Rio Tinto

Palabora Mining Company Limited

and its Subsidiaries

(a member of the Rio Tinto Group)

(“Group” or “Palabora” or “Company”)

Incorporated in the Republic of South Africa

Registration Number: 1956/002134/06

JSE Code: PAM ISIN: ZAE000005245

REVIEWED PRELIMINARY RESULTS AND RENEWAL OF CAUTIONARY

for the year ended 31 December 2012

Company Secretary:	KN Mathole
Registered address:	1 Copper Road, Phalaborwa, 1389 PO Box 65, Phalaborwa, 1390
Transfer Secretaries:	Computershare Investor Services (Pty) Limited 70 Marshall Street, Johannesburg, 2001 PO Box 61051, Marshalltown, 2107
Sponsor:	One Capital

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

Dikeledi L Nakene (CA) SA

Chief Financial Officer

Key group financial statistics

		Reviewed For the year ended 31 December 2012	Audited For the year ended 31 December 2011
Net (loss) / profit for the year	R'm	**(97)**	1 464
Basic (loss) / earnings per share	Cents	**(201)**	3 028
Earnings before interest, tax, depreciation and amortisation (EBITDA)	R'm	**413**	2 432
Headline (loss) / earnings	R'm	**(82)**	1 468
Headline (loss) / earnings per share	Cents	**(171)**	3 036
Cash and cash equivalents	R'm	**1 980**	2 210
Dividend per share (declared)	Cents	**-**	1 138
Net exchange gain	R'm	**94**	341
Exploration, development and growth costs	R'm	**684**	196

Overview

The 2012 financial year proved challenging for the mining industry at large and for Palabora in particular. Regrettably a contractor employee lost his life in October whilst performing scheduled maintenance works at crusher 4, underground. Commenting on the unfortunate incident, the managing director, Anthony 'Tony' Lennox said, "It saddens me that we lost a life in circumstances that were absolutely preventable. The fatality, together with all workplace related injuries no matter how minor, represents a real yet brutal reminder to double up efforts around safety".

Copper and magnetite prices softened during the year. Coupled with the guide rope failure on 04 July 2012 as well as increased Lift II project and growth related costs compared to 2011 resulted in a loss after tax of R97 million for the year against a profit of R1.46 billion for 2011. Ceteris paribus, the impact of lower prices net of foreign exchange reduced the 2011 earnings by R542 million reflecting the extent of the volatility in 2012.

As part of risk management Palabora is insured for business interruption. The insurance claim in respect of the guide rope is in progress.

Spending on Lift II increased compared to 2011 with an after tax effect of R351 million. All the Lift II project spending is being expensed until the project is approved to progress to feasibility stage. The pre-feasibility studies are being finalised and the Board of Directors is scheduled to review and if considered commercially viable, approve the project to progress to feasibility stage during 2013 and capitalisation of any further spend commences thereafter.

Notwithstanding the challenges, Palabora managed to maintain a healthy cash position of R1.98 billion, net of dividends paid of R100 million, compared to R2.2 billion in 2011. This was mainly achieved through 54% increase in magnetite sales to 4.9Mt compared with 3.2Mt in 2011. Magnetite sales increased mainly on the back of the road trucking to Maputo. Magnetite prices steadily recovered from the mid-year dip and closed the year firmer.

The major world economies largely remain weak and the outlook on commodity prices is dependent on the recovery of the same. There are good growth opportunities in iron ore and Palabora continues to expand its magnetite production with the recently constructed belt filter press set to be commissioned during 2013 to increase drying capacity. Other projects lined up in 2013 include increasing the magnetite booster and separation plants to reduce bottlenecks in the production stream.

Safety

All injuries remained constant at 24 for the year as was in 2011. Six of the 2012 injuries relates to Lift II project. Containing incidences and injuries associated with the Lift II exploratory and early development works is top priority in 2013 and beyond.

Copper production

The hoisting shaft guide rope failure in the third quarter and safety related stoppages which followed the shaft incident were major events which materially impacted the business. The impact of the guide rope, declining ore grades and reduced concentrator recoveries during the first quarter resulted in refined copper production decreasing 31% to 40.9kt compared to 59kt in 2011 with other production streams being affected as follows:

- Dry ore hoisted decreased to 8.6Mt compared to 10.7Mt in 2011;
- Total ore treated decreased to 9.2Mt compared to 11.8Mt in 2011;
- Copper in concentrate production decreased to 49.1kt from 68.0kt in 2011;
- Anode production decreased to 40.6kt compared to 59.4kt in 2011.

