>	<b>1</b>	<b>9</b>

Mr van Dyk did not meet the definition of a Key Management Person (“KMP”) for the 2010 financial year.

Mr Watson resigned on 12 November 2009.

<sup>1</sup> Refer to Table 1 for details of the KMP position.

<sup>2</sup> Effective 1 May 2009 and until 31 August 2009, all KMP, including board members, took a 10 percent voluntary reduction in salary.

<sup>3</sup> These amounts represent movement in leave accruals during the year.

<sup>4</sup> Included in other fees is an amortised portion of Mr Kovarsky’s retention fee which represents ZAR2,249,373 and a consultancy fee of ZAR600,000 paid to Mr Van Wyk as part of his employment contract.

<sup>5</sup> Termination payments have been made in accordance with individual employment contract.

<sup>6</sup> Includes superannuation payments and any voluntary fee sacrifice to superannuation.

<sup>7</sup> No “STI” bonuses were approved during the 2010 financial year, except for payment to Mr van Wyk as part of his employment contract.

<sup>8</sup> Options are granted with certain vesting and exercise conditions, with the fair value recorded at each reporting date until it is settled, by using an option-pricing model. No Options have been exercised or paid.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options

**Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated)**

30 June 2011	Terms and Conditions for each Grant										Exercisable	
	Balance at beginning of period 1 July 2010	Granted no of options	Grant date	Options cancelled/ Forfeited	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
<b>Non-executive directors</b>												
<i>Anthony Grey</i>	516,667	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	516,667	33
	516,666	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Stephen Turner</i>	516,667	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	516,667	33
	516,666	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Terence Willsteed</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Ian Watson</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Stephen Oke</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>Tian Xia</i>	-	-	-	-	-	-	-	-	-	-	-	-
<i>John Ballard</i>	-	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>3,100,000</b>	-	-	-	-	-	-	-	-	-	<b>2,066,668</b>	
<b>Executive directors</b>												
<i>David Kovarsky</i>	333,333	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	31/12/2011	333,333	33
	333,333	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	31/12/2011	333,333	33
	333,334	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	01/08/2011	31/12/2011	333,333	33
<i>Xiaoping Yang</i>	148,750	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	148,750	33
	148,750	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	148,750	33
	148,750	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Jannie Muller</i>	63,333	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	63,333	33
	63,333	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	63,333	33
	63,334	-	30/12/2008	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	20,000	-	30/09/2009	-	£0.01	£0.57	£1.00	29/09/2014	30/09/2010	29/09/2014	20,000	33
	20,000	-	30/09/2009	-	£0.01	£0.57	£1.00	29/09/2014	30/09/2011	29/09/2014	-	-
	20,000	-	30/09/2009	-	£0.01	£0.57	£1.00	29/09/2014	30/09/2012	29/09/2014	-	-
<b>Subtotal</b>	<b>1,696,250</b>	-	-	-	-	-	-	-	-	-	<b>1,444,165</b>	

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

Table 4: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)

30 June 2011	Terms and Conditions for each Grant										Exercisable	
	Balance at beginning of period 1 July 2010	Granted no of options <sup>2</sup>	Grant date	Options cancelled/ Forfeited	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
<b>Other “KMP”</b>												
<i>Wimpie van Wyk</i>	83,333	-	1-Jan-10	-	£0.03	£0.31	£1.00	31/12/2014	31/12/2010	31/12/2014	83,333	33
	83,333	-	1-Jan-10	-	£0.03	£0.31	£1.00	31/12/2014	31/12/2011	31/12/2014	-	-
	83,334	-	1-Jan-10	-	£0.03	£0.31	£1.00	31/12/2014	31/12/2012	31/12/2014	-	-
<i>Michael Lillja</i>	83,333	-	31-Mar-10	(83,333)	£0.02	£0.40	£1.00	30/03/2015	31/03/2011	30/03/2015	-	-
	83,333	-	31-Mar-10	(83,333)	£0.02	£0.40	£1.00	30/03/2015	30/03/2012	30/03/2015	-	-
	83,334	-	31-Mar-10	(83,334)	£0.02	£0.40	£1.00	30/03/2015	30/03/2013	30/03/2015	-	-
<i>Maarten Nienaber</i>	83,333	-	30-Jun-10	-	£0.03	£0.34	£1.00	29/06/2015	30/06/2011	29/06/2015	83,333	33
	83,333	-	30-Jun-10	-	£0.03	£0.34	£1.00	29/06/2015	29/06/2012	29/06/2015	-	-
	83,334	-	30-Jun-10	-	£0.03	£0.34	£1.00	29/06/2015	29/06/2013	29/06/2015	-	-
<i>Hannes van Dyk</i>	83,333	-	30-Dec-08	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	83,333	33
	83,333	-	30-Dec-08	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	83,333	33
	83,334	-	30-Dec-08	-	£0.06	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<b>Subtotal</b>	<b>1,000,000</b>	-		<b>(250,000)</b>							<b>333,332</b>	
<b>Total</b>	<b>5,796,250</b>	-		<b>(250,000)</b>							<b>3,844,165</b>	

<sup>1</sup> These options were issued in accordance with the Phantom Option Plan (refer to “LTI” structure for further details).

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

Table 5: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)

30 June 2010	Terms and Conditions for each Grant									Exercisable	
	Balance at beginning of period 1 July 2009	Granted no of options	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of Options	%
<b>Non-executive directors</b>											
<i>Anthony Grey</i>	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Stephen Turner</i>	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	516,667	33
	516,667	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	516,666	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Terence Willsteed</i>	-	-	-	-	-	-	-	-	-	-	-
<i>Ian Watson</i>	-	-	-	-	-	-	-	-	-	-	-
<i>Stephen Oke</i>	-	-	-	-	-	-	-	-	-	-	-
<i>Tian Xia</i>	-	-	-	-	-	-	-	-	-	-	-
<i>John Ballard</i>	-	-	-	-	-	-	-	-	-	-	-
<b>Subtotal</b>	<b>3,100,000</b>									<b>1,033,334</b>	
<b>Executive directors</b>											
<i>David Kovarsky</i>	333,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	333,333	33
	333,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	333,334	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Xiaoping Yang</i>	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	148,750	33
	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	148,750	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
<i>Jannie Muller</i>	63,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2009	29/12/2013	63,333	33
	63,333	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2010	29/12/2013	-	-
	63,334	-	30/12/2008	£0.11	£0.16	£1.00	29/12/2013	30/12/2011	29/12/2013	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2010	29/09/2014	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2011	29/09/2014	-	-
	-	20,000	30/09/2009	£0.03	£0.57	£1.00	29/09/2014	30/09/2012	29/09/2014	-	-
<b>Subtotal</b>	<b>1,636,250</b>	<b>60,000</b>								<b>545,416</b>	

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

Key Management Personnel: Phantom Options (continued)

**Table 5: The following table sets out the details of phantom options granted and vested during the year by Key Management Personnel (Consolidated) (continued)**

<b>30 June 2010</b>	Terms and Conditions for each Grant									Exercisable	
	Balance at beginning of period 1 July 2009	Granted no of options <sup>2</sup>	Grant date	Fair value per option Note 31	Exercise price per option	Price cap per option	Expiry date	First available exercise date	Last available exercise date	No of options	%
<b>Other “KMP”</b>											
<i>Wimpie van Wyk</i>	-	83,333	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2010	31/12/2014	-	-
	-	83,333	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2011	31/12/2014	-	-
	-	83,334	1-Jan-10	£0.06	£0.31	£1.00	31/12/2014	31/12/2012	31/12/2014	-	-
<i>Michael Lillja</i>	-	83,333	31-Mar-10	£0.05	£0.40	£1.00	30/03/2015	31/03/2011	30/03/2015	-	-
	-	83,333	31-Mar-10	£0.05	£0.40	£1.00	30/03/2015	30/03/2012	30/03/2015	-	-
	-	83,334	31-Mar-10	£0.04	£0.40	£1.00	30/03/2015	30/03/2013	30/03/2015	-	-
<i>Maarten Nienaber</i>	-	83,333	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	30/06/2011	29/06/2015	-	-
	-	83,333	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	29/06/2012	29/06/2015	-	-
	-	83,334	30-Jun-10	£0.05	£0.34	£1.00	29/06/2015	29/06/2013	29/06/2015	-	-
<b>Subtotal</b>	-	<b>750,000</b>								-	-
<b>Total</b>	<b>4,736,250</b>	<b>810,000</b>								<b>1,578,750</b>	

<sup>1</sup> Mr van Dyk did not meet the definition of a Key Management Person (“KMP”) for the 2010 financial year.

<sup>2</sup> These options were issued in accordance with the Phantom Option Plan (refer to “LTI” structure for further details).

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### *Key Management Personnel options (continued)*

#### 30 June 2011

No phantom options were exercised by Key Management Personnel during the financial year ended 30 June 2011. 250,000 options were forfeited due to resignations during the financial year ended 30 June 2011.

#### 30 June 2010

No phantom options were exercised by Key Management Personnel or forfeited during the financial year ended 30 June 2010.

### *Key Management Personnel: Share Options*

#### 30 June 2011

No share options were issued during the year ended 30 June 2011.

#### 30 June 2010

No share options were issued during the year ended 30 June 2010.

#### 30 June 2011

No share options were exercised during the year ended 30 June 2011 by Key Management Personnel.

#### 30 June 2010

No share options were exercised during the year ended 30 June 2010 by Key Management Personnel.

### *Key Management Personnel Shareholdings*

Shareholdings of Key Management Personnel are detailed on pages 80 and 81 of this report.

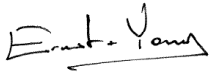
Signed in accordance with a resolution of the directors.



Christiaan Jordaan  
Director  
Sydney, 19 September 2011

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

In relation to our audit of the financial report of International Ferro Metals Ltd for the financial year ended 30 June 2011, 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.



Ernst & Young



Anton Ivanyi  
Partner  
19 September 2011

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated	
		2011 ZAR'000	2010 ZAR'000
Sales revenue	5	1,575,459	1,433,595
Cost of goods sold		(1,619,398)	(1,424,817)
<b>Gross (loss)/profit</b>		<b>(43,939)</b>	<b>8,778</b>
<b>Other (expenses)/income</b>			
Other income	6	78,353	2,000
Administrative and other expenses	7	(113,032)	(88,934)
Foreign exchange (losses)		(14,924)	(15,340)
Write down of inventory to net realisable value		(43,247)	(22,212)
Unabsorbed fixed costs		(25,245)	(2,577)
Share based payment (expense)/income	10	1,844	(5,897)
Net (loss) before interest and tax		(160,190)	(124,182)
Finance income	11	5,959	13,506
Finance costs	11	(59,856)	(46,056)
Net (loss) before tax		(214,087)	(156,732)
Income taxation credit	12	79,136	70,926
<b>Net (loss) after tax</b>		<b>(134,951)</b>	<b>(85,806)</b>
Attributable to:			
Non-controlling interest	30	(1,237)	(1,214)
Owners of the parent		(133,714)	(84,592)
		<b>(134,951)</b>	<b>(85,806)</b>
Earnings per share (cents per share)			
- basic (loss) per share	13	(24.14)	(15.40)
- diluted (loss) per share	13	(24.14)	(15.40)

The above income statement should be read in conjunction with the notes to the financial statements set out on pages 48–104.

