# Palabora Mining Company Limited

## and its Subsidiaries

(a member of the Rio Tinto Group)

(Incorporated in the Republic of South Africa)
(Registration Number: 1956/002134/06)
JSE Code: PAM    ISIN: ZAE000005245
("Group" or "Palabora" or "Company")

# UNAUDITED INTERIM REPORT

## for the 6 months ended 30 June 2012

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

**Dikeledi Nakene (CA) SA**
*Chief Financial Officer*

**Group financial highlights**

| For the period ended | | **Six months ended 30 June 2012** | Six months ended 30 June 2011 |
|---|---|---|---|
| Net profit for the period | R'million | **338** | 758 |
| Basic earnings per share | Cents | **699** | 1 568 |
| Earnings before interest, tax, depreciation and amortisation (EBITDA) | R'million | **747** | 1 429 |
| Adjusted EBITDA (excl. lift II) | R'million | **1 110** | 1 469 |
| Headline earnings | R'million | **337** | 764 |
| Headline earnings per share | Cents | **697** | 1 580 |
| Exploration development and growth costs | R'million | **363** | 40 |
| Dividend per share (declared) | Cents | **-** | 931 |

**Overview**

The first half of the 2012 financial year was characterised by falling commodity prices and the continued sovereign debt crisis in Europe exacerbated the demand for commodities in a volatile exchange rate environment. Lower prices were partially offset by a weaker rand. Declining commodity prices and approved exploration and development works on the Lift II totalling R363m, saw Palabora posting profit after tax of R338m compared to R758m for the comparative period in 2011. The Lift II project is seeking feasibility approval during the last quarter of 2012.

Exploration development and growth costs have increased significantly from R40m to R363m as Lift II progressed from order of magnitude to pre-feasibility with early development works. Critically early development work on Lift II is ongoing including the construction of the decline and return airways, as well as ongoing detailed analysis around the auto-mill circuit, concentrator and smelter to make Lift II more viable.

This had the effect of reducing net profit from R758m to R338m (a decrease of 55%). Excluding the impact of Lift II costs, net profit including the tax impact fell from R785m to R591m (a decrease of 25%) and net profit excluding the tax impact fell from R798m to R701m (a decrease of 12%). The impact on EBITDA of increased exploration development and growth costs is also worth noting as adjusted EBITDA is down 24% vs. headline EBITDA down 48%.

| | | **Six months ended 30 June 2012** | Six months ended 30 June 2011 |
|---|---|---|---|
| Net profit for the period | R'million | **338** | 758 |
| Add back income tax expense | R'million | **147** | 346 |
| Profit before tax | R'million | **485** | 1 104 |
| Exploration and development costs | R'million | **363** | 40 |
| Adjusted profit before tax | R'million | **848** | 1 144 |
| Adjusted net profit for period (incl. tax impact) | R'million | **591** | 785 |
| Adjusted net profit for period (excl. tax impact) | R'million | **701** | 798 |
| Adjusted EBITDA | R'million | **1 110** | 1 469 |

Tony Lennox, the Managing Director, said “Palabora achieved its previously stated goal of trucking magnetite to Maputo which resulted in 34% increase in sales volumes and 33% increase in revenue. This enabled Palabora to offset the decline in copper sales due to declining prices and continue to fund Lift II exploration and early development works as well as maintaining a healthy cash balance”. Total sales of the trucked iron oxide at a grade of 56%, was 576kt for the period. No iron oxide was sold for the comparative period in 2011.

Whilst ore hoisted increased 3% compared to the same period in 2011, a 9% decline in ore grade from the block cave reduced copper output. This is in line with the ageing process of an underground block cave mine. The failure of a new ore-hoisting shaft guide rope on the 4th July, during installation, has resulted in damage to the skip loading station in the production shaft. Recovery plans have been implemented to safely bring the shaft back into operation as quickly as possible. Scheduled and opportune maintenance at the smelter and concentrator is being brought forward to align with the downtime associated with the guide rope failure.

Palabora has, as part of its risk management, a property damage and business interruption insurance cover. A loss adjuster nominated by the business and agreed upon by the insurers has already visited the site for initial assessment of the guide rope failure.

As previously announced to the market, Rio Tinto and Anglo American intend to divest their shareholding in Palabora. Investors should continue exercising caution in trading Palabora shares.

**Safety**

The 50% increase in all injuries to 15 compared to 10 for the same period in 2011 demonstrates the need for sustained improvement in safety in order to create and embed a lifelong culture of zero harm. A significant number of the injuries have come about with the commencement of the Lift II work and in this context a Site Safety Acceleration Programme to embed safety consciousness, with the assistance of Rio Tinto, is currently underway.

**Copper production**

Refined copper production declined 15% to 27.4kt compared to 32.1kt for the comparative period in 2011 due to lower ore grades (0.60% as compared to 0.66%) and lower efficiencies at the concentrator. The total concentrator recovery averaged 80.3% compared to 82.1% for 2011 due to operational challenges from the latter part of 2011. Normal efficiency levels were restored in the second quarter of the year following the implementation of business improvement initiatives.

