Rio Tinto

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 AND DIVIDEND ANNOUNCEMENT

for the 6 months ended 30 June 2011

COMMENTARY

Group financial highlights For the period ended		Six months ended 30 June 2011	Six months ended 30 June 2010
Net profit for the period	R'million	**758**	306
Basic earnings per share	Cents	**1 568**	632
Earnings before interest, tax, depreciation and amortisation (EBITDA)	R'million	**1 429**	668
Headline earnings		**764**	304
Headline earnings per share	Cents	**1 580**	630
Dividend per share (declared)	Cents	**931**	207

Overview

The Managing Director, Anthony (Tony) Lennox said, "Palabora continued to deliver operational improvements that have led to a strong performance in the first half of the year with profit after tax of R758 million, 148% higher than R306 million for the comparative period in 2010 and exceeding full year 2010 profit after tax of R595 million on the back of firming product prices. We are confident these improvement initiatives will continue to deliver positive results on the prospects for the remainder of the year if copper and magnetite prices maintain current trends and levels."

Exploratory and developmental works are ongoing on the Lift II project below the current Lift I footprint. The order of magnitude studies have been finalised and the Palabora Board has approved the project to proceed to the pre-feasibility stage. The approval highlights Palabora's ability to develop and mine the additional copper and magnetite deposit which if approved will extend the life of the copper operations by up to 12 years from the end of the current Lift I operations. Palabora is positive that the additional studies will confirm our expectation of the ore reserve body to further extend the life of mine for the mutual benefit of all our stakeholders. To this end Tony said, "I am pleased to advise that Palabora now has a dedicated growth team led by Nick Fouche to spearhead growth projects including the magnetite expansion."

Both winder drums were replaced in February and April and we anticipate increased hoisting rates of underground material. The various measures implemented from mid-2010 have seen improvement in the smelter performance and we anticipate further improvements after the shutdown in August to rebuild the reverb furnace.

The Board declared an interim dividend of R9.31 per share.

Safety

The safety of all our employees and contractors remains a top priority throughout our operations. The progressive Lost Time Injury Frequency Rate (LTIFR) improved to 0.20 from 0.34 for the same period in 2010. The importance of safety and safe work practices continues throughout the organisation by creating more awareness and implementation of the current safety programmes.

Production

Underground dry ore hoisted at 5.3 million tonnes at an average head grade of 0.66% is in line with the 5.5 million tonnes at an average head grade of 0.65% for the corresponding period in 2010. Production was impacted by the slowing down of hoisting rates in the first quarter pending the replacement of both winders, one each in February and April 2011. A steady increase in hoisting rates is expected for the remainder of the year. Business improvement initiatives are currently undertaking a winder optimisation project with recommendations for further improvement in hoisting rates anticipated towards the end of the year.

Underground ore treated at 5.8 million tonnes was higher than both ore hoisted and the comparative period in 2010 of 5.6 million. Production was however impacted by a primary crusher failure during the first quarter and overruns in the scheduled girth gear replacement at the automills at the end of May and beginning of June. The overrun impact was mitigated through increased slag processing and suspension of toll milling to ensure throughput to the smelter. Normal operations together with commencement of toll milling were quickly restored through effective disaster recovery and maintenance planning to ensure uninterrupted copper supplies to our customers.

Concentrate produced was 120kt at an average grade of 30.1% and in line with the corresponding period in 2010 at an average copper grade of 30.4%.

New anode production increased 22% to 33kt compared to 27kt for the comparative period in 2010. The operational challenges experienced at the smelter in 2010 are being resolved through intervening measures implemented from mid 2010 with expected continued performance improvements after the August reverb furnace rebuild . Production was constrained by acid disposal challenges due to excess supply in the local market. Palabora continues to explore alternative markets in the SADC region.

Improved throughput from the smelter resulted in refined copper increasing 23% to 32kt from 26kt for the corresponding period in 2010. The tankhouse operated an average of 14 sections compared to the 10 sections during the first half of 2010.