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
(Loss) for the period	(134,951)	(85,806)
<b>Total comprehensive income for the period, net of tax</b>	<b>(134,951)</b>	<b>(85,806)</b>
Attributable to:		
Non-controlling interests	(1,237)	(1,214)
Owners of the parent	(133,714)	(84,592)
	<b>(134,951)</b>	<b>(85,806)</b>

The above statement of comprehensive income should be read in conjunction with the notes to the financial statements set out on pages 48–104.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Contributed equity ZAR'000	Accumulated losses ZAR'000	Share Based payment reserve ZAR'000	Non- distributable reserve ZAR'000	Non- controlling Interest 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	-	(84,592)	-	-	(1,214)	(85,806)
<b>Total comprehensive income for the period</b>	-	(84,592)	-	-	(1,214)	(85,806)
<b>Equity Transactions:</b>						
Shares issued	286,755	-	-	-	-	286,755
Transaction costs on share issue	(12,895)	-	-	-	-	(12,895)
<b>At 30 June 2010</b>	<b>3,088,240</b>	<b>(573,905)</b>	<b>8,272</b>	<b>(6,044)</b>	<b>603</b>	<b>2,517,166</b>
<b>At 1 July 2010</b>	<b>3,088,240</b>	<b>(573,905)</b>	<b>8,272</b>	<b>(6,044)</b>	<b>603</b>	<b>2,517,166</b>
(Loss) for the period	-	(133,714)	-	-	(1,237)	(134,951)
<b>Total comprehensive income for the period</b>	-	(133,714)	-	-	(1,237)	(134,951)
<b>Equity Transactions:</b>						
Shares issued	-	-	-	-	-	-
Transaction costs on share issue	-	-	-	-	-	-
<b>At 30 June 2011</b>	<b>3,088,240</b>	<b>(707,619)</b>	<b>8,272</b>	<b>(6,044)</b>	<b>(634)</b>	<b>2,382,215</b>

The above statement of changes in equity should be read in conjunction with the notes to the financial statements set out on pages 48–104.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2011

	Note	Consolidated	
		2011 ZAR'000	2010 ZAR'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	15	67,482	396,926
Trade and other receivables	16	108,813	230,031
Prepayments	17	1,655	4,792
Inventories	18	376,756	446,241
<b>Total current assets</b>		554,706	1,077,990
<b>Non-current assets</b>			
Deferred tax asset	12	217,057	138,094
Financial investments	19	32,751	13,946
Property, plant & equipment	20	2,070,604	1,962,028
Intangible assets	21	124,450	9,701
Other non-current assets	22	11,431	45,465
<b>Total non-current assets</b>		2,456,293	2,169,234
<b>Total assets</b>		3,010,999	3,247,224
<b>EQUITY &amp; LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	23	167,900	273,353
Provisions	24	52,519	25,444
Interest bearing loans and borrowings	25	319,031	-
<b>Total current liabilities</b>		539,450	298,797
<b>Non-current liabilities</b>			
Provisions	24	31,656	21,554
Interest bearing loans and borrowings	25	57,678	409,707
<b>Total non-current liabilities</b>		89,334	431,261
<b>Total liabilities</b>		628,784	730,058
<b>Net assets</b>		2,382,215	2,517,166
<b>Shareholder's equity</b>			
Contributed equity	26	3,088,240	3,088,240
Share based payment reserve	27	8,272	8,272
Accumulated losses	28	(707,619)	(573,905)
Non-distributable reserve	29	(6,044)	(6,044)
<b>Parent entity interests</b>		2,382,849	2,516,563
<b>Non-controlling interests</b>	30	(634)	603
<b>Total shareholders' equity</b>		2,382,215	2,517,166

The above statement of financial position should be read in conjunction with the notes to the financial statements set out on pages 48–104.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated	
		2011 ZAR'000	2010 ZAR'000
<b>Cash flows from operating activities</b>			
Receipts from customers		1,698,369	1,283,722
Payments and advances to suppliers and employees (inclusive of goods and services tax)		(1,701,089)	(1,505,489)
Phantom options exercised and paid		(819)	(2,250)
Tax refund/(paid)net of VAT adjustments		970	(707)
Interest paid		(56,462)	(43,728)
<b>Net cash flows used in operating activities</b>		<b>(59,031)</b>	<b>(268,452)</b>
<b>Cash flows from investing activities</b>			
Payments for property, plant & equipment		(196,002)	(229,346)
Payments for intangible assets		(115,110)	-
Sale of net profit interest - Phoenix		77,288	-
Interest received		5,959	13,506
Restricted cash deposits		14,246	(31,089)
<b>Net cash flows used in investing activities</b>		<b>(213,619)</b>	<b>(246,929)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares		-	286,755
Proceeds from borrowings		-	340,435
Payment of share issue costs		-	(12,895)
Repayment of borrowings		(41,685)	(26,298)
<b>Net cash flows (used in)/from financing activities</b>		<b>(41,685)</b>	<b>587,997</b>
Net (decrease)/ increase in cash held		(314,335)	72,616
Cash at the beginning of the financial year		396,926	340,089
Effects of exchange rate changes on cash		(15,109)	(15,779)
<b>Cash and cash equivalents at the end of the year</b>	<b>15</b>	<b>67,482</b>	<b>396,926</b>

The above statements of cash flows should be read in conjunction with the notes to the financial statements set out on pages 48–104.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### RECONCILIATION OF OPERATING (LOSS) TO CASH FLOWS FROM OPERATING ACTIVITIES FOR THE YEAR ENDED 30 JUNE 2011

	2011 ZAR'000	Consolidated 2010 ZAR'000
<b>Loss from ordinary activities before income tax</b>	<b>(214,087)</b>	<b>(156,732)</b>
Adjustments to reconcile profit before tax to net cash flow:		
<u>Non-Cash Items:</u>	116,665	123,615
Amortisation of retention fee	2,562	2,249
Amortisation of intangible asset	361	361
Amortisation of debt establishment costs	333	4,646
Adjustments to inventory provisions	8,784	-
Tribal participation loan	1,769	4,929
Decommissioning asset expense	(8,584)	6,420
Depreciation	88,280	65,328
Disposal of assets	18,122	-
Foreign exchange loss	14,924	15,340
Interest received/accrued	(2,567)	(11,178)
Inventory net realisable write down	43,247	22,212
Cost of product adjustments	1,913	(1,520)
Fair value adjustments	(708)	(481)
Share based payment movements	(1,844)	5,897
Net profit interest - Phoenix	(77,288)	-
Increase in provisions	27,361	9,412
<u>Working Capital Adjustments:</u>	38,240	(232,378)
Decrease/(Increase) in receivables	122,909	(149,874)
Decrease/(Increase) in inventories	15,541	(265,468)
Decrease/(Increase) in prepayments	576	(778)
(Decrease)/Increase in payables and accruals	(100,786)	183,742
Taxation paid	970	(707)
Phantom options paid	(819)	(2,250)
<b>Net cash flow from operating activities</b>	<b>(59,031)</b>	<b>(268,452)</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT

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### 1. CORPORATE INFORMATION

International Ferro Metals Limited (“the Parent”) is a company limited by shares incorporated in Australia whose shares are publicly traded on the London Stock Exchange, as of 1 September 2007. The Company previously traded on the Alternative Investment Market of the London Stock Exchange.

The financial report for the year ended 30 June 2011 was issued in accordance with a resolution of Directors on 19 September 2011.

The principle activities of the company are described on page 13.

### 2. ACCOUNTING POLICIES

#### (a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001* and Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. 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 financial report is presented in South African Rand and all values are rounded to the nearest thousand Rand (ZAR'000) unless otherwise stated.

Comparative information is reclassified where appropriate to enhance comparability.

As at the date of this report, the Company has drawn down ZAR400 million on the Bank of China (BOC) working capital facility which is due to be repaid on 25 June 2012. The Board of Directors are progressing plans to renew the BOC facility before it expires. In addition, the Board is confident that the Company has additional avenues of funding available to it which could be used with forecast operating cash flows, to repay this facility should it not be renewed. For this reason, after making enquiries, the directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and hence, we continue to adopt the going concern basis in preparing the accounts.

#### (b) Statement of compliance

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

(i). Accounting Standards and Interpretations issued but not yet effective.

International Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2011. These are outlined in the table below.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	<p>AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes from AASB 139 are described below.</p> <p>(a) Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria.</p> <p>(b) AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p>	1 January 2013	No material impact	1 July 2013

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	<ul style="list-style-type: none"> <li>▶ These amendments arise from the issuance of AASB 9 Financial Instruments that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 Financial Instruments: Recognition and Measurement.</li> <li>▶ This Standard shall be applied when AASB 9 is applied.</li> </ul>	1 January 2013	No material impact	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	<p>The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including:</p> <ul style="list-style-type: none"> <li>(a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other</li> <li>(b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other</li> <li>(c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other</li> </ul> <p>A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.</p>	1 January 2011	No material impact	1 July 2011

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 <i>Operating Segments</i> to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB.	1 January 2011	No material impact	1 July 2011
AASB 2009-14	Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	These amendments arise from the issuance of Prepayments of a Minimum Funding Requirement (Amendments to IFRIC 14). The requirements of IFRIC 14 meant that some entities that were subject to minimum funding requirements could not treat any surplus in a defined benefit pension plan as an economic benefit. The amendment requires entities to treat the benefit of such an early payment as a pension asset. Subsequently, the remaining surplus in the plan, if any, is subject to the same analysis as if no prepayment had been made.	1 January 2011	No material impact	1 July 2011

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)</p> <p>(b) The Australian Government and State, Territory and Local Governments</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability</p> <p>(b) All not-for-profit private sector entities</p> <p>Public sector entities other than the Australian Government and State, Territory and Local Governments</p>	1 July 2013	No material impact	1 July 2013

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1054	Australian Additional Disclosures	<p>This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB.</p> <p>This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas:</p> <ul style="list-style-type: none"> <li>a) Compliance with Australian Accounting Standards</li> <li>b) The statutory basis or reporting framework for financial statements</li> <li>c) Whether the financial statements are general purpose or special purpose</li> <li>d) Audit fees</li> <li>e) Imputation credits</li> </ul>	1 July 2011	No material impact	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	<p>Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments.</p> <p>Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements.</p> <p>Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.</p> <p>Clarifies that when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the amount of discounts or incentives otherwise granted to customers not participating in the award credit scheme, is to be taken into account.</p>	1 January 2011	No material impact	1 July 2011

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010-5	Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042]	This Standard makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRS by the IASB. These amendments have no major impact on the requirements of the amended pronouncements.	1 January 2011	No material impact	1 July 2011
AASB 2010-6	Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7]	The amendments increase the disclosure requirements for transactions involving transfers of financial assets. <i>Disclosures</i> require enhancements to the existing disclosures in IFRS 7 where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale.	1 July 2011	No material impact	1 July 2011

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	<p>The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows:</p> <ul style="list-style-type: none"> <li>▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI)</li> <li>▶ The remaining change is presented in profit or loss</li> </ul> <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p>	1 January 2013	No material impact	1 July 2013
AASB 2010-8	Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112]	<p>These amendments address the determination of deferred tax on investment property measured at fair value and introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recoverable through sale. The amendments also incorporate <i>SIC-21 Income Taxes – Recovery of Revalued Non-Depreciable Assets</i> into AASB 112.</p>	1 January 2012	No material impact	1 July 2012

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2011-1	Amendments to Australian Accounting Standards arising from the Trans-Tasman Convergence project [AASB 1, AASB 5, AASB 101, AASB 107, AASB 108, AASB 121, AASB 128, AASB 132, AASB 134, Interpretation 2, Interpretation 112, Interpretation 113]	This Standard amends many Australian Accounting Standards, removing the disclosures which have been relocated to AASB 1054.	1 July 2011	No material impact	1 July 2011
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and SIC-12 <i>Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. This is likely to lead to more entities being consolidated into the group.</p>	1 January 2013	No material impact	1 July 2013

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 11	Joint Arrangements	AASB 11 replaces IAS 31 <i>Interests in Joint Ventures</i> and SIC-13 <i>Jointly- controlled Entities – Non-monetary Contributions by Ventures</i> . AASB 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition AASB 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method. This may result in a change in the accounting for the joint arrangements held by the group.	1 January 2013	No material impact	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgements made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.	1 January 2013	No material impact	1 July 2013

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### (b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance under AASB for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under AASB when fair value is required or permitted by AASB. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p>	1 January 2013	No material impact	1 July 2013

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

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### (c) **Basis of consolidation**

The Consolidated financial statements incorporate the assets and liabilities of all entities controlled by International Ferro Metals Limited 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.

Where control of an entity is obtained during a financial year, 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 year its results are included for that part of the year during which control existed.

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

### (d) **Business combinations and goodwill**

#### **Business combinations from 1 July 2009**

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at the fair value at the acquisition date and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 in profit or loss or as change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at the cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

#### **Business combinations prior to 30 June 2009**

On the acquisition of a subsidiary, the purchase method of accounting is applied whereby the purchase consideration is allocated to the identifiable assets, liabilities and contingent liabilities (identifiable net assets) on the basis of fair value at the date of acquisition. Those mineral reserves and resources that are able to be reliably valued are recognized in the assessment of fair value on acquisition.

The cost of the business combination is the aggregate of: (a) the fair values at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer in exchange for control of the acquire; and (b) and cost directly attributable to the business combination.

Goodwill is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable net assets.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

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### (d) Business combinations and goodwill (continued)

If the fair value attributable to the Group's share of the identifiable net assets exceeds the fair value of the consideration, the Group reassessed whether it has correctly identified and measured the assets acquired and liabilities assumed and recognized any additional assets or liabilities that are identified in that review. If the excess remains after reassessment, the Group recognizes the resulting gain in the income statement on the acquisition date.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised and is tested for impairment annually. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

### (e) Revenue recognition

Revenue from the sale of goods is recognised when significant risks and rewards of the saleable product has transferred to the customer. Risks and rewards are considered passed to the customer upon delivery to the customer's control. This generally occurs when the product is physically transferred into a vessel, train, truck or other delivery mechanism.

Revenue from inventory sales is measured at the fair value of consideration received/receivable. Revenue is stated after deducting sales taxes, duties and levies.