The smelter operational efficiency continued to improve with the first pass recovery of 89.7% surpassing the 88% in 2011 even though concentrate throughput of 31.3kt was lower than the 36kt achieved same time last year. The lower concentrate throughput was supplemented by the re-processing of reverts which helped increase the efficiency rate.

A taphole freeze at the rod plant furnace, which has since been resolved, impacted copper rod production for three weeks in the second quarter. This resulted in the purchase of 748 tonnes of rod at a cost of R51m to meet customer contractual agreements.

**Production Shaft Guide Rope Failure**

Following the SENS announcement released on 5 July 2012 regarding the production shaft guide rope failure, the Company would like to give an update of the status of the initial assessment and impact on our operations.

A Business Resilience & Recovery Management (BRRP) team has been established. Investigation and recovery teams are in action. The investigation team comprised of mostly external independent parties investigated the event whilst the recovery team is dealing with the recovery work. The recovery team is working closely with the Department of Mineral Resources (DMR) to ensure a safe work programme.

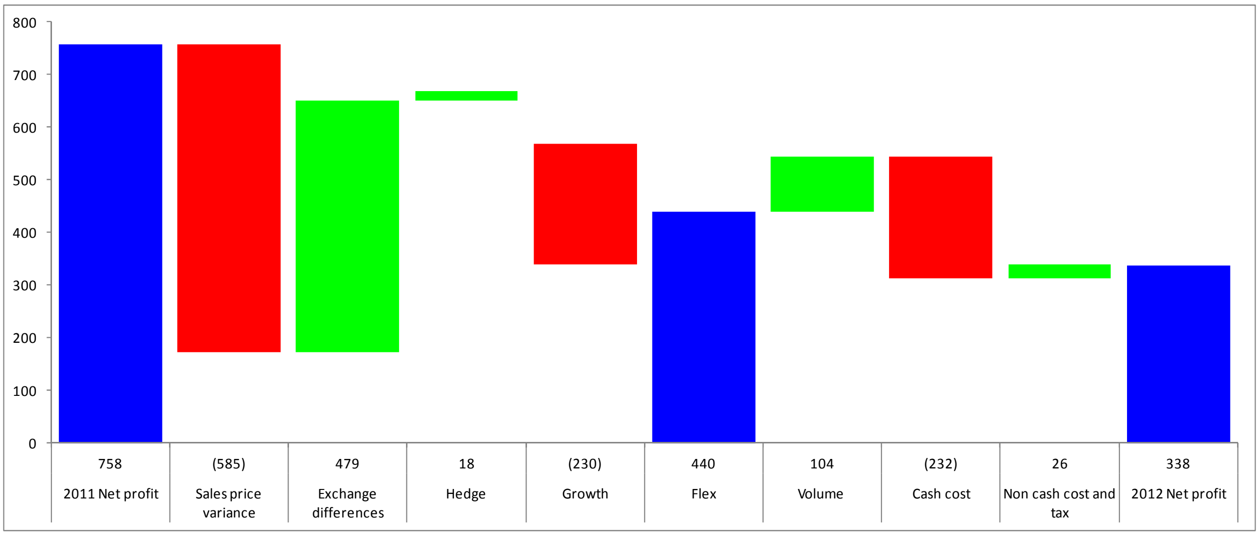
This incident has an impact on the business' revenue and for the duration of the shaft recovery extraordinary measures such as bringing forward the downstream (concentrator, smelter, refinery and rod plant) planned shutdowns and ramping-up projects which could help reduce the impact on our revenue are being taken to mitigate the anticipated impact on cash flow.

The Company anticipates that the production shaft will be back to full operation by the second half of September 2012 based on the current assessment of damage.

**Magnetite production**
Magnetite production increased to 2.4Mt from 1.7Mt in 2011 in line with increased sales volumes from the road trucking of iron oxide to Maputo that commenced in December 2011. Iron oxide production was 727kt or 30% of the total magnetite production. A belt filter press is currently under construction at an estimated cost of R128m to increase the drying capacity of magnetite which will enable Palabora to sell more concentrated magnetite to maximise margins.