Sales Volumes

Whilst copper sales volumes at 34kt have remained in line with the comparative period in 2010, there has been a significant improvement in the sales mix with copper rod increasing 44% to 27.1kt compared to 18.8kt for the period ended 30 June 2010. Rod sales for 2010 included 4.9kt of imported rod to meet customer contractual commitments following operational challenges at the smelter and rod plant during the first half of 2010. The improvement in the copper sales mix towards rod reflects our continued commitment to the local rod market and the additional value this delivers to Palabora and its stakeholders. Lower margin rod imports were substituted by higher margin cathode imports of 6.7kt against 1.8kt for the period ended 30 June 2010. The rod casting plant benefited from increased throughput from the smelter. The plant however suffered a taphole blockage which affected rod supply to the market in April. The causes of the blockage were investigated and findings and improvements are being finalised before implementation.

	Six months ended 30 June 2011 kt	Six months ended 30 June 2010 kt	**% change**
Copper rod	**27.1**	18.8	**44**
Cathode	**3.4**	6.2	**(45)**
Reverts	**1.7**	5.1	**(67)**
Refined copper scrap	**1.8**	4.1	**(56)**
Total copper	**34.0**	34.2	**(1)**

Magnetite volumes were 24% higher at 1 693kt compared to 1 366kt for the period ended 30 June 2010 as a result of improved train availability to transport material to port. We continue to restrict production below the current operational capacity due to logistical constraints on wagon availability.

Magnetite (kt)	**1 693**	1 366	**24%**

Transnet has informed Palabora of the expected suspension and closure of the Brakspruit rail bridge for a period of three weeks in September as the existing bridge needs to be repaired.

Palabora will consult with all relevant stakeholders including Transnet to ensure the continued supply of magnetite and vermiculite to our customers. Following these discussions, it is anticipated that Palabora will use road transport to facilitate the movement of magnetite and vermiculite to Gravelotte and Hoedspruit for onward railage to the ports of Maputo, Richards Bay and Durban. The unexpected disruption will impact on magnetite and vermiculite sales volumes as the use of the alternative transport centres of Gravelotte and Hoedspruit do not allow for similar transport volumes and capacity while additional maintenance activities on the rail network will also result in additional disruptions.

The proposed arrangements are consistent with the disaster management plans undertaken by the Group during last year's Brakspruit bridge incident. Palabora will endeavour to replicate and implement the successful Brakspruit disaster management plans to ensure minimum impact on the local communities while continuing to supply our customers given the constraints.

Turnover

Post hedge turnover increased 38% to R4 billion from R2.9 billion for the comparative period in 2010 on the back of firming product prices and higher magnetite sales volumes. The LME copper price averaged USc/Ib 426, 31% up from USc/Ib 324 for the comparative period in 2010. Post hedge copper revenue increased 19% to R1.7 billion on 34kt compared to R1.5 billion on 34.2kt for the previous period.

Magnetite revenue increased 68% to R2 billion on 1.7Mt compared to R1.2 billion on 1.4Mt realising average prices of R1 162 and R857 per ton for 2011 and 2010 respectively. Demand for magnetite in the Asian market especially China remains strong. Magnetite contribution to Group operating profitability was at 80% due to increasing prices and volumes over a fairly constant cost base due to the historical stock piles which do not carry any historical mining costs.

Vermiculite revenue increased 26% to R234 million on 82kt compared to R186 million on 85kt for the six months to 30 June 2010. Sales volumes were impacted by inland and sea logistical constraints. Realised prices firmed to R2 862 from R2 177 per ton for the six months period ending 30 June 2011 and 2010 respectively.

Cost of sales

Cost of sales increased 6% to R1.6 billion compared to R1.5 billion for the comparative period in 2010. Supplementary copper purchases were lower at R444 million on 6.7kt compared to R536 million on 9.7kt in 30 June 2010 following improved operational performance at the smelter.

Selling and administration expenses

Selling expenses increased 25% to R900 million compared to R718 million mainly as a result of increased magnetite sales volumes of 1.7Mt against 1.4Mt in 2010 as well as higher railage costs. Administration expenses increased 69% to R364 million mainly due to an above inflation increase in salaries, and power costs, the effects of the initial costs associated with the business improvement initiatives, costs associated with the programme designed to improve the operating image of Palabora across all stakeholders, costs associated with the outsourcing of the internal audit function and implementation of King III Code of Corporate Governance and costs overruns associated with the unexpected additional decontamination of land arising from the ZBS plant site.

Net finance income

Higher net finance income is associated with the weakening ZAR against the US$ on US$ net debt balances where the ZAR ended at R6.83/US$ compared to R6.64/US$ at the end of 2010.

