Palabora Mining Company Limited

and its Subsidiaries

(“Group” or “Palabora” or “Company”)

Incorporated in the Republic of South Africa

Registration Number: 1956/002134/06

JSE Code: PAM ISIN: ZAE000005245

REVIEWED PROVISIONAL RESULTS

for the year ended 31 December 2013

Company Secretary: KN Mathole

Registered address: 1 Copper Road, Phalaborwa, 1389
PO Box 65, Phalaborwa, 1390

Transfer Secretaries: Computershare Investor Services Proprietary Limited
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107

Sponsor: One Capital

The preparation of the condensed consolidated provisional financial information was supervised by:

Dikeledi L Nakene (CA) SA

Chief Financial Officer

Key group financial statistics

		Reviewed For the year ended 31 December 2013	Audited For the year ended 31 December 2012
Post hedge revenue	R'm	**11 625**	8 716
Net profit / (loss) for the year	R'm	**1 032**	(97)
Basic earnings / (loss) per share	Cents	**2 136**	(201)
Earnings before interest, tax, depreciation and amortisation (EBITDA)	R'm	**1 669**	413
Adjusted EBITDA (excluding non-recurring items and growth costs)	R'm	**2 536**	1 097
Headline earnings / (loss)	R'm	**1 033**	(82)
Headline earnings / (loss) per share	Cents	**2 138**	(171)
Cash and cash equivalents	R'm	**3 342**	1 980
Exploration, development and growth costs (expense)	R'm	**845**	684

Overview

Palabora reached a number of key milestones during the year of 2013.

- The Company welcomed new investors, a consortium of Chinese and South African entities led by Hebei Iron & Steel Group Co. Limited and the Industrial Development Corporation of South Africa SOC Limited (IDC), as the Rio Tinto and Anglo American divestment process was finalised during the second half of 2013.
- The Broad Based Black Economic Empowerment (BBBEE) Transaction came to effect on 15 July 2013.
- The hedge facility expired at the end of September 2013 with the last payment made in October 2013, which brings much needed relief to the copper business as it approaches the end of life of mine for the current Lift I operations in 2015.
- The major shareholders (Consortium) of Palabora made an offer to the remaining shareholders to acquire all their Palabora ordinary shares at the JSE Limited (JSE). Palabora will delist from the JSE once all shares have been mandatorily acquired in terms of the Take-over Regulation Panel (TRP). The Consortiums' interests were

99.2% at year end. An application to delist was lodged with the JSE on 10 February 2014 and management expect to be delisted by 15 April 2014.

- On 28 November 2013 the Board of Directors approved capital expenditure to the amount of R707 million to progress the Lift II project from prefeasibility to feasibility study. The feasibility study will be conducted from 1 January 2014 and is expected to be concluded around May 2014.

Magnetite sales volumes increased 30% to 6.38Mt compared to 4.89Mt for 2012 mainly due to increased road trucking to the Maputo port and improved rail capacity to both the Maputo and Richards Bay ports. The magnetite operations continues to do well and remains critical to the business during the copper contraction phase pending on the Board's decision on Lift II to extend the life of mine. Magnetite exports through the Maputo port were negatively affected during the first quarter of 2013 by a rail bridge collapse due to a derailment in Mozambique.

There were a number of challenges which affected copper production. During the first quarter the underground south hoisting winder bearing failed followed by an unfortunate illegal sit-in strike by underground employees. In the second quarter production was affected by the underground north hoisting winder tail rope entanglement and a second unprotected strike by smelter employees which compounded operational challenges at the same plant. Eight Section 54s served by the Department of Mineral Resources ('DMR') during the year also affected production due to production days lost.

Taking the production challenges into consideration, Palabora's adjusted EBITDA, excluding non-recurring items and growth costs increased 131% to R2.5 billion compared to 2012. Palabora also managed to maintain a healthy cash position of R3.34 billion as at 31 December 2013 compared to R1.98 billion at 31 December 2012. This was mainly achieved through an increase in magnetite sales, receipt of the insurance claim relating to the guide rope failure in 2012 and the weakening of the rand against the US dollar.

Non-recurring items consist of the following transactions:

- Insurance claim of R244 million received during June and July 2013 in respect of the underground guide rope failure in the third quarter of 2012. In terms of the Palabora business interruption insurance policy the first 30 days were not covered and additionally the excess limit was US$10 million. See note 6 of the consolidated provisional financial information.
- A cost of R78 million (GBP4.7 million) for a debt under section 75 of the United Kingdom Pensions Act 1995 payable to the Rio Tinto Pension Fund. Palabora Europe Limited (PEL) is a subsidiary of Palabora and participated in a group pension arrangement of the Rio Tinto Pension Fund in the United Kingdom. Due to the divestment PEL ceased to participate in the Fund on 30 November 2013, which triggered the debt, payable to the Fund. The cost is included under "employee benefit expense" on note 8 of the consolidated provisional financial information.
- BBBEE share based expense of R151 million and minimum dividend liability expense of R37 million relating to the 6% shareholding by Palabora BEE Investment Company Proprietary Limited (BEE Consortium). See note 7 of the consolidated provisional financial information.