For certain ferrochrome sales the price is determined on a provisional basis at the date of sale (free on board). Adjustments to the sale price may occur based on movements in the metal price up to the date of final pricing. Final pricing is based on contractual negotiations and is referred to the published ferrochrome price at the date of consumption by the relevant customers, adjusted for negotiated discounts. The period between provisional invoicing and final pricing is typically between 1 and 2 months. Revenue on provisionally priced sales is initially recorded at the estimated fair value of the consideration receivable. The revenue adjustment mechanism embedded within provisionally priced sales arrangements has the characteristics of a commodity derivative. Accordingly the fair value of the final sales price adjustment is re-estimated continuously and changes in fair value is recognised as an adjustment to revenue in the income statement and trade receivables in the balance sheet. In all cases fair value is determined with reference to latest available published ferrochrome prices.

Interest revenue is brought to account on an accrual basis using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Dividend revenue is recognised when the Group's right to receive payment is established.

### (f) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (g) Receivables

Trade receivables, which are due for settlement no more than 30 days from the date of the final invoice, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for uncollectible amounts. The final invoice is issued once the product is received and final specification agreed by the customer. Collectibles of trade debtors are reviewed on an ongoing basis and a provision for non-recovery is made accordingly. Debts which are known to be uncollectible are written off. The difference between the carrying value of receivables and present value of the expected future cash flows are accounted for against the carrying value of receivables and as an interest charge. Fair value adjustments from commodity price sensitive sales are accounted for against the relevant receivables.

### (h) Inventories

Inventories including raw materials, work in progress, consumables and finished goods are valued at the lower of cost and net realisable value.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### (h) Inventories (continued)

Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials – purchase cost assigned on a weighted average cost basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities) transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Consumables and maintenance spares are valued at purchase cost on a first-in, first out basis.

Finished goods and work-in-progress – cost of direct materials and labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity. Costs are assigned on the basis of weighted average costs. Fixed cost attributable to non-operating units is expensed in the income statement.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale, including sales commissions.

### (i) Property, plant and equipment

Property, plant and equipment are recorded at historical cost less accumulated depreciation and any impairment. The carrying value of assets is reviewed for impairment at the balance sheet date. An asset is immediately written down to its recoverable amount if the carrying value of the asset exceeds its estimated recoverable amount.

The depreciation rates per annum for each class of fixed asset are as follows:

- Property & buildings: between 3.33% and 5%
- Plant & equipment: between 3.33% and 33.33%
- Motor vehicles: between 16.67% and 20%
- Furniture & fittings: 16.67%
- Computer equipment: 33.34%

Subsequent expenditure relating to an item of property, plant and equipment, that has already been recognised, is added to the carrying amount of the asset if the recognition criteria are met.

All assets are depreciated over their anticipated useful lives up to their residual values using a straight-line depreciation basis. These useful lives are determined on the day of capitalisation and are re-assessed annually by management.

Mineral rights that are being depleted are amortised over the estimated remaining life of mine, using the unit of production method based on proven and probable ore reserves. Land is not depreciated.

Currently the maximum life applied to components which are expected to last for the life of the plant is 27 years and the maximum residual value which has been applied to any component is 50% of the cost value.

#### *Major maintenance and repairs*

Expenditure on major maintenance re-builds or repairs comprise the cost of replacement assets or parts of assets and overhaul costs. Where an asset or part of an asset that was separately depreciated and is now written off is replaced and it is probable that future economic benefits associated with the item will flow to the group through an extended life the expenditure is capitalised. Where part of the asset was not separately considered as a component, the replacement value is used to estimate the carrying amount of the replaced asset which is immediately written off. All other day to day maintenance costs are part of production cost.

#### *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable or at least on an annual basis.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amount.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

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### (j) Income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets and liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and at the time of the transaction affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred income tax to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

### (k) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) or value added tax (VAT), except:

- where the amount of GST/VAT incurred is not recoverable from the taxation authority, it is recognised as part of the cost of the asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST/VAT.

The net amount of GST/VAT recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

### (l) Trade and other payables

Trade and other payables amounts represent liabilities for goods and services provided to the entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of invoice.

### (m) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised, as well as through the amortisation process.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

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### (n) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

### (o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of the time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are expensed in the period they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds specifically relating to the project.

The Group capitalises borrowing costs for all eligible assets where construction was commenced on or after 1 July 2009. The Group continues to expense borrowing costs relating to construction projects that commenced prior to 1 July 2009.

### (p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### Environmental Rehabilitation provisions:

The estimated cost of rehabilitation, comprising liabilities for decommissioning and restoration is based on current legal requirements and existing technology and reassessed annually by management. The costs of the provisions do not take into account the potential proceeds from the sale of the assets at the end of their useful lives.

#### Decommissioning:

The discounted value of the estimated obligation to decommission, being the cost to dismantle all structures and rehabilitate the land that arose from establishing a mine or plant, is included in long term provisions. The unwinding of the obligation is included in the income statement under finance costs. The initial related decommissioning asset is recognised as part of property, plant and equipment.

#### Restoration:

The discounted value of the estimated obligation of restoration, being the cost to correct damages from ongoing operations, is included in long term provisions. Management reviews the estimations on an annual basis and charges any movements directly in the income statement.

#### Environmental rehabilitation trust funds (for funding rehabilitation):

Monthly payments are made to the trust in accordance with a financial policy agreement. The investment in the trusts is carried as inter-company investments in each company. The trusts are fully consolidated as IFM is the only contributor to these trusts and exercise full control via the board of trustees.

The estimated costs of rehabilitating a mine are generally included in the capital cost of the mine. Changes in estimates of the liability are dealt with on a prospective basis.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### (q) Share-based payment transactions

#### *(i) Equity settled transactions:*

The Group provides benefits to employees (including directors) of the Group and other service providers or strategic equity partners in the form of share-based payment transactions, whereby employees or other parties render services or provide goods in exchange for shares or rights over shares ('equity-settled transactions').

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an option pricing method.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of International Ferro Metals Limited ('market conditions').

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ('vesting date').

The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects:

- (i). the extent to which the vesting period has expired; and
- (ii). the number of awards that, in the opinion of the directors of the Group, will ultimately vest. This opinion is formed based on the best available information at balance sheet date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

Where shares are issued at a discount to fair value either by reference to the current market price or by virtue of the Group providing financing for the share purchase on favourable terms, the value of the discount is considered a share based payment.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

#### *(ii) Cash settled transactions:*

The Group also provides benefits to employees in the form of cash-settled share-based payments, whereby employees render services in exchange for cash, the amounts of which are determined by reference to movements in the price of the shares of International Ferro Metals Limited.

The ultimate cost of these cash-settled transactions will be equal to the actual cash paid to the employees, which will be the fair value at settlement date.

The cumulative cost recognised until settlement is a liability and the periodic determination of this liability is as follows:

- (i). at each reporting date between grant and settlement, the fair value of the award is determined;
- (ii). during the vesting period, the liability recognised at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period;
- (iii). from the end of the vesting period until settlement, the liability recognised is the full fair value of the liability at the reporting date; and
- (iv). all changes in the liability are recognised in profit or loss for the period.

The fair value of the liability is determined, initially and at each reporting date until it is settled. For the current financial year an option pricing model was applied, taking into account the terms and conditions on which the award was granted, and the extent to which employees have rendered service to date.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

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#### (r) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (s) Exploration and evaluation costs

Expenditure on exploration and evaluation is accounted for in accordance with the 'area of interest' method. Exploration and evaluation expenditure is capitalised provided the rights to tenure of the area of interest is current and either:

- the exploration and evaluation activities are expected to be recouped through successful development and exploitation of the area of interest or,
- alternatively, by its sale; or exploration and evaluation activities in the area of interest have not at the reporting date reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or relating to, the area of interest are continuing.

When the technical feasibility and commercial viability of extracting a mineral resource have been demonstrated then any capitalised exploration and evaluation expenditure is reclassified as capitalised mine development. Prior to reclassification, capitalised exploration and evaluation expenditure is assessed for impairment.

#### (t) Foreign currency transactions

The functional currency of International Ferro Metals Limited and its subsidiaries is the South African Rand ("ZAR") as this is the currency in which Group primarily generates and expends cash. The directors have chosen ZAR, being the group's functional currency, as being the most appropriate currency in which to present the financial statements.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### (u) Feasibility expenditure

Costs incurred relating to a feasibility study are expensed as incurred until the period in which management considers that a bankable feasibility study is complete and the Company decides to continue with the project. Following this time, costs directly related to the feasibility study are deferred as a non-current asset and will be amortised over the life of the plant or mine on a life of plant or units of production basis.

#### (v) Financial assets – initial recognition and subsequent measurement

##### *Initial recognition and measurement*

Financial assets are categorised as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available for sale financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the categorisation of its financial assets at initial recognition. Categorisation is re-evaluated at each financial year end. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

(v) **Financial assets (continued)**

**Subsequent measurement**

The subsequent measurement of financial assets depends on their classification as follows:

(i). *Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. After initial measurement held-to-maturity investments are measured at amortised cost using the effective interest method, less impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

(ii). *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that do not meet the hedge accounting criteria as defined by AASB 39. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit and loss are carried in the balance sheet as fair value with gains or losses recognized in the income statement.

The Group has not designated any financial assets as at fair value through profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not carried at fair value. These embedded derivatives are measured at fair value with gains or losses arising from changes in fair value recognized in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

(iii). *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial measurement, available-for-sale financial assets are measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss recorded is recognized in the income statement, or determined to be impaired, at which time the cumulative loss recorded is recognized in the income statement.

**Derecognition of financial assets**

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, a new asset is recognized to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset, is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### (v) Financial assets (continued)

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### **Impairment of financial assets**

The Group assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### **Financial assets carried at amortised cost**

For financial assets carried at amortised cost the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

#### **Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is to be evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the income statement.

Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

**(w) Financial liabilities**

***Initial recognition***

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

Financial liabilities are recognized initially at fair value and in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdraft, loans and borrowings and derivative financial instruments.

***Subsequent measurement***

The measurement of financial liabilities depends on their classification as follows:

*(i). At fair value through profit & loss:*

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by AASB 39. Separate embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the income statement.

The Group has not designated any financial liabilities upon initial recognition as at fair value through profit or loss

Options granted that are not part of a continuing share based payment relationship (i.e. there is no ongoing provision of goods and/or services - refer note 2(p) and are denominated in a currency other than the entity's functional currency, are accounted for as derivative liabilities in accordance with AASB 139: "Financial Instruments: Recognition and Measurement" and IFRIC guidelines. Such options are recorded on the balance sheet at fair value with movements in fair value between being recorded in the income statement. In respect of the derivative liability, the change in the fair value of the derivative liability, during the period and cumulatively, is not attributable to changes in the credit risk of that liability.

In addition, contractual arrangements whereby the Company agrees to issue a variable number of shares are accounted for as a liability. To the extent that these contractual arrangements meet the definition of a derivative, the value of the contractual arrangement is recorded on the balance sheet at fair value with movements in fair value being recorded in the income statement.

*(ii). Loans and borrowings*

All loans and borrowings are initially recognised at the fair value of the considerations received less directly attributable transaction cost. After initial recognition loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

***Derecognition***

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender or substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

**(x) Offsetting of financial instrument**

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### (y) Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations, without any deduction for transaction costs.

For financial instruments that are not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions; reference to the current fair value of another instrument that is substantially the same; discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in note 33.

### (z) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### (aa) Hedge accounting and derivative financial instruments

#### *Initial recognition and subsequent measurement*

The Group may use derivative financial instruments such as forward currency contracts to hedge its foreign market risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives during the year that do not qualify for hedge accounting and the ineffective portion of an effective hedge are taken directly to the income statement.

The fair value of forward currency contracts is the difference between the forward exchange rate and the contract rate. The forward exchange rate is referenced to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### *Fair value hedges*

The change in the fair value of a hedging derivative is recognized in the income statement. The change in the fair value of the hedged item attributed to the risk hedged is recorded as a part of the carrying value of the hedged item and is also recognized in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the income statement.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

**(aa) Hedge accounting and derivative financial instruments (continued)**

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the income statement.

*Cash flow hedges*

The effective portion of the gain or loss in the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity remain in equity until the forecast transaction or firm commitment occurs.

***Hedged of a net investment***

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement.

***Current versus non-current classification***

Derivative instruments that are not a designated and effective hedging instrument are classified as current or non-current or separated into a current and non-current portion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting), for a period beyond 12 months after the balance sheet date, the derivative is classified as non-current (or separated into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instrument is separated into a current portion and non-current portion only if a reliable allocation can be made.

**(bb) Deferred stripping costs**

Stripping costs incurred in the development of a mine before production commences are capitalized as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units of production basis.

Where a mine operates several open pits that are regarded as separate operations for the purpose of mine planning, stripping costs are accounted for separately by reference to the ore from each separate pit. If, however, the pits are highly integrated for the purpose of the mine planning, the second and subsequent pits are regarded as extensions of the first pit in accounting for stripping costs.

In such cases, the initial stripping (i.e., overburden and other waste removal) of the second and subsequent pits is considered to be production phase stripping relating to the combined operation.