Magnetite production

Total magnetite including course material (65% fe), iron oxide (56% fe) and DMS, production increased to 5.3Mt from 3.4Mt in 2011 in line with increased logistical capacity from the road trucking of iron oxide to Maputo port which commenced in December 2011. The production of iron oxide increased 50% to 2.6Mt to take advantage of improved logistical options. Higher grade and higher margin course material production was impacted by the guide rope failure decreasing 21% to 2.6Mt from 3.3Mt in 2011. The lost production was replaced with the production of lower grade and lower margin iron oxide.

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. Consequently production decreased 19% to 133kt compared to 164kt in 2011 in line with reduced demand.

Loss for the year

The decrease in the bottom line from 2011 after tax profit of R1.464 billion to a loss of R97 million is mainly due to:

- Guide rope failure (insurance claim process ongoing);
- Lower commodity prices on copper and magnetite reduced earnings by R1.2 billion;
- Weaker rand on exports, net of foreign currency denominated costs, increased earnings by R658 million, averaging R8.19/US$ vs R7.26/US$ in 2011;
- Lift II and growth related costs expensed reduced earnings by R351 million; and
- In spite of the guide rope failure which impacted production for 67 days, cash production costs increased 3% to R2.5 billion compared R2.4 billion in 2011 mainly from inflationary pressures and also reflects the fixed nature of Palabora's costs.

Selling, distribution and administration costs

Selling and distribution costs increased 61% to R3 billion from R1.9 billion in 2011 on the back of increased magnetite sales and above inflation increases in freight and port charges partially offset by reduced vermiculite sales. Magnetite exports increased 58% to 4.6Mt compared to 2.9Mt in 2011 whilst vermiculite exports decreased due to the subdued demand. The road trucking to Maputo initiative commenced in December 2011 and the total cost for the year was R525 million for 1.4Mt magnetite dispatched. Port charges doubled to R441 million for the year due to increased use of the additional but more expensive terminal in Maputo to accommodate road trucking. Maputo port charges are also affected by the weaker rand with the average exchange depreciating 13% compared to 2011.

Administration expenses increased 9% to R772 million compared to R711 million in 2011 mainly due to the R25 million increase in insurance expenses as well as increase in staff costs.

Turnover variance analysis (R'm)

Turnover for the year ended 31 December 2011	8 054
Copper price	(373)
Magnetite price	(1 247)
Vermiculite and by-products prices	(42)
Hedge	12
Foreign exchange	1 170
Flexed turnover	7 574
Copper volume	(313)
Magnetite volume	1 709
Vermiculite volume	(166)
By-product volume	(88)
Turnover for the year ended 31 December 2012	**8 716**

- Increased magnetite sales volumes (4.9Mt vs 3.2Mt) from trucking to Maputo and marginally improved wagon availability from Transnet increased turnover by R1.7 billion;
- Lower copper and magnetite prices reduced turnover by R1.62 billion;
- Weaker rand on foreign currency denominated sales increased turnover by R1.17 billion;
- Lower copper volumes (65kt vs 70kt) reduced turnover by R313 million.

Copper sales volume mix

	For the year ended 31 December 2012 kt	For the year ended 31 December 2011 kt	% change
Onsite processed copper rod*	44.9	51.6	(13)
Imported copper rod#	6.7	-	100
Total copper rod	**51.6**	**51.6**	-
Cathode	5.9	6.7	(12)
Reverts	2.6	5.3	(51)
Refined copper scrap	5.3	6.5	(19)
Total copper sold	**65.4**	**70.1**	**(7)**

** Includes rod produced from cathode imports*
 # Due to guide rope failure

Cash flow and Capital

Cash generated from operating activities decreased 78% to R514 million from R2.3 billion in 2011 mainly due to increased spend spend on Lift II exploration and early development works compared to 2011, lower realised prices, tax pre-payment of R164m arising from subsequent losses realised for the year and the impact of the production shaft hoisting guide rope failure.

Sustaining capital expenditure will be maintained at minimum levels for the next three years unless such expenditure can benefit Lift II once approved.