Safety

All injuries for 2013 decreased to 23 compared to 24 injuries for 2012, with an all injury frequency rate of 0.46 for 2013 compared to 0.49 for 2012. The safety of our employees and contractors remain the foremost priority for Palabora. For this reason sustaining capital expenditure is largely restricted to safety and regulatory compliance during the copper contraction phase of the current Lift I operation.

Copper production

Ore hoisted increased by 9% to 9.4Mt for 2013 compared to 8.6Mt for 2012 mainly due to production recovery from the guide rope failure in 2012, partially offset by production challenges highlighted above.

The ore grade was lower compared to 2012 (0.57% vs 0.59%) and consistent with expectation as the current Lift I operations draw to an end in 2015.

Total ore treated increased by 3% to 9.5Mt for 2013 compared to 9.2Mt for 2012 and in line with ore hoisted.

New concentrate smelted increased by 33% to 209kt compared to 157kt for 2012 due to supplementary concentrate imports in 2013 (8.9kt contained copper) and production recovery from the guide rope failure in 2012.

New copper anode production increased by 24% (51kt vs 41kt) and refined copper production increased 20% to 49kt compared to 41kt for 2012.

Magnetite production

Total magnetite production, consisting of course material (65% fe), iron oxide (56% fe) and dense medium separation fine material (DMS), increased to 6.5Mt from 5.3Mt in 2012. This increase is in line with increased logistical capacity from road trucking to the Maputo port, partially offset by the impact of a rail bridge collapse following a derailment in Mozambique which affected production for two months during the first quarter of 2013.

Vermiculite production

Vermiculite production was deliberately decreased by 4% to 128kt compared to 133kt for 2012 to ensure continued alignment with sales in line with competitive market conditions.

Profit for the year

The increase in profit after tax to R1 032 million profit in 2013 from R97 million loss in 2012 is mainly due to:

- Post tax insurance claim of R176 million for the underground guide rope failure in 2012;
- Net foreign exchange gains due to weakening of the rand against the US dollar (R9.65/US$ in 2013 vs R8.19/US$ in 2012);
- Increase in magnetite sales volumes and realised prices; and
- Hedge expiring on 30 September 2013.

The increase in profit after tax is partially offset by increase in growth costs, PEL pension fund expense and the BBBEE share based costs.

Revenue

Turnover variance analysis	**(R'm)**
Turnover for the year ended 31 December 2012	8 716
Copper price	(389)
Magnetite price	263
Vermiculite and by-products prices	(30)
Hedge	144
Foreign exchange	1 736
Flexed turnover	10 440
Copper volume	(731)
Magnetite volume	1 838
Vermiculite volume	23
By-product volume	55
Turnover for the year ended 31 December 2013	**11 625**

Revenue increased by 33% mainly due to the following:

- Increased magnetite sales volumes (6.4Mt vs 4.9Mt) from increased trucking to Maputo and marginally improved wagon availability from Transnet increased turnover by R1.8 billion;
- Weaker rand on foreign currency denominated sales increased turnover by R1.7 billion;
- Lower copper prices and copper volumes (55kt vs 65kt) reduced turnover by R389 million and R731 million respectively.

	For the year ended 31 December 2013	**For the year ended 31 December 2012**	**% change**
Copper sales volume mix (kt)			
Copper rod*	**53.6**	51.6	4
Cathode	**1.4**	5.9	(76)

Refined copper scrap	**0.2**	7.9	(97)
Total copper sold	**55.2**	65.4	(16)

** Includes rod produced from imported cathode*

	For the year ended 31 December 2013	For the year ended 31 December 2012	% change
Magnetite sales volumes (kt)			
Export	**6 152**	4 619	33
Rail: Maputo port	**2 139**	1 688	27
Rail: Richards Bay port	**1 558**	1 551	-
Trucking: Maputo port	**2 455**	1 380	78
Local sales	**232**	273	(15)
Total magnetite sold	**6 384**	4 892	30

Selling, distribution and administration costs

Selling and distribution costs increased 50% to R4.5 billion from R3 billion in 2012 mainly due to increased magnetite sales and weaker rand against the US dollar. Magnetite sales exports increased by 33% to 6.15Mt compared to 4.6Mt in 2012.

Administration expenses increased by 9% to R845 million compared to R772 million in 2012.

Cash flow and Capital

Cash generated from operating activities increased by 866% to R1.43 billion from R148 million in 2012 mainly due to the insurance claim received, increase in magnetite volumes and realised prices and higher foreign exchange gains realised.