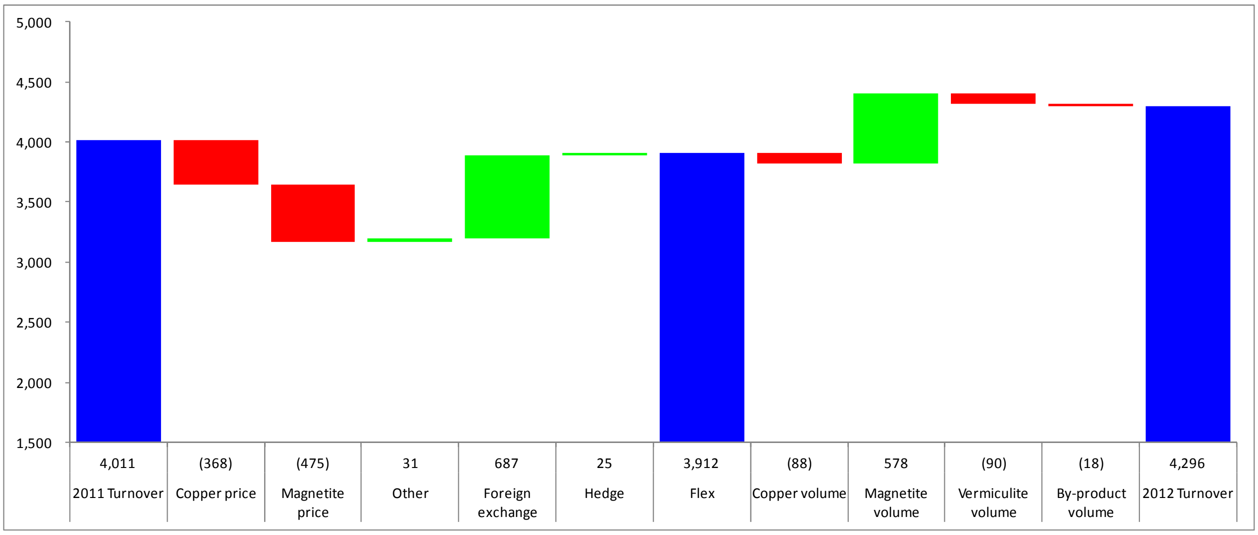
**Vermiculite production**
Efforts to transform the vermiculite business to increase its contribution to the bottom line have been hampered by adverse developments in the world market including increased competition in the American market and reduced demand in Europe. Production decreased 20% to 76kt compared to 95kt for the comparative period in 2011 due to lower sales volumes. Palabora continues to explore new markets but the vermiculite business is expected to remain challenging into the second half of the year.

**Earnings variance analysis (R'm)**




- Lower commodity prices on copper and magnetite reduced earnings by R585m;
- Lower realised magnetite prices attributed to softening spot prices and impact of increased volumes of lower grade material sold through the trucking initiatives;
- A weaker rand on turnover net of foreign currency denominated costs increased earnings by R479m, averaging R7.94/$ vs. R6.90/$;
- Lift II and growth related costs reduced earnings by R230m;
- Higher magnetite sales volumes partially offset by lower copper and vermiculite sales volumes increased earnings by R104m and
- Cash costs including general inflation of (R137m), increased due to above inflation increases in power (18%), labour costs, rail cost increases and maintenance costs (R95m) reduced earnings by R232m.

### Turnover variance analysis (R'm)




- Lower copper and magnetite prices reduced turnover by R368m and R475m respectively;
- Other prices increased revenue by R31m mainly due to higher realised prices on anode slimes;
- Weaker rand on foreign currency denominated sales increased turnover by R687m;
- Lower copper volumes (32.6kt vs. 34kt) reduced turnover by R88m and
- Increased magnetite sales (2.1Mt vs. 1.7Mt) from trucking to Maputo and marginally improved wagon availability from Transnet increased turnover by R578m.

### Copper sales volumes mix

| | **Six months ended 30 June 2012 kt** | Six months ended 30 June 2011 kt | **% change** |
|---|---|---|---|
| Copper rod | **27.3** | 27.1 | **1%** |
| Cathode | **2.7** | 3.4 | **(21%)** |
| Reverts | **-** | 1.7 | **(100%)** |
| Refined copper scrap | **2.6** | 1.8 | **44%** |
| **Total copper** | **32.6** | 34.0 | **(4%)** |

- Rod sales for 2012 include 748t supplementary imports due to lower production, 2011 - nil;
- No reverts sales as these were reprocessed to supplement lower concentrate throughput resulting in increased efficiency; and
- Lower imported cathode charged to the rod plant furnace for the period (4.5kt vs. 5.4kt) reduced copper rod units available for sale, partially offset by rod purchases.

### Cash flow

Cash generated from operating activities but before dividends inclusive of the respective STC decreased 54% to R288m from R624m in 2011 mainly due to higher spend on Lift II exploration and early development works. The dividend policy reflects the need to preserve cash for growth activities including Lift II, with no dividend to be paid out of the interim results. Sustaining capital expenditure will be maintained at minimum levels for the next three years unless such expenditure can benefit Lift II.

**Broad Based Black Economic Empowerment ("BBBEE")**
Shareholders are referred to the announcement regarding the BBBEE transaction (the terms of which were approved by Shareholders in general meeting) published on the Securities Exchange News Service on 15 June 2010, and the update announcement published on 23 March 2012 (preceded by prior update announcements dated 15 October 2010, 7 February 2011, 20 June 2011 and the announcement dated 19 December 2011 wherein Palabora announced the conversion, subject to certain administrative corrections, of seven of its eight existing old order mining rights into new order mining rights). Palabora has made significant progress towards the fulfilment of the outstanding suspensive conditions and the implementation of the BBBEE Transaction.