Stripping costs incurred subsequently during the production stage of its operation are treated as part of production cost and carried in the value of the mined ore.

Deferred stripping costs are included as part of 'Mine development'. These form part of the total investment in the relevant cash generating units, which are reviewed for impairment if events or changes of circumstances indicate that the carrying value may not be recoverable.

**(cc) Treasury shares**

Own equity instruments which are reacquired (treasury shares) are recognized at cost and deduced from equity. No gain or loss is recognized in the income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration is recognized in other capital reserves.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

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### **(dd) Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is reflected in the income statement in the year which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

### **(ee) Research and development costs**

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Group can demonstrate:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of resource to complete the asset;
- The ability to measure reliability the expenditure during development.

Following initial recognition of the development expenditure as an asset, the cost model applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset commences when development is complete and the asset is available for use. It is amortised over the period of expected future benefit. Amortisation is recorded in the cost of sales. During the period of development, the asset is tested for impairment annually.

### **(ff) Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. 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 the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset, except for property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognised in other comprehensive income up to the amount of any previous revaluation.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

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**(ff) Impairment of non-financial assets (continued)**

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

*Goodwill*

Goodwill is tested for impairment annually (as at 30 June) and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

*Intangible assets*

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June either individually or at the cash generating unit level, as appropriate and when circumstances indicate that the carrying value may be impaired.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

(i). *Significant accounting judgments*

(a) *Determination of mineral resources and ore reserves*

The determination of reserves impacts the accounting for asset carrying values, depreciation and amortisation rates, deferred stripping costs and provisions for decommissioning and restoration. International Ferro Metals Limited estimates its mineral resources and ore reserves using the Australian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves 2004 (the 'JORC code') as a minimum standard. The information on mineral resources and ore reserves were prepared by or under the supervision of Competent Persons as defined in the JORC code. The amounts presented are based on the mineral resources and ore reserves determined under the JORC code.

There are numerous uncertainties inherent in estimating mineral resources and ore reserves and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

(b) *Impairment of capitalised exploration and evaluation expenditure*

The future recoverability of capitalised exploration and evaluation expenditure is dependent on a number of factors, including whether the Group decides to exploit the related lease itself or, if not, whether it successfully recovers the related exploration and evaluation asset through sale.

Factors that could impact the future recoverability include the level of reserves and resources, future technological changes, which could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised exploration and evaluation expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

In addition, exploration and evaluation expenditure is capitalised if activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. To the extent it is determined in the future that this capitalised expenditure should be written off, profits and net assets will be reduced in the period in which this determination is made.

(c) *Impairment of capitalised mine development expenditure*

The future recoverability of capitalised mine development expenditure is dependent on a number of factors, including the level of proved, probable and inferred mineral resources, future technological changes that could impact the cost of mining, future legal changes (including changes to environmental restoration obligations) and changes to commodity prices.

To the extent that capitalised mine development expenditure is determined not to be recoverable in the future, profits and net assets will be reduced in the period in which this determination is made.

(d) *Recoverability of deferred income tax assets*

The Group recognises deferred income tax assets in respect of tax losses to the extent that it is probable that the future utilisation of these losses is considered probable. Assessing the future utilisation of these losses requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecasted profits from operations and the application of existing tax laws. Future changes in profits resulting in estimated taxable income could impact on recognised or unrecognised deferred tax assets or liabilities.

NOTES TO THE FINANCIAL REPORT (CONTINUED)

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(ii). *Significant accounting estimates and assumptions*

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

(e) *Impairment of property, plant and equipment*

Property, plant and equipment is reviewed for impairment if there is any indication that the carrying amount may not be recoverable.

Where a review for impairment is conducted, the recoverable amount is assessed by reference to the higher of 'value in use' (being the net present value of expected future cash flows of the relevant cash generating unit) and 'fair value less costs to sell'.

In determining value in use, future cash flows are based on:

Estimates of the quantities of ore reserves and mineral resources for which there is a high degree of confidence of economic extraction;

- future production levels;
- future exchange rates;
- future commodity prices; and
- future cash costs of production and capital expenditure.

Variations to the expected future cash flows, and the timing thereof, could result in significant changes to any impairment losses recognised, if any, which could in turn impact future financial results.

(f) *Provisions for decommissioning and restoration costs*

Decommissioning and restoration costs are a normal consequence of mining, and the majority of this expenditure is incurred at the end of a mine's life. In determining an appropriate level of provision consideration is given to the expected future costs to be incurred, the timing of these expected future costs (largely dependent on the life of the mine), and the estimated future level of inflation.

The ultimate cost of decommissioning and restoration is uncertain and costs can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing of expenditure can also change, for example in response to changes in reserves or to production rates.

Changes to any of the estimates could result in significant changes to the level of provisioning required, which would in turn impact future financial results.

(g) *Valuation of share based payments*

The key estimates and assumptions used in the valuation of share based payment plans are set out in note 2(q) and note 31.

(h) *Contingencies*

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

(i) *Production start date*

The Group assesses the stage of each mine development project to determine when a mine moves into the production stage. The criteria used to assess the start date of a mine are determined based on the nature of each mine development project. The group considers various relevant criteria to assess when the mine is substantially complete, ready for its intended use and moves into the production phase.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

(i) *Production start date(continued)*

Some of the criteria includes, but are not limited to the following:

- The level of capital expenditure compared to construction cost estimates;
- Completion of a reasonable period of testing of the mine plant and equipment;
- Ability to produce metal in saleable form, and
- Ability to sustain ongoing production of metal.

When a mine development project moves into the production stage, the capitalization of certain mine construction costs ceases and costs are either regarded as inventory or expensed, except for capital costs related to mining asset additions or improvements, underground mine development or mineable reserve development. It is also at this point that depreciation / amortization commences.

(j) *Fair value of financial instruments*

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### 4. 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 is no material difference 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.

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Australia	3,713	-
China	513,275	269,353
Europe	587,746	784,710
South Africa	161,864	113,108
South Korea	61,898	49,822
Taiwan	62,168	35,018
Japan	3,968	-
United States of America	180,827	181,584
<b>Total External Revenue</b>	<b>1,575,459</b>	<b>1,433,595</b>

Major customers

The group received 70% (2010: 74%) of its external revenue from its China and European customers. During 2011 the group received 49% (2010:67%) of its external revenue from CMC Cometals and 39% (2010:25%) from JISCO.

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

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 5. SALES REVENUE

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Sales Revenue		
- Ferrochrome sales	1,404,402	1,385,528
- Fair value adjustments (a)	(7,934)	34,831
- Other sales (b)	178,991	13,236
	<b>1,575,459</b>	<b>1,433,595</b>

- (a) Fair value adjustments represent re-valuations performed on ferrochrome sales contracts for which the price is linked to future fluctuations in the published ferrochrome price until the day of consumption by the end customer (also refer to note 3(e)).
- (b) Other sales relate to chrome ore sales.

### 6. OTHER INCOME

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Other income (a)	78,353	2,000
	<b>78,353</b>	<b>2,000</b>

- (a) Other income of ZAR77,288 relates to the sale of IFM's 25% net profit interest in the retreatment of the tailings dams and current arisings from IFM's existing chrome operations to Phoenix Platinum Mining (Pty) Ltd. The balance of other income of ZAR1,065 relates to profit on sale of assets and rental income received.

### 7. ADMINISTRATIVE AND OTHER EXPENSES

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Accounting fees	162	175
Auditors remuneration – external	3,217	2,187
Auditors remuneration - internal	1,336	-
Consulting fees	2,744	16,690
Depreciation not in cost of goods sold	864	848
Research and development cost	385	1,830
Legal fees	1,642	1,513
Remuneration of Key Management Personnel (refer note 8)	35,183	22,057
Staff costs (refer note 9)	33,006	17,802
Loss on disposal of assets (a)	16,954	-
Fair value adjustments on financial assets	(708)	(481)
Other administrative expenses	18,247	26,313
	<b>113,032</b>	<b>88,934</b>

- (a) Loss on disposal of assets relates to impairment of the furnace roofs that were replaced.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 8. REMUNERATION OF KEY MANAGEMENT PERSONNEL

(a) Details of Key Management Personnel

Please refer to page 24 for details of Key Management Personnel.

(b) Remuneration of Key Management Personnel

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Basic salary and fees	25,959	17,975
Incentive payments	2,937	295
Other fees *	2,562	2,928
Superannuation **	161	22
Termination payments	3,564	837
	<b>35,183</b>	<b>22,057</b>
Phantom option expense	(1,385)	2,106
Phantom options cancelled/forfeited	(20)	-
<b>Total remuneration</b>	<b>33,778</b>	<b>24,163</b>

\* Other fees represent costs for any additional work undertaken for the Company and retention fees paid.

\*\* Superannuation represents payments made in respect of a defined contribution pension scheme.

(c) Option holdings of key management personnel (consolidated)

**30 June 2011**

No share options were issued during the year ended 30 June 2011.

**30 June 2010**

No share options were issued during the year ended 30 June 2010.

**INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT**

**NOTES TO THE FINANCIAL REPORT (CONTINUED)**

**8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)**

The following table details phantom options issued during the year ended 30 June 2011.

30 June 2011	Balance at beginning of period 1 July 2010	Phantom options granted	Phantom options exercised	Phantom options cancelled/ forfeited	Balance end of period 30 June 2011	As at 30 June 2011	
						Exercisable	Not exercisable
<b>Non-executive directors</b>							
<i>Anthony Grey</i>	1,550,000	-	-	-	1,550,000	1,033,334	516,666
<i>Stephen Turner</i>	1,550,000	-	-	-	1,550,000	1,033,334	516,666
<i>Terence Willsteed</i>	-	-	-	-	-	-	-
<i>Stephen Oke</i>	-	-	-	-	-	-	-
<i>Tian Xia</i>	-	-	-	-	-	-	-
<i>John Ballard</i>	-	-	-	-	-	-	-
<b>Executive directors</b>							
<i>David Kovarsky</i>	1,000,000	-	-	-	1,000,000	1,000,000	-
<i>Xiaoping Yang</i>	446,250	-	-	-	446,250	297,500	148,750
<i>Jannie Muller</i>	250,000	-	-	-	250,000	146,666	103,334
<b>Other Key Management Personnel</b>							
<i>Wimpie van Wyk</i>	250,000	-	-	-	250,000	83,333	166,667
<i>Michael Lillja</i>	250,000	-	-	(250,000)	-	-	-
<i>Maarten Nienaber</i>	250,000	-	-	-	250,000	83,333	166,667
<i>Hannes van Dyk</i>	250,000	-	-	-	250,000	166,666	83,334
<b>Total</b>	<b>5,796,250</b>	<b>-</b>	<b>-</b>	<b>(250,000)</b>	<b>5,546,250</b>	<b>3,844,166</b>	<b>1,702,084</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(c) Option holdings of key management personnel (consolidated) (continued)

The following table details phantom options issued during the year end 30 June 2010.

30 June 2010	Balance at beginning of period 1 July 2009	Phantom options granted	Phantom options exercised	Balance end of period 30 June 2010	As at 30 June 2010	
					Exercisable	Not exercisable
<b>Non-executive directors</b>						
<i>Anthony Grey</i>	1,550,000	-	-	1,550,000	516,667	1,033,333
<i>Stephen Turner</i>	1,550,000	-	-	1,550,000	516,667	1,033,333
<i>Terence Willstead</i>	-	-	-	-	-	-
<i>Ian Watson</i>	-	-	-	-	-	-
<i>Stephen Oke</i>	-	-	-	-	-	-
<i>Tian Xia</i>	-	-	-	-	-	-
<i>John Ballard</i>	-	-	-	-	-	-
<b>Executive directors</b>						
<i>David Kovarsky</i>	1,000,000	-	-	1,000,000	333,333	666,667
<i>Xiaoping Yang</i>	446,250	-	-	446,250	148,750	297,500
<i>Jannie Muller</i>	190,000	60,000	-	250,000	63,333	186,667
<b>Other Key Management Personnel</b>						
<i>Wimpie van Wyk</i>	-	250,000	-	250,000	-	250,000
<i>Michael Lillja</i>	-	250,000	-	250,000	-	250,000
<i>Maarten Nienaber</i>	-	250,000	-	250,000	-	250,000
<b>Total</b>	<b>4,736,250</b>	<b>810,000</b>	<b>-</b>	<b>5,546,250</b>	<b>1,578,750</b>	<b>3,967,500</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings of key management personnel (consolidated)