Broad Based Black Economic Empowerment (BBBEE)

Palabora continues to make significant progress towards the fulfilment of the outstanding suspensive conditions and the implementation of the BBBEE transaction.

Suspensive conditions
Palabora confirms fulfilment of the following key suspensive conditions:

- execution of seven converted mining rights. Palabora anticipates the execution of the final converted mining right to be achieved shortly;
- adoption or amendment for the constitutional documents of the BBBEE partners and Palabora Copper Proprietary Limited (Palabora Copper); and

- receipt of counterparty consents to the transfer of essential contracts from Palabora to Palabora Copper upon the implementation of the BBBEE transaction.

A key suspensive condition which remains to be fulfilled is the consent of the Minister of Mineral Resources in terms of section 11 of the Mineral and Petroleum Resources Development Act, 2002 to the cession of the mining rights (other than the mining right which remains subject to a third party dispute) from Palabora to Palabora Copper and the registration thereof in the name of Palabora Copper. This process may be expected to take between two to six months.

Rio Tinto Group and Anglo American Plc divestment and Renewal of Cautionary

Palabora shareholders ("Shareholders") are referred to the announcements published on SENS on 11 December 2012 and 28 December 2012 ("Announcements"), regarding Rio Tinto Group ("Rio Tinto") and Anglo American PLC ("Anglo American") entering into a binding agreement to sell their respective effective shareholdings in Palabora ("Agreement") to a consortium comprising South African and Chinese entities led by the Industrial Development Corporation of South Africa Limited and by the Hebei Iron & Steel Group Co. Ltd.

The completion of the sale of Rio Tinto's and Anglo American's respective effective shareholdings in Palabora is subject to the fulfilment of certain conditions, as detailed in the Announcements, by 30 June 2013 (which date can be extended by mutual consent of the parties to the Agreement).

As previously communicated, Rio Tinto and Anglo American expect that it will take between 4 and 6 months from the date of the announcement for these conditions to be fulfilled.

As also previously communicated, the purchasers must extend an offer in terms of South African Takeover Regulations ("Mandatory Offer") to all remaining Shareholders upon the sale of Rio Tinto's and Anglo American's interests being completed ("Closing"). Any offer to minority Shareholders is therefore conditional on the completion of the sale of Rio Tinto and Anglo American's shareholdings in Palabora.

Accordingly, Shareholders are advised to continue exercising caution when dealing in the Company's securities until a further announcement is made.

Social responsibility

During the year Palabora disbursed R43 million (2011: R35 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

Mr William John Abel resigned as non-executive director of the Board, with effect from 01 January 2012. Mr Abel retired from Anglo American, after several years of service.

With effect from 02 January 2012, Mr Hendrik Johannes Faul was appointed as non-executive director of the company. Mr Faul is currently Group Head of Mining at Anglo American. He has extensive experience in the minerals and resources industry, both in surface and underground mining, processing, logistics and marketing. He has held several senior positions including Chief Executive Officer for Anglo Zinc and General Manager for various mining companies. Mr Faul holds a B (Eng) mining degree from the University of Pretoria. He also holds a South African Mine Manager's Certificate for metalliferous mines and is registered with the South African Council for Project and Construction Management Professionals as a professional construction project manager.

Mr Coen Hubertus Louwarts resigned as an alternate director effective from 12 October 2012.

With effect from 01 December 2012, Mr Eric Yan was appointed as an alternate director. Mr Yan is currently Business Development Manager at Rio Tinto Copper Group. He has extensive experience in defining corporate & marketing strategies, identifying growth opportunities, competitive benchmarking and improving and managing business performance. Mr Yan holds a BSc Mechanical Engineering Degree from the University of Cape Town and a Masters in Business Administration from INSEAD.

Mr Peter Ward was appointed as an independent non-executive director of the company, with effect from 18 December 2012. Mr Ward has held several positions as a director as well as serving on board committees in many listed and unlisted companies including inter alia Adcorp Holdings Limited, Aveng Limited, Hollard Holdings (Pty) Ltd and Imperial Bank Limited. He is a member of the Institute of Directors South Africa and South African Institute of Chartered Accountants. Mr Ward is a qualified chartered accountant and holds a B Comm degree (Rhodes University), Certificate in Theory of Accounting (University of the Witwatersrand), Diploma in Alternate Dispute Resolution (Arbitration Foundation of Southern Africa) and Executive Development Programme (Columbia Business School).