Working capital

Anode and refined copper inventory has increased compared to 31 December 2010 due to both improved smelter and refinery performance and additional production ahead of the planned smelter August shut-down to rebuild the reverb furnace which will result in no anode production. The Company will continue to mine and treat ore during this period which will be smelted and refined once the reverb furnace is brought back on-line.

Trade and other receivables increased by 37% to R1 184 million compared to R864 million at 31 December 2010 in line with growth in revenue. Cash and cash equivalents increased to R1.7 billion, up from R1.6 billion as at 31 December 2010.

Cash flow from operating activities and capital expenditure

Cash flow from operating activities before interest, dividends and tax increased by 206% to R948 million from R310 million in 2010 on the back of increased profitability associated with higher prices across all main products and higher magnetite volumes. Net cash generated for the six months ended 30 June 2011 is R239 million compared to cash utilised of R280 million for the comparative period in 2010.

Net cash generated for the six-month period to 30 June 2011 increased by R18 million due to higher final 2010 dividend, provisional tax payments and higher sustaining capital expenditure over the same period in 2010. Sustaining capital expenditure increased to R129 million in the six months to June 2011 from R53 million in the comparative prior year from the scheduled replacement strategies of production assets as these reach the end of their economic life. Capital expenditure also includes R36 million relating to the acqusition of the nickel plant following the dissolution of the Nickel Plant joint venture with a third party, scheduled reverb smelter shut down costs of R16 million and R37 million relating to the replacement of the winder drums earlier in the year. Palabora has maintained a strong cash balance of R1.7 billion compared to R1.1 billion at 30 June 2010.

Broad Based Black Economic Empowerment ("BBBEE")

Palabora concluded a BBBEE transaction with its new Black Economic Empowerment (“BEE”) partners on 10 June 2010. The agreements were lodged with the Department of Mineral Resources on 2 July 2010, for final approval. The BBBEE transaction was approved by Palabora’s shareholders on 15 October 2010 with 99 percent of the shareholders present voting in favour. The transaction is not yet effective as the suspensive conditions in terms of the agreement have not yet been met. Palabora is awaiting for approval of its application for conversion of old order mining rights to new order mining rights from the DMR. Palabora continues to engage with the DMR to ensure the implementation of the transaction.

National Treasury has proposed in its latest Tax amendment bill the suspension of Section 45 of the Income Tax Act. This section would have resulted in the BBBEE transaction being effected in a tax neutral manner. Palabora has made representations on the impact of this suspension on the proposed BBBEE transaction to National Treasury and discussions are ongoing.

Declaration of dividend

An interim cash dividend of 931 cents per share has been declared.

Payment in South African Rand will be made on Monday, 5 September 2011 to shareholders recorded in the register of Palabora Mining Company as at 2 September 2011. The last day to trade to qualify for the dividend will be Friday, 26 August 2011 and the shares will trade ex-dividend from Monday, 29 August 2011. Share certificates may not be dematerialised or rematerialised between Monday, 29 August 2011 and Friday, 2 September 2011, both days inclusive.

This financial report does not reflect this dividend payable, which will be recognised in shareholders' equity as an appropriation of retained earnings for the year ended 31 December 2011. The final dividend relating to the 2010 financial year of R350 million was paid during the period.

Corporate Governance

Mr Nhlanhla Hlubi was appointed as an independent non-executive director of the company, with effect from 1 February 2011. Mr. Hlubi is currently a director and Head of Compliance and Risk Management in the retail division at Alexander Forbes. He is an admitted Attorney with over 10 year's post admission experience in financial planning, legal, regulatory compliance and risk management. He has held numerous positions in the financial services industry as a Financial Consultant and Regional Legal Advisor.

Mr Lindsay Kirsner resigned as non-executive director of the Board, with effect from 3 February 2011. Mr. Kirsner has changed roles within Rio Tinto from Rio Tinto Copper to Business Development.

With effect from 4 February 2011, Mr. Craig Kinnell was appointed as non-executive director of the company. Mr Kinnell is currently a Chief Marketing Officer within Rio Tinto Copper since July 2010 and has global responsibility for the marketing strategy, logistics, customer relationship management, product stewardship and sales of all copper products, molybdenum, precious metals, rhenium, nickel and all associated by-products at Kennecott Utah Copper, Northparkes, Oyu Tolgoi and Eagle Nickel mines. He also leads the development of marketing strategy for Copper projects and works closely with Operations and Rio Tinto's Executive Committee.