Suspensive conditions
As certain suspensive conditions to which the BBBEE transaction is subject are still in the process of being fulfilled, Palabora and its BBBEE partners have agreed to extend the longstop date for the fulfilment or waiver of the suspensive conditions from 31 August 2012 to 31 January 2013. Palabora and its BBBEE partners are actively working towards procuring the fulfilment of the suspensive conditions before the revised longstop date.

Palabora has fulfilled a number of key suspensive conditions including the:

- adoption or amendment of the constitutional documents of the BBBEE Partners and Palabora Copper;
- obtaining all consents and/or approvals as may be required under any Senior Finance Document to which Palabora is party;
- execution of four of the seven converted mining rights; and
- receipt of the vast majority of counterparty consents for the transfer of essential contracts from Palabora to Palabora Copper upon implementation of the BBBEE Transaction.

The key suspensive conditions which remain to be fulfilled and updates thereof are:

- The execution of the remaining three converted mining rights and the transfer of all executed mining rights to Palabora Copper in terms of Section 11 of the Minerals and Petroleum Resource Development Act;
- The Section 11 approval process will commence upon the aforementioned converted mining rights having been executed;
- the receipt of all outstanding consents from counterparties to certain essential contracts as identified by Palabora for the transfer of such contracts to Palabora Copper;
    - Palabora continues to work proactively to secure the outstanding counterparty consents.

Palabora is working towards procuring fulfilment of all of the remaining suspensive conditions as soon as is practicably possible. Shareholders will be kept apprised of developments in this regard.

**Directorship**

At 30 June 2012 the Palabora Board was constituted as follows:

| Directors | Alternate directors |
|---|---|
| 1. Clifford N Zungu (Chairman) | |
| 2. Anthony W Lennox (Managing Director)* *(Australian)* | |
| 3. Dikeledi L Nakene (Chief Financial Officer)* | |
| 4. Francine A du Plessis | |
| 5. Moegamat R Abrahams | |
| 6. Nhlanhla A Hlubi | |
| 7. Craig Kinnell *(British)* | |
| 8. Jean-Sebastien Jacques *(French)* | Coen H. Louwarts *(Dutch)* |
| 9. Hendrik J Faul | |

**Executive Director*

**Outlook**

The mining industry by its very nature operates within economic cycles which impact realised prices. Continued softening of commodity prices into the second half of the year together with the impact of the guide rope failure will negatively impact full year 2012 earnings compared to 2011. It is the Board's and management's current expectation that the Company will be fully operational in Quarter 4 and will continue to ensure that the operations remain focussed on a sustainable future.

The information contained in this paragraph has not been reviewed or reported on by the Company's auditors or advisors. No representation or warranty express or implied is made as to and no reliance should be placed on the fairness, accuracy, completeness or correctness of the information or opinions contained herein. Opinions and forward looking statements expressed represent those of the Company at the time. Undue reliance should not be placed on such statements and opinions because by nature, they are subjective to known and unknown risk and uncertainties and can be affected by other factors that could cause actual results and Company plans and objectives to differ materially from those expressed or implied in the forward looking statements.

| | | |
|---|---|---|
| **CN Zungu** | **AW Lennox** | **DL Nakene** |
| *Chairman* | *Managing Director* | *Chief Financial Officer* |

06 August 2012

# GROUP SELECTED STATISTICS

| | | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|---|
| **Revenue** | | | |
| Copper (net of hedge) | R’ million | **1 635** | 1 725 |
| Magnetite | R’ million | **2 368** | 1 967 |
| Other by-products | R’ million | **94** | 86 |
| Industrial minerals | R’ million | **199** | 234 |
| | | | |
| **Net profit before tax** | R’ million | **485** | 1 104 |
| | | | |
| **Copper** | | | |
| Dry ore hoisted | million tonnes | **5.5** | 5.3 |
| Average copper grade | % Cu | **0.60** | 0.66 |
| New copper in concentrate produced | kilo tonnes | **31.3** | 36.0 |
| Cathode produced | kilo tonnes | **27.4** | 32.1 |
| Average copper price realised | USc/lb | **373.7** | 438.2 |
| Average LME copper price for half year | USc/lb | **367.0** | 425.8 |
| Average ZAR/US$ exchange rate | R/US$ | **7.94** | 6.90 |
| Spot ZAR/US$ exchange rate | R/US$ | **8.49** | 6.83 |
| Average copper price realised (pre hedge) | R/tonne | **65 624** | 66 516 |
| Average copper price realised (post hedge) | R/tonne | **50 103** | 50 809 |
| | | | |
| **Vermiculite** | | | |
| Vermiculite sold | tonnes | **56 454** | 81 874 |
| Average vermiculite price realised | R/tonne | **3 523** | 2 862 |
| | | | |
| **Magnetite** | | | |
| Magnetite sold (DMT) | tonnes | **2 106 024** | 1 693 090 |
| Average magnetite price realised | R/tonne | **1 124** | 1 162 |
| | | | |
| **Anode Slimes** | | | |
| Anode slimes sold | tonnes | **81** | 95 |
| Average anode slimes price realised | R/tonne | **1 024 634** | 789 345 |
| | | | |
| **Nickel sulphate** | | | |
| Nickel sulphate sold | tonnes | **102** | 168 |
| Average nickel sulphate price realised | R/tonne | **28 376** | 34 365 |
| | | | |
| **Sulphuric acid** | | | |
| Sulphuric acid sold | tonnes | **45 406** | 53 241 |
| Average sulphuric acid price realised | R/tonne | **174** | 98 |
| | | | |
| **Imported cathode purchased** | | | |
| Volumes | tonnes | **4 498** | 6 726 |
| Cost | R’ million | **310** | 444 |
| Unit purchased price | R/tonne | **68 947** | 65 980 |