Capital expenditure increased to R406 million from R366 million in 2012. Growth capital expenditure in respect of a magnetite belt filter plant and magnetite expansion project was R85 million in 2013 compared to R111 million in 2012. Sustaining capital expenditure will be maintained at minimum levels until the end of life of mine of Lift I unless such expenditure can benefit Lift II.

Broad Based Black Economic Empowerment (‘BBBEE’) Transaction

The group has fully met the equity ownership (26%) objectives of the Mineral and Petroleum Resources Development Act as it recognises that the transformation of the equity ownership of the company is a key strategic goal. Our BBBEE partners comprise our employees (Palabora Employee Trust at 10% shareholding), the community (Leolo Trust at 10% shareholding) and BBBEE Consortium (6% shareholding).

As part of the BBBEE Transaction a subsidiary of Palabora Mining Company Limited, Palabora Copper Proprietary Limited was formed. On 15 July 2013 the BBBEE Transaction was implemented, where after Palabora Copper Proprietary Limited became the operating company and Palabora Mining Company Limited became the holding company.

On the effective date Palabora Mining Company Limited sold its business comprising the copper, magnetite and vermiculite operations to Palabora Copper Proprietary Limited and also transferred all existing contracts with suppliers and customers, assets (except cash in excess of R400 million) and liabilities to Palabora Copper Proprietary Limited.

Palabora Copper Proprietary Limited issued shares to the BBBEE partners such that the BBBEE partners collectively have 26% interest in Palabora Copper Proprietary Limited. The ownership of Palabora Copper Proprietary Limited, since 15 July 2013, is structured as follows:

- 74% owned by Palabora Mining Company Limited;
- 10% owned by Palabora Employee Trust;
- 10% owned by Leolo Trust i.e. the Community Trust; and
- 6% owned by Palabora BEE Investment Company Proprietary Limited.

Social responsibility

During the year Palabora disbursed R38 million (2012: R43 million) in support of Enterprise and Socio Economic Development through the Palabora Foundation in terms of the BBBEE Act and the Mining Charter to ensure self sustainability of the surrounding communities.

Directorship

Pursuant to the completion of the Rio Tinto and Anglo American Divestment, the following non-executive directors Messrs Craig Kinnell, Jean-Sabastien Jacques (and his alternate, Eric Yan), Hendrik Faul and the Managing Director, Anthony Lennox, have resigned with effect from 31 July 2013.

Mr Jinghua Han was appointed as a non-executive, non-independent director effective from 31 July 2013. With effect from 1 November 2013 he was appointed as an executive director and Chief Executive Officer of Palabora.

With effect from 31 July 2013, Messrs Jie Yan, Abel Patrick Malinga and George Maanda Negota were appointed as non-executive, non-independent directors of the company.

Messrs Zejun Tian and Ng Tze For ('Benjamin') were appointed as non-executive, non-independent alternate directors, with effect from 31 July 2013.

Mr Abel Patrick Malinga resigned from the Board with effect from 1 November 2013 and Ms Katinka Schumann was appointed as non-executive, non-independent director with effect from 1 November 2013.

At 31 December 2013 the Palabora Board was constituted as follows:

Directors

1. Clifford N Zungu (Chairman)^
2. Jinghua Han (Chief Executive Officer)* (Chinese)
3. Dikeledi L Nakene (Chief Financial Officer)*
4. Francine A du Plessis^
5. Moegamat R Abrahams^
6. Nhlanhla A Hlubi^
7. Peter K Ward^
8. George M Negota#
9. Jie Yan (Chinese) #
10. Katinka Schumann#

**Executive director*
^ Independent non-executive
# Non-executive

Alternate directors

Ng Tze For (Chinese)

Appreciation

We are grateful to all the employees, contractors and all stakeholders for their continued support and dedication to Palabora.

CN Zungu	**J Han**	**DL Nakene**
Chairman	*Chief Executive Officer*	*Chief Financial Officer*