The Board would like to express its utmost gratitude and thanks to Mr M B Snyder, for his hard work and dedication to the Group. Mr M B Snyder was the interim acting Chief Financial Officer, while a comprehensive recruitment process was concluded. The Board welcomes Ms Dikeledi Nakene who has been appointed Chief Financial Officer from 18 April 2011. Mr M B Snyder will continue to work within the Rio Tinto Group.

Ms Dikeledi Nakene was appointed as Chief Financial Officer and Ex Officio board member with effect from 18 of April 2011. Ms Nakene joins the Company with board experience in finance, management and internal and external auditing. She is a chartered accountant CA(SA) and certified internal auditor (CIA). She has held numerous senior positions including Executive General Manager, Audit Partner, Chief Financial Officer for the Department of Sport, Arts and Culture as well as chairperson of the Audit Committee for the Food and Beverage SETA. Ms Nakene holds a BCom Accounting cum laude (University of the North; BCompt Honours (University of South Africa); and higher diploma in Taxation Law (Wits). In addition she is a member of several professional organisations including the Institute of Internal Auditors and South African Institute of Chartered Accountants.

At 30 June 2011 the Palabora Board was constituted as follows:

Directors	Alternate directors
1. Clifford N. Zungu (Chairman)	
2. Anthony W. Lennox (Managing Director)*^	
3. Dikeledi Nakene (Chief Financial Officer)*	
4. Francine A. du Plessis	
5. Ray Abrahams	
6. Nhlanhla A. Hlubi	
7. Willan J. Abel	
8. Jo-Anne S. Yuen^	Coen H. Louwarts#
9. Craig Kinnel+	

**Executive Director*
^Australian
#Dutch
+British

Appreciation

These good results are testimony to the diligence and hard work from the Board of Directors, management and staff. We remain grateful to our customers and the Ba Phalaborwa community for their continuing support.

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

28 July 2011

GROUP SELECTED STATISTICS

		Six months ended 30 June 2011	Six months ended 30 June 2010
Revenue			
Copper (net of hedge)	R' million	**1 725**	1 454
Magnetite	R' million	**1 967**	1 170
Other by-products	R' million	**86**	102
Industrial minerals	R' million	**234**	186
Net profit before tax	R' million	**1 104**	439
Copper			
Dry ore hoisted	million tonnes	**5.3**	5.5
Average copper grade	% Cu	**0.66**	0.65
Copper in concentrate produced	kilo tonnes	**36.0**	36.4
Cathode produced	kilo tonnes	**32.1**	25.8
Average copper price realised	USc/lb	**438.2**	331.1
Average LME copper price for half year	USc/lb	**425.8**	324.3
Average sales ZAR/US$ exchange rate	R/US$	**6.90**	7.52
Spot ZAR/US$ exchange rate	R/US$	**6.83**	7.64
Average copper price realised (pre hedge)	R/ton	**66 516**	54 919
Average copper price realised (post hedge)	R/ton	**50 809**	42 570
Vermiculite			
Vermiculite sold	tonnes	**81 874**	85 249
Average vermiculite price realised	R/ton	**2 862**	2 177
Magnetite			
Magnetite sold		**1 693 090**	1 365 997
Average magnetite price realised	R/ton	**1 162**	857
Anode Slimes			
Anode slimes sold	tonnes	**95**	43
Nickel sulphate			
Nickel sulphate sold	tonnes	**168**	127
Average nickel sulphate price realised	R/ton	**34 365**	28 815
Sulphuric acid			
Sulphuric acid sold	tonnes	**53 241**	20 243
Average sulphuric acid price realised	R/ton	**98**	97
Marginal ore concentrate purchased			
Volumes	tonnes	**-**	800
Cost	R' million	**-**	30
Unit purchased price			37 705
Imported blister			
Volumes	tonnes	**-**	2 149
Cost	R' million	**-**	119
Unit purchased price			55 248

		Six months ended 30 June 2011	Six months ended 30 June 2010
Imported cathode			
Volumes	tonnes	**6 726**	1 800
Cost	R' million	**444**	96
Unit purchased price		**65 980**	53 353
Imported rod			
Volumes	tonnes	**-**	4 913
Cost	R' million	**-**	289
Unit purchased price		**-**	58 887
Cash flow			
Net cash from operating activities	R' million	**239**	(280)
Cash and cash equivalents as at 30 June	R' million	**1 708**	1 091
Costs			
Production cost (excluding product purchases)	R' million	**1 131**	1 040
Cost of sales	R' million	**1 603**	1 504
Capital expenditure and commitments			
Capital expenditure	R' million	**218**	53
Contracts placed at end of period	R' million	**138**	74
Investments			
Fair value of unlisted investments	R' million	**410**	368
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	**61**	46