At 31 December 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 (British)	Eric Yan (British)
9. Hendrik J Faul	
10. Peter Ward	

**Executive director*

Appreciation

We are grateful to all the Board members for their active participation in providing strategic direction to the company. The Board looks forward to working with the new investors once Rio Tinto and Anglo American finalise the share sale in Palabora.

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

12 February 2013

Group selected statistics

		31 December 2012	31 December 2011
Revenue			
Copper (net of hedge)	Rand million	**3 283**	3 387
Magnetite	Rand million	**4 890**	3 924
Other by-products	Rand million	**138**	225
Industrial minerals	Rand million	**405**	518
Net (loss) / profit before tax	Rand million	**(110)**	2 176
Copper			
Dry ore hoisted	million tonnes	**8.6**	10.7
Average copper grade	% Cu	**0.59**	0.64
New copper in concentrate produced	kilo tonnes	**49.1**	68.0
Cathode produced	kilo tonnes	**40.9**	59.0
Average copper price realised	USc/lb	**365.2**	394.6
Average LME copper price	USc/lb	**360.7**	399.8
Average ZAR/US$ exchange rate	R/US$	**8.19**	7.26
Spot ZAR/US$ exchange rate	R/US$	**8.48**	8.19
Average copper price realised (pre-hedge)	R/tonne	**65 943**	63 145
Average copper price realised (post-hedge)	R/tonne	**50 250**	48 342
Magnetite			
Magnetite sold	DM tonnes	**4 891 815**	3 182 367
Average magnetite price realised	R/tonne	**1 000**	1 233
Vermiculite			
Vermiculite sold	tonnes	**115 428**	162 828
Average vermiculite price realised	R/tonne	**3 508**	3 181
Anode slimes			
Anode slimes sold	tonnes	**121**	195
Average anode slimes price realised	R/tonne	**1 008 842**	1 033 540
Nickel sulphate			
Nickel sulphate sold	tonnes	**155**	424
Average nickel sulphate price realised	R/tonne	**28 621**	30 136
Sulphuric acid			
Sulphuric acid sold	tonnes	**65 502**	95 681
Average sulphuric acid price realised	R/tonne	**182**	113
Imported cathode purchased			
Volumes	tonnes	**12 585**	10 168
Cost	Rand million	**860**	671
Average unit purchase price	R/tonne	**68 311**	65 969
Imported rod purchased			
Volumes	tonnes	**6 735**	-
Cost	Rand million	**440**	-
Average unit purchase price	R/tonne	**65 350**	-
Cash flow			
Net cash from operating activities	Rand million	**148**	780
Cash and cash equivalents	Rand million	**1 980**	2 210
Costs			
Production cost (excluding product purchases)	Rand million	**2 460**	2 393
Cost of sales	Rand million	**4 338**	3 376
Capital expenditure and commitments			
Total capital expenditure	Rand million	**366**	**445**
Sustaining capital	Rand million	**255**	445
Growth capital	Rand million	**111**	-
Authorised ordinary shares of R1 each	R'000	**100 000**	100 000
Share capital			
Issued ordinary shares of R1 each	R'000	**48 337**	48 337
Net asset value per share	R/share	**86**	76

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

	Note	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Sale of products		**9 741**	9 092
Hedge loss realised		**(1 025)**	(1 038)
Revenue		**8 716**	8 054
Cost of sales		**(4 338)**	(3 376)
Gross profit		**4 378**	4 678
Selling and distribution costs		**(3 018)**	(1 869)
Administration expenses		**(772)**	(711)
Mineral and petroleum royalty		**(47)**	(79)
Exploration, development and growth costs	4	**(684)**	(196)
Impairment of property, plant and equipment	5	**(22)**	-
Other income		**23**	30
Other expenses		**(31)**	(53)
(Loss) / profit before net finance income and tax	6	**(173)**	1 800
Net finance income	7	**63**	376
Finance income	7	**122**	423
Finance cost	7	**(59)**	(47)
(Loss) / profit before tax		**(110)**	2 176
Income tax income / (expense)	8	**13**	(712)
(Loss) / profit for the year		**(97)**	1 464
(Loss) / profit for the year attributable to:			
Equity holders of the parent		**(97)**	1 464
(Loss) / earnings per share attributable to the equity holders of the parent (expressed in cents per share)			
Basic and diluted (loss) / earnings per share (cents)	9	**(201)**	3 028

The notes on pages 14 to 23 are an integral part of the condensed consolidated preliminary financial information.