30 June 2011	Balance at	Granted as	On exercise	Shares sold	Shares	Balance end
	1 July 2010	remuneration	of options		Purchased	
	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	June 2011
	shares	shares	shares	shares	shares	Ordinary
						shares
<b>Non-executive directors</b>						
<i>Anthony Grey</i> <sup>1</sup>	1,266,667	-	-	-	200,000	1,466,667
<i>Stephen Turner</i> <sup>2</sup>	6,916,667	-	-	-	375,000	7,291,667
<i>Terence Willstead</i> <sup>3</sup>	1,000,000	-	-	-	250,000	1,250,000
<i>Stephen Oke</i>	50,000	-	-	-	100,000	150,000
<i>Tian Xia</i>	166,667	-	-	-	-	166,667
<i>John Ballard</i> <sup>4</sup>	-	-	-	-	400,000	400,000
<b>Executive directors</b>						
<i>David Kovarsky</i>	-	-	-	-	100,000	100,000
<i>Xiaoping Yang</i>	166,667	-	-	-	-	166,667
<i>Jannie Muller</i>	-	-	-	-	150,000	150,000
<b>Other Key Management Personnel</b>						
<i>Wimpie van Wyk</i>	-	-	-	-	-	-
<i>Michael Lillja</i>	-	-	-	-	-	-
<i>Maarten Nienaber</i>	-	-	-	-	-	-
<i>Hannes van Dyk</i>	-	-	-	-	-	-
<b>Total</b>	<b>9,566,668</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,575,000</b>	<b>11,141,668</b>

1. Mr Grey's shareholding is held by Dalvin Pty Limited, a company of which Anthony Grey is a beneficial owner.
2. Mr Turner's shareholdings are held as follows:  
4,141,667 ordinary shares by First Trustee Company and 2,775,000 ordinary shares by Guarantee Group Limited, 375,000 ordinary shares by Independent Nominee Corporation Pty Limited, each being entities of which Mr Turner has a partial beneficial interest.
3. Terence Willstead's shareholding is held by Paternat Pty Limited as trustee for T.V. Willstead & Associates Pty Limited Superannuation Fund through the association with Mineral Associated SA.
4. John Ballard's shareholding is held by Glen Bates Consulting Pty Limited as trustee for Bates Ballard Superannuation Fund.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 8. REMUNERATION OF KEY MANAGEMENT PERSONNEL (continued)

(d) Shareholdings of key management personnel (consolidated) (continued)

30 June 2010	Balance at	Granted as	On exercise	Shares sold	Shares	Balance end
	1 July 2009	remuneration	of options		Purchased	
	Ordinary	Ordinary	Ordinary	Ordinary	Ordinary	June 2010
	shares	shares	shares	shares	shares	Ordinary
						shares
<b>Non-executive directors</b>						
<i>Anthony Grey</i> <sup>1</sup>	1,266,667	-	-	-	-	1,266,667
<i>Stephen Turner</i> <sup>2</sup>	6,916,667	-	-	-	-	6,916,667
<i>Terence Willsteed</i> <sup>3</sup>	1,000,000	-	-	-	-	1,000,000
<i>Ian Watson</i> <sup>4</sup>	333,334	-	-	-	-	333,334
<i>Stephen Oke</i>	50,000	-	-	-	-	50,000
<i>Tian Xia</i>	166,667	-	-	-	-	166,667
<i>John Ballard</i>	-	-	-	-	-	-
<b>Executive directors</b>						
<i>David Kovarsky</i>	-	-	-	-	-	-
<i>Xiaoping Yang</i>	166,667	-	-	-	-	166,667
<i>Jannie Muller</i>	-	-	-	-	-	-
<b>Other Key Management Personnel</b>						
<i>Wimpie van Wyk</i>	-	-	-	-	-	-
<i>Michael Lillja</i>	-	-	-	-	-	-
<i>Maarten Nienaber</i>	-	-	-	-	-	-
<b>Total</b>	<b>9,900,002</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,900,002</b>

1. Mr Grey's shareholding is held by Dalvin Pty Limited, a company of which Anthony Grey is a beneficial owner.
2. Mr Turner's shareholdings are held as follows: 4,141,667 ordinary shares by Kin Yip International Limited and 2,775,000 Ordinary shares by Guarantee Group Limited, both being companies of which Stephen Turner is a beneficial shareholder. Mr Turner only has a part interest in these shares.
3. Terence Willsteed's shareholding is held by Patemat Pty Limited as trustee for T.V. Willsteed & Associates Pty Limited Superannuation Fund through the association with Mineral Associated SA.
4. Mr Watson resigned 12 November 2009.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 9. STAFF COSTS (EXCLUDING REMUNERATION OF KEY MANAGEMENT PERSONNEL)

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Basic salary and fees	189,782	148,135
Superannuation *	102	115
Termination costs	3,885	6,133
Other costs **	17,959	14
	211,728	154,397
Less amounts included in inventories/cost of goods sold	(178,722)	(136,595)
	<b>33,006</b>	<b>17,802</b>

\* Superannuation represents payments made in respect of a defined contribution pension scheme.

\*\* Other costs relate to retention bonus provisions.

### 10. SHARE BASED PAYMENT (EXPENSE)/INCOME

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Phantom option (expense)/income	1,844	(5,897)
	<b>1,844</b>	<b>(5,897)</b>

Refer to note 31 for further details of the option plan.

### 11. FINANCING INCOME AND COSTS

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Interest income	5,959	13,506
Interest expense, comprising:	(59,856)	(46,056)
Finance cost	(6,921)	(5,653)
- Amortisation of debt establishment costs	(5,444)	(4,646)
- Unwinding of discount on rehabilitation provision	(1,477)	(1,007)
Interest charges	(52,935)	(40,403)
- Interest on debt financing	(32,168)	(18,326)
- Interest on sales financing	(10,413)	(14,052)
- Interest on finance leases	(7,323)	(8,019)
- Interest paid – other	(3,031)	(6)
<b>Net finance (costs)</b>	<b>(53,897)</b>	<b>(32,550)</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 12. INCOME TAX

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
<b>Income tax expense</b>		
Current Income tax charge:	(173)	515
Adjustment in respect of income tax of previous year	(1,443)	(16,817)
Deferred income tax relating to origination and reversal of temporary differences	(77,520)	(54,624)
Income tax (credit) recorded in income statement	(79,136)	(70,926)
Loss from ordinary activities before income tax expense	(214,087)	(156,732)
At parent entity statutory tax rate of 30%:	(64,226)	(47,020)
Overseas tax rate differential	3,694	1,978
Income not taxable	(26,087)	(26,087)
Expenses not deductible for tax purposes	3,840	2,817
Deferred tax assets not recognised	5,086	14,203
Adjustment in respect of current income tax of previous year	(1,443)	(16,817)
Aggregate income tax (credit)	(79,136)	(70,926)
<b>Deferred income tax liability</b>		
Property plant and equipment, including unredeemed capital expenditure	42,657	70,785
Debtors and prepayments	2,579	1,338
Other payables	747	1,007
Total deferred tax liability	45,983	73,130
<b>Deferred income tax asset</b>		
Provisions	(12,059)	(3,557)
Finance lease payments	(17,181)	(18,682)
Share option charges	(672)	(942)
Loss available for offset against future income	(224,292)	(182,529)
Rehabilitation provisions, claimable in future	(8,836)	(5,514)
Total deferred tax (asset)	(263,040)	(211,224)
<b>Net deferred tax (asset)</b>	<b>(217,057)</b>	<b>(138,094)</b>

#### Calculated taxation losses

The Group has recognised a net deferred tax asset of ZAR217 million as it is probable this will be fully utilised in future, as the Group expects to generate future taxable profits based on current forecasts. IFM has unrecognized tax losses of ZAR164 million (2010:ZAR94 million) in relation to the parent entity.

#### Unredeemed mining capital expenditure

Unredeemed mining capital expenditure available for offset against future mining taxable income	1,740,040	1,522,521
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### 13. EARNINGS PER SHARE

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Basic loss per share (cents per share)	(24.14)	(15.40)
Diluted loss per share (cents per share)	(24.14)	(15.40)
Earnings used in calculating basic earnings per share (ZAR'000)	(133,714)	(84,592)
Earnings used in calculating diluted earnings per share (ZAR '000)	(133,714)	(84,592)
	<b>Shares</b>	<b>Shares</b>
Weighted average number of ordinary shares on issue in calculation of basic and diluted earnings per share	554,008,047	549,442,047

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 14. DIVIDENDS PAID AND PROPOSED

The Board of Directors resolved not to declare a dividend for the year ended 30 June 2011 (2010: nil).

### 15. CASH AND CASH EQUIVALENTS

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Cash at bank and on hand	41,810	138,726
Short-term deposits	25,672	258,200
	<b>67,482</b>	<b>396,926</b>

### 16. TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Trade debtors (a)	56,074	203,874
Outstanding tax refunds (b)	50,225	25,334
Other debtors	2,514	823
	<b>108,813</b>	<b>230,031</b>

(a) Trade debtors relate to the sale of ferrochrome and chrome ore. Payment terms are thirty days from date of final invoice.

(b) Tax refunds relate to the relevant Goods and Services Tax and Value Added Tax refunds owing in Australia and South Africa.

Details of the terms and conditions of receivables are discussed in detail under note 33.

The carrying value of trade and other receivables is assumed to approximate the fair value due to the short term nature of the trade and other receivables.

### 17. PREPAYMENTS

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Prepaid retention fee	1,000	3,562
Prepaid stewardship costs	325	300
Prepaid other	330	930
	<b>1,655</b>	<b>4,792</b>

### 18. INVENTORIES

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Consumable stores at net realisable value (2010: net realisable value)	22,842	21,043
Ore stock at net realisable value (2010: net realisable value)	130,126	143,955
Raw materials at net realisable value (2010: at net realisable value)	63,705	146,644
Finished goods at net realisable value (2010: at net realisable value)	160,083	134,599
	<b>376,756</b>	<b>446,241</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 19. FINANCIAL INVESTMENTS

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Investment in rehabilitation trust (a)	32,751	13,946
	<b>32,751</b>	<b>13,946</b>

(a) These financial assets consist of investment portfolios which are managed by various financial institutions in favour of a rehabilitation trust. The funds can only be applied to relevant rehabilitation expenditure.

The fair value of these financial instruments has been estimated by the financial institutions using a variety of valuation techniques. These financial instruments are classified as a level 2 in the fair value hierarchy as their fair values have been estimated using inputs other than quoted prices that are observable for the assets, either directly or indirectly.

### 20. PROPERTY, PLANT & EQUIPMENT

Consolidated 2011	Cost ZAR'000	Accumulated depreciation ZAR'000	Net book value ZAR'000
Mineral rights and reserves (a)	157,287	(6,606)	150,681
Land and buildings	50,521	(3,270)	47,251
Decommissioning asset	22,549	(1,440)	21,109
Plant & equipment	1,566,171	(204,866)	1,361,305
Leased plant & equipment	91,447	(13,659)	77,788
Mine development	339,111	(28,622)	310,489
Computer equipment	11,937	(8,019)	3,918
Furniture & fittings	4,889	(3,387)	1,502
Capital work in progress (b)	90,210	-	90,210
Vehicles	10,235	(5,835)	4,400
Leased vehicles	7,555	(5,604)	1,951
<b>Total</b>	<b>2,351,912</b>	<b>(281,308)</b>	<b>2,070,604</b>

Consolidated 2011	Carrying value at beginning of year ZAR'000	Disposals ZAR'000	Adjustments (c) ZAR'000	Additions ZAR'000	Depreciation ZAR'000	Carrying value at end of year ZAR'000
Mineral rights and reserves (a)	151,824	-	-	-	(1,143)	150,681
Land and buildings	31,478	-	16,597	-	(824)	47,251
Decommissioning asset	3,038	-	16,142	2,819	(890)	21,109
Plant & equipment	1,187,061	(17,149)	259,540	-	(68,147)	1,361,305
Leased plant & equipment	81,871	-	(1,088)	-	(2,995)	77,788
Mine development	217,634	(962)	99,676	3,075	(8,934)	310,489
Computer equipment	3,471	(10)	1,939	13	(1,495)	3,918
Furniture & fittings	1,724	-	107	-	(329)	1,502
Exploration costs	15,785	-	(15,785)	-	-	-
Capital work in progress (b)	259,443	-	(378,303)	209,070	-	90,210
Vehicles	5,170	-	967	-	(1,737)	4,400
Leased vehicles	3,529	-	208	-	(1,786)	1,951
<b>Total</b>	<b>1,962,028</b>	<b>(18,121)</b>	<b>-</b>	<b>214,977</b>	<b>(88,280)</b>	<b>2,070,604</b>

INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

NOTES TO THE FINANCIAL REPORT (CONTINUED)

20. PROPERTY, PLANT & EQUIPMENT (continued)

<b>Consolidated 2010</b>	<b>Cost ZAR'000</b>	<b>Accumulated depreciation ZAR'000</b>	<b>Net book value ZAR'000</b>
Mineral rights and reserves (a)	157,287	(5,463)	151,824
Land and buildings	34,263	(2,785)	31,478
Decommissioning asset	3,249	(211)	3,038
Plant & equipment	1,334,775	(147,714)	1,187,061
Leased plant & equipment	92,535	(10,664)	81,871
Mine development	237,460	(19,826)	217,634
Computer equipment	8,351	(4,880)	3,471
Leased computer equipment	1,651	(1,651)	-
Furniture & fittings	4,782	(3,058)	1,724
Exploration costs	15,785	-	15,785
Capital work in progress (b)	259,443	-	259,443
Vehicles	9,383	(4,213)	5,170
Leased vehicles	7,347	(3,818)	3,529
<b>Total</b>	<b>2,166,311</b>	<b>(204,283)</b>	<b>1,962,028</b>