UNAUDITED INTERIM CONSOLIDATED GROUP RESULTS

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	**Six months ended 30 June 2011 R'm**	Six months ended 30 June 2010 R'm
Sale of products		**4 543**	3 332
Hedge loss realised		**(531)**	(420)
Revenue		**4 012**	2 912
Cost of sales		(1 603)	(1 504)
Gross profit		**2 409**	1 408
Selling and distribution costs		**(900)**	(718)
Administration expenses		**(364)**	(216)
Other operating costs		**(50)**	(55)
Other income		**17**	16
Exploration costs	4	**(40)**	-
Other expenses		**(7)**	(2)
Profit before net finance cost and tax	5	**1 065**	433
Net finance income	6	**39**	6
Finance cost		**(31)**	(30)
Finance income		**70**	36
Profit before tax		**1 104**	439
Income tax expense	7	**(346)**	(133)
Profit for the half year		**758**	306
Profit attributable to:			
Equity holders of the parent		**758**	306
Earnings per share attributable to the equity holders of the parent (expressed in cents per share)			
- Basic and diluted earnings per share (cents)	8	**1 568**	632
- Headline earnings per share (cents)	9	**1 580**	630

The notes are an integral part of these condensed Group results.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Profit for the half year	**758**	306
Other comprehensive income/(loss):		
Available-for-sale investments		
- Valuation gains arising during the half year	**7**	4
Exchange differences on translation of foreign operations	**6**	-
Cash flow hedge		
- Mark to market (loss)/gain arising during the half year	**(77)**	342
- Transferred to profit or loss for the half year	**531**	420
- Hedge ineffectiveness	**2**	2
Income tax relating to components of other comprehensive income	**(131)**	(216)
Other comprehensive income for the half year, net of tax	**338**	552
Total comprehensive income for the half year	**1 096**	858
Total comprehensive income attributable to:		
Equity holders of the parent	**1 096**	858

The notes are an integral part of these condensed Group results.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2011 R'm**	As at 31 December 2010 R'm
Assets			
Non-current assets		**4 002**	4 281
Property, plant and equipment		**2 712**	2 877
Intangible assets		**7**	8
Other financial assets		**410**	398
Deferred income tax asset	10	**873**	998
Current assets		**3 927**	3 298
Stores		**107**	113
Product inventories		**928**	680
Trade and other receivables		**1 184**	864
Cash and cash equivalents		**1 708**	1 641
Total assets		**7 929**	7 579
Equity			
Equity attributable to owners of the parent			
Share capital and premium		**629**	629
Other reserves		**(1 463)**	(1 801)
Retained earnings		**3 798**	3 390
Total equity		**2 964**	2 218
Non-current liabilities		**2 971**	3 385
Other financial liabilities	11	**1 296**	1 672
Close-down and restoration obligation		**612**	617
Retirement benefit obligation		**172**	168
Deferred income tax liabilities	10	**891**	928
Current liabilities		**1 994**	1 976
Other financial liabilities	11	**960**	1 049
Close-down and restoration obligation		**2**	-
Retirement benefit obligation		**8**	8
Borrowings	12	**99**	98
Trade and other payables		**619**	573
Related party payables		**246**	203
Current income tax liabilities		**60**	45
Total liabilities		**4 965**	5 361
Total equity and liabilities		**7 929**	7 579

The notes are an integral part of these condensed Group results.