Reviewed condensed consolidated statement of comprehensive income

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
(Loss) / profit for the year	**(97)**	1 464
Other comprehensive income:		
Available-for-sale investments		
- Valuation gains arising during the year	**57**	37
Exchange differences on translation of foreign operations	**16**	36
Cash flow hedges		
- Mark to market losses arising during the year	**(150)**	(49)
- Transferred to profit or loss for the year	**1 025**	1 038
- Hedge ineffectiveness	**6**	6
Actuarial loss on defined benefit plans	**(19)**	(2)
Income tax relating to components of other comprehensive income	**(254)**	(290)
Other comprehensive income for the year, net of tax	**681**	776
Total comprehensive income for the year	**584**	2 240
Total comprehensive income attributable to:		
Equity holders of the parent	**584**	2 240

The notes on pages 14 to 23 are an integral part of the condensed consolidated preliminary financial information.

Reviewed condensed consolidated statement of financial position

	Note	**Reviewed As at 31 December 2012 R'm**	Audited As at 31 December 2011 R'm
Assets			
Non-current assets		**3 098**	3 154
Property, plant and equipment		**2 474**	2 702
Intangible assets		**12**	7
Financial assets		**612**	445
Current assets		**4 033**	4 048
Stores inventories		**167**	136
Product inventories		**871**	921
Trade and other receivables		**851**	781
Cash and cash equivalents		**1 980**	2 210
Current income tax assets		**164**	-
Total assets		**7 131**	7 202
Equity			
Equity attributable to owners of parent			
Share capital and premium		**629**	629
Other reserves		**(328)**	(1 023)
Retained earnings		**3 842**	4 053
Total equity		**4 143**	3 659
Liabilities			
Non-current liabilities		**1 305**	1 749
Financial liabilities	11	**-**	754
Close down and restoration obligation		**771**	665
Retirement benefits obligation		**205**	177
Deferred income tax liabilities	12	**329**	153
Current liabilities		**1 683**	1 794
Financial liabilities	11	**847**	968
Retirement benefits obligation		**8**	9
Trade and other payables		**641**	641
Related party payables		**187**	111
Current income tax liabilities		**-**	65
Total liabilities		**2 988**	3 543
Total equity and liabilities		**7 131**	7 202

The notes on pages 14 to 23 are an integral part of the condensed consolidated preliminary 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 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 / (loss) for the year	-	-	695	(111)	584
Dividends paid	-	-	-	(100)	(100)
Balance at 31 December 2012	**48**	**581**	**(328)**	**3 842**	**4 143**

Reviewed condensed consolidated statement of cash flows

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Cash flows from operating activities		
Cash generated from operating activities	**514**	2 308
Interest paid	**-**	(3)
Interest received	**28**	33
Dividends paid	**(100)**	(799)
Income tax paid	**(294)**	(759)
Net cash generated from operating activities	**148**	780
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(354)**	(442)
Acquisition of intangible assets	**(12)**	(3)
Proceeds on disposal of property plant and equipment	**2**	1
Investment in available-for-sale financial asset	**(110)**	(10)
Net cash used in investing activities	**(474)**	(454)
Cash flows from financing activities		
Repayment of borrowings	**-**	(107)
Net cash used in financing activities	**-**	(107)
Net (decrease) / increase in cash and cash equivalents	**(326)**	219
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	**96**	350
Cash and cash equivalents at end of year	**1 980**	2 210

The notes on pages 14 to 23 are an integral part of the condensed consolidated preliminary financial information.

Notes to the condensed consolidated preliminary 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 mines 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 exchange operated by the JSE Limited.

The condensed consolidated preliminary financial statements of Palabora for the year ended 31 December 2012 were authorised for issue in accordance with a resolution of the Board of Directors passed on 08 February 2013.

2. Basis of preparation and accounting policies

2.1 Basis of preparation

The condensed consolidated preliminary financial information for the year ended 31 December 2012 has been prepared in accordance with International Accounting Standard (IAS) 34, 'Interim financial reporting'.

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

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 preliminary 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 2011.