<b>Consolidated 2010</b>	<b>Carrying value at beginning of year ZAR'000</b>	<b>Disposals ZAR'000</b>	<b>Adjustments (c) ZAR'000</b>	<b>Additions ZAR'000</b>	<b>Depreciation ZAR'000</b>	<b>Carrying value at end of year ZAR'000</b>
Mineral rights and reserves (a)	149,121	-	-	-	2,703	151,824
Land and buildings	31,530	-	749	-	(801)	31,478
Decommissioning asset	1,620	-	1,524	-	(106)	3,038
Plant & equipment	1,196,598	-	41,602	-	(51,139)	1,187,061
Leased plant & equipment	83,000	-	-	3,980	(5,109)	81,871
Mine development	150,205	-	74,254	-	(6,825)	217,634
Computer equipment	4,159	-	1,155	-	(1,843)	3,471
Leased computer equipment	652	-	-	-	(652)	-
Furniture & fittings	1,528	-	1,004	-	(808)	1,724
Exploration costs	15,802	-	(17)	-	-	15,785
Capital work in progress (b)	152,403	-	(121,007)	228,047	-	259,443
Vehicles	6,097	-	736	-	(1,663)	5,170
Leased vehicles	5,436	-	-	-	(1,907)	3,529
<b>Total</b>	<b>1,798,151</b>	<b>-</b>	<b>-</b>	<b>232,027</b>	<b>(68,150)</b>	<b>1,962,028</b>

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### 20. PROPERTY, PLANT & EQUIPMENT (continued)

- (a) Mineral rights and reserves of ZAR61million relating to the Sky Chrome deposit is held in Purity Metals Holdings Limited (“Purity”), a wholly owned subsidiary of the Group. IFM acquired the shares in Purity for US\$9 million on 16 December 2005. For accounting purposes Purity is treated as a subsidiary of the Company. Purity owns 80% of the Sky Chrome project, a ferrochrome resource located adjacent to the Buffelsfontein plant. The purchase price has been allocated to the value of the Sky Chrome Mineral Resource. There has been no impact on the income statement subsequent to acquisition.

On 23 November 2010, Sky Chrome’s new order mining license was approved by the Department of Minerals and Resources (“DMR”). Open pit mining operations commenced at Sky Chrome during June 2011.

- (b) Capital work in progress relates to capital costs incurred for the expansion of the Group’s associated infrastructure.
- (c) The adjustment to plant & equipment relate to reallocation of capital work in progress to the various assets.

Property, mineral rights and plant and equipment of IFMSA have been pledged as security for the working capital facility provided by Bank of China. (Refer to note 25 for further details).

#### 21. INTANGIBLE ASSETS

	Licence fees <sup>a</sup> ZAR’000	Consolidated 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>30 June 2011</b>			
At 1 July 2010 net of accumulated amortisation	9,701	-	9,701
Additions	-	115,110	115,110
Amortisation	(361)	-	(361)
At 30 June 2011 net of accumulated amortisation	9,340	115,110	124,450
Cost (gross carrying amount)	10,837	115,110	125,947
Accumulated amortisation	(1,497)	-	(1,497)
Net carrying amount	9,340	115,110	124,450

- (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.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 22. OTHER NON-CURRENT ASSETS

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Restricted cash (a)	8,109	44,306
Deposits	3,322	1,159
	<b>11,431</b>	<b>45,465</b>

(a) Restricted cash represents cash set aside for bank guarantees provided by Standard Bank to the Department of Minerals and Resources for environmental rehabilitation.

### 23. TRADE AND OTHER PAYABLES

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Sundry creditors and accruals	15,050	68,200
Trade creditors	122,839	196,505
Short term portion of finance lease liability (a)	3,682	8,349
Other creditors and accruals (b)	26,329	299
	<b>167,900</b>	<b>273,353</b>

(a) Refer to note 35.

(b) Other creditors and accruals represent advance debtor payments.

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

### 24. PROVISIONS

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
<i>Current provisions</i>		
Employee entitlements (a)	47,109	19,748
Share based payment liability (b)	5,255	6,338
Taxation	155	(642)
	<b>52,519</b>	<b>25,444</b>
<i>Employee entitlements</i>		
Opening balance	19,748	9,608
Provision recognised during the year	39,789	13,577
Provision utilised during the year	(12,428)	(3,437)
<b>Closing balance</b>	<b>47,109</b>	<b>19,748</b>
<i>Phantom options</i>		
Opening balance	6,338	3,154
Cash settled share based payment expense	(82)	5,774
Effect of foreign exchange	(182)	(340)
Phantom options exercised and paid during the year	(819)	(2,250)
<b>Closing balance</b>	<b>5,255</b>	<b>6,338</b>
<i>Income tax</i>		
Opening balance	(642)	(351)
Provision recognised during the year	571	515
Income tax paid during the year	226	(806)
<b>Closing balance</b>	<b>155</b>	<b>(642)</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 24. PROVISIONS (continued)

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
<i>Non-current provisions</i>		
Decommissioning and restoration (b)	31,559	19,692
Share based payment liability (c)	97	1,862
	<b>31,656</b>	<b>21,554</b>
<i>Decommissioning and restoration</i>		
Opening balance	19,692	10,741
Additional provision recognised during the year:		
-Recorded in property, plant and equipment	18,974	1,524
-Unwinding of discount	1,477	1,007
-Adjustment in provision assumptions	(8,584)	6,420
<b>Closing balance</b>	<b>31,559</b>	<b>19,692</b>
<i>Phantom options</i>		
Opening balance	1,862	2,566
Cash settled share based payment expense	(1,762)	123
Reallocation from payables	-	(728)
Effect of foreign exchange	(3)	(99)
<b>Closing balance</b>	<b>97</b>	<b>1,862</b>

- (a) The provision for employee entitlements represents accrued annual leave liabilities, retention bonus and other employee provisions. It is expected that these costs will be paid in the next financial year.
- (b) The provision for decommissioning and restoration represents management's estimate of the restoration and exit costs associated with the integrated mining and ferrochrome smelting facility at Buffelsfontein and Sky Chrome. It is expected that these costs will be incurred at the end of the operations/mine life. Due to the long-term nature of the liability the greatest uncertainty in estimating the provision is the costs that will be ultimately incurred. The provision has been calculated using a pre-tax discount rate of 7.5%.
- (c) The Phantom Share Option scheme options are treated as "cash settled" share based payments in accordance with the accounting policy described in note 2(q).

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 25. INTEREST BEARING LOANS AND BORROWINGS

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
<i>Current interest bearing loans and borrowings</i>		
Bank debt (a)	315,000	-
Debt Establishment costs and accrued interest (a)	(2,667)	-
Other loans (c)	6,698	-
	<b>319,031</b>	<b>-</b>
<i>Non-current interest bearing loans and borrowings</i>		
Bank debt (a)	-	350,000
Debt Establishment costs and accrued interest (a)	-	(3,596)
Long term portion of finance lease liability (b)	57,678	58,374
Other loans (c)	-	4,929
	<b>57,678</b>	<b>409,707</b>

(a) Working capital facility

On 29 June 2009 the company entered into a working capital facility agreement with the Bank of China for an amount of R500 million. The initial drawdown currency split will be 60% in USD and 40% in ZAR. The facility interest is charged at USD:LIBOR plus 1.5% on the USD portion of the loan while the ZAR portion of the loan is charged at the JIBAR rate plus 1.9%. The term of the facility is 36 months and will expire on 25 June 2012. 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.

The above Bank of China ("BOC") working capital facility will expire on 25 June 2012 and hence the amount due under this facility has been classified as current liability. The company maintains regular dialogue with BOC and the Board of Directors is confident that this facility will be renewed in the current financial year.

(b) Finance leases

The weighted average effective interest rate on finance leases is 12.02%.

(c) Other loans

The loan constitutes the 20% tribal participation of funding provided to Sky Chrome by IFM. The loan is interest free and payable before earning distributions are made.

Undrawn loan facilities at 30 June 2011, excluding debtors discounting facilities, amounted to ZAR185 million (2010: ZAR150 million).

Fair value

The carrying values of each class of interest bearing loans and borrowings approximates their fair value.

### 26. CONTRIBUTED EQUITY

	Consolidated	
	2011	2010
	ZAR'000	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)
<b>Closing balance</b>	<b>3,088,240</b>	<b>3,088,240</b>
	<b>Shares</b>	<b>Shares</b>
Opening balance	554,008,047	503,643,680
Issue of Ordinary Shares	-	50,364,367
<b>Closing balance</b>	<b>554,008,047</b>	<b>554,008,047</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 26. CONTRIBUTED EQUITY (continued)

30 June 2011 – No Ordinary Shares were issued during the year.

The details of Ordinary Shares issued during the year ended 30 June 2010 are as follows:

Period	Description of share issue	Number of shares issued	Share price	Proceeds (local currency)	Proceeds (ZAR'000)
30 June 2010	Placement of shares	50,364,367	£0.44	£22,160,321	286,755

- (a) On 3 August 2009 IFM announced that it had raised £22.2 million (ZAR286 million) (before expenses) through the placing by Numis Securities Limited of 50,364,367 new ordinary shares with certain existing shareholders including Jiuquan Iron & Steel Group Company Limited and new institutional investors at 44 pence per share. The proceeds were used principally to fund the investment in the Clean Development Mechanism compliant electricity co-generation plant.

#### *Ordinary Shares*

Ordinary Shares have the right to receive dividends as declared and, in the event of the winding up of the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary Shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

#### *Options*

No Options over ordinary shares were granted and exercised during the years ended 30 June 2011 and 30 June 2010.

JISCO has certain non-dilution rights under the Subscription Agreement, which apply if an Option is exercised, to require JISCO to be offered and issued Ordinary Shares at the same exercise price at which such Options are exercised to enable JISCO to maintain its guaranteed holding of 26.1% of the issued Ordinary Shares of the Company. These non-dilution rights are accounted for as a derivative liability. Since JISCO's shareholding is above 26.1%, under the Subscription Agreement, IFM is not obliged to offer JISCO shares in terms of the anti-dilution clause, unless the issue would dilute JISCO's ownership below 26.1%.

#### **Capital Management**

When managing capital, management's objective is to ensure the Group continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the Group.

Capital is defined as total shareholders' equity which represented ZAR2.4 billion at 30 June 2011 (2010: ZAR2.5 billion).

The Board of Directors and Management regularly review the company's capital structure using a detailed cash flow model. They assess the adequacy of the capital structure against the major variables impacting the Group's profitability.

As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders or issue new shares to reduce debt. Should a strategic acquisition be assessed, management may issue further shares on the market.

The company has complied with all externally imposed capital requirements.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 27. SHARE BASED PAYMENT RESERVE

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Opening balance	8,272	8,272
Share based payment expense	-	-
<b>Closing balance at the end of the year</b>	<b>8,272</b>	<b>8,272</b>

### 28. ACCUMULATED LOSSES

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Opening balance at the start of the year	(573,905)	(489,313)
After tax (loss)/profit attributable to the equity holders of the parent during the year	(133,714)	(84,592)
<b>Closing balance at the end of the year</b>	<b>(707,619)</b>	<b>(573,905)</b>

### 29. NON-DISTRIBUTABLE RESERVE

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Opening balance	(6,044)	(6,044)
Acquisition of non-controlling interest	-	-
<b>Closing balance of the end of the year</b>	<b>(6,044)</b>	<b>(6,044)</b>

The non-distributable reserve relates to the transaction that took place to reduce the non-controlling interest shareholding.

### 30. NON-CONTROLLING INTEREST

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
Opening balance at the start of the year	603	1,817
(Loss) attributable to the non-controlling interest during the year	(1,237)	(1,214)
<b>Closing balance at the end of the year</b>	<b>(634)</b>	<b>603</b>

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 31. SHARE BASED PAYMENTS

#### Cash Settled Options

The fair value of the outstanding phantom options is estimated as at the financial reporting date using a Binomial model taking into account the terms and conditions upon which the options were granted.

	2011	2010
Expected volatility (a) (%)	72.88%	75.86%
Risk-free interest rate range (%)	0.58%-2.90%	0.52%- 2.21%
Option exercise price (GBP)	£0.16 - £ 0.57	£0.16 - £ 0.57
Expected dividend yield range	0% - 18.5%	0% - 14.8%
Option cap	£1.00	£1.00
Exercise multiple	4	4

- (a) The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. Share price volatility is re-assessed at each reporting period based on historical share prices. The current volatility is based on actual volatility since the listing of the company in September 2005.