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 2010	48	581	(2 151)	3 201	1 679
Total comprehensive income for the year	-	-	350	589	939
Dividends paid	-	-	-	(400)	(400)
Balance at 31 December 2010	**48**	**581**	**(1 801)**	**3 390**	**2 218**
Total comprehensive income for the half year	**-**	**-**	**338**	**758**	**1 096**
Dividends paid	**-**	**-**	**-**	**(350)**	**(350)**
Balance at 30 June 2011	**48**	**581**	**(1 463)**	**3 798**	**2 964**

The notes are an integral part of these condensed Group results.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Cash flows from operating activities		
Cash generated from operating activities	**948**	310
Interest paid	**(4)**	(3)
Interest received	**19**	14
Dividends paid	**(350)**	(300)
Income tax paid	**(374)**	(301)
Net cash generated from/(utilised in) operating activities	**239**	(280)
Cash utilised in investing activities		
Acquisition of property, plant and equipment	**(218)**	(53)
Proceeds from disposal of property, plant and equipment	**-**	3
Investment in available-for-sale financial asset	**(5)**	(3)
Dividend income	**2**	2
Net cash used in investing activities	**(221)**	(51)
Net increase/(decrease) in cash and cash equivalents	**18**	(331)
Cash and cash equivalents at beginning of the year	**1 641**	1 395
Effects of exchange rate changes on the balance of cash held in foreign currencies	**49**	27
Cash and cash equivalents at end of half period	**1 708**	1 091

The notes are an integral part of these condensed Group results.

NOTES TO THE INTERIM CONDENSED GROUP RESULTS

1. CORPORATE INFORMATION

Palabora extracts and beneficiates copper, magnetite and vermiculite from its mines in the Limpopo Province. It is the primary aim of the Group, a member of the worldwide Rio Tinto 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 and is listed on the JSE Limited ("JSE"). The address of its registered office is 1 Copper Road, Phalaborwa, 1389.

The condensed consolidated interim financial statements of Palabora for the half year ended 30 June 2011 were authorised for issue in accordance with a resolution of the Board of Directors passed on 28 July 2011.

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 2011 has been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Reporting, as well as Schedule 4 of the South African Companies Act, No. 71 of 2008, IFRS and the AC 500 standards as issued by the Accounting Practices Board and the disclosure requirements of the JSE's Listing Requirements.

The interim financial report does not include all the information and disclosure requirements in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2010.

2.2 Significant accounting policies

The condensed consolidated interim 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.

Except as described below, the accounting policies applied in the preparation of the interim condensed consolidated Group results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011:

- **IFRS 1 (Amendment): First-time Adoption of International Financial Reporting Standards – Limited Exemptions from Comparative IFRS 7 Disclosures for First-time Adopters** (effective for financial periods beginning on or after 1 July 2010) - The additional amendment relieves first-time adopters of IFRS from presenting comparative information for new three level classification disclosures required by March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. The amendment is not applicable to the group;

- **IAS 24 (Revised): Related Party Disclosures** (effective for financial periods beginning on or after 1 January 2011) - The revision simplifies the disclosure requirements for government-related entities and clarifies the definition of related parties. The amendment may require additional disclosure at year end;

- **IFRIC 13: Customer loyalty programmes** (effective for financial periods beginning on or after 1 January 2011) - The meaning of the term 'fair value' is clarified in the context of measuring award credits under customer loyalty programmes. The amendment is not applicable to the group;

- **IFRIC 14 (Amendment): The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction- Prepayment of minimum funding requirements** (effective for financial periods beginning on or after 1 January 2011) - This amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset. The amendment does not have an impact on the group pension scheme;

- **IFRIC 19: Extinguishing Financial Liabilities with Equity Instruments** (effective for financial periods beginning on or after 1 July 2010) - This interpretation provides guidance on how to account for the extinguishment of a financial liability by the issue of equity instruments. The amendment is not currently applicable; and

- **Improvements to IFRSs2010** - (effective for financial periods beginning on or after 1 July 2010 or 1 January 2011) - A collection of amendments to International Financial Reporting Standards (IFRSs). These amendments are the result of conclusions the Board reached on proposals made in its annual improvements project.

3. PRESENTATION CHANGE

3.1 Operating segments

The magnetite joint product cost and overhead allocation methods have been restated to align these with the manner the segments are monitored and reported by management. The revised allocation method implemented and reported in the Group annual financial statement for the year ended 2010, reports operating results in a manner that is consistent with the operating and production profile of each segment. Costs allocated to the magnetite joint product relate to those costs incurred to mine the magnetite material from the underground operations and processed through the concentrator (new arisings material). No mining or concentrator costs are allocated to the historic magnetite stockpiles.

The change resulted in a restatement of previously reported operating segment profits.