2.3 Independent audit review

The preliminary financial statements have been reviewed by the company's independent auditors, PricewaterhouseCoopers Inc. Their unmodified review conclusion is available for inspection at the company's registered office.

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

3. Changes in estimates

3.1 Close down and restoration obligation

The provision for close-down and restoration costs was impacted by the following movements during the year ended 31 December 2012:

- R90 million increase due to increased closure costs estimates following a closure review;
- An increase in the nominal discount rate from 6.8% to 7.3% resulted in a R30 million decrease; and
- Finance charges (unwinding of discount) through the income statement resulted in an increase of R46 million in the provision.

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 2012 is valued at R213 million compared with R186 million at 31 December 2011.

The valuation resulted in a pre-tax actuarial loss of R19 million (2011: R2 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.

4. Exploration, development and growth costs

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Lift II exploration and development	**646**	196
Transfer from property, plant and equipment	**38**	-
	684	196

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.

5. Impairment of property, plant and equipment

	Reviewed For the year ended 31 December 2012 R'm	**Audited For the year ended 31 December 2011 R'm**
Western extension project	**22**	-

A write off of unrecoverable costs accumulated to date on the Western extension project was recognised during the year, as management does not expect any future economic benefits from the project.

6. (Loss) / profit before net finance income and tax

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
(Loss) / profit before net finance income and tax is stated after charging, amongst other items:		
Depreciation on property, plant and equipment	**579**	628
Amortisation of intangible assets	**7**	4
Employee benefit expense	**1 124**	1 002
Product purchases	**1 300**	671
Repairs and maintenance	**1 393**	1 084

7. Net finance income

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Finance income	**122**	423
Interest income on short-term bank deposits	**18**	26
Interest income on available-for-sale financial asset	**6**	6
Interest income on account receivable balances	**4**	1
Net foreign exchange gain on operating activities	**-**	49
Net foreign exchange gain on financing activities	**94**	341
Finance cost	**(59)**	(47)
Interest expense on borrowings	**-**	(3)
Unwinding of discount on close-down and restoration costs	**(46)**	(44)
Net foreign exchange loss on operating activities	**(13)**	-
	63	376

8. Income tax income / (expense)

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Normal income tax	**(55)**	(699)
South African		
Mining tax: Current	**(50)**	(638)
Mining tax: Prior years	**-**	(21)
Foreign tax: Current	**(5)**	(40)
Secondary tax on companies	**(10)**	(80)
Deferred income tax	**78**	67
South African tax		
Current	**80**	67
Prior years	**(2)**	-
Income tax income / (expense) reported in the income statement	**13**	(712)
Tax rate reconciliation:		
	%	%
Current statutory rate	**28.0**	28.0
Adjusted for:		
Secondary tax on companies	**(9.1)**	3.7
Tax rate differential on foreign subsidiaries	**(4.0)**	0.1
Deferred tax prior year adjustment	**(1.8)**	0.9
Disallowable expenditure	**(1.3)**	-
Effective tax rate	**11.8**	32.7

9. (Loss) / earnings per share

Basic and diluted	**Reviewed For the year ended 31 December 2012**	Audited For the year ended 31 December 2011
Reconciliation of net (loss) / profit to earnings per share		
Net (loss) / profit attributable to equity holders of the parent (rand million)	**(97)**	1 464
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
(Loss) / earnings per share (cents)	**(201)**	3 028

10. Headline (loss) / earnings

	(Loss) / profit before tax	Tax expense	(Loss) / Profit after tax
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)**
Year ended 31 December 2011			
Profit per income statement (R million)	2 176	(712)	1 464
Loss on disposal of property, plant and equipment (R million)	6	(2)	4
Headline earnings (R million)	2 182	(714)	1 468
Weighted average number of ordinary shares of basic and diluted headline earnings per share (million share)			48
Headline profit per share (cents)			3 036

11. Financial liabilities

The Group holds a commodity swap contract designated as a cash flow hedge of expected future sales to customers. Palabora receives a fixed price in rand in relation to a monthly notional quantity of copper sales as detailed below. It 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$ 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. The commodity swap contract expires on 30 September 2013.