28 February 2014

Group selected statistics

		31 December 2013	31 December 2012
Revenue			
Copper (net of hedge)	Rand million	**3 074**	3 283
Magnetite	Rand million	**7 862**	4 890
By-products	Rand million	**222**	138
Industrial minerals	Rand million	**467**	405
Net profit / (loss) before tax	Rand million	**1 534**	(110)
Copper			
Dry ore hoisted	kilo tonnes	**9.4**	8.6
Underground ore treated	kilo tonnes	**9.5**	9.2
Average copper grade	% Cu	**0.57**	0.59
New copper in concentrate produced	kilo tonnes	**41.4**	49.1
Cathode produced	kilo tonnes	**48.9**	40.9
Average copper price realised	USc/lb	**337.1**	365.2
Average LME copper price	USc/lb	**333.4**	360.7
Average ZAR/US$ exchange rate	R/US$	**9.65**	8.19
Spot ZAR/US$ exchange rate	R/US$	**10.49**	8.48
Average copper price realised (pre-hedge)	R/tonne	**71 710**	65 943
Average copper price realised (post-hedge)	R/tonne	**55 746**	50 250
Magnetite			
Magnetite produced	kilo tonnes	**6 517**	5 280
Magnetite sold	kilo tonnes	**6 384**	4 892
Average magnetite price realised	R/tonne	**1 231**	1 000
Average magnetite price realised	US$/tonne	**128**	122
Vermiculite			
Vermiculite sold	tonnes	**121 490**	115 428
Average vermiculite price realised	R/tonne	**3 845**	3 508
Anode slimes			
Anode slimes sold	tonnes	**165**	121
Average anode slimes price realised	R/tonne	**1 220 667**	1 008 842
Nickel sulphate			
Nickel sulphate sold	tonnes	**144**	155
Average nickel sulphate price realised	R/tonne	**27 666**	28 621
Sulphuric acid			
Sulphuric acid sold	tonnes	**75 140**	65 502
Average sulphuric acid price realised	R/tonne	**226**	182
Imported concentrate purchased			
Volumes (copper contained)	tonnes	**8 848**	-
Cost	Rand million	**661**	-
Average unit purchase price	R/tonne	**74 745**	-

		31 December 2013	31 December 2012
Imported cathode purchased			
Volumes	tonnes	**6 457**	12 585
Cost	Rand million	**468**	860
Average unit purchase price	R/tonne	**72 528**	68 311
Imported rod purchased			
Volumes	tonnes	**-**	6 735
Cost	Rand million	**-**	440
Average unit purchase price	R/tonne	**-**	65 350
Cash flow			
Net cash generated from operating activities	Rand million	**1 430**	148
Cash and cash equivalents	Rand million	**3 342**	1 980
Costs			
Production cost (excluding product purchases)	Rand million	**2 702**	2 460
Cost of sales	Rand million	**4 411**	4 338
Total capital expenditure	Rand million	**406**	366
Sustaining capital	Rand million	**321**	255
Growth capital	Rand million	**85**	111
Share capital			
Authorised ordinary shares of R1 each	R'000	**100 000**	100 000
Issued ordinary shares of R1 each	R'000	**48 337**	48 337
Net asset value per share	R/share	**126**	86

Palabora Mining Company Ltd and its subsidiaries
Reviewed condensed consolidated income statement

	Note	**Reviewed For the year ended 31 December 2013 R'm**	Audited For the year ended 31 December 2012 R'm
Sale of products		**12 506**	9 741
Hedge loss realised		**(881)**	(1 025)
Revenue		**11 625**	8 716
Cost of sales		**(4 411)**	(4 338)
Gross profit		**7 214**	4 378
Selling and distribution costs	4	**(4 543)**	(3 018)
Administration expenses		**(845)**	(772)
Mineral and petroleum royalty		**(98)**	(47)
Exploration, development and growth costs	5	**(845)**	(684)
Impairment of property, plant and equipment		**-**	(22)
Other income	6	**271**	23
Share based payment and minimum dividends	7	**187**	-
Other expenses		**(41)**	(31)
Profit / (loss) before net finance income and tax	8	**926**	(173)
Net finance income	9	**608**	63
Finance income	9	**669**	122
Finance cost	9	**(61)**	(59)
Profit / (loss) before tax		**1 534**	(110)
Income tax (expense) / income	10	**(502)**	13
Profit / (loss) for the year		**1 032**	(97)
Profit / (loss) for the year attributable to:			
Equity holders of the parent		**1 032**	(97)
Earnings / (loss) per share attributable to the equity holders of the parent (expressed in cents per share)			
Basic and diluted earnings / (loss) per share (cents)	11	**2 136**	(201)

The notes on pages 15 to 25 are an integral part of the condensed consolidated provisional financial information.

Reviewed condensed consolidated statement of comprehensive income

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
Profit / (loss) for the year	**1 032**	(97)
Other comprehensive income:		
Items that will not be reclassified to profit or loss	**-**	(14)
Actuarial loss on defined benefit plans	**-**	(19)
Income tax relating to items that will not be reclassified	**-**	5
Items that may be subsequently reclassified to profit or loss	**762**	695
Available-for-sale investments		
- Valuation gains arising during the year	**134**	57
Exchange differences on translation of foreign operations	**48**	16
Cash flow hedges		
- Mark to market losses arising during the year	**(30)**	(150)
- Transferred to profit or loss for the year	**881**	1 025
- Hedge ineffectiveness	**4**	6
Income tax relating to items that may be subsequently reclassified	**(275)**	(259)
Other comprehensive income for the year, net of tax	**762**	681
Total comprehensive income for the year	**1 794**	584
Total comprehensive income attributable to:		
Equity holders of the parent	**1 794**	584

The notes on pages 15 to 25 are an integral part of the condensed consolidated provisional financial information.