Period ended 30 June 2010	**Copper R'm**	**Joint-product: Magnetite R'm**	**By-products: Other R'm**	**Industrial minerals R'm**	**Total R'm**
Reportable segment operating profit - as reported previously	20	309	92	-	421
Change in overhead allocation	20	(23)	(7)	10	-
Change in joint-product allocation	75	(75)	-	-	-
Change in depreciation allocation	27	(27)	-	-	-
Reportable segment operating profit - as reported currently	142	184	85	10	421

4 . EXPLORATION AND DEVELOPMENT COST

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Lift II Development Cost	**(40)**	-

Lift II development costs relates to pre-feasibility drilling and development of a copper mineralisation area under the current footprint.

5 . PROFIT BEFORE TAX AND NET FINANCE COST

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Profit before tax and net finance cost is stated after charging, amongst other items:		
Depreciation on property, plant and equipment	**(363)**	(234)
Amortisation on intangible assets	**(1)**	(1)
Employee benefit expense	**(496)**	(406)

6 . NET FINANCE INCOME

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Finance cost	**(31)**	(30)
Interest expense on borrowings	**(4)**	(3)
Unwinding of discount on close-down and restoration costs	**(22)**	(19)
Net foreign exchange loss on operating activities	**(5)**	(8)
Finance income	**70**	36
Interest income on short-term bank deposits	**16**	12
Interest income on available-for-sale financial asset	**3**	2
Net foreign exchange gain on financing activities	**51**	22
Net finance income	**39**	6

7 . INCOME TAX EXPENSE

The major components of income tax expense are:

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Normal income tax	**(354)**	(172)
South African		
- Mining tax: Current	**(336)**	(166)
- Mining tax: Prior year	**-**	1
- Non-mining tax: Current	**-**	(1)
Foreign		
- Current	**(18)**	(6)
Secondary tax on companies	**(35)**	(29)
Deferred income tax		
South African		
- Current	**43**	68
Income tax expense reported in the income statement	**(346)**	(133)

The tax rate reconciliation is as follows:

	%	%
Current statutory rate	**28.0**	28.0
Adjusted for:		
- Actual state share and state share deduction on mining tax	**-**	0.6
- Dividend income	**(1.7)**	(0.1)
- Disallowable expenditure	**-**	0.5
- Tax rate differential of foreign subsidiaries	**1.9**	-
- Secondary tax on companies	**3.1**	7.0
- Prior year over provision	**-**	(1.8)
- Other	**-**	(3.9)
Effective tax rate	**31.3**	30.3

8 . 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 2011 R'm	Six months ended 30 June 2010 R'm
Reconciliation of net profit for earnings per share		
Net profit attributable to equity holders of parent	**758**	306
Reconciliation of weighted average number of ordinary shares		
Weighted average number of ordinary shares of basic and diluted earnings per share	**48**	48
Earnings per share (cents)	**1 568**	632

9 . HEADLINE EARNINGS

	Profit before tax R'm	Tax expense R'm	Profit after tax R'm
Six months 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 2010			
Profit per income statement	439	(133)	306
Profit on disposal of property, plant and equipment	(2)	-	(2)
Headline profit	437	(133)	304

	Six months ended 30 June 2011	Six months ended 30 June 2010
Headline earnings per share (cents)	**1 580**	630

10 . DEFERRED INCOME TAX

	Six months ended 30 June 2011 R'm	Year ended 31 December 2010 R'm
At beginning of period	**70**	130
Tax charged to income statement	**43**	82
Tax charged to statement of other comprehensive income	**(131)**	(142)
At end of period	**(18)**	70
Deferred tax assets arising from:		
Provisions	**241**	237
Derivative financial instruments	**632**	761
Other	-	-
	873	998
Deferred tax liabilities arising from:		
Accelerated capital allowances	**(762)**	(808)
Available-for-sale investment	**(115)**	(111)
Other	**(14)**	(9)
	(891)	(928)
Net deferred tax (liabilities) / assets	**(18)**	70
Comprising:		
Deferred income tax assets	**873**	998
Deferred income tax liabilities	**(891)**	(928)
	(18)	70

11 . OTHER FINANCIAL LIABILITIES

Derivative financial instrument - Cash flow hedges

At 30 June 2011, the Group held a commodity swap contract designated as a hedge of expected future sales to local customers under which the Group receives a fixed price in Rand 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 2011 the cash flow hedges of the expected future sales were assessed to be highly effective and the ineffective portion of R2 million was recognised directly in the statement of other comprehensive income .