Table of terms: 31 December 2012

Maturity year	**Quantity tonnes**	**Average hedged price R/t**	**Hedged value R'm**	**Derivative liability R'm**
2013 – Current portion	**16 330**	**15 739**	**257**	**847**

Table of terms: 31 December 2011

Maturity year	**Quantity tonnes**	**Average hedged price R/t**	**Hedged value R'm**	**Derivative liability R'm**
2012 – Current portion	21 137	15 739	333	968
2013 – Non-current portion	16 330	15 739	257	754
	37 467		590	1 722

12. Deferred income tax

	Reviewed As at 31 December 2012 R'm	Audited As at 31 December 2011 R'm
At 1 January	**(153)**	70
Tax charged to the income statement	**78**	67
Tax charged to statement of other comprehensive income	**(254)**	(290)
At 31 December	**(329)**	(153)
Deferred income tax assets arising from:		
Provisions	**336**	255
Derivative financial instruments	**237**	482
	573	737
Deferred income tax liabilities arising from:		
Accelerated capital allowances	**(756)**	(758)
Available-for-sale investment	**(165)**	(125)
Other	**19**	(7)
	(902)	(890)
Net deferred income tax liabilities	**(329)**	(153)

13. Dividends paid

The following dividends were declared and paid:

	Reviewed For the year ended 31 December 2012 R’m	Audited For the year ended 31 December 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 approved.		
Final dividend declared:		
Nil cents per qualifying ordinary share (2011: 207 cents)	**-**	100
Secondary tax on companies due to closing date of dividend cycle	**-**	10

14. Related party transactions

	Reviewed For the year ended 31 December 2012 R’m	Audited For the year ended 31 December 2011 R’m
The following transactions were carried out with related parties:		
Purchase of goods and services (Rio Tinto Group)	**1 101**	754
Marketing fee (Rio Tinto Iron Ore Asia)	**141**	145

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 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.

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 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**
Year ended 31 December 2011					
External customers revenue					
Sales from products	4 425	3 924	225	518	9 092
Hedge loss realised	(1 038)	-	-	-	(1 038)
Reportable segment revenue	3 387	3 924	225	518	8 054
Reportable segment operating profit before depreciation	654	1 707	107	125	2 593
Depreciation	(450)	(89)	(10)	(11)	(560)
Reportable segment operating profit	204	1 618	97	114	2 033

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 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)**
Year ended 31 December 2011					
Joint product cost allocation	198	(198)	-	-	-
Overhead allocation costs	(510)	(116)	(21)	(37)	(684)
Selling and logistics costs	(16)	(1 653)	(19)	(181)	(1 869)

15. Operating segments - continued

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

	Reviewed For the year ended 31 December 2012 R'm	Audited For the year ended 31 December 2011 R'm
Reportable segment operating profit	**564**	2 033
Unallocated amounts:		
Exploration, development and growth costs	**(684)**	(196)
Other	**50**	34
Unallocated depreciation and amortisation	**(81)**	(71)
Impairment of property, plant and equipment	**(22)**	-
Net finance income	**63**	376
(Loss) / profit from operations before tax	**(110)**	2 176
Income tax expense	**13**	(712)
(Loss) / profit after tax	**(97)**	1 464

16. Commitments

Commitments contracted for at the reporting date was R117 million (2011: R79 million). Capital expenditure that was approved by the Board, but not contracted for at 31 December 2012 amounts to R238 million (2011: R314 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 (2011: R2 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.

17. Contingent liabilities - continued

Taxation penalty on the closure rehabilitation trust fund
In 2011 the South African Revenue Service (SARS) issued Palabora with a taxation penalty of 25% on its 2008 taxable income relating to the closure rehabilitation trust fund. Palabora objected to the penalty applied by SARS where after SARS reduced the penalty to 10% which amount to approximately R10 million excluding interest. Another appeal on the partial allowance was lodged in 2012 for the penalty to be waived. No further correspondence has been received by SARS to date and the matter is still pending.

18. Ore reserves

The total probable ore reserves remaining as at 31 December 2012 were 35.46 million tonnes (2011: 48.91 million tonnes) at 0.54% (2011: 0.57%) copper content.

19. Going concern

The Board has reviewed the future cash flows of the business. Determining the future expected cash flows requires management to make estimates and assumptions that affect cash flow. These include commodity prices, exchange rate and production levels. Actual results could differ from these estimates. Based on the estimated future cash flows the board believes that the Company and the Group have adequate resources to continue as a going concern for the foreseeable future.