Reviewed condensed consolidated statement of financial position

	Note	Reviewed As at 31 December 2013 R'm	Audited As at 31 December 2012 R'm
Assets			
Non-current assets		**3 042**	3 098
Property, plant and equipment		**2 254**	2 474
Intangible assets		**13**	12
Financial assets		**757**	612
Deferred income tax asset	13	**18**	-
Current assets		**5 852**	4 033
Stores inventories		**169**	167
Product inventories		**952**	871
Trade and other receivables		**1 389**	851
Cash and cash equivalents		**3 342**	1 980
Current income tax assets		**-**	164
Total assets		**8 894**	7 131
Equity			
Equity attributable to owners of parent			
Share capital and premium		**629**	629
Other reserves		**584**	(328)
Retained earnings		**4 874**	3 842
Total equity		**6 087**	4 143
Liabilities			
Non-current liabilities		**1 687**	1 305
Close down and restoration obligation		**952**	771
Retirement benefits obligation		**219**	205
Cash settled share based payment liability	7	**28**	-
Deferred income tax liabilities	13	**488**	329
Current liabilities		**1 120**	1 683
Financial liabilities		**-**	847
Retirement benefits obligation		**-**	8
Cash settled share based payment liability	7	**9**	-
Trade and other payables		**970**	641
Related party payables		**-**	187
Current income tax liabilities		**141**	-
Total liabilities		**2 807**	2 988
Total equity and liabilities		**8 894**	7 131

The notes on pages 15 to 25 are an integral part of the condensed consolidated provisional financial information.

Reviewed condensed consolidated statement of changes in equity

	Attributable to owners of the parent				
	Share capital R'm	Share premium R'm	Other reserves R'm	Retained earnings R'm	Total R'm
Balance at 1 January 2012	48	581	(1 023)	4 053	3 659
Total comprehensive income / (loss) for the year	-	-	695	(111)	584
Dividends paid	-	-	-	(100)	(100)
Balance at 31 December 2012	48	581	(328)	3 842	4 143
Total comprehensive income for the year	-	-	762	1 032	1 794
BBBEE share option plan	-	-	150	-	150
Balance at 31 December 2013	**48**	**581**	**584**	**4 874**	**6 087**

Reviewed condensed consolidated statement of cash flows

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
Cash flows from operating activities		
Cash generated from operating activities	**1 729**	514
Interest received	**31**	28
Dividends paid	**-**	(100)
Income tax paid	**(330)**	(294)
Net cash generated from operating activities	**1 430**	148
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(399)**	(354)
Acquisition of intangible assets	**(7)**	(12)
Proceeds on disposal of property, plant and equipment	**-**	2
Investment in available-for-sale financial asset	**(11)**	(110)
Net cash used in investing activities	**(417)**	(474)
Net increase / (decrease) in cash and cash equivalents	**1 013**	(326)
Cash and cash equivalents at beginning of year	**1 980**	2 210
Effects of exchange rate changes on the balance of cash held in foreign currencies	**349**	96
Cash and cash equivalents at end of year	**3 342**	1 980

The notes on pages 15 to 25 are an integral part of the condensed consolidated provisional financial information.

Notes to the condensed consolidated provisional financial information

1. Corporate Information

Palabora Mining Company Limited is an investment company which hold 74% in the equity of Palabora Copper Proprietary Limited. Palabora Copper and its subsidiaries extracts and beneficiates copper, magnetite and vermiculite from its mines in the Limpopo Province, South Africa. It is the primary aim of the Group, to achieve excellence in all aspects of its activities and to develop the Group's resources and assets in a socially and environmentally responsible way for the maximum benefit of its shareholders, employees, customers and the community in which it operates. It is the Group's firm belief that efficient and profitable operations go hand-in-hand with high quality products and comprehensive and effective safety, health and environmental protection programmes.

The Group is incorporated and domiciled in South Africa. The address of its registered office is 1 Copper Road, Phalaborwa, 1389. The Company is a public limited company which is listed on the stock exchange operated by the JSE Limited.

The condensed consolidated provisional financial statements of Palabora for the year ended 31 December 2013 were authorised for issue in accordance with a resolution of the Board of Directors passed on 28 February 2014.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The condensed consolidated provisional financial statements are prepared in accordance with the requirements of the JSE Limited Listings Requirements for provisional reports and the requirements of the Companies Act of South Africa. The Listings Requirements require provisional reports to be prepared in accordance with the framework concepts and the measurement and recognition requirements of International Financial Reporting Standards (IFRS) and the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and to also, as a minimum, contain the information required by IAS 34 Interim Financial Reporting. The accounting policies applied in the preparation of the condensed consolidated provisional financial statements are in terms of IFRS and are consistent with those applied in the previous consolidated annual financial statements.

2.2 Significant accounting policies

The condensed consolidated financial report has been prepared in accordance with the historical cost convention except for certain financial instruments, which are stated at fair value, and is presented in rand, which is Palabora's functional and presentation currency.