| | | Six months ended 30 June 2012 | Six months ended 30 June 2011 |
|---|---|---|---|
| **Imported rod purchased** | | | |
| Volumes | tonnes | **748** | - |
| Cost | R' million | **51** | - |
| Unit purchased price | R/tonne | **68 224** | - |
| **Cash flow** | | | |
| Net cash from operating activities | R' million | **178** | 239 |
| Cash and cash equivalents | R' million | **2 245** | 1 708 |
| **Costs** | | | |
| Production cost (excluding product purchases) | R' million | **1 286** | 1 131 |
| Cost of sales | R' million | **1 791** | 1 603 |
| **Capital expenditure and commitments** | | | |
| Capital expenditure | R' million | **123** | 218 |
| Contracts placed at end of period | R' million | **195** | 138 |
| **Investments** | | | |
| Fair value of unlisted investments | R' million | **564** | 410 |
| **Share capital** | | | |
| Authorised ordinary shares of R1 each | R'000 | **100 000** | 100 000 |
| Issued ordinary shares of R1 each | 000 | **48 337** | 48 337 |
| Net asset value per share | R/share | **88** | 61 |

# UNAUDITED INTERIM CONSOLIDATED GROUP RESULTS

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | Note | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|---|
| Sale of products | | **4 803** | 4 543 |
| Hedge loss realised | | **(507)** | (531) |
| **Revenue** | | **4 296** | 4 012 |
| | | | |
| Cost of sales | | **(1 791)** | (1 603) |
| **Gross profit** | | **2 505** | 2 409 |
| | | | |
| Selling and distribution costs | | **(1 327)** | (900) |
| Administration expenses | | **(384)** | (364) |
| Mineral and petroleum royalty | | **(26)** | (50) |
| Other income | | **11** | 17 |
| Exploration development and growth costs | 3 | **(363)** | (40) |
| Other expenses | | **(3)** | (7) |
| **Profit before net finance cost and tax** | 4 | **413** | 1 065 |
| | | | |
| Net finance income / (cost) | 5 | **72** | 39 |
| Finance cost | 5 | **(24)** | (31) |
| Finance income | 5 | **96** | 70 |
| | | | |
| **Profit before tax** | | **485** | 1 104 |
| | | | |
| Income tax expense | 6 | **(147)** | (346) |
| | | | |
| **Profit for the year** | | **338** | 758 |
| | | | |
| **Profit for the year attributable to:** | | | |
| Equity holders of the parent | | **338** | 758 |
| | | | |
| **Earnings per share attributable to the equity holders of the parent** (expressed in cent per share) | | | |
| - Basic and diluted earnings per share (cents) | 7 | **699** | 1 568 |
| - Headline earnings per share (cents) | 8 | **697** | 1 580 |

*The notes on pages 15 to 22 are an integral part of these condensed consolidated interim financial information.*

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| Profit for the half year | **338** | 758 |
| **Other comprehensive income:** | | |
| Available-for-sale investments | | |
| - Valuation gains arising during the year | **16** | 7 |
| Exchange differences on translation of foreign operations | **9** | 6 |
| Cash flow hedges | | |
| - Mark to market losses arising during the year | **(52)** | (77) |
| - Transferred to profit or loss for the year | **507** | 531 |
| - Hedge ineffectiveness | **3** | 2 |
| Income tax relating to components of other comprehensive income | **(130)** | (131) |
| Other comprehensive income for the year, net of tax | **353** | 338 |
| **Total comprehensive income for the year** | **691** | 1 096 |
| **Total comprehensive income attributable to:** | | |
| Equity holders of the parent | **691** | 1 096 |

*The notes on pages 15 to 22 are an integral part of these condensed consolidated interim financial information.*