Table of terms: 30 June 2011

Maturity year	Quantity tonnes	Average hedged price ZAR/t	Hedged value R'm	Derivative liability R'm
2011	10 913	15 739	172	**596**
2012	21 137	15 739	333	**990**
2013	16 330	15 739	257	**670**
	48 380		761	**2 256**
Unamortised component of non-observable inception gains				**-**
Total of derivative financial instrument				**2 256**
Non-current				
Derivative financial instrument				**1 296**
Total non- current portion				**1 296**
Current				
Derivative financial instrument				**960**
Total current portion				**960**
Total of derivative financial instrument				**2 256**

Table of terms: 31 December 2010

Maturity year	Quantity tonnes	Average hedged price ZAR/t	Hedged value R'm	Derivative liability R'm
2011	21 825	15 739	344	1 038
2012	21 137	15 739	333	969
2013	16 330	15 739	257	703
	59 292		934	2 710
Unamortised component of non-observable inception gain				11
Total of derivative financial instrument				2 721
Non-current				
Derivative financial instrument				1 672
Total non- current portion				1 672
Current				
Derivative financial instrument				1 038
Unamortised component of non-observable inception gains				11
Total current portion				1 049
Total of derivative financial instrument				2 721

12 . BORROWINGS

Description of loan	Currency	Effective interest rate %	Six months ended 30 June 2011 R'm	Year ended 31 December 2010 R'm
Current				
Revolving credit facility - Tranche A	ZAR	Jibar + 2%	**48**	48
Revolving credit facility - Tranche B	USD	Libor + 2%	**51**	50
Total borrowings			**99**	98

The revolving credit facility (RCF) consists of a tranche A of 47,5 million rand, and a tranche B of 7,5 million US dollars. Each revolving facility loan is repayable on the last day of its interest period (quarterly).

13 . DIVIDENDS PAID

The following dividends were declared and paid:

	Six months ended 30 June 2011 R'm	Year ended 31 December 2010 R'm
Previous year final dividend:		
724 cents per qualifying ordinary share (2010: 620 cents)	**350**	300
Interim dividend:		
207 cents per qualifying ordinary share	**-**	100
	350	400

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:		
931 cents per qualifying ordinary share (2010: 724 cents)	**450**	350
Secondary tax on companies due on closing date of dividend cycle	**45**	35

14 . RELATED PARTY TRANSACTIONS

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
The following transactions were carried out with related parties:		
Recovery of travel and staff costs	**2**	1
Purchases of goods and services	**318**	316
Key management compensation (executive directors)	**5**	8

15 . 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 R'm	Joint-product: Magnetite R'm	By-products: Other R'm	Industrial minerals R'm	Total 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 and amortisation	414	943	38	42	1 437
Depreciation	(251)	(52)	(7)	(7)	(317)
Reportable segment operating profit	**163**	**891**	**31**	**35**	**1 120**
Period ended 30 June 2010					
External customers revenue					
Sales from products	1 874	1 170	102	186	3 332
Hedge loss realised	(420)	-	-	-	(420)
Reportable segment revenue	**1 454**	**1 170**	**102**	**186**	**2 912**
Reportable segment operating profit before depreciation and amortisation	329	211	88	15	643
Depreciation	(187)	(27)	(3)	(5)	(222)
Reportable segment operating profit	**142**	**184**	**85**	**10**	**421**

Reconciliation of reportable segment operating profit to profit after tax:

	Six months ended 30 June 2011 R'm	Six months ended 30 June 2010 R'm
Reportable segment operating profit	**1 120**	421
Unallocated amounts:		
- Other	**(8)**	25
- Depreciation and amortisation of tangible and intangible assets	**(47)**	(13)
- Net finance income cost	**39**	6
Profit from operations before tax	**1 104**	439
Income tax expense	**(346)**	(133)
Profit after tax	**758**	306

16 . COMMITMENTS

Commitments contracted for at the balance sheet date were R138 million (31 December 2010: R119 million). Capital expenditure that was approved by the Board, but not contracted for at 30 June 2011 amounts to R220 million (31 December 2010: R245 million).

17 . 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.

18 . EVENTS AFTER REPORTING DATE

Dividend declaration

The Board resolved to declare a dividend of 931c per share at a meeting held on 28 July 2011. This financial report does not reflect this dividend payable, which will be recognised in shareholders' equity as an appropriation of retained earnings in the year ending 31 December 2011.

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