The accounting policies applied in the preparation of the condensed consolidated provisional financial information are in terms of IFRS and consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

2.3 Independent audit review

These condensed consolidated financial statements for the year ended 31 December 2013 have been reviewed by PricewaterhouseCoopers Inc., who expressed an unmodified review conclusion. A copy of the auditor's review report is available for inspection at the company's registered office together with the financial statements identified in the auditor's report.

The auditor's report does not necessarily report on all of the information contained in these financial results. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor's engagement they should obtain a copy of the auditor's report together with the accompanying financial information from the issuer's registered office.

3. Changes in estimates

3.1 Close down and restoration obligation

The provision for close-down and restoration costs was impacted by an increase in the nominal discount rate from 7.3% to 9% which resulted in a R120 million increase during the year ended 31 December 2013.

3.2 Retirement benefits obligation

The cost of post employment medical benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, mortality rates and income at retirement. Due to the long term nature of these plans, such estimates are subject to significant uncertainty. The net employee liability at 31 December 2013 is valued at R219 million compared with R213 million at 31 December 2012.

The valuation resulted in a pre-tax actuarial loss of R0.2 million (2012: R19 million loss) as a result of a decrease in real discount rate and an increase in medical contributions being recognised in the statement of comprehensive income.

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
4. Selling and distribution costs		
Magnetite	**(4 418)**	(2 877)
Freight	**(1 424)**	(934)
Port charges	**(628)**	(427)
Sales commission and sundry costs	**(199)**	(133)
Rail costs	**(1 118)**	(835)
Trucking costs*	**(1 049)**	(548)
Vermiculite	**(122)**	(130)
Copper and by-products	**(3)**	(11)
	(4 543)	(3 018)

**Includes trucking to Mica station for onward railing*

5. Exploration, development and growth costs

Lift II exploration and development	**(845)**	(646)
Transfer from property, plant and equipment	**-**	(38)
	(845)	(684)

Lift II exploration and development costs relate to pre-feasibility drilling and development of a copper mineralisation area under the current footprint. Some of the Western extension project assets are being used for Lift II activities and have been transferred out of property, plant and equipment to Lift II exploration and development costs in 2012.

On 28 November 2013 the Board of Directors approved the progress of Lift II from prefeasibility to feasibility study commencing on 1 January 2014. All costs incurred during the feasibility study phase will be capitalised.

6. Other income

Included in "other income" on the income statement is the business interruption insurance claim amounting to R244 million received during June and July 2013 in respect of the underground production shaft guide rope failure on 4 July 2012 which affected ore hoisting until 9 September 2012.

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm

7. Share based payment and minimum dividends

Share-based payment	**(151)**	-
Minimum dividends	**(37)**	-
	(188)	-

The share-based payment (IFRS 2 expense) of R151 million included above is discussed in detail in note 15. The minimum dividend liability expense of R37 million which is payable to Palabora BEE Investment Company Proprietary Limited is as per a contractual agreement and is payable during the loan financing period.

8. Profit / (loss) before net finance income and tax

Profit / (loss) before net finance income and tax is stated after charging, amongst other items:		
Depreciation and amortisation charges	**743**	586
Employee benefit expense	**1 404**	1 124
Product purchases	**1 130**	1 300
Repairs and maintenance	**1 401**	1 393

9. Net finance income

Finance income	**669**	122
Interest income on short-term bank deposits	**16**	18
Interest income on available-for-sale financial asset	**6**	6
Interest income on account receivable balances	**9**	4
Net foreign exchange gain on operating activities	**289**	-
Net foreign exchange gain on financing activities	**349**	94
Finance cost	**(61)**	(59)
Unwinding of discount on close-down and restoration costs	**(61)**	(46)
Net foreign exchange loss on operating activities	**-**	(13)
	608	63

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
10. Income tax (expense) / income		
Normal income tax	**(636)**	(55)
South African		
Mining tax: Current	**(602)**	(50)
Mining tax: Prior years	**(37)**	-
Foreign tax: Current	**3**	(5)
Secondary tax on companies	**-**	(10)
Deferred income tax	**134**	78
South African tax		
Current	**100**	80
Prior years	**34**	(2)
Income tax (expense) / income reported in the income statement	**(502)**	13

Tax rate reconciliation:

	%	%
Current statutory rate	**28.0**	28.0
Adjusted for:		
Secondary tax on companies	**-**	(9.1)
Tax rate differential on foreign subsidiaries	**1.2**	(4.0)
Prior year adjustment	**0.2**	(1.8)
Disallowable expenditure	**3.3**	(1.3)
Effective tax rate	**32.7**	11.8

11. Earnings / (loss) per share

Basic and diluted

Reconciliation of net profit / (loss) to earnings per share		
Net profit / (loss) attributable to equity holders of the parent (rand million)	**1 032**	(97)
Reconciliation of weighted average number of ordinary shares		
Weighted average number of ordinary shares of basic and diluted earnings per share (million shares)	**48**	48
Earnings / (loss) per share (cents)	**2 136**	(201)