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Note | **As at 30 June 2012 R'm** | As at 31 December 2011 R'm |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | **3 058** | 3 154 |
| Property, plant and equipment | | **2 481** | 2 702 |
| Intangible assets | | **13** | 7 |
| Financial assets | | **564** | 445 |
| | | | |
| **Current assets** | | **4 428** | 4 048 |
| Stores | | **148** | 136 |
| Product inventories | | **1 167** | 921 |
| Trade and other receivables | | **836** | 781 |
| Current income tax assets | | **32** | - |
| Cash and cash equivalents | | **2 245** | 2 210 |
| | | | |
| **Total assets** | | **7 486** | 7 202 |
| | | | |
| **Equity** | | | |
| **Equity attributable to owners of the parent** | | | |
| Share capital and premium | | **629** | 629 |
| Other reserves | | **(670)** | (1 023) |
| Retained earnings | | **4 291** | 4 053 |
| **Total equity** | | **4 250** | 3 659 |
| | | | |
| **Non-current liabilities** | | **1 406** | 1 749 |
| Financial liabilities | 9 | **302** | 754 |
| Close-down and restoration obligation | | **687** | 665 |
| Retirement benefit obligation | | **182** | 177 |
| Deferred income tax liabilities | 10 | **235** | 153 |
| | | | |
| **Current liabilities** | | **1 830** | 1 794 |
| Financial liabilities | 9 | **965** | 968 |
| Retirement benefit obligation | | **8** | 9 |
| Trade and other payables | | **737** | 641 |
| Related party payables | | **120** | 111 |
| Current income tax liabilities | | **-** | 65 |
| | | | |
| **Total liabilities** | | **3 236** | 3 543 |
| | | | |
| **Total equity and liabilities** | | **7 486** | 7 202 |

*The notes on pages 15 to 22 are an integral part of these condensed consolidated interim financial information.*

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of parent | | | | |
|---|---|---|---|---|---|
| | Share capital R'm | Share premium R'm | Other reserves R'm | Retained earnings R'm | Total R'm |
| **Balance at 1 January 2011** | 48 | 581 | (1 801) | 3 390 | 2 218 |
| Total comprehensive income for the year | - | - | 778 | 1 462 | 2 240 |
| Dividends paid | - | - | - | (799) | (799) |
| **Balance at 31 December 2011** | **48** | **581** | **(1 023)** | **4 053** | **3 659** |
| Total comprehensive income for the half year | **-** | **-** | **353** | **338** | **691** |
| Dividends paid | **-** | **-** | **-** | **(100)** | **(100)** |
| **Balance at 30 June 2012** | **48** | **581** | **(670)** | **4 291** | **4 250** |

*The notes on pages 15 to 22 are an integral part of these condensed consolidated interim financial information.*

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| **Cash flows from operating activities** | | |
| Cash generated from operating activities | **553** | 948 |
| Interest paid | **-** | (4) |
| Interest received | **15** | 19 |
| Dividends paid | **(100)** | (350) |
| Income tax paid | **(290)** | (374) |
| Net cash generated from operating activities | **178** | 239 |
| **Cash flows from investing activities** | | |
| Acquisition of property, plant and equipment | **(123)** | (218) |
| Proceeds from disposal of property, plant and equipment | **1** | - |
| Investment in available-for-sale financial asset | **(103)** | (5) |
| Dividend income | **-** | 2 |
| Net cash used in investing activities | **(225)** | (221) |
| **Net increase in cash and cash equivalents** | **(47)** | 18 |
| Cash and cash equivalents at beginning of year | **2 210** | 1 641 |
| Effects of exchange rate changes on the balance of cash held in foreign currencies | **82** | 49 |
| **Cash and cash equivalents at end of year** | **2 245** | 1 708 |

*The notes on pages 15 to 22 are an integral part of these condensed consolidated interim financial information.*

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. CORPORATE INFORMATION

Palabora Mining Company Ltd (“the Company”) and its subsidiaries (together “the Group”) extracts and beneficiates copper, magnetite and vermiculite from its mine in the Limpopo Province, South Africa. It is the primary aim of the Company, a member of the worldwide Rio Tinto Group, to achieve excellence in all aspects of its activities and to develop the Company’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 Company’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 Johannesburg Securities Exchange Limited (JSE).

The condensed consolidated interim financial statements of Palabora for the period ended 30 June 2012 were authorised for issue in accordance with a resolution of the Board of Directors passed on 31 July 2012.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The condensed consolidated interim financial information for the six months ended 30 June 2012 have been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim financial reporting'.

The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2011, which have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations, the AC 500 standards (as issued by the Accounting Practices Board or its successor), requirements of the South African Companies Act and regulations of the JSE Limited.

#### 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 interim financial information are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

## 3. EXPLORATION AND DEVELOPMENT COST

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| Lift II exploration and growth related costs | **(363)** | (40) |

Lift II exploration and growth costs relate to pre-feasibility drilling and exploration of a copper mineralisation area under the current footprint and early development activities and other growth related projects.