#### Phantom Share Option Plan

During the year 634,416 options were exercised, 645,000 options were issued with various exercise prices and 486,000 options were cancelled due to resignations. At 30 June 2011 the total number of options outstanding was 10,450,125 with an amortised liability value of ZAR5.4 million.

The estimated fair value of each phantom option tranche at reporting date is:

Exercise price	No of options	Fair value at reporting date Tranche 1	Fair value at reporting date Tranche 2	Fair value at reporting date Tranche 3
£0.1600	8,177,125	£0.06	£0.06	£0.06
£0.1800	32,000	£0.05	£0.05	£0.05
£0.2200	287,000	£0.04	£0.04	£0.04
£0.2900	315,000	£0.04	£0.03	£0.03
£0.3100	416,000	£0.03	£0.03	£0.03
£0.3400	726,000	£0.03	£0.03	£0.03
£0.4000	354,000	£0.02	£0.02	£0.02
£0.4122	72,000	£0.02	£0.02	£0.02
£0.5700	71,000	£0.01	£0.01	£0.01
	<u>10,450,125</u>			

The total numbers of phantom options issued during the relevant periods are as follows:

Phantom options	30 June 2011		30 June 2010	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Opening balance at beginning of year	10,925,541	£0.18	9,929,568	£0.15
Granted during the period	645,000	£0.26	2,056,000	£0.35
Forfeited/cancelled during the year	(486,000)	£0.32	(163,000)	£0.16
Exercised during the period	(634,416)	£0.28	(897,027)	£0.38
<b>Closing balance at end of year</b>	<b>10,450,125</b>	<b>£0.17</b>	<b>10,925,541</b>	<b>£0.18</b>

The weighted average share price for the year ended 30 June 2011 is £0.25.

The weighted average remaining contractual life of the above outstanding options is 2.82 years.

No equity share options were issued during the years ended 30 June 2011 and 30 June 2010.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 32. PARENT ENTITY INFORMATION

Information relating to International Ferro Metals Limited:	2011 ZAR'000	2010 ZAR'000
Current assets	69,196	242,814
Total assets	2,388,462	2,525,640
Current liabilities	3,506	4,048
Total liabilities	6,247	8,474
Issued capital	3,088,240	3,088,240
Accumulated losses	(714,297)	(579,346)
Share based payment reserve	8,272	8,272
<b>Total shareholders' equity</b>	<b>2,382,215</b>	<b>2,517,166</b>
Loss of the parent entity	(134,951)	(85,806)
Total comprehensive income of the parent entity	(134,951)	(85,806)
Details of any guarantees entered into by the parent entity in relation to the debts of its subsidiaries (a)	500,000	500,000
Details of other financial assets (b)	2,310,444	2,273,692

- (a) On 29 June 2009 the company entered into a working capital facility agreement with the Bank of China for an amount of ZAR500 million of which ZAR315 million was drawn down as at 30 June 2011. The facility interest is charged at USD:LIBOR plus 1.5% on the USD portion of the loan while the ZAR portion of the loan is charged at the JIBAR rate plus 1.9%. The 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.
- (b) The following table represents details of other financial assets:

Information relating to International Ferro Metals Limited:	2011 ZAR'000	2010 ZAR'000
Investment in subsidiaries at cost	2,203,601	1,967,601
Provision for diminution (c)	(588,814)	(389,566)
Net investment in subsidiaries	1,614,787	1,578,035
Receivable from Jefferson Investments Limited (d)	695,657	695,657
	<b>2,310,444</b>	<b>2,273,692</b>

- (c) This provision has arisen as a result of losses incurred by subsidiary companies during the current financial year.
- (d) IFML purchased a preference share from Jefferson Capital, a member of a UK financial institution, for ZAR695 million. Simultaneously, IFMSA issued a debenture to Morgan Stanley for ZAR695 million. The debenture was secured against the preference shares. On 25 September 2008, the Board resolved to restructure IFMSA financing arrangements to extinguish IFML's exposure to Morgan Stanley counterparty risk as disclosed in the Annual Financial Statement for the year ended 30 June 2009. The coupon on both the preference shares and the debenture is 12.5% compounded semi-annually in arrears. The debenture term ends on 25 January 2016. The Group is entitled to set off the preference share and the debenture, as such, these items have been set off in the consolidated balance sheet.
- (e) The parent entity has no contingent liabilities, nor does it have any contractual commitments for the acquisition of property, plant or equipment.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES

The Group's overall financial risk management strategy is to seek to ensure that the Group is able to fund its business operations and expansion plans.

Exposure to foreign currency risk, interest rate risk, commodity price risk, credit risk, liquidity risk and share price risk arises in the normal course of the Group's business. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign exchange rates, interest rates, and commodity prices. During the period under review the Group entered into certain forward exchange contracts ("FEC") in order to hedge against fluctuating exchange rates.

The following table displays the financial instruments held at the end of the year:

#### Financial Assets and Liabilities by categories

At 30 June 2011	Loans and receivables	Held to maturity investments	At fair value through profit & loss	Financial liabilities measured at amortised cost	Other financial assets and liabilities	Total
Consolidated	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR '000	ZAR'000
<b><u>Recognised Financial Assets</u></b>						
Cash & Cash equivalents (note 15)	-	25,672	-	-	41,810	67,482
Trade and other receivables (note 16)	108,813	-	-	-	-	108,813
Deposits (note 22)	3,322	-	-	-	-	3,322
Restricted cash (note 22)	-	8,109	-	-	-	8,109
Other financial investments (note 19)	-	-	32,751	-	-	32,751
<b>Total recognised financial assets</b>	<b>112,135</b>	<b>33,781</b>	<b>32,751</b>	<b>-</b>	<b>41,810</b>	<b>220,477</b>
<b><u>Recognised Financial Liabilities</u></b>						
Trade and other payables (note 23)	-	-	-	(167,900)	-	(167,900)
Interest bearing liabilities (note 25)	-	-	-	(376,709)	-	(376,709)
Total recognised financial liabilities	-	-	-	<b>(544,609)</b>	-	<b>(544,609)</b>
<b><u>Unrecognised Financial Liabilities</u></b>						
Un-drawn loan facilities (note 25)	-	-	-	(185,000)	-	(185,000)
<b>Total unrecognised financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(185,000)</b>	<b>-</b>	<b>(185,000)</b>

<sup>1</sup> These financial assets consist of investment portfolios which are managed by various financial institutions. The fair value of these financial instruments have been estimated by the financial institutions using a variety of valuation techniques. These financial instruments are classified as a level 2 in the fair value hierarchy as their fair values have been estimated using inputs other than quoted prices that are observable for the assets, either directly or indirectly.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

##### Financial Assets and Liabilities by categories

At 30 June 2010	Loans and receivables	Held to maturity investments	At fair value through profit & loss	Financial liabilities measured at amortised cost	Other financial assets and liabilities	Total
Consolidated	ZAR'000	ZAR'000	ZAR'000	ZAR'000	ZAR '000	ZAR'000
<b><u>Recognised Financial Assets</u></b>						
Cash & Cash equivalents (note 15)	-	258,200	-	-	138,726	396,926
Trade and other receivables (note 16)	230,031	-	-	-	-	230,031
Deposits (note 22)	1,159	-	-	-	-	1,159
Restricted cash (note 22)	-	44,306	-	-	-	44,306
Other financial investments (note 19)	-	-	113,946	-	-	113,946
<b>Total recognised financial assets</b>	<b>231,190</b>	<b>302,506</b>	<b>113,946</b>	<b>-</b>	<b>138,726</b>	<b>686,368</b>
<b><u>Recognised Financial Liabilities</u></b>						
Trade and other payables (note 23)	-	-	-	(273,353)	-	(273,353)
Interest bearing liabilities (note 25)	-	-	-	(409,707)	-	(409,707)
<b>Total recognised financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(683,060)</b>	<b>-</b>	<b>(683,060)</b>
<b><u>Unrecognised Financial Liabilities</u></b>						
Un-drawn loan facilities (note 25)	-	-	-	(150,000)	-	(150,000)
<b>Total unrecognised financial liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(150,000)</b>	<b>-</b>	<b>(150,000)</b>

<sup>1</sup> These financial assets consist of investment portfolios which are managed by various financial institutions. The fair value of these financial instruments have been estimated by the financial institutions using a variety of valuation techniques. These financial instruments are classified as a level 2 in the fair value hierarchy as their fair values have been estimated using inputs other than quoted prices that are observable for the assets, either directly or indirectly.

For all feasibility assessments including expansion planning, raising of debt funding, evaluation of acquisition opportunities and corporate strategy, the Group uses various methods to measure the types of risk to which it is exposed. These methods include cash flow forecasting, sensitivity and breakeven analysis. The Group performs an ageing analysis for credit risk.

Treasury risk management is carried out by a central treasury function under policies approved by the Board of Directors. The Board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk and credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

#### (i) Foreign currency risk

Foreign exchange risk arises from commercial transactions and recognised assets and liabilities that are denominated in currencies other than the functional currency of each entity in the Group, which is South African Rand (ZAR). In order to hedge this foreign currency risk, the Group may enter into forward foreign exchange ("FEC"), foreign currency swaps and foreign currency option contracts. During the year the group entered into FEC contracts in order to hedge against the fluctuations of the ZAR against the USD. The details of the FEC's are as follows:

FEC Value – USD	FEC RATE	Profit on FEC
US\$77,555,064	ZAR/USD7.08	ZAR6,713,670

The above forward exchange contracts were used to manage transactional exposure and was not classified as cash flow, fair value or net investment hedges and are entered into for periods consistent with the currency transaction exposure. These derivatives do not qualify for hedge accounting and therefore profits and or losses resulting from the transactions were accounted for in the income statement. These instruments were fully settled at year end.

The following table represent the financial assets and liabilities denominated in foreign currencies:

Consolidated	Foreign currency amount		Amount in ZAR		Rate of exchange	
	2011	2010	2011	2010	2011	2010
	'000	'000	ZAR'000	ZAR'000		
<b>Financial Assets</b>						
<b>Cash and cash equivalents</b>						
- US Dollar	1,384	9,298	9,384	70,758	ZAR/US\$6.78	ZAR/US\$7.61
- Euro	851	9,986	8,374	92,870	ZAR/€9.84	ZAR/€9.30
- UK pound sterling	26	3,713	284	42,514	ZAR/£10.93	ZAR/£11.45
- AU Dollar	647	2,809	4,710	18,399	ZAR/A\$7.28	ZAR/A\$6.55
<b>Trade and other receivables</b>						
- US Dollar	5,950	26,779	40,341	203,788	ZAR/US\$6.78	ZAR/US\$7.61
- AU Dollar	12	15	87	99	ZAR/A\$7.28	ZAR/A\$6.55
<b>Financial Liabilities</b>						
<b>Trade and other payables</b>						
- Euro	-	8	-	74	ZAR/€9.84	ZAR/€9.30
- UK pound sterling	12	40	131	458	ZAR/£10.93	ZAR/£11.45
- AU Dollar	170	194	1,238	1,271	ZAR/A\$7.28	ZAR/A\$6.55

The Group had no foreign currency borrowings at year end (2010: nil).

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

#### (i) Foreign currency risk

The following table demonstrates the estimated sensitivity to a 10% increase and decrease in the different exchange rates the Group is exposed to, with all other variables held constant, on a pre-tax basis. Equity is not affected by changes in foreign currency exchange rates.

<b>Consolidated</b>	<b>2011</b>	<b>2010</b>
<b>Pre-Tax Profit Higher/(lower)</b>	<b>ZAR'000</b>	<b>ZAR'000</b>
<b>Consolidated</b>		
ZAR/USD +10%	4,972	27,455
ZAR/USD - 10%	(4,972)	(27,455)
ZAR/EUR +10%	837	9,280
ZAR/EUR - 10%	(837)	(9,280)
ZAR/GBP + 10%	15	4,206
ZAR/GBP - 10%	(15)	(4,206)
ZAR/AUD + 10%	356	1,723
ZAR/AUD - 10%	(356)	(1,723)

#### (ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rate. The Group is exposed to interest rate movement through variable rate debt and interest bearing investment of surplus funds. Other than for finance leases, the Group has undrawn borrowing facilities of ZAR185 million at year end (2010: ZAR 150 million).

The following table sets out the variable interest bearing and fixed interest bearing financial instruments of the Group:

<b>Consolidated</b>	<b>30 June 2011</b>		<b>30 June 2010</b>	
	<b>Variable Interest</b>	<b>Fixed Interest</b>	<b>Variable Interest</b>	<b>Fixed Interest</b>
	<b>ZAR'000</b>	<b>ZAR'000</b>	<b>ZAR'000</b>	<b>ZAR'000</b>
<b>Financial Assets</b>				
Cash equivalents	67,482	-	396,926	-
Restricted cash	3,322	8,109	1,159	44,306
<b>Financial Liabilities</b>				
Interest bearing liabilities (note 23 & 25)	(312,333)	(57,678)	(404,778)	(58,496)
<b>Total</b>	<b>(241,529)</b>	<b>(49,569)</b>	<b>(6,693)</b>	<b>(14,190)</b>

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

## 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

## (ii) Interest rate risk (continued)

Consolidated	Pre-tax loss	
	Higher/(Lower)	
	2011	2010
	ZAR'000	ZAR'000
Interest rates +1%	2,415	67
Interest rates -1%	(2,415)	(67)

On 29 June 2009, the Company entered into a working capital facility with Bank of China for an amount of ZAR500 million. Since draw down of the funds commenced, the Group has maintained an interest rate structure which reduces the impact of rapidly increasing interest rates on projects. This has been done by alternating between one and three months JIBAR roll forward. This decision is reviewed at each treasury committee meeting.

## (iii) Commodity price risk exposure

The Group is exposed to the risk of fluctuations in prevailing market commodity prices of ferrochrome and coke. The price of ferrochrome has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Group's control including international, economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates, global or regional consumptive patterns, speculative activities and increased production due to new extraction developments and improved extraction and production methods. The effect of these factors on the price of ferrochrome, and therefore the financial performance of the Group cannot accurately be predicted. However, the Group may enter into ferrochrome option contracts to manage its commodity price risk. To date these contracts have not been easily accessible and the Group has not entered into any of these agreements. The final trade receivables balance, where applicable, is adjusted to take into account any movements in the ferrochrome price.

## (iv) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents (note 15), trade and other receivables (note 16) and financial instruments held by third parties (note 19). The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group trades only with recognised, creditworthy third parties and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. Due to the global demise in large reputable companies the group has made use of bank issued Letters of Credit and has discounted certain of its debtors. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. A provision for doubtful debts is made when there is objective evidence that the company will not be able to collect the debts. Doubtful debts are written off to the income statement. To date the Group has not been required to write off any significant debts.

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

##### (iv) Credit risk (continued)

###### Trade Receivables

IFMSA has an off-take agreement with JISCO, the largest steel maker in Northwest China. Under the terms of the agreement entered into in June 2005, JISCO agreed to purchase at least 120,000 tpa of ferrochrome on a take-or-pay basis at a market related price dependant on IFM's sales to Europe. JISCO also agreed to act as agent for IFMSA to market ferrochrome in China, Taiwan, Japan and Korea.

In addition, IFMSA has a further off-take agreement with CMC Cometals, a division of Commercial Metals Company ("CMC") to purchase 30,000 tpa of ferrochrome, as well as 20,000 tpa of ferrochrome fines, on a take-or-pay basis at a market related price. In addition, CMC acts as an exclusive agent selling the remainder of the Group's ferrochrome production outside JISCO's territories as identified above.

As a result of the off-take agreements most of the Group's Trade Receivables relate to sales made to JISCO and Co-Metals, presenting a counterparty concentration of risk. JISCO is a Chinese state owned company and CMC is a New York Stock Exchange listed metals trader with a market capitalisation of US\$1.36 billion. IFMSA has the option of receiving a provisional payment from its offtake partners of up to 90% of the value of each shipment within 15 working days of any shipment. This provisional payment accrues interest by IFMSA. The balance due, which is payable up to six months later, is jointly determined by the offtake partners and IFMSA, based on actual prices, costs and factors that affect the landed price of each shipment. The Group does not hold any credit derivatives to offset its credit exposure, other than Letters of Credit. No impairment was recognised as IFM considers the offtake partners to be in a sound financial position. There are no receivables past due and considered impaired.

###### Cash and Investments

The credit risk policy aims to ensure that the organisation is adequately protected against settlement risk for cash, investments and derivatives by transacting with reputable financial institutions with a minimum Fitch Ratings International long term credit rating of A (or equivalent S&P or Moody's rating) and where applicable, within stated limits. It is noted that the group is not envisaged to hold large cash balances for extended periods of time. At the balance sheet date, cash deposits were spread amongst a number of financial institutions to minimise the risk of default by counterparties.

###### Other receivables

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

The following table sets out the financial assets that are exposed to credit risk:

	Consolidated	
	2011	2010
	ZAR'000	ZAR'000
<b>Financial Assets</b>		
Cash & Cash equivalents	67,482	396,926
Receivables	108,813	230,031
Restricted cash and investments	40,860	59,411
<b>Total</b>	<b>217,155</b>	<b>686,368</b>

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### NOTES TO THE FINANCIAL REPORT (CONTINUED)

#### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

##### (iv) Credit risk (continued)

Set out below is an ageing analysis on the Group's Trade Receivables:

	Total ZAR'000	0-30 days ZAR'000	31-60 days ZAR'000	61-90 days ZAR'000	91-120 days ZAR'000	120-150 days ZAR'000
<b>2011</b>						
Consolidated	56,074	15,009	10,333	3,885	8,794	18,053
<b>2010</b>						
Consolidated	203,874	168,393	5,797	3,953	21,131	4,600

\* Past due not impaired ('PDNI')

None of the consolidated or parent trade and other receivables are considered past due or impaired.

Credit terms for customers and agents are 30 days from the date of the final invoice. The final invoice is issued once the product is received (average time between product being delivered FOB and to time received by customer is between 3-4 months) and final specification agreed by the customer. Debtors sales are recognised, in accordance with AASB 118 "Revenue", when risks and rewards transfer. The long shipment lead time between BOL date and final invoice date may move certain debtors into the PDNI category. Sales are recognised on "Free On Board" or "at-port".

##### (v) Liquidity Risk

Liquidity risk is the risk that there will be inadequate funds available to meet financial commitments as they fall due. The Group recognises the ongoing requirement to have committed funds in place to cover both existing business cash flows and reasonable headroom for cyclical debt fluctuations, and capital expenditure programmes. The key funding objective is to ensure the availability of flexible and competitively priced funding from alternative sources to meet the Group's current and future requirements. The Group utilises a detailed cash flow model to manage its liquidity risk.

The Group attempts to accurately project the sources and uses of funds, whereby a framework for decision making is established which increases the effectiveness and efficiency with which the treasury function operates.

The Group's approach is to develop long term relationships with a core group of quality banks. The benefit of this approach is to establish a high degree of confidence and commitment between the parties so that banks are prepared to meet funding requirements at crucial times and at short notice.

The table below summarises the maturity profile of the Company's contractual cash flow financial liabilities at 30 June 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 33. FINANCIAL RISK MANAGEMENT AND OBJECTIVES (continued)

#### (v) Liquidity Risk (continued)

Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 30 June 2011	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000
Trade and other payables	-	164,218	-	-	-	164,218
Finance Leases	-	1,091	2,591	6,102	51,576	61,360
Loans	6,699	1,916	315,000	-	-	323,615
<b>Total liabilities</b>	<b>6,699</b>	<b>167,225</b>	<b>317,591</b>	<b>6,102</b>	<b>51,576</b>	<b>549,193</b>

Consolidated Liabilities	On demand	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
As at 30 June 2010	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000	ZAR '000
Trade and other payables	-	265,004	-	-	-	265,004
Finance Leases	-	2,087	6,262	5,454	52,920	66,723
Loans	-	1,321	-	350,000	4,929	356,250
<b>Total liabilities</b>	<b>-</b>	<b>268,412</b>	<b>6,262</b>	<b>355,454</b>	<b>57,849</b>	<b>687,977</b>

(a) Future interest charges are not included in the above table. Refer to note 25 and note 35 for further details.

### 34. POST BALANCE SHEET EVENTS

The following events occurred after the year ended 30 June 2011:

- Subsequent to 30 June 2011, the Company has increased its draw down of the Bank of China working capital facility to ZAR400 million.
- Installation of both furnace roofs have been completed successfully, and the Company switched in the furnaces successfully on 30 July 2011 and 2 September 2011 respectively. The first furnace is operating at full load and the second furnace is expected to ramp up to full load by mid-October. The roof upgrade has been completed on time and within budget.
- First delivery of ore has been received at the IFM plant from the new mining operations at Sky Chrome.
- Mr Kovarsky resigned as CEO on 31 July 2011 and Mr Jordaan was appointed as CEO with immediate effect.

No other material matters or circumstances have arisen since 30 June 2011 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.

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

## 35. COMMITMENTS AND CONTINGENCIES

**Capital commitments**

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Contracted for	82,342	89,593
Authorised but not contracted for	137,682	44,332
	<b>220,024</b>	<b>133,925</b>

- Contractual obligations relate mainly to the furnace roof rectification and upgrade programme of ZAR67 million and ad-hoc capital expenditure of ZAR15 million.
- Other large non-capital projects include the UG2 pre-payments of ZAR46 million.

**Finance lease commitments**

The minimum lease payments under finance lease arrangements are set out in the following table:

	Consolidated	
	2011 ZAR'000	2010 ZAR'000
Within 1 year	10,493	15,567
Between 1 and 5 years	37,737	37,910
Greater than 5 years	107,424	114,829
Total future lease payments	155,654	168,306
Less: future finance charges	(94,294)	(101,583)
<b>Lease liability</b>	<b>61,360</b>	<b>66,723</b>
Represented by:		
Current lease liability	3,682	8,349
Non-current lease liability	57,678	58,374
<b>Lease liability</b>	<b>61,360</b>	<b>66,723</b>

The present values of lease payments under finance lease arrangements are set out in the following table:

Within 1 year	3,682	8,349
Between 1 and 5 years	6,102	5,454
Greater than 5 years	51,576	52,920
<b>Lease liability</b>	<b>61,360</b>	<b>66,723</b>

**Contingent liabilities**

There were no contingent liabilities outstanding at 30 June 2011.

# INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

## NOTES TO THE FINANCIAL REPORT (CONTINUED)

### 36. RELATED PARTY TRANSACTIONS

#### Loans to Directors and Director-related entities

No loans have been granted to Directors and/or Director-related entities.

Refer to audited Remuneration Report for details of remuneration and arrangements with Key Management Personnel.

The Parent company is due management fees of ZAR6.8 million from its subsidiary company International Ferro Metals SA (Pty) Limited. Related party transactions exist between the companies within the Group.

Jiuquan Iron and Steel Group Company (JISCO) own 29.10% (2010: 29.10%) of the Parent company's shares. Sales made to JISCO totalled 80,628 tonnes and were made in terms of the off-take agreement which was entered into at arm's length. The value of sales made to JISCO during the year amounted to ZAR623 million.

### 37. INTEREST IN SUBSIDIARIES

The Company has the following direct/indirect material interests in subsidiaries:

Name	Country of incorporation	Ownership interest 2011	Ownership interest 2010	Investment
International Ferro Metals SA (Pty) Limited	South Africa	99.375%	99.375%	ZAR338 million
Purity Metals Holdings Limited	British Virgin Islands	100%	100%	USD9 million
Sky Chrome Mining (Pty) Limited	South Africa	80%	80%	ZAR800
International Ferro Metals SA Holdings (Pty) Limited	South Africa	100%	100%	ZAR1.2 billion

### 38. AUDITORS REMUNERATION

	Consolidated	
	2011	2010
Amounts received or due and receivable by Ernst & Young Australia for:		
(i) an audit or review of the financial report of the entity and any other entity in the consolidated entity	1,067,090	860,319
(ii) other assurances	-	-
<b>Total received by Ernst &amp; Young Australia</b>	<b>1,067,090</b>	<b>860,319</b>
Amounts received or due and receivable by Ernst & Young South Africa for:		
(i) an audit or review of the financial report of any other entity in the consolidated entity	1,996,980	1,276,800
(ii) other assurance services	100,000	-
(iii) taxation services	53,350	49,956
<b>Total received by Ernst &amp; Young South Africa</b>	<b>2,150,330</b>	<b>1,367,756</b>
<b>Closing balance</b>	<b>3,217,420</b>	<b>2,187,075</b>

## INTERNATIONAL FERRO METALS LIMITED – ANNUAL REPORT

### DIRECTORS' DECLARATION

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

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 30 June 2011 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
- (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(b).
- (c) there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable.
- (d) this declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2011.

On behalf of the Board



Christiaan Jordaan  
Director  
Sydney  
19 September 2011

## **Independent audit report to members of International Ferro Metals Limited**

### **Report on the financial report**

We have audited the accompanying financial report of International Ferro Metals Limited, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2(b) the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, 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 report in order to design audit procedures that are appropriate in 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 the directors, as well as evaluating the overall presentation of the financial report.

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

## **Independence**

In conducting our audit 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, a copy of which is included in the directors' report.

## **Opinion**

In our opinion:

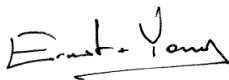
- a. the financial report of International Ferro Metals Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).

## **Report on the remuneration report**

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

## **Opinion**

In our opinion, the Remuneration Report of International Ferro Metals Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*

A stylized 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  
19 September 2011