12. Headline earnings / (loss)

	Profit / (loss) before tax	Tax expense	Profit / (loss) after tax
Year ended 31 December 2013			
Profit per income statement (R million)	**1 534**	**(502)**	**1 032**
Loss on disposal of property, plant and equipment (R million)	**1**	**-**	**1**
Headline profit (R million)	**1 535**	**(502)**	**1 033**
Weighted average number of ordinary shares of basic and diluted headline earnings per share (million share)			**48**
Headline profit per share (cents)			**2 138**
Year ended 31 December 2012			
Loss per income statement (R million)	(110)	13	(97)
Profit on disposal of property, plant and equipment (R million)	(1)	-	(1)
Impairment of property, plant and equipment (R million)	22	(6)	16
Headline loss (R million)	(89)	7	(82)
Weighted average number of ordinary shares of basic and diluted headline earnings per share (million share)			48
Headline loss per share (cents)			(171)

13. Deferred income tax

	Balance at 1 January	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December
2013				
Property, plant and equipment	**(756)**	**198**	**-**	**(558)**
Available-for-sale financial assets	**(171)**	**(3)**	**(38)**	**(212)**
Derivative financial instruments	**237**	**-**	**(237)**	**-**
Close down and restoration obligation	**266**	**(76)**	**-**	**190**
Retirement benefits obligation	**76**	**5**	**-**	**81**
Other items	**19**	**10**	**-**	**29**
Net deferred tax (liabilities) / assets	**(329)**	**134**	**(275)**	**(470)**
Set off of deferred income tax				**(488)**
Deferred income tax liabilities				**(770)**
Deferred income tax assets				**300**

Deferred income tax assets	**18**
Net deferred tax (liabilities) / assets	**(470)**

	Balance at 1 January	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Balance at 31 December**
2012				
Property, plant and equipment	(758)	2	-	(756)
Available-for-sale financial assets	(125)	(32)	(14)	(171)
Derivative financial instruments	482	-	(245)	237
Close down and restoration obligation	186	80	-	266
Retirement benefits obligation	69	2	5	76
Other items	(7)	26	-	19
Net deferred tax (liabilities) / assets	(153)	78	(254)	(329)
Consist set off of deferred tax				(329)
Deferred tax liabilities				(927)
Deferred tax assets				598

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
14. Dividends paid		
The following dividends were declared and paid:		
Previous year final dividend:		
Nil cents per qualifying ordinary share	**-**	100
	-	100

15. Share based payments

BBBEE share based expense (equity-settled)

On 15 July 2013 Palabora Mining Company Limited, as part of the BBBEE Transaction, granted an option to Palabora BBE Investment Company Proprietary Limited (BEECO) to acquire 290 000 ordinary shares in Palabora Copper Proprietary Limited (PC) at the par value of R0.01 per share.

Key terms and conditions relating to share option plan:
The award to BEECO has been accounted for as an in-substance option as BEECO will only share in the upside and not the downside of their equity interest in PC until the date the financing provided by PMC to PC for the acquisition of the business has been repaid in full. On this date, which is expected to be 30 September 2021, the option will be exercised. The grant of the option is classified as an equity settled share based payment with the dividend portion classified as cash settled.

The in-substance option carries no vesting conditions and the fair value of the option of R187 million has been expensed on the grant date, 15 July 2013 (see note 7).

Upon the date that the loan is repaid, the option will effectively be exercised and the PMC group will have to account for the change in its ownership interest in PC at that point in time.

Measurement of fair values:
The fair value of the share option programme has been measured based on discounted cash flows, which involved various sensitivities. The inputs used in the measurement of the fair values at grant date of the equity settled share based payment plan were as follows:

	Reviewed For the year ended 31 December 2013
Option premium (R'000)	**3**
Business value (R'm)	**5 273**
Expected dividend yield (%)	**0.57**
Vesting period	**Nil**
Fair value of dividend payments (R'm)	**30**
Expected vesting date	**30 September 2021**
Risk-free interest rate (%)	**8.0**

In calculating the fair value of the option granted, the expected future enterprise value of PC at the redemption date, as well as the expected loan balance at the redemption date was estimated. The present value of the trickle dividend was also taken into account and determined in accordance with the cash flow waterfall. The difference between the future enterprise value of PC and the loan balance represent the expected future equity value of PC.

16. Operating segments

Management has determined the operating segments based on the reports reviewed by the strategic steering committee that are used to make strategic decisions. The committee considers the business from a product perspective. The products are divided in the following segments:

- Copper – produces and markets refined copper;
- Joint–product: Magnetite – markets processed current arising and built–up stockpiles of magnetite, a joint–product from the copper mining process;
- By–products – includes anode slimes, sulphuric acid and nickel sulphate; and
- Industrial minerals – produces and markets vermiculite.

The measure of segment assets and liabilities has not been disclosed as these amounts are not provided to management. Management reviews the assets and liabilities as one component in the internal management reports and not in separate reporting segments.

Reportable segments are as follows:

	Copper R'm	**Joint-product: Magnetite R'm**	**By-products R'm**	**Industrial minerals R'm**	**Total R'm**
Year ended 31 December 2013					
External customers revenue					
Sales from products	**3 955**	**7 862**	**222**	**467**	**12 506**
Hedge loss realised	**(881)**	**-**	**-**	**-**	**(881)**
Reportable segment revenue	**3 074**	**7 862**	**222**	**467**	**11 625**
Reportable segment operating (loss) / profit before depreciation	**(67)**	**2 683**	**118**	**(23)**	**2 711**
Depreciation	**(539)**	**(66)**	**(11)**	**(10)**	**(626)**
Reportable segment operating (loss) / profit	**(606)**	**2 617**	**107**	**(33)**	**2 085**
Year ended 31 December 2012					
External customers revenue					
Sales from products	4 308	4 890	138	405	9 741
Hedge loss realised	(1 025)	-	-	-	(1 025)
Reportable segment revenue	3 283	4 890	138	405	8 716
Reportable segment operating (loss) / profit before depreciation	(398)	1 442	36	(11)	1 069
Depreciation	(422)	(65)	(8)	(10)	(505)
Reportable segment operating (loss) / profit	(820)	1 377	28	(21)	564

Reportable segment operating (loss) / profit before depreciation includes:

	Copper R'm	Joint-product: Magnetite R'm	By-products R'm	Industrial minerals R'm	Total R'm
Year ended 31 December 2013					
Joint product cost allocation	**181**	**(181)**	**-**	**-**	**-**
Overhead allocation costs	**(569)**	**(142)**	**(42)**	**(42)**	**(795)**
Selling and logistics costs	**(1)**	**(4 429)**	**(1)**	**(112)**	**(4 543)**
Year ended 31 December 2012					
Joint product cost allocation	159	(159)	-	-	-
Overhead allocation costs	(534)	(128)	(41)	(39)	(742)
Selling and logistics costs	(10)	(2 877)	(1)	(130)	(3 018)

Reconciliation of reportable segment operating profit to profit / (loss) after tax:

	Reviewed For the year ended 31 December 2013 R'm	Audited For the year ended 31 December 2012 R'm
Reportable segment operating profit	**2 085**	564
Unallocated amounts:		
Exploration, development and growth costs	**(845)**	(684)
Other	**(9)**	50
Unallocated depreciation and amortisation	**(117)**	(81)
BBBEE share based expense	**(151)**	-
Minimum dividend liability expense	**(37)**	-
Impairment of property, plant and equipment	**-**	(22)
Net finance income	**608**	63
Profit / (loss) from operations before tax	**1 534**	(110)
Income tax expense	**(502)**	13
Profit / (loss) after tax	**1 032**	(97)

17. Commitments

Commitments for acquisition of sustaining capital	**36**	94
Commitments for magnetite growth projects	**27**	23
Commitments for Lift II growth projects	**53**	-
	116	117
Capital expenditure that was approved by the Board of Directors, but not contracted for:		
Acquisition of sustaining capital	**72**	193
Magnetite growth projects	**113**	45
Lift II growth projects	**707**	-
	892	238

18. Contingent liabilities

Legal matters
Various legal matters, including labour cases before the CCMA, are in progress. The potential exposure is approximately R2 million (2012: R1 million).

Land claims
Presently four land claims have been filed regarding the government owned property that Palabora uses for its mining operations. The four tribes have joined together and are represented by one legal advisor. Clarifications of the claims and Palabora's defences are being pursued through legal channels. The legal exposure is uncertain.

19. Ore reserves

The total probable ore reserves remaining as at 31 December 2013 were 11.9 million tonnes (2012: 35.46 million tonnes) at 0.52% (2012: 0.54%) copper content.

20. Events after reporting date

The acquisition of shares by the Chinese Consortium and the Industrial Development Corporation (“the Consortium”) in Palabora Mining Company Limited has resulted in the Consortium, through Rio Tinto South Africa Limited, making a mandatory offer in August 2013 to acquire all Palabora shares not already owned by itself either directly or indirectly, as required by section 123 of the Companies Act and Regulation 86 of the Takeover Regulations.

An application to delist on the JSE was lodged on 10 February 2014. To date, 0.8% of the shareholders had not accepted the offer. As such the process to mandatorily acquire the shares remains in progress. A notice was issued to the remaining outstanding shareholders on 7 February 2014 in terms of section 124(1)(a) of the Act to inform them that the Offer has been accepted by Holders holding in excess of 90% of the Offer Shares and that Rio Tinto South Africa Limited desires to compulsorily acquire all the remaining Offer Shares. The shareholders have 30 business days to object to the JSE. The date for delisting is expected by 15 April 2014.