## 4. PROFIT BEFORE TAX AND NET FINANCE COST

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| Profit before tax and net finance cost is stated after charging, amongst other items: | | |
| Depreciation on property, plant and equipment | **(331)** | (363) |
| Amortisation of intangible assets | **(3)** | (1) |
| Employee benefit expense | **(593)** | (496) |

## 5. NET FINANCE INCOME

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| **Finance cost** | **(24)** | (31) |
| Interest expense on borrowings | **-** | (4) |
| Unwinding of discount on close-down and restoration costs | **(23)** | (22) |
| Net foreign exchange loss on operating activities | **(1)** | (5) |
| **Finance income** | **96** | 70 |
| Interest income on short-term bank deposits | **12** | 16 |
| Interest income on available-for-sale financial asset | **3** | 3 |
| Net foreign exchange gain on financing activities | **81** | 51 |
| | **72** | 39 |

## 6. INCOME TAX EXPENSE

The major components of income tax expense are:

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| **Normal income tax** | **(185)** | (354) |
| *South African* | | |
| - Mining tax: Current | **(180)** | (336) |
| *Foreign* | | |
| - Current | **(5)** | (18) |
| **Secondary tax on companies** | **(10)** | (35) |
| **Deferred income tax** | | |
| *South African* | | |
| - Current | **48** | 43 |
| **Income tax expense reported in the income statement** | **(147)** | (346) |

The tax rate reconciliation is as follows:

| | **%** | % |
|---|---|---|
| Current statutory rate | **28.0** | 28.0 |
| *Adjusted for:* | | |
| - Dividend income | **-** | (1.7) |
| - Disallowable expenditure | **0.1** | - |
| - Tax rate differential of foreign subsidiaries | **1.2** | 1.9 |
| - Secondary tax on companies | **0.6** | 3.1 |
| - Prior year under provision | **0.4** | - |
| **Effective tax rate** | **30.3** | 31.3 |

## 7. EARNINGS PER SHARE

**Basic and diluted**

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the parent by the weighted average number of ordinary shares in issue during the year. There are no potential or actual dilutive effects on the Group's share capital.

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| **Reconciliation of net profit for earnings per share** | | |
| Net profit attributable to equity holders of the parent | **338** | 758 |
| **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 per share (cents)** | **699** | 1 568 |

## 8. HEADLINE EARNINGS

| | Profit before tax R'm | Tax expense R'm | Profit after tax R'm |
|---|---|---|---|
| **Six months ended 30 June 2012** | | | |
| Profit per income statement | **485** | **(147)** | **338** |
| Profit on disposal of property, plant and equipment | **(1)** | **-** | **(1)** |
| **Headline profit** | **484** | **(147)** | **337** |
| | | | |
| **Year ended 30 June 2011** | | | |
| Profit per income statement | 1 104 | (346) | 758 |
| Loss on disposal of property, plant and equipment | 6 | - | 6 |
| **Headline profit** | 1 110 | (346) | 764 |

| | **Six months ended 30 June 2012** | Six months ended 30 June 2011 |
|---|---|---|
| **Headline earnings per share (cents)** | **697** | 1 580 |

## 9. FINANCIAL LIABILITIES

**Derivative financial instrument – Cash flow hedges**

The Group held a commodity swap contract designated as a cash flow hedge of expected future sales to local customers under which the Group receives a fixed price in rand and in relation to a monthly notional quantity of copper sales as detailed below and pays a floating price based on the arithmetic average (mean) of the US$ LME Cash Settlement Price, converted to rand at the average SA rand/US dollar exchange rate for the calculation period. The cash flows paid under the terms of the hedging instrument are designed to reduce variability in the rand proceeds of the copper sales as set out in the table below.

As at 30 June 2012 the cash flow hedges of the expected future sales were assessed to be highly effective and the ineffective portion of R3 million was recognised directly under "Other expenses" in the income statement.

**Table of terms: 30 June 2012**

| Maturity year | Quantity tonnes | Average hedged price ZAR/t | Hedged value R'm | Derivative liability R'm |
|---|---|---|---|---|
| 2012 | 10 569 | 15 739 | 166 | **579** |
| 2013 | 16 330 | 15 739 | 257 | **688** |
| | 26 899 | | 423 | **1 267** |
| | | | | |
| Unamortised component of non-observable inception gains | | | | - |
| **Total of derivative financial instrument** | | | | **1 267** |
| | | | | |
| Non-current | | | | **302** |
| Current | | | | **965** |
| **Total of derivative financial instrument** | | | | **1 267** |

**Table of terms: 31 December 2011**

| Maturity year | Quantity tonnes | Average hedged price ZAR/t | Hedged value R'm | Derivative liability R'm |
|---|---|---|---|---|
| 2012 | 21 137 | 15 739 | 333 | 968 |
| 2013 | 16 330 | 15 739 | 257 | 754 |
| | 37 467 | | 590 | 1 722 |
| Unamortised component of non-observable inception gain | | | | - |
| **Total of derivative financial instrument** | | | | 1 722 |
| Non-current | | | | 754 |
| Current | | | | 968 |
| **Total of derivative financial instrument** | | | | 1 722 |

## 10. DEFERRED INCOME TAX

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| At beginning of period | **(153)** | 70 |
| Tax charged to income statement | **48** | 67 |
| Tax charged to statement of other comprehensive income | **(130)** | (290) |
| **At end of period** | **(235)** | (153) |
| **Deferred tax assets arising from:** | | |
| Provisions | **256** | 255 |
| Derivative financial instruments | **355** | 482 |
| | **611** | 737 |
| **Deferred tax liabilities arising from:** | | |
| Accelerated capital allowances | **(690)** | (758) |
| Available-for-sale investment | **(157)** | (125) |
| Other | **1** | (7) |
| | **(846)** | (890) |
| **Net deferred tax liabilities** | **(235)** | (153) |

## 11. DIVIDENDS PAID

The following dividends were declared and paid:

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| **Previous year final dividend:** | | |
| 207 cents per qualifying ordinary share (2010: 724 cents) | **100** | 349 |
| **Interim dividend:** | | |
| Nil cents per qualifying ordinary share (2011: 931 cents) | **-** | 450 |
| | **100** | 799 |

After the respective reporting dates the following dividends were proposed by the directors. The dividend declared is recognised in the period it is paid.

| | | |
|---|---|---|
| **Dividends declared:** | | |
| Nil cents per qualifying ordinary share (2011: 207 cents) | **-** | 100 |
| Secondary tax on companies due on closing date of dividend cycle | **-** | 10 |

## 12. RELATED PARTY TRANSACTIONS

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| The following transactions were carried out with related parties: | | |
| Purchases of goods and services (Rio Tinto Group) | **580** | 370 |
| Marketing fee (Rio Tinto Iron Ore Asia) | **72** | 23 |

## 13. 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 arisings 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.

Reportable segments are as follows:

| | Copper<br>R'm | Joint-product: Magnetite<br>R'm | By-products: Other<br>R'm | Industrial minerals<br>R'm | Total<br>R'm |
|---|---|---|---|---|---|
| **Period ended 30 June 2012** | | | | | |
| *External customers revenue* | | | | | |
| Sales from products | **2 142** | **2 368** | **94** | **199** | **4 803** |
| Hedge loss realised | **(507)** | **-** | **-** | **-** | **(507)** |
| **Reportable segment revenue** | **1 635** | **2 368** | **94** | **199** | **4 296** |
| Reportable segment operating profit before depreciation | **275** | **753** | **41** | **-** | **1 069** |
| Depreciation | **(282)** | **-** | **(5)** | **(6)** | **(293)** |
| **Reportable segment operating profit** | **(7)** | **753** | **36** | **(6)** | **776** |

| | Copper<br>R'm | Joint-product: Magnetite<br>R'm | By-products: Other<br>R'm | Industrial minerals<br>R'm | Total<br>R'm |
|---|---|---|---|---|---|
| **Period ended 30 June 2011** | | | | | |
| *External customers revenue* | | | | | |
| Sales from products | 2 256 | 1 967 | 86 | 234 | 4 543 |
| Hedge loss realised | (531) | - | - | - | (531) |
| **Reportable segment revenue** | 1 725 | 1 967 | 86 | 234 | 4 012 |
| Reportable segment operating profit before depreciation | 414 | 943 | 38 | 42 | 1 437 |
| Depreciation | (251) | (52) | (7) | (7) | (317) |
| **Reportable segment operating profit** | 163 | 891 | 31 | 35 | 1 120 |

Reconciliation of reportable segment operating profit to profit after tax:

| | **Six months ended 30 June 2012 R'm** | Six months ended 30 June 2011 R'm |
|---|---|---|
| Reportable segment operating profit | **776** | 1 120 |
| Unallocated amounts: | | |
| - Other including growth and Lift II exploration expenditure | **(322)** | (8) |
| - Depreciation and amortisation of tangible and intangible assets | **(41)** | (47) |
| - Net finance income cost | **72** | 39 |
| Profit from operations before tax | **485** | 1 104 |
| Income tax expense | **(147)** | (346) |
| **Profit after tax** | **338** | 758 |

## 14. COMMITMENTS

Commitments contracted for at the reporting date was R195 million (31 December 2011: R79 million). Capital expenditure that was approved by the Board, but not contracted for at 30 June 2012 amounts to R172 million (31 December 2011: R314 million).

## 15. CONTINGENT LIABILITIES

**Legal matters**
Various legal matters, including labour cases before the CCMA, are in progress. The potential exposure is approximately 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.

**Taxation penalty on the closure rehabilitation trust fund**
During 2011, the South African Revenue Service (SARS) issued Palabora with a taxation penalty on its 2008 taxable income relating to the closure rehabilitation trust fund. Palabora has objected to the penalty applied by SARS with a response pending. The financial implication of the penalty is not material to the underlying results as published.

## 16. ORE RESERVES

There have not been any material changes to the ore reserves as disclosed in the 2011 annual report.

**Company Secretary:**
KN Mathole

**Transfer Secretaries:**
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PO Box 61051, Marshalltown, 2107

**Registered address:**
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**Sponsor:**
One Capital