Rio Tinto

Palabora Mining Company Limited



Integrated annual report 2010

Palabora Mining Company Limited

Contents

Company overview

2 Group highlights
3 Group operations in brief
3 Shareholders' diary
3 Addresses
4 Directorate and management
8 Chairman's report
10 Review by the Managing Director
11 Chief Financial Officer's letter
12 Corporate governance
19 Statement by the company secretary
20 Report of the audit committee

Operational review

24 Safety performance measures
25 Underground
25 Processing
25 Magnetite production
26 Smelting, refining and engineering services
26 Marketing and logistics
30 Sustainable development review

Annual financial statements

46 Independent auditor's report
47 Statement of responsibility by the board of directors
48 Directors' report
52 Income statements
53 Statements of comprehensive income
54 Statements of financial position
55 Statements of changes in equity
56 Statements of cash flows
57 Notes to the financial statements
95 Analysis of shareholders
96 Selected data – financial and statistical
98 Ore reserves and mineral resources overview
104 Notice to members
Proxy form – Inserted
Definitions

Financial highlights

R595 m

net profit for 2010
(2009: R284 million)

R1 533 m

EBITDA for 2010
(2009: R1 128 million)

R594 m

headline earnings for 2010
(2009: R290 million)

1 228 cents per share

HEPS for 2010
(2009: 598 cents per share)

R1 543 m

net cash at 31 December 2010
(2009: R1 292 million)

Forward-looking statements

Certain statements contained in this document other than statements of historical fact contain forward-looking statements regarding Palabora's operations, economic performance or financial conditions, including , without limitation, those concerning the economic outlook for the copper mining, magnetite and our by-products industries, expectations regarding copper prices, production, total cash costs and other operating results, growth prospects and the outlook of Palabora's operations. Although Palabora believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to be correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of, among other factors, changes in economic and market conditions, success of business and operating initiatives, changes in the regulatory environment and other government actions, fluctuations in copper prices and exchange rates, and business and operational risk management.

Palabora is not obliged to update publicly or release any revisions to these forward-looking statements to reflect events or circumstances after the date of the Annual Financial Statements or to reflect the occurrence of unanticipated events. All subsequent written or oral forward-looking statements attributable to Palabora or any person acting on its behalf are qualified by the cautionary statements herein.

Palabora Mining Company Limited ("Palabora") is a large copper mine, smelter and refinery complex managed by Palabora in the Limpopo Province of South Africa, and is a member of the worldwide Rio Tinto Group of Companies.

Vision

A leader in the mining industry through our performance

Mission statement

To safely and profitably extract and convert minerals and metal from the Palabora ore body

Objectives

Create a strong enterprise

- High performance culture
- Profitable long-term plan

Optimise operations

- Be a production benchmark
- Be a low third quartile cost producer
- Plan and execute the plan
- Improve continuously

Resource for success

- Develop future leaders
- Attract and retain the best talent at all levels
- Ensure zero harm

Sustainable long life

- Make the right strategic choices
- Drive Life of Mine extension projects (lift 2, magnetite)
- Earn the support of the community
- Preserve the environment

Behaviours

Integrity

- What you say is true
- Do what you say
- Communicate openly and honestly

Courage

- Stand up for what you believe
- Make the difficult decisions
- Seize opportunities

Accountability

- Deliver on promises
- Take responsibility
- Empower others to be accountable
- No blame

Caring

- Treat others with respect and dignity
- Show concern and empathy for others
- Be fair and firm
- Listen actively
- Accept differences
- Know team members

Teamwork

- Collaborate with others
- Integrate teams
- Collective interest ahead of personal interest

How we behave

Integrity

Be who you say you are

Honesty

Courage

Choosing to confront fear, risk and uncertainty

Accountability

Assume responsibility for actions, decisions and outcomes

Caring

Treat others as you would like to be treated

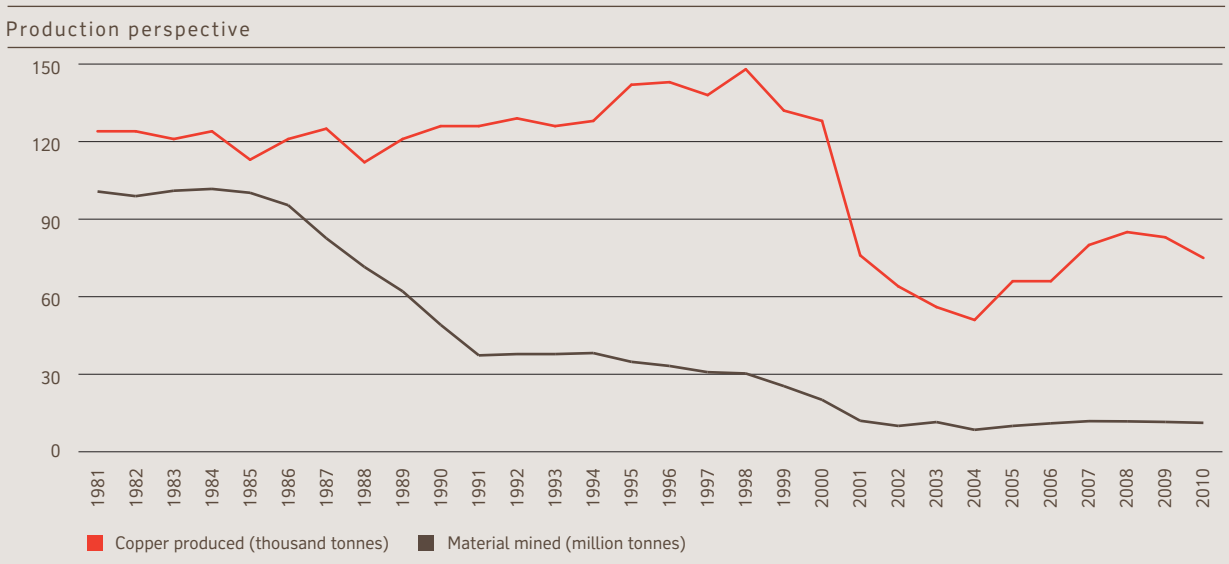
Teamwork

Working with others towards a common goal

Group highlights

	2010 R'million	2009 R'million
Sale of products	6 976	5 831
EBIT	1 050	577
Cash flow from operations	592	937
Net profit after tax	595	284
Headline earnings	594	290
Shareholders' equity	2 218	1 679
Capital expenditure	222	133
Share performance		
Cents per share		
Basic earnings per share	1 231	587
Headline earnings per share	1 228	598
Final dividend declared (cents per share) (note 24.4)	724	620
Market price (cents)		
– High	13 800	10 800
– Low	9 010	4 690
Production		
Metric tonnes	'000	'000
Material mined	11 237	11 537
Ore milled	11 657	11 330
Concentrate produced (copper content)	75	83
Cathode produced	58	69
Sales	'000	'000
Metric tonnes		
Copper content sold	73	87

All tonnes referred to in this report are metric tonnes



Group operations in brief

Palabora is South Africa's major producer of refined copper.

Product
The primary product of the Company is copper with magnetite being classified as a joint product due to its significant contribution to revenue and operating profit. By-products include nickel sulphate, anode slimes and sulphuric acid. The Industrial Minerals division produces and markets vermiculite.

Operations
The Copper operation comprises an underground mine, a concentrator, a copper smelter with anode casting facilities and an associated acid plant, an electrolytic refinery tank house, a rod casting plant, a magnetite separation plant and by-product recovery plants.

The Vermiculite operation comprises an open pit mining operation and recovery plant. Overseas subsidiaries in the United States of America, the United Kingdom and Singapore are responsible for the sale and marketing of vermiculite.

Shareholders' diary

February
Announcement of the preliminary results

April/May
Publication of annual report

June
Annual General Meeting

August
Publication of half-yearly interim report

December
End of financial year

Addresses

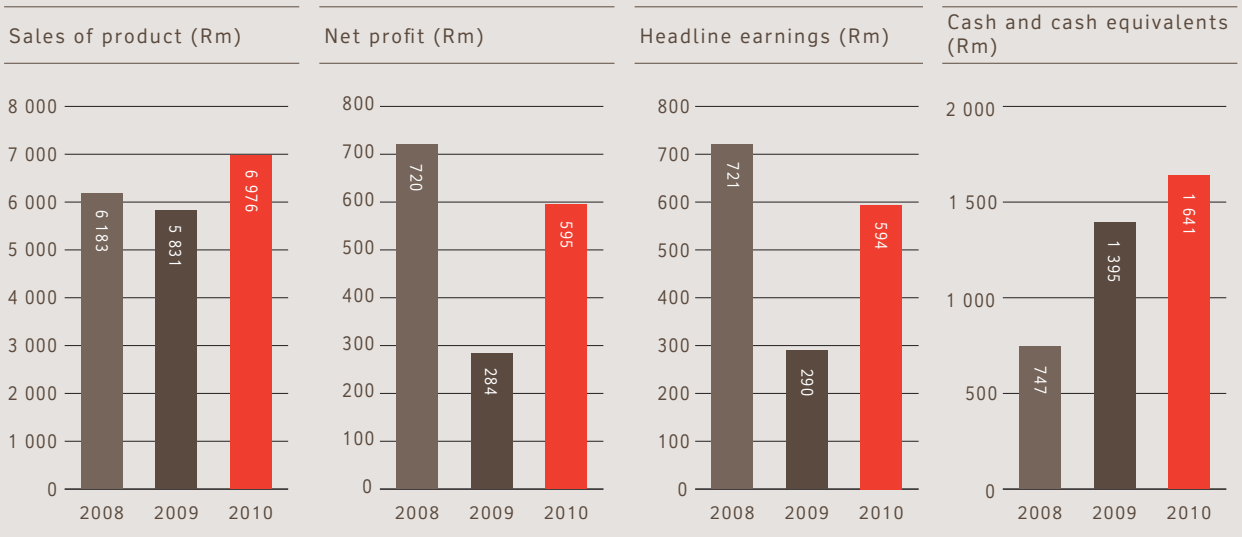
Registered office
1 Copper Road, Phalaborwa 1389
website: www.palabora.com

Postal address
PO Box 65, Phalaborwa 1390

Mine address
1 Copper Road
Phalaborwa 1389
PO Box 65, Phalaborwa 1390
website: www.palabora.com

Transfer Secretaries
Computershare Investor Services (Pty) Limited
70 Marshall Street, Johannesburg 2001

Postal address
PO Box 61051, Marshalltown 2107



Board of directors



Anthony W Lennox

Executive director

Anthony W Lennox (51) was appointed as Managing Director at Palabora with effect from 12 July 2010. Mr Lennox has been with Rio Tinto for four years. He headed the Rio Tinto Energy's Kestrel coal mine in Australia prior to joining Palabora. Mr Lennox held senior management roles with BHP Billiton, including Corporate Vice President Health, Safety & Environmental and President of the Cannington mining operation. He has an extensive career in the mining industry. He is a mining engineer and holds a Bachelor of Engineering (Hons) Degree from the University of New South Wales.



Clifford N Zungu

Non-executive directors

Clifford N Zungu (55) was appointed an independent non-executive director in April 2002 and Chairman in March 2009. His career to date has been in marketing and service-driven corporations. He has held various positions with BP Southern Africa, CG Smith Sugar, Engen Petroleum and Avis Rent a Car. He is currently Executive Head – People Management for Zurich Insurance SA in Johannesburg. Mr Zungu has a BCom degree from the University of Zululand and attended the Graduate Advancement Programme at Wits Business School in 1982, the Industrial Relations Development Programme at the Stellenbosch School of Business Leadership in 1991 and the Advanced Executive Programme at the Unisa School of Business Leadership in 1997.



Willan J Abel

Willan J Abel (60) was appointed as a non-executive director on 5 February 2010. Mr Abel is currently Group Head of Mining for Anglo American. He has extensive South African and international surface and underground mining and project experience in a number of commodities. Mr Abel is a Fellow of the Southern African Institute of Mining and Metallurgy (SAIMM) and holds a BSc (Min Eng) from London University and an MBA from Wits University. He is a registered professional engineer and also holds Government Certificates of Competency in Coal and Metal Mines from the Department of Mineral Resources.



M Ray Abrahams

M Ray Abrahams (42) was appointed an as independent non-executive director on 11 January 2010. He was previously the Operations Director at Brokrew Industrial and currently provides business consulting services to manufacturing organisations. He is a mechanical engineer with experience in operations, design, construction, asset management and projects within the mining, petrochemical, utilities and heavy manufacturing industries. Mr Abrahams is a member of several professional organisations including the Institute of Directors of South Africa, Engineering Council of South Africa, South African Asset Management Association, Black Management Forum and the Future Leaders Forum. He is a certified director and has also completed the chairman's programme at the Institute of Directors. He holds a BSc (Mech Eng) from Wits University and is a registered professional engineer. He also holds Government Certificates of Competency in Mining and Factories from the Departments of Labour and Mineral Resources respectively.



Francine A du Plessis

Francine A du Plessis (56) was appointed as an independent non-executive director on 11 January 2010. Ms Du Plessis has extensive experience as a director. She has held several positions as director as well as serving on Board committees in many listed and non-listed companies including SAA (Pty) Limited, KWV Limited, Sanlam Limited, Naspers Limited. She was admitted as an Advocate of the High Court of South Africa (Cape Town) in 1994 and was a Senior Lecturer at the University of Stellenbosch, Department of Accounting, Faculty of Commerce and Department of Commercial Law, Faculty of Law in 1985 to 1993. Ms Du Plessis is a qualified Chartered Accountant and holds BComm (Hons) (Taxation), LLB and BComm (Law) degrees from the University of Stellenbosch.



Lindsay Kirsner

Lindsay Kirsner (43) was appointed as a non-executive director on 1 August 2009. Mr Kirsner has in excess of 18 years' mining industry experience in a range of roles in mineral exploration, business development, resource development and projects. Mr Kirsner holds a science degree (geology and chemistry) and an MBA, both from the University of Melbourne and has been with the Rio Tinto Group since 2000. Presently, he holds the role of Mining Executive, Copper.



Jo-Ann Yuen

Jo-Ann Yuen (40) was appointed as an alternate non-executive director to Ms Priestly on 21 September 2009 and was appointed as a full member of the board on 1 June 2010. Ms Yuen also served on the Palabora board from March 2006 to March 2008. Ms Yuen is currently Chief Financial Advisor in the Rio Tinto Copper Product Group. She has been with Rio Tinto for 16 years mainly in the London offices and previously the Industrial Minerals Product Group. She is a chartered accountant and holds a BCom and MBA from the University of Western Australia, together with a graduate diploma from the Financial Services Institute of Australia.



Coen H M Louwarts

Alternate directors

Coen H M Louwarts (38) was appointed alternate non-executive director to Clive Latcham in April 2009. Mr Louwarts currently holds the position of Manager Business Analysis for Copper within the Rio Tinto Copper Group. His responsibilities in the role include management of business analysis for Rio Tinto's investments in the operating business of Escondida in Chile and the Grasberg Joint Venture with Freeport in Indonesia and he is also a member of the technical committees for these operations. Mr Louwarts holds an MSc in Mining Engineering from Delft University of Technology, IDC from Royal School of Mines – London and an MBA from Queensland University of Technology.

Executive management



Willem J van Rooyen

Management

The Company is managed by an executive committee comprising the managing director, Mr A Lennox, the acting Chief Financial Officer, Mr B Snyder, Chief Operating Officer, Mr W van Rooyen and nine general managers.

Willem J van Rooyen (54) was appointed to the position of Chief Operating Officer in January 2011. Mr Van Rooyen joins Palabora from Rössing Uranium where he has worked for a number of years across the operation. Most recently he held the position of General Manager – Operations where he has been responsible for all Mining, Processing, Mine Planning and Safety Health & Environmental (SHE) matters.

Mr Van Rooyen holds a National Diploma in Education from the University of Namibia and an MBA degree in General and Strategic Management from the University of Maastricht in the Netherlands.



M Bruce Snyder

M Bruce Snyder (50) – Interim Chief Financial Officer

Mr Snyder was appointed in the interim as acting chief financial officer on 1 January 2010 whilst a comprehensive recruitment process for a suitable candidate is undertaken. Mr Snyder is American and was based in Rio Tinto's Salt Lake City office from 2002. He is currently a General Manager Commercial of Rio Tinto in the Copper Group. He previously held Finance, Accounting, Treasury and Investor Relations roles with several New York Stock Exchange publicly held real estate operating companies. Bruce holds a BBA Accounting and MBA Finance & Investment degrees from the George Washington University.



Johan van Dyk

Johan van Dyk (51) was appointed Principal Advisor – Safety, Health, Environment and Quality (SHEQ) in November 2005 and General Manager of SHEQ and Auxiliary services in December 2007. Johan has been with the Rio Tinto Group for 10 years, most recently as manager Safety, health, environment and external relations at the Northparkes Mines in New South Wales, Australia. Johan joined Palabora in 1999 as safety manager and was later appointed as manager Vermiculite operations. He previously worked for Sasol Coal and was Group Safety Manager. He holds a Government Competency Certificate in Mining.



Mpho Mothoa

Mpho Mothoa (38) was appointed to the position of General Manager – Concentrator in June 2008. Mr Mothoa has been with Palabora for 11 years. He worked in various line management roles which included Superintendent – Heavy Minerals Plant, Superintendent – Vermiculite Plant and Superintendent Mill Operations before being appointed as Manager Concentrator Operations in 2006. Prior to Palabora, Mr Mothoa worked for Mintek as metallurgical research and development technician. He is a Chemical Engineering graduate from Tshwane University of Technology. He has also completed an Emerging Leaders Programme at London Business School in the United Kingdom.



Dawid Pretorius

Dawid Pretorius (42) was appointed to the position of General Manager – Underground and Vermiculite Operations in May 2008. Mr Pretorius has been with Palabora for six years. He joined the Company as Manager Technical at the Underground and has 16 years of experience in geology exploration, mine geology and mining. Mr Pretorius holds a BSc Honours Degree in Geology from North West University and MSc Degree in Mineral Resource Throughput Management from the University of the Free State. He is a registered member of the Geological Society of South Africa and Southern African Institute of Mining and Metallurgy.



Maboko John Mahlaole

Maboko John Mahlaole (53) was appointed to the position of General Manager – Human Resources in September 2010. Before joining Rio Tinto he worked over a period of 10 years for the De Beers Family of Companies in senior HR positions. In his last four years Mr Mahlaole was assigned to Debswana Diamond Mining Company in Botswana where he worked in the area of Organisational Effectiveness and led the Group wide transformation process. He holds several HR qualifications and an MBA degree from Bond University (Australia).



Herbert Hanke

Herbert Hanke (59) was appointed to the position of General Manager – Marketing, Sales and Logistics in November 2008. He has been with the Rio Tinto Group for 31 years and Palabora since November 1999 where he previously held the manager roles in the Smelter, Refinery, Engineering and Marketing. Mr Hanke was previously employed at Rössing Uranium, where he held the positions of Senior Manager Mining and Senior Manager Processing. Mr Hanke holds a BSc (Eng) Electrical degree from the University of Pretoria. He also holds an MDP diploma from the University of Cape Town Business School. He is a member of the South African Council for Professional Engineers (SACPE) and the South African Institute of Electrical Engineers (SAIEE).



Keith Ngoako Mathole

Keith Ngoako Mathole (35) was appointed to the position of General Manager – Corporate Affairs in October 2010. He joined Palabora as company secretary in August 2004, having previously held the role of assistant company secretary at the State Information Technology Agency from 2002 to 2004. Mr Mathole was senior consultant, Corporate Actions, at Georgeson Shareholder Communications from 2000 to 2002 and prior to that held a position of audit consultant at Seroto Consulting from 1999 to 2000. Mr Mathole also serves as principal officer of the Palabora Pension Fund and Chairman of the Peer Group Educators on HIV and AIDS. He is a Chartered Secretary and an Associate of the Institute of Chartered Secretaries and Administrators (ACIS) and a Fellow of the Chartered Institute of Business Management (FCIBM). He also serves as a non-executive director of CIS.



Wilson Dacosta

Wilson Dacosta (38) was appointed to the position of General Manager – Smelting, Refining and Engineering Services in September 2010. Prior to this, he was Manager, Asset Management Support at Kennecott Utah Copper (KUC) tasked with the responsibility for ensuring the development and implementation of consistent leading practice asset management strategy and operational tactics across the value stream. Over the two years at KUC, he developed and implemented the Critical path across the Value stream. Mr Dacosta holds a Bachelors Degree in Mechanical Engineering and is currently finishing an MBA with the University of Liverpool. He has over 12 years of experience in maintenance and reliability engineering roles.



Dave P Wright

Dave P Wright (39) was appointed to the position of General Manager – Business Improvement and Asset Management in January 2011 after having previously held the role of Mine Manager at Palabora from 2004 to 2007. Prior to this appointment, he held the position of Vice President of Mining for Lonmin Platinum in 2008 and Group Consulting Mining Engineer for Gold Fields during 2009 and 2010. He gained 14 years of mining experience with Anglo American and Anglo Platinum prior to joining Palabora in 2004. Mr Wright holds a BSc *cum laude* in Mining Engineering from the University of the Witwatersrand, a Mine Manager's Certificate of Competency, an MDP *cum laude* from Wits Business School, and an MBL from Unisa's School of Business Leadership. He is an associate of both the Association of Mine Managers of Southern Africa and the South African Institute of Mining and Metallurgy.

Chairman's report





In its eighth year of underground operation, Palabora's financial performance was good. Earnings outpaced those of last year due to higher metal and magnetite prices

Chairman – C N Zungu

Dear stakeholder

Palabora wishes to drive transformation at all levels of its business and as such has commenced the process of developing the transformation framework to provide a clear strategy for the planning and implementation of programmes to achieve the goals set by Senior Management. To ensure that the basic objectives of transformation are met there are synergies between the SLP, BEE, Mining Charter and the Community. The SLP Human Resource Development strategy was structured to focus on improving the skills development plan, career planning, coaching and mentoring, bursaries and internships and employment equity. On 10 June 2010, Palabora concluded its Broad Based Black Economic Empowerment (BBBEE) transaction with its partners which becomes effective once all the suspensive conditions in terms of the agreement have been met.

Palabora continues to make progress towards achieving the employment equity and procurement targets set out by the Mining Charter. Historically Disadvantaged South Africans (HDSA) at professional and management levels as at 31 December 2010 was 44,8 per cent and women were 10,6 per cent. Procurement spend on BEE business was 71,9 per cent valued at over 1,5 billion rand at 31 December 2010. Our goal on communities is to build enduring relationships with the Ba-Phalaborwa communities characterised by mutual respect, active partnership and long-term commitment. To this end, over and above the work that the Palabora Foundation is undertaking in the communities, key focus areas in 2011 will be enterprise and socio-economic development.

In its eighth year of underground operation, Palabora's financial performance was good. Earnings outpaced those of last year due to higher metal and magnetite prices. Copper production volumes however were down throughout the operations due to grade and operational challenges. These challenges are being addressed by the management team which includes the replacement of both winder drums at the mine and implementation of business improvement initiatives at the smelter complex. These actions along with the successful mine wide roll-out of a business improvement programme in 2011 are intended to achieve name-plate production in the mining operations.

Year in review and outlook

Further, the board has worked with the senior management team and identified three strategic priorities as covered in more detail in the Managing Director's report. The strategies evolve around resourcing for success, operational excellence and sustainable long life for the benefit of our stakeholders. These strategic objectives are intended to be the cornerstones for Palabora's future.

Safety, health and environment

The safety and health of Palabora employees is the number one priority. The well being of our permanent and contractor work force is a core value and intrinsic to the way we work. It is our firm belief that injuries, occupational illnesses and safety incidences are preventable. We will continue to provide our employees with the best training and equipment to prevent incidents from occurring. In this regard, Palabora has engaged SAFEmap, one of the world leaders in safety culture change management. They are regarded as one of the foremost safety consultancies in the resource, processing and manufacturing industries. Their unique Competency Based Safety methods have been designed and deployed in the mining industry and will form the basis of the Palabora safety approach for 2011.

Modest improvements were recorded in the All Injury Frequency Rate from 0,50 per cent in 2009 to 0,48 per cent in 2010. The Lost Time Injury Frequency Rate which measures our safety performance improved from 0.29 per cent in 2009 to 0,28 per cent in 2010. Palabora remains steadfast in its pursuit of an injury free workplace and embedded zero harm culture throughout its operations.

Palabora is committed to reducing its impact on climate change by assessing and reducing its greenhouse gas emissions. Palabora adheres to Rio Tinto Policies and Standards that guide the operations in how to manage and limit the impacts on the environment. Palabora's main aim is to ensure that SO_2 emissions to the environment remain below the Department of Environmental Affairs (DEA) annual ambient guideline limit of 19ppb. An internal limit of 15ppb has been set by Palabora and there is a contingency plan in place to ensure that the DEA limit is adhered to. Some of the measures include curtailing or even halting production when conditions require it.

Sound management of biodiversity is becoming increasingly important to corporate enterprises in general and to the mining industry in particular. In recognition

of this importance Rio Tinto has outlined a Biodiversity Strategy (2008) which includes a goal of having a net positive impact on biodiversity and ensuring sustainable development outcomes through the integration of conservation considerations with social decision making.

Palabora is committed to:
- The identification of biodiversity values impacted by our activities;
- The prevention, minimisation and mitigation of biodiversity risks throughout the business cycle;
- Responsible stewardship of the land we manage;
- The identification and pursuit of biodiversity conservation opportunities; and
- The involvement of communities and other constituencies in our management of biodiversity issues.

Palabora engages with a number of external stakeholders who are either interested or affected by Palabora's activities. Our stakeholder engagement process allows us to understand the concerns, needs and priorities of the communities associated with the operations as well as regulators' expectations. Palabora also contributed to the Greening Limpopo project by donating 2 152 trees which comprise fruit and plants indigenous to the Mopani district.

Board and governance

As a responsible corporate citizen, Palabora continuously reviews its corporate governance framework. During 2010, the focus was on the assessment of the Company's compliance with King III, including a gap analysis exercise to identify specific areas of improvements, continue to review regulatory and legislative developments, in particular the Minerals and Petroleum Resources Development Act and its regulations to ensure that the Company is able to respond appropriately, implement its Social and Labour Plan, and review and implement its transformation programme. The key focus areas in the 2011 financial year will be around the implementation of the findings from the King III gap analysis, where applicable and assessment of the Company's compliance with the new Companies Act, No 71 of 2008.

Mr Ray Abrahams and Ms Francine Ann du Plessis were appointed as independent non-executive directors of the Company, with effect from 11 January 2010.

Mr Johan Posthumus resigned as non-executive director of the board, with effect from 5 February 2010. Following a re-organisation at Anglo American, Mr Posthumus was appointed to the role of manager Corporate Services within Anglo American corporate offices. With effect from 5 February 2010, Mr Willan Abel was appointed as non-executive director of the board. Mr Abel is currently a Group Head of Mining for Anglo American. He joins the Company with extensive South African and international surface and underground mining and project management experience in a number of commodities.

Ms Kay Priestly resigned as non-executive director of the board, with effect from 31 May 2010. With effect from 1 June 2010, Ms Jo-Ann Yuen was appointed as non-executive director of the board. Ms Yuen is currently Chief Financial Advisor to Rio Tinto Copper Group and has previously served on the Palabora board from March 2006 to March 2008.

Ms Shelley Thomas and Mr Charles Asubonten retired as directors of the Company at the annual general meeting held on 8 June 2010, with effect from 9 June 2010.

On 1 July 2010, Mr Matthew Gili resigned as the Managing Director at Palabora after five and a half successful and productive years with the Company, including three as Managing Director. Mr Gili accepted a new role at the Rio Tinto managed Oyu Tolgoi project in Mongolia. With effect from 12 July 2010, Mr Anthony Lennox was appointed Managing Director at Palabora. Prior to joining Rio Tinto four years ago, Mr Lennox held senior management roles with BHP Billiton, including Corporate Vice President Health, Safety & Environmental and President of the Cannington mining operation. Mr Lennox brings with him a wealth of knowledge and has an impressive career in the mining industry.

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 years' 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.

I thank all the outgoing directors for their contributions and wish them well in their new roles. I also welcome the new directors who bring with them a wealth of experience and expertise to the board of Palabora.

Appreciation

I thank all the members of the board for their active contribution and wise counsel during the year and congratulate the management team for the strong leadership they provided within our operations. We look forward to the year ahead with courage to perform well.



C N Zungu
Chairman

21 April 2011

Review by the Managing Director





Safety is important to us all, both at home and at work, and is the universal language of care

Managing Director – A W Lennox

2010 – Reconfiguring for the future

It has been a pleasure to take up the Managing Director's role at Palabora Mining Company (Palabora) during 2010. My move from Rio Tinto's Energy division to the Copper division provides the opportunity for a fresh set of eyes and thoughts to be applied to the business. I look forward to working with the board of directors to ensure that Palabora is a safe and financially sound company.

Firstly, and most importantly, I wish to comment on 2010's safety performance and the twenty-one recordable injuries the business suffered during the year. I believe completely that our Company can be run without injuring people when our systems are understood and everyone is thoughtful about the possibility of injury. Safety is important to us all, both at home and at work, and is the universal language of care. During the last quarter of the year we revisited our safety performance and, as a result, have established new programmes that will see greater understanding of how to reduce risk and injuries during 2011. In association with safety, operating adjacent to Kruger National Park also reinforces every day that we must have top-notch environmental and health care approach to our operations and actions.

Financial performance was good for the year due to stronger than anticipated prices for copper and magnetite. Gross revenue came in at 6 975 million rand and was 20 per cent higher than 2009's figure; profit after tax at 595 million rand was 110 per cent higher than last year. Production difficulties and constraints along with the movement in the Rand adversely impacted earnings.

Copper in concentrate produced was 10 per cent lower compared to 2009. The reduction was due to failures in the mine hoisting system that resulted in it not being able to run at full capacity. Replacement of the failed hoisting equipment will occur during the first quarter of 2011. Copper output was also reduced due to operational control difficulties in the smelter and refinery during the first three quarters of the year. An ongoing programme that brings about better day-to-day control in smelting and refining is underway to rectify these problems.

Magnetite sales volumes were 3 per cent higher at 2 640 million tonnes compared to 2009. Whilst an increase for the year, magnetite sales volumes were negatively affected by two events, the strike action during quarter two within Transnet and the Brakspruit Bridge failure near Hoedspruit in quarter three. Vermiculite sales at 178 599 tonnes were 3 per cent lower than last year.

During the second half of the year Palabora undertook a substantial review of its mining rights as we progress the conversion of our old order mining rights to the new order mining rights and keep in step with transformational agenda underway within South Africa. One anomaly was discovered in the review and this is being addressed with the Department of Mineral Resources (DMR) and other associated parties. We are confident that this will be resolved during the course of 2011.

Our application for conversion of old order mining rights to new mining rights together with our Broad Based Black Economic Empowerment transaction has been submitted to the DMR and I am confident that this will be resolved during the 2011 financial year.

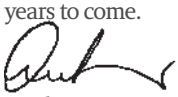
In the community we have continued to see excellent support for the greater Ba-Phalaborwa municipality through the activities of the Palabora Foundation. The Foundation continues to provide exemplary educational and health care support for the citizens of the Ba-Phalaborwa. During 2011 the Foundation will renew its core programmes and enhance its enterprise development support.

Looking to the future and assessing strategic issues that affect Palabora we will commence addressing three primary areas during 2011. Firstly we will be resourcing the business for success, secondly we will be optimising our operations and, thirdly, ensure that we are a long life operation. To ensure that these strategies are dealt with Palabora has appointed Willem van Rooyen to the position of Chief Operating Officer and David Wright to the position of General Manager Business Improvement and Asset Management. These roles will strengthen our ability to optimise our operations. We have also appointed Nick Fouche to the position of General Manager Growth with responsibility to ensure our long life operation plans are delivered.

Resourcing for success will ensure that our people programmes develop South African and continental Africa talent. The requirements of the Mining Charter and transformation requirements fit within this arena. Optimising the operations will be about making sure that we continually seek improvement in our day-to-day operations. We operate in a competitive and ever changing market and we will be installing business improvement programmes that keep the business fit. Ensuring a long life operation deals with making certain progression from Lift 1 to Lift 2 comes about as planned as well as conceptual consideration of life after Lift 2. In this area we will be working with the Industrial Development Corporation and Iron Mineral Beneficiation Services on the beneficiation of Palabora's magnetite into iron and steel.

The market outlook for Palabora's products continues to be strong. When the reconfiguration that is underway and strategy that is being refined comes into effect, I see a healthy and robust future for the Company in its markets.

Lastly, I wish to thank more than 4 500 people at Palabora who are the heart and soul of the ongoing success of this Company. I am heartened by the commitment and willingness to reconfigure our activities and ensure that we are strong for years to come.



Anthony W Lennox
Managing Director

21 April 2011

Chief Financial Officer's letter





Palabora is committed to executing on its financial strategies to enable the business to effectively compete and in turn drive shareholder value

Interim Chief Financial Officer – M Bruce Snyder

2010 –Recovery picks up steam

Improving economic conditions during the second half of 2009 transformed into a full recovery during 2010 with the mining sector experiencing surging demand for nearly every commodity and in particular copper and iron ore. As a result, Palabora's financial results improved with good year over year growth in revenue and earnings. We see encouraging signs of continued strength in 2011 with rising demand for copper in South Africa and magnetite in China.

Our financial strategy is to prudently manage our balance sheet with a sharp focus on working capital management, maintaining appropriate levels of debt and cash reserves. We will continue with our efforts on reducing operating costs in order to optimise our financial position and continue to pursue growth through disciplined capital expenditures in an effort to increase shareholder returns.

Key accomplishments:

- Net cash increased by 251 million rand from 1 292 million rand in 2009 to 1 543 million rand in 2010;
- Dividends declared increased from R6,20 per share in 2009 to R7,24 in 2010; and
- Profit for the year increased by 311 million rand from 284 million rand in 2009 to 595 million rand in 2010.

Prices

The effect of price movements on all of our commodities in 2010 was to increase earnings by 1 839 million rand, excluding the impact of copper prices on the commodity swap contract, compared with 2009. Average copper prices were 50 per cent higher in 2010 than in 2009.

Exchange rates

There was significant movement in the US dollar in 2010 relative to the rand. Compared with 2009, the average price of the rand strengthened against the US dollar by 12 per cent. The effect of the currency movement was to decrease earnings relative to 2009 by 415 million rand.

Volumes

Total copper sales volume were lower in 2010 by 17 per cent at 72 500 tonnes as compared to 2009 at 87 000 tonnes. The decrease in tonnes sold was due to a decrease in tonnes hoisted from the underground due to winder breakdowns and production challenges in the smelter and rod complex. The reduction in copper volume was slightly offset by a 3 per cent increase in magnetite sales volume in 2010 at 2 640 million tonnes in 2010 as compared to 2 569 million tonnes in 2009. Magnetite sales were negatively impacted by the mid-year rail strike and the Brakspruit bridge collapse which reduced sales by 200 000 tonnes.

Debt

The Company fully repaid its Senior Term Facility in 2009 and the outstanding balance on the revolving credit facility totalled 98 million rand.

Derivative financial instrument

The impacts of the commodity swap contract, sales of copper tonnes hedged, decreased sales revenue by 845 million rand in 2010 as compared to 547 million rand in 2009. In 2009 22 265 tonnes were contractually bound to be hedged as compared to 22 188 tonnes in 2010. The commodity swap contract expires in September 2013.

Broad Based Black Economic Empowerment

Palabora concluded a BBBEE transaction with its new BEE partners on 10 June 2010. The agreements were lodged with the DMR on 2 July 2010, for final approval. The BBBEE transaction was approved by Palabora's shareholders on 15 October 2010 with 99 per cent 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 approval of its application for conversion of old order rights to new order mining rights from the DMR.

With the world recovering from the financial crisis, competition by mining companies to supply a growing worldwide commodity demand will substantially increase. As a result, Palabora is committed to executing on its financial strategies to enable the business to effectively compete and in turn drive shareholder value.

We thank you for your continued support and as always welcome the opportunity to communicate directly with our shareholders.



M Bruce Snyder
Interim Chief Financial Officer

21 April 2011

Corporate governance

Our commitment

Palabora Mining Company Limited is a company incorporated in South Africa under the provisions of the Companies Act, 1973, as amended, and has been listed on the JSE since 1956. Palabora and its subsidiaries (the Group) are committed to the principles of openness, integrity and accountability advocated in the King Report on Corporate Governance for South Africa 2002 (King II) and complies with the additional governance requirements of the JSE and various other legislative requirements. Accordingly, the board continues to take careful note of the recommendations contained in the King II report, as a minimum standard. A great deal of the Group's practices continue to be aligned with these requirements. The board has identified three areas where strict compliance with King II would add little or no value and where alternative workable systems existed:

- Executive directors' remuneration, which is determined according to the parent company's (Rio Tinto plc) scales of remuneration;
- Directors' appointments, which are influenced by the two major shareholders; Rio Tinto plc and Anglo American plc; and
- Evaluations and risk management, which are managed by the Company's executive committee. The responsibility for risk management still lies with the board.

By supporting the King II recommendations, the board has demonstrated its commitment to conduct the affairs of the Group with integrity and in accordance with generally accepted corporate practices. The board places strong emphasis on achieving the highest level of financial management, accounting and reporting standards. The financial statements are prepared in accordance with International Financial Reporting Standards as required by the JSE Listings Requirements and the Companies Act 1973, as amended. While the board is satisfied that the Company does comply with the JSE Listings Requirements, the Companies Act and the requirements of King II except in areas noted above, the board has already started addressing the challenges posed by the recommendations of the updated and revised King Report on Corporate Governance for South Africa 2009 (King III) and the much awaited new Companies Act (Act No 71 of 2008).

Application

Although the King II recommendations are generally applied to all entities in the Group, it is specifically adopted by Palabora Mining Company Limited, the Company, as the subsidiaries are not material in size. The Company's corporate governance systems are designed to exceed minimum compliance levels and continue to evolve to meet the expectations of all stakeholders.

Looking back at 2010 and forward to 2011 and beyond

In keeping with King III, Companies Act, No 71 of 2008, JSE Listings Requirements and other governance and legislative developments, the focus in 2010 was on the following initiatives:

- Assessment of the Company's compliance with King III, including a gap analysis exercise to identify specific areas of improvements;
- Continue to review regulatory and legislative developments, in particular the Minerals and Petroleum Resources Development Act and its regulations, to ensure that the Company is able to respond appropriately;
- Implementation of the Social and Labour Plan;
- Review and implement BEE compliance;
- Review and implementation of the Royalties Act;
- Review the Rio Tinto and Palabora management agreement; and
- Review and update the transfer pricing policy.

2011 and beyond

- Implementation of the findings from the King III gap analysis, where applicable;
- Assessment of the Company's compliance with the new Companies Act, No 71 of 2008;
- Implementation of the revised Rio Tinto and Palabora management agreement;
- Implementation of the updated transfer pricing policy;
- Continue to review regulatory and legislative developments to ensure that the Company is able to respond appropriately; and
- Continue to review and update the Company's transformation agenda.

Board of directors and composition

The Company has a unitary board structure. The board meets on a quarterly basis, retains effective control over the Company and monitors executive management. The board comprised eight directors, two executives, three non-executives and four independent non-executive directors.

At 31 December 2010 the Palabora board was constituted as follows:

Directors	Alternate directors
1. Clifford N Zungu *(Chairman)*	–
2. Anthony W Lennox *(Managing Director)**^	–
3. Francine Ann du Plessis	–
4. Ray Abrahams	–
5. Willan J Abel	–
6. Jo-Ann S Yuen^	–
7. Lindsay W Kirsner^	Coen H Louwarts#

** Executive directors ^ Australian # Dutch*

The following changes occurred since 31 December 2010:

Mr Nhlanhla Arthur Hlubi was appointed as an independent non-executive director to the board, 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 years' 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 Hlubi holds a BJuris (University of Zululand); LLB (University of Natal); Postgraduate Certificate in Compliance Management (University of Cape Town); Postgraduate Diploma in Financial Planning (University of the Free State); Management Advancement Programme (Wits Business School) and he is currently studying for an MBA through Henley Business School. In addition to this, he is a member of several professional organisations including the Institute of Directors, Financial Planning Institute of Southern Africa, Compliance Institute of South Africa and The Law Society of the Northern Provinces.

Mr Lindsay Kirsner has 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, Mr Craig Kinnell has been 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.

Craig joined Rio Tinto in 1985 as a graduate trainee, after successfully completing a degree in Marketing and Economics. He subsequently completed a Rio Tinto-sponsored MBA in 1992 and has acquired extensive international knowledge and experience within minerals marketing and the commercial mining environment over the past 25 years. He has held several board positions within Rio Tinto in South Africa, Namibia, China, Singapore, Canada, USA, UK and Germany and filled a number of senior management positions, including Managing Director of Rio Tinto Uranium and Senior Vice President Rio Tinto Iron & Titanium.

Ms Dikeledi Lorraine Nakene was appointed as Chief Financial Officer and Ex Officio board member with effect from 18 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 and as Chief Financial Officer for the Department of Sport, Arts and Culture as well as chairperson of the Audit Committee for 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 to this she is a member of several professional organisations including the Institute of Internal Auditors and South African Institute of Chartered Accountants.

Full details regarding changes in the Company's directorate and emoluments paid to directors are disclosed in the directors' report on pages 48 to 51. Details of directors presently constituting the board appear on pages 4 to 5. There are no contracts of service between any directors and the Company or any of its subsidiaries that are terminable at periods of notice exceeding one year and requiring payment of compensation. No director holds any shares beneficially or non-beneficially, directly or indirectly in the Company and there are no share option schemes.

A third of the directors are subject to retirement by rotation and re-election by shareholders each year in accordance with the Company's articles of association. In addition, all directors are subject to re-election by shareholders at the first annual general meeting following their appointment. The appointment of new directors is approved by the board as a whole. The names of the directors submitted for re-election are accompanied by sufficient biographical details in the notice of the annual general meetings to enable shareholders to make an informed decision in respect of their re-election.

The board retains full and effective control over the Group and monitors the executive management. The board is responsible for the adoption of strategic plans, monitoring of operational and financial performance and management, approving capital expenditure, succession planning as well as the determination of policies and processes to ensure the integrity of the Group's risk management systems among other duties. These responsibilities are set out in the approved board charter, which is reviewed annually. The directors believe that they have adhered to the terms of reference as articulated in the board charter for the financial year under review.

Corporate governance *continued...*

Details of attendance by directors at board meetings during the financial year ended 31 December 2010 are set out below:

Name of director	4 February 2010	29 April 2010	5 August 2010	25 November 2010
C N Zungu	P	P	A	A
J C Posthumus	P	NAD	NAD	NAD
W J Abel	NAD (Attended by invitation)	P	P	P
S Thomas	P	P	NAD	NAD
M Gili	P	P	NAD (attended by invitation)	NAD
A W Lennox	NAD	NAD	P	P
K Priestly	P	A	NAD	NAD
J S Yuen-Goh	A (was an alternate)	A (was an alternate)	P	A
C H Louwarts	A (was an alternate)	A (was an alternate)	P (was an alternate and attended by invitation)	P (was an alternate for Ms Yuen-Goh and attended in her absence)
F du Plessis	P	P	P	P
L Kirsner	P	P	P	P
R Abrahams	P	P	P	P

A = Absent with apologies P = Present NAD = Not a director at the time

Note: The Interim Chief Financial Officer, although not a director, was invited and he attended all board meetings during 2010.

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and for ensuring compliance with procedures and regulations of a statutory nature. Directors are entitled to seek independent professional advice concerning the affairs of the Group at the Group's expense, should they believe that course of action would be in the best interest of the Group. Non-executive directors' remuneration is recommended by either the company secretary or chief financial officer, after consultation with independent advisors on fees prevailing in comparable local companies.

Articles of association and board charter

The general powers of the directors are set out in the Company's articles of association. The purpose of the charter is to set out specific responsibilities to be discharged by the board, and every member of the board, in accordance with the requirements of King II. The Company is accountable to its shareowners and stakeholders and, by setting a Charter for the board, is able to regulate how business is conducted while adhering to best practice and the highest standard of business conduct.

The objectives of the charter are to ensure that all board members acting on behalf of the Company are aware of their duties and responsibilities as board members and the various legislation and regulations affecting their conduct and to ensure that the principles of good Corporate Governance are applied in all their dealings in respect, and on behalf, of the Company. In pursuit of the ideals in the Charter, the intention is to exceed "minimum requirements" with due consideration to recognised standards of best practice locally and internationally.

The board charter details the following key matters:

- Board leadership
- Composition of the board
- Role of the board
- Role of the chairman, the executive directors, independent and non-executive directors and the company secretary
- Matters reserved for the board; and
- Board evaluation

Independence of directors

The board considers three of its non-executive directors independent. These directors demonstrate complete independence in character, judgement and action in fulfilling their duties. An additional independent non-executive director was appointed with effect from 1 February 2011.

Induction and development

Palabora recognises that the induction of new directors, as well as the ongoing development of all directors, is critical to ensure that they are kept up to date with new developments and that they are able to effectively discharge their responsibilities within the Company's governance structure as well as legislative framework under which it operates. During the year, the directors received briefings and presentations by an independent advisor on the requirements of King III as well as the results of the gap analysis. Sessions on the new Companies Act and JSE Listings Requirements have been arranged for April 2011.

Whenever there are new legislative/corporate governance changes, directors are informed accordingly. In addition, all directors have access to the services of independent professional advisors at the expense of the Company in order to act in the best interest of the Company.

In-camera meetings

During the year under review, there were no in-camera meetings.

Executive committee

The board delegates the day-to-day management of the business of the Group to the managing director assisted by the executive committee. The committee meets weekly to review operations and performance, develop strategy and policy proposals for consideration by the board and to implement its directive. Members of the executive committee at present comprise: the managing director, the interim chief financial officer, the chief operating officer and eight general managers for underground and vermiculite operations; processing; smelter, refinery and engineering services; human resources; safety, health, environmental and quality; sales, marketing and logistics; corporate affairs; and business improvement and asset management. The company secretary attends all executive committee meetings.

Board audit committee

The board audit committee (BAC) has been in place since 1995 and its members are appointed by the board. The BAC consisted of two directors appointed by the board, all of whom are independent non-executive directors. A quorum for any meeting is two members present and voting on the matter for decision, of whom at least one shall be an independent non-executive director. The chairman of the board is not a member of the committee. On 3 February 2011, Mr Hlubi was appointed to serve on the BAC. This would bring the number of the BAC members to three, all of whom would be independent.

To assist the BAC in discharging its responsibilities, internal audits are performed throughout the Group, according to an annual internal audit plan. The internal audit function is under the control of the Treasury, Risk and Assurance Manager, who is assisted by a team of appropriately qualified and experienced employees as well as by the Business Risk Services division of Ernst & Young.

The primary mandate of the Group's internal auditors is to examine, review and evaluate the effectiveness of the applicable operating activities, the attendant business risks and the systems of internal operation and financial control, so as to bring material deficiencies, instances of non-compliance, high-risk exposure and development work needs to the attention of management for resolution. They report on an administrative basis to the chief financial officer, who is a member of the executive committee, and functionally to the BAC. Members of the BAC as at 31 December 2010 comprised the following:

Ms F du Plessis** *(chairman)*
Mr R Abrahams**
D Modise *(secretary)*

*Non-executive** Independent non-executive*

Subsequent to year end, on 3 February 2011, Mr H Hlubi was appointed to the BAC.

The BAC operates in full compliance with defined terms of reference established by the board in the form of a charter and in consideration of current international trends and developments pertaining to the functions of audit committees.

The purpose of the BAC is to assist the board in fulfilling its overview responsibilities that relate to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The BAC reviews the financial reporting process, the system of internal control and management of business risks, the audit process, and the Company's process of monitoring compliance with laws and regulations and its own code of business conduct. In performing its duties, the BAC maintains effective working relationships with the board, management, and the internal and external auditors.

The BAC does not perform any management functions or assume any management responsibilities; it provides a forum for discussing business risk and control issues, for developing relevant recommendations for consideration by the board. The board has responsibility for monitoring and controlling risks to which the business is exposed and may not delegate this responsibility to the BAC. The BAC can only advise on these issues.

The BAC terms of reference are highlighted in the BAC report to Shareholders on pages 20 and 21.

The chairman of the BAC reports to the board at each meeting on matters discussed and recommendations made by the committee. During the year, the BAC held in-camera meetings with the internal and external auditors separately.

The head of internal audit and external auditors have unrestricted access to the BAC, its chairman and, where necessary, to the chairman of the board and the managing director. All important findings arising from the audits are brought to the attention of the BAC and, if necessary, to the board. Meetings are held at least four times a year and are attended by internal auditors and external auditors, the chief financial officer and any other member of management that the BAC deems necessary.

Board committees

At the board meeting held on 21 April 2011, the board established and approved the Sustainability and Technical committee, Nomination and Remuneration committee and expanded the scope of the BAC to include Risk. The terms of reference for these committees were also approved by the board.

Corporate governance *continued...*

Details of attendance by members of the BAC during the financial year ended 31 December 2010 are set out below:

Name of director	3 February 2010	28 April 2010	4 August 2010	24 November 2010
S Thomas	P	P	NAM	NAM
J C Posthumus	P	NAM	NAM	NAM
F du Plessis	NAM	P	P	P
R Abrahams	NAM	P	P	P

A = Absent with apology P = Present NAM = Not a member at the time

Internal controls

The Group maintains systems of internal control over financial reporting and over safeguarding of assets against unauthorised acquisition, use or disposition, which are designed to provide reasonable assurance to the board of directors regarding the preparation of reliable published financial statements and the safeguarding of the Company's assets. The systems include a documented organisational structure and division of responsibility, established policies and procedures, and the careful selection, training and development of staff. Internal auditors monitor the operation of the internal control system and report findings and recommendations to management and the BAC. Corrective actions are taken by management to address control deficiencies and other opportunities for improving the system as they are identified. The board, operating through its audit committee, provides oversight of the financial reporting process. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and the safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Group assessed its internal control system as at 31 December 2010 in relation to the criteria for effective internal control over financial reporting and other control areas as set out in the Rio Tinto internal control questionnaire. Based on its assessment, the Group believes that, as at 31 December 2010 and at the date of this report, its system of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, met those criteria.

External auditors

The Company auditors are appointed by the board on the recommendation of the BAC and ratified by shareholders. The Company auditors' performance and independence is regularly monitored by the BAC. The non-audit work performed is periodically reviewed and approved by the BAC. The audit partners are rotated every five years.

Financial director

The BAC has, for the period under review, considered and satisfied itself of the appropriateness of the expertise and experience of the interim chief financial officer.

Risk management

The board is responsible for the total risk management process within the Group. The executive committee is accountable to the board and has established a Group-wide system of internal control to manage significant Group risks. This system supports the board in discharging its responsibility for ensuring that the range or risks associated with the Group's operations are effectively managed in support of the creation and preservation of shareholder wealth.

During 2010, the Company began implementing a more refined and specific risk identification process through use of the Rio Tinto Group Risk management approach and design. This approach requires the identification of key risks affecting the business and includes safety, operational, statutory, environmental, community and financial risk. The process requires that the identified risks are ranked in terms of likelihood of occurrence and the potential impact on the business of such occurrence. A responsible person is identified and assigned with the responsibility of managing the risk and ensuring that adequate response mechanisms are in place to reduce the impact and effects of the risk occurrence.

This risk register is being refined with the assistance of and in line with the Rio Tinto Group framework and a manager has been assigned to control, update and monitor the risk register. The risk register has been presented to both the board audit committee and the board. The Palabora executive team and the board are ultimately responsible for the review of the risk register and the controls implemented to ensure that risks are adequately addressed and reduced where applicable.

The board has approved the level of acceptable risk and requires that operations manage and report in terms thereof. Issues and circumstances which could give rise to material adverse reputational considerations are also considered to be unacceptable risks.

There may be additional risks unknown to Palabora and other risks, currently believed to be immaterial, could turn out to be material. These risks, whether they materialise individually or simultaneously, could significantly affect the Group's business and financial results.

BEE/Mining Charter

On 2 July 2010, Palabora lodged the BEE agreements with the DMR in Polokwane, bearing the signatures of the BEE partners. Palabora is still awaiting approval of its application

for conversion of old order mining rights to new order mining rights from the DMR. It is expected that the suspensive conditions relating to the BEE agreements will be fulfilled during the course of 2011 once the outstanding mineral rights issue is resolved in co-operation with the DMR and the other associated parties. One of the key challenges has been to source and secure high level HDSA individuals in key leadership positions. Palabora has been very successful in developing these individuals and we currently have an HDSA percentage of 44.8% in senior roles.

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.

Plant, machinery and equipment
Management are monitoring and actively seeking solutions to continued operational issues in the smelter and rod casting plant.

Surface subsidence and ore reserves
No increase in surface subsidence was experienced during 2010. Continuing movements and failure on the north wall is normal as the cave is mined at a rate of 110mm per day.

The order of magnitude study for Lift II continues during the year and drilling into the ore reserve continues. The Company expects to complete the order of magnitude study and present this to the Rio Tinto Investment Committee for approval during 2011. An early works development programme related to Lift II began during 2010 in order to provide Palabora with the optionality to continue into this ore reserve and thus reduce the expected production gap between the cessation of current Lift I operations and commercial production of the Lift II ore reserve, once the project is approved.

The Company has commenced a full audit of its copper and magnetite resources and reserves as part of the Lift II order of magnitude study as well as part of its adherence to the Rio Tinto Group policies on resource and reserve standards and compliance thereto. The full audit is expected to run well into 2011 and based on the results of the audit, further announcements will be made if required.

HIV/AIDS
The impact of HIV/AIDS continues to be felt in Palabora and Phalaborwa as is the case in the rest of the country. The effects, though difficult to quantify due to the confidentiality and stigma that still surround the disease, include absenteeism, reduced productivity, loss of personnel and increased direct and indirect costs. It is realised that there are no quick fixes for the pandemic.

Palabora in conjunction with the Palabora Foundation operates a combined workplace and community HIV/AIDS strategy that demonstrates Palabora's commitment to the good health of employees and contractors, and the communities in which it operates. Palabora will continue to maintain the HIV/AIDS and Health training programme as well as the voluntary counselling and testing programme and the free condom distribution programme. The full time HIV/AIDS and health educator will continue to play a pivotal part in this programme. The Company's programmes relating to HIV/AIDS are discussed in further detail in the sustainability section of the annual report.

Internal audit
The Company has an internal audit function that has direct access to the board audit committee. The internal audit charter and plan is reviewed and approved by the BAC on an annual basis. The function of the internal audit is primarily focused on the controls surrounding financial transactions and includes aspects and functions of the Human Resources department. Given the Company's stated objective of conforming to the principles of King III, the increased focus on business risks through both the local board and the Rio Tinto Group, the Company and the BAC approved the appointment of Ernst and Young (E&Y) for 2011 as part of the Company's internal audit function to increase the resource, expertise and focus of the function given the increasingly complex regulatory environment that affect our operations.

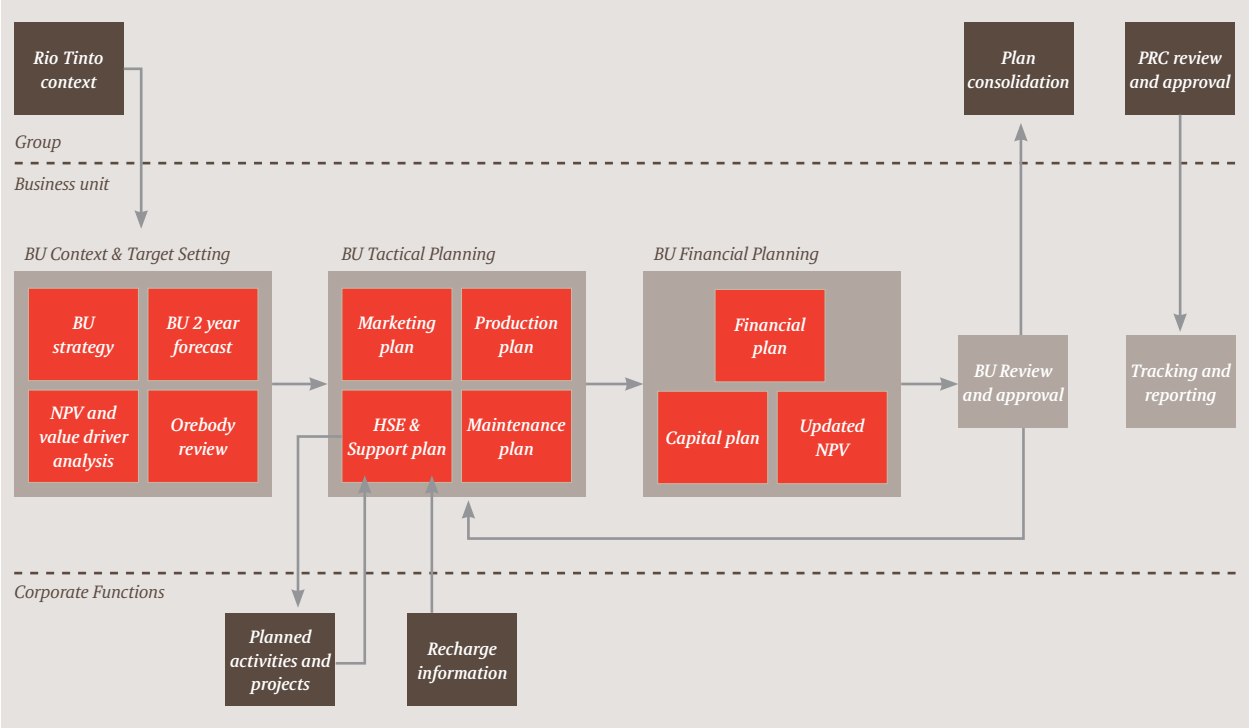
E&Y were previously appointed by the Rio Tinto Group internal audit function to undertake certain internal audit reviews on their behalf. The Company considers that the appointment of E&Y, together with their continued involvement through the Rio Tinto Group, to our internal audit function will strengthen the overall internal control framework and allow an improved systematic approach to the broadening role and scope of this function.

On an annual basis, the Company completes a Rio Tinto Group internal control questionnaire which provides comfort to both the board and the Rio Tinto Group that those internal controls, including financial, environmental, operational, safety and employees have been in compliance over the entire period under review. Completion of the questionnaire requires submission of evidence that corroborates management's responses which enhances the comfort relating to the functioning of internal controls.

Business continuity plan
On an annual basis, the executive committee reviews a business plan for the following year. Forecasts are also prepared for the subsequent four years. The plan takes into account key performance indicators, plan assumptions and key value drivers, costs and capital, risks and opportunities and key performance areas. The business plan is reviewed by the board at the last board meeting of the year. On the basis of this annual review, the board has recorded that it has a reasonable expectation that the Company and the Group have adequate resources and the ability to continue in operation for the foreseeable future. For these reasons, the financial statements have been prepared on a going concern basis.

The Company's process of preparing and reviewing its business plan is reflected in the diagram overleaf. The business plan is approved by the local board and is also subject to review and approval at various levels within the Rio Tinto Group.

Corporate governance *continued...*



Insider trading

No employee may deal directly or indirectly in Palabora ordinary shares on the basis of unpublished price-sensitive information regarding its business or affairs. No director or officer of the Company may trade in these shares during a closed period determined by the board. Closed periods are operated prior to the publication of the interim and year end results. Where appropriate, the closed period is also extended to include other sensitive periods. In terms of the JSE Listings Requirements, details of any transactions by directors in the shares of the Company are required to be advised to the JSE for publication through SENS. There were no director dealings during the year.

Worker participation and affirmative action

The Group employs a variety of participative structures on issues which affect employees directly and materially and is committed to complying with the Employment Equity Act. These participative structures are further developed and adapted from time to time to meet variations in operational requirements and to accommodate changing circumstances. Management and employee representatives meet in formal and informal forums at Company and operational levels to share information and to address matters of mutual concern.

Code of ethics

The Group has developed and promulgated a formal written code of ethics. In accordance with this objective, the code of ethics has been circulated throughout the Group to provide a clear guide to the conduct expected of all employees in their dealings with each other and with the Group's stakeholders. All employees of the Group are required to maintain the highest ethical standards to ensure that the Group's business practices are conducted in accordance with high standards and expectations. The Group is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders, including its shareholders, directors, managers, employees, customers, suppliers and society at large. The Group participates in a Rio Tinto Speak-OUT system for the anonymous reporting of unethical or risky business. It is the responsibility of the chief financial officer to oversee compliance with the code of ethics. All breaches of ethical behaviour are consistently and fairly dealt with under the Group's disciplinary code and appropriate disciplinary action is taken. As well as being dealt with under the disciplinary code, all cases of fraud or theft are reported to the South African Police Service for further action.

The board is of the belief that ethical standards are being met and supported by the abovementioned ethics programme.

Statement by the Company Secretary

In terms of section 268(G)(d) of the Companies Act, No 61 of 1973 as amended, (the Companies Act) I certify that, to the best of my knowledge and belief, the Company has lodged with the Registrar of Companies for the year ended 31 December 2010, all such returns as are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.



K N Mathole
Company Secretary

21 April 2011

Report of the audit committee

The Palabora audit committee's (BAC) legal responsibilities are set out in section 270 (1) of the Companies Act, 61 of 1973, as amended. These responsibilities, together with the requirements of the JSE and compliance with appropriate governance and international best practice, are incorporated in the committee's charter. The BAC has regulated its affairs in compliance with this mandate, and has discharged all of the responsibilities set out therein for the year ended 31 December 2010.

The biographical details of the committee members are set out on pages 4 and 5 and the members' fees are included in the table of directors' remuneration on page 51.

During the 2010 financial year, the BAC reviewed the performance, appropriateness and expertise of the interim Chief Financial Officer, M Bruce Snyder, as required by the JSE Listings Requirements 3, 84(i), and was satisfied with his expertise and experience.

External auditors – The BAC considered the matters set out in sections 270 – 283 of the Companies Act, and:
- is satisfied with the independence and objectivity of the external auditors;
- approved the external auditors' fees for 2010;
- approved the non-audit related services performed by PwC in the year in accordance with the BAC charter; and
- recommends the reappointment of the external auditors at the next annual general meeting.

Internal auditors – considered and confirmed the internal audit charter and audit plan for the 2010 financial year as well as reviewed the results of the internal audits conducted during the 2010 year. In addition, internal audits are performed throughout the Group, according to an annual audit plan, in order to assist the BAC to discharge its responsibilities successfully. The internal audit function is comprised of a team of appropriately qualified and experienced employees as well as by the Business Risk Services division of Ernst & Young appointed through the Rio Tinto Group.

During the year the BAC held separate meetings with management, external and internal auditors to discuss any challenges and other matters that they wish to discuss.

To the best of their knowledge and on the basis of the information and explanations given by management and the internal audit function as well as discussions with the independent external auditors on the results of their audits, the BAC is satisfied that there was no material breakdown in the internal accounting controls during the financial year under review.

The audit committee has evaluated the financial statements of Palabora Mining Company Limited for the year ended 31 December 2010 and, based on the information provided to the BAC, considers that the Group complies, in all material respects, with the requirements of the Companies Act (61 of 1973), as amended, International Financial Reporting Standards (IFRS) and the JSE Listings Requirements.

The BAC recommended the financial statements to the board for approval. The board subsequently approved the financial statements which will be open for discussion at the forthcoming annual general meeting.

The head of internal audit and risk and external auditors have unlimited access to the chairman of the BAC. The chairman of the BAC attends annual general meetings and is available to answer any questions.

The BAC discharges all its functions and responsibilities in accordance with the terms of reference.

The BAC terms of reference include *inter alia*:
- Consider with the internal audit department and the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues;
- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements;
- Review and approve, subject to board ratification, the annual financial statements and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate accounting policies;
- Review judgement and evaluations, for example those involving valuation of assets and liabilities; warranty, product or environmental liability, litigation reserves and other commitments and contingencies;
- Pre-approve any non-audit services provided by external auditors for which pre-approvals are required by applicable regulations, and ensure disclosure of such approval is made in the Company's public filings in accordance with applicable regulations; and ensure that external auditors are not providing any services prohibited by applicable regulations;
- Review and approve, subject to board ratification, the preliminary announcements and interim financial information and the extent to which the external auditors review such information;
- Consider whether the objectives, organisation, staffing plans, financial budgets, audit plans and standing of the internal audit function provide adequate support to enable the BAC to meet its objectives;

- Evaluate the independence and effectiveness of the external auditors and consider any non-audit services rendered by such auditors as to whether this materially impairs their independence;
- Evaluate the performance of the external auditors; and
- Obtain assurance from the external auditors that adequate accounting records are being maintained.

The BAC consisted of three independent non-executive directors until Ms S Thomas retired at the annual general meeting as director of the company and chairman of the BAC, with effect from 9 June 2010. She was succeeded by Ms F du Plessis as chairman of the BAC. A quorum for any meeting is two members present and voting on the matter for decision, of whom at least one shall be an independent non-executive director. The chairman of the board is not a member of the BAC.

Members of the BAC as at 31 December 2010 comprised the following two independent non-executive directors:
Ms F du Plessis (Chairman)
Mr R Abrahams

Mrs Yuen is a permanent invitee to the BAC meetings.

Subsequent to year end the following independent non-executive director was appointed to the BAC:
Mr N Hlubi



Ms F du Plessis
Chairman of the audit committee

21 April 2011

Operational review





Providing and maintaining a safe working environment remains our top priority.

Operational review

Safety of our employees across all aspects of the organisation, including both direct production and services, continues to play a fundamental role in the way Palabora considers and approaches its process.



Miners discuss the blockage in the draw point in front of this Elephant stone 1 700g LHD haul vehicle

Safety performance measures

During 2010 there were 21 All Injuries (AIs) reported in the business compared to 21 AIs in 2009, which included a fatality. There were 12 LTIs (2009: 12) and 9 MTCs (2009: 9). The operation wide AIFR was 0,48 in 2010 compared to 0,50 in 2009 while the LTIFR was 0,28 compared to 0,29 in 2009.

Safety of our employees across all aspects of the organisation, including both direct production and services, continues to play a fundamental role in the way Palabora considers and approaches its process. Although some minor improvements were achieved in the AIFR and LTIFR metrics for 2010 compared to 2009, there is sufficient scope to improve on our safety aspects. The improvement required includes both management actions to improve the safety environment of operations but also requires our employees and contractors to adopt a "safety first" mindset and culture in their approach to safety risks at both the operational and home environment.

Safety performance by operation

	2010	2009
Underground	**0,28**	0,55
Copper Processing	**0,12**	0,74
Smelter Operations	**0,93**	0,26
Smelter Maintenance	**3,04**	0,86
Engineering Services	**0,46**	–
Refining	**0,86**	0,87
Sales and Logistics	**–**	0,54
Company	**0,48**	0,50

The underground operation achieved a substantial improvement in its AIFR rate in 2010 which reduced to 0,28 compared to 0,55 in 2009. The underground reported AI's of 4 during 2010 compared to 8 in 2009 which reflects its commitment to the appropriate application of the Palabora Safety Strategy implemented during 2009. Copper processing achieved an 84 per cent reduction in the AIFR from increased focus on a continuous risk assessment culture. The increase in the AIFR in smelter and engineering services areas is being addressed to ensure that employees and contractors adhere to the Group's safety standards and risk assessment culture.

Underground

The underground copper mine achieved an average production output of 30 702 tonnes per day compared to 31 652 in 2009. A total of 11,21 million tonnes were hoisted, which is 3 per cent lower than the 11,55 million tonnes realised in 2009. The decrease in hoisted tonnes was mainly due to production winder drum breakdowns. The copper grade averaged 0,64 per cent against an average grade of 0,67 per cent in 2009. Replacement of the winder drums commenced during the first quarter of 2011 and production is expected to improve during the year.

Ventilation conditions in the underground continue to improve with the first phase of the bulk air cooler system being implemented due to the deterioration arising from the temporary installation of the cooling vehicles earlier in 2010. Sustained increased production in the western section of the mine and the start up of the return air-way to ramp development were successfully implemented. The delay in the fridge plant completion increases the pressure on future ventilation and refrigeration requirements to ensure that the first underground chiller plant is operational before next summer or by October 2011 to regain some flexibility in these systems.

Phase 2 drilling, related to the Lift II mine extension project, commenced in February 2010 and as of end of 2010, some 10 608 metres were already drilled. An extension of the return air-way had advanced to 219 metres by the end of 2010.

Processing

Copper production

Underground ore processed was 10,7 million tonnes at a head grade of 0,64 per cent, which was lower than 11,1 million tonnes at 0,67 per cent processed in 2009. The decrease was directly related to the decline in underground material production due to hoisting related issues. The proportion of underground ore processed through the autogenous milling circuit improved to 83 per cent as compared to 73 per cent in 2009 following the mill run rate improvement initiatives.

Overall recovery and concentrate grade from underground ore, including tap-off material, was 86,7 per cent at 30 per cent copper which was slightly lower than the 2009 performance of 87,3 per cent at 31 per cent copper. Tap-off material is mainly dolerite rich pebbles screened from the autogenous mills and has been stockpiled for later re-processing through the conventional circuit.

Copper in concentrate delivered to the smelter was 74 575 tonnes which reflected a 10 per cent decline relative to 2009. The change was attributed to the 22 per cent decline in the volumes of low grade copper reclaimed from the dewatering ponds, along with toll processing of non-copper bearing ore from the second quarter. New Palabora copper in concentrate of 58 380 tonnes represented 78 per cent of the total copper in concentrate delivered to the smelter as compared to 85 per cent in 2009.

Contained copper totalling 19 539 tonnes was processed from the smelter reverb high grade slag dump. This material is not included in the afore-mentioned 'new' Palabora copper in concentrate. The metallurgical performance of this material declined to 78 per cent recovery and 32 per cent copper grade as compared to 81 per cent recovery and 33 per cent copper concentrate grade in 2009. The copper in concentrate output from this source increased by 71 per cent to 15 396 tonnes of copper in concentrate compared to 2009.

On behalf of Foskor, 5,36 million tonnes of a combination of low copper bearing ore at 0,09 per cent copper was processed during the first quarter whilst the remainder of the non-copper bearing material replaced the supply for the rest of the year. The total volume of ore processed was slightly lower than the 5,8 million tonnes in 2009. The copper recovery and concentrate grade of the low grade material slightly increased to 54,3 per cent and 28 per cent respectively from 52,2 and 28 per cent in 2009.

Magnetite production

Despite the rail truck derailment that destroyed the Brakspruit Bridge and disrupted despatches for 59 days, combined magnetite production was 2,99 million tonnes, five per cent higher than 2009 production of 2,84 million tonnes. 88,6 per cent of the total production was exported into the Chinese iron ore market. The remaining 339 935 tonnes of magnetite was produced for the domestic market. The rigidity in domestic demand was due to the commissioning of more efficient coal washeries and was partially off-set by 57 998 tonnes dense medium separation magnetite being supplied to the growing demand of overseas coal washery in Australia.

Improved rail logistics to the ports of Maputo and Richards Bay continues to support the reclaim and reprocessing of

Operational review *continued...*

stockpile material by contract re-mining, to enhance the current arising magnetite in order to load available trains. However locomotive availability continues to limit the quantity of magnetite export volumes.

In addition to the rail-based organic growth model being pursued for the iron ore export business, Palabora is jointly exploring an agenda with both IMBS and the IDC to establish the feasibility of using Palabora magnetite resource as a primary feed for iron-making in Phalaborwa.

Smelting, Refining and Engineering Services

Smelter production

Production of new anode copper totalled 54 871 tonnes, a decrease of 16,8 per cent from the prior year of 65 937 tonnes. Production during the first quarter was affected by the breakdown of the blower motor in the sulphuric acid plant and extensive maintenance that was performed on one of the two hot metal cranes. Production in the second half of 2010 was affected by various maintenance activities. No concentrate was imported during the year (2009: 12 609 tonnes) due to the declining-first pass recoveries as well as export restrictions of unbeneficiated copper concentrate from Zambia.

During the year, 34 817 tonnes of copper containing reverts were sold in line with the continued focus on working capital reduction initiatives.

Sulphuric acid production decreased from 89 932 to 55 486 tonnes due to lower copper production and acid plant storage capacity.

Refinery production

Cathode production of 57 984 tonnes was 16 per cent lower than the previous year due to the low anode supply from the smelter. Continued focus on total electrolyte management resulted in the entire electrolyte in circulation being kept within the Tank house compared to previous years where it was continuously dumped as effluent.

The average efficiency of 84 per cent achieved was 1 per cent higher than the previous year.

Rod production of 37 536 tonnes was 21 per cent lower than the previous year. The reduced production was affected by the blocking of the furnace tap hole during the January start up which caused a shutdown of the furnace until mid February 2010. A steady production rate was not achieved throughout the year due to the reduction of cathode supply.

Anode slimes production of 135 tonnes was 33 per cent higher than the previous year. This was mainly due to barium sulphate reporting to the slimes. Nickel sulphate production of 323,9 tonnes was realised as compared to the 90 tonnes production realised in the previous year. This improved in the latter half of the year due to the iron removal project which reduced the reject production.

Engineering Services

Engineering service utilisation improved during 2010 with minimal use of outside contractors. Availabilities at the LSE workshop remained at high levels where replacement of ageing forklifts will improve availabilities into 2011. The ageing locomotive fleet continues to constrain material movements due to continuous repairs following breakdowns. The mobile crane utilisation improved due to the implementation of a crane booking system with less being spent on hired cranes.

An asset management systems audit was done by Rio Tinto Technology and Innovation (T&I) in 2010 with a dedicated support team focused at the Smelter and Concentrator to improve reliability under "Operate for Reliability" programme. Several recommended maintenance strategies and operating philosophies were implemented to improve the fixed plant utilisation.

Electricity supply was more consistent in 2010 compared to 2009 with no blackouts or load-shedding, although there are indications that a shortage of supply may occur during the next two years due to increased demand in South Africa. Electricity prices increased a further 28 per cent in 2010 and electricity saving opportunities continue to be a priority.

Marketing and logistics

Copper

Copper prices increased substantially during 2010 with an average LME price of USc340/lb (R54 868/t), 45 per cent above the 2009 average LME price of USc234/lb (R42 973/t). Average realised copper prices were USc347c/lb and 50 per cent above the average price realised in 2009.

The impact of the copper commodity swap was to reduce revenue by 845 million rand during 2010 with a resultant decrease in average realised price from R55 947/t to R44 273/t. The commodity swap contract expires in September 2013.

The increase in copper prices reflects the continued global demand for copper from the Far East Asian and Asian economies, notably China and India. Current market consensus suggests that these prices will remain at higher than historic levels due to supply constraints in the copper industry following the delay of projects during the global financial crisis. The supply constraint within the industry is also evident within the Treatment Charges and Refinery Charges (TC/RCs) as these costs are also at lower levels compared to the recent past.

Demand in the South African market continues to improve following South Africa's recovery from the global financial crisis with demand remaining at strong levels even after the completion of the FIFA World Cup related projects.

Copper imports, of varying quality, continued to increase in South Africa during 2010, with imports also increasing due to the significant appreciation of the local currency against the United States Dollar, which strengthened from an average of R8,33 in 2009 to an average of R7,32 in 2010 and ended at R6,64 at the close of the year. Demand is expected to remain robust within the domestic market in the coming year, given the growth prospects and the relative stability within the South African economy.

Sale of Palabora copper product decreased to 72,5kt in 2010 from 87kt in 2009 with the majority of the volumes sold into the domestic market. The lower volumes arose from production challenges at the underground, smelter and refinery complex as highlighted above.

Included within the sales volumes were 4,9kt of imported copper rod purchased to meet customer demand. Palabora also exported approximately 9,1kt of copper contained reverts, mostly destined for the export market.

Magnetite

Magnetite prices continued to increase during 2010 with average realised prices achieved at R887/t, 50 per cent higher than the average realised 2009 price of R590/t. The increase is largely attributed to the increased demand for iron ore and related products, most notably in China.

Total magnetite sales volumes increased by 3 per cent to 2,6 million tonnes compared to the prior year with the majority of the increase attributed to export magnetite mostly to China and the Far East. Demand for magnetite to the domestic coal washery remained unchanged compared to 2009 at 302kt.

Magnetite sales volumes were adversely impacted by a Transnet train strike during the second quarter of 2010 by approximately 120kt and due to the Brakspruit Bridge rail incident. In September 2010, the Brakspruit Bridge collapsed due to a train derailment and was not operational through to November. Over this period Palabora transported magnetite and vermiculite via road trucks to the nearby Gravelotte and Hoedspruit rail stations for further transport to the ports of Richards Bay, Maputo and Durban.

180kt of magnetite was transported via road during this eight week period with no reportable road incidents on the surrounding Phalaborwa road network, with over 5 000 trips being carried out to continue the supply of magnetite and vermiculite to our customers.

The impact of this interruption amounted to approximately 80kt of magnetite. A temporary bridge has been erected, which continues to be monitored until a new bridge is constructed. Although the Company has not experienced any delays and no future delays are anticipated, it is unclear when the new bridge will be operational but this is not expected before April 2012 at this stage.

Magnetite sales are directly tied to the availability of trains from Transnet. Given the nation-wide supply constraint Palabora is unable at this stage to commission any expansion of magnetite for export purposes. Palabora and Transnet continue to work co-operatively on plans to expand rail usage.

Vermiculite

Palabora sold 179kt of vermiculite during 2010, two-and-a-half per cent lower than the 183kt sold in 2010. Global vermiculite supply has moved from the larger grades to the finer grades resulting in increased higher grade vermiculite prices.

Palabora's mix of vermiculite has also shifted towards the fine and superfine grades due to grade constraints and lower recovery rates from the open pits.

Vermiculite sales revenue decreased by 10 per cent to 385 million rand in 2010 compared to 428 million rand in 2009. The decrease is largely attributed to the strengthening rand, which appreciated by over 12 per cent in 2010 against the US dollar. Vermiculite products are priced in US dollars and are sold in Europe and North America through two Palabora subsidiaries, Palabora Europe and Palabora America.

Vermiculite operating profit decreased by 60 per cent to 27 million rand in 2010 compared to 67 million rand in 2009. This decrease is mostly attributed to the marginally lower volumes and strengthening rand. Although vermiculite generated an operating profit in 2010, the operating profit disclosed in note 33 does not reflect the effects of realised and unrealised foreign exchange losses and adverse effects of taxation in the foreign jurisdictions in which the subsidiaries operate.

Sustainable development review





Sustainability isn't about a quick fix or cheap solutions. Generally it means making a commitment and trying, as best we can, to honour it.

Sustainable development review

Sustainability isn't about a quick fix or cheap solutions. Generally it means making a commitment and trying, as best we can, to honour it.



School children from the Chuchekani primary Eco school busy weeding their veggie garden

Palabora continues to support the holistic development of disadvantaged people and communities by working with all stakeholders.

This brief review details our commitment to sustainable development as performance highlights for 2010. A detailed eleventh sustainable development report can be accessed on the Company's website (www.palabora.com) or from the Company secretary (keith.mathole@palabora.co.za) or a hard copy can be requested from our transfer secretaries, Computershare. The twelfth sustainable development report will be significantly different to the previous reports as we align with the requirements of King III and Global Reporting Initiatives.

A shared vision towards community self-empowerment

Rio Tinto has made a strategic policy commitment to contribute to sustainable development. This commitment has been characterised by leadership of the Global Mining Initiative and efforts to build sustainable development strategy into all aspects of the Group's activities. More specifically, Rio Tinto has developed a sustainable development policy, which is "To ensure our businesses, operations and products contribute to the global transition to sustainable development".

The approach taken by our diverse group has been to encourage the development of local solutions whilst

taking account of, and bringing together, each operation's particular economic, community and environmental factors. While there is no universal "one size fits all" template, there has been a need for more specific policy guidance as the basis for moving forward.
Each Rio Tinto business is required to develop its business case for contributing to sustainable development by:

- Determining what the global transition to sustainable development means to the business – the risks and opportunities;
- Engaging with stakeholders and examining what measures, targets and reporting requirements are necessary;
- Finding ways to include sustainable development principles in business plans and decision making; and
- Investigating how social, environmental, economic and governance issues can be integrated.

Rio Tinto's reputation as a leader in this area brings benefits in interactions with host governments and communities. There are also risks, however, and it is essential that the Group performance leads, or at least matches, this reputation in practice. The local actions of each Rio Tinto business unit will influence the Group's overall reputation, hence the need to embed sustainable development principles (outlined in the Mining and Minerals Sustainable Development report) into "The way we work".

Palabora's community policy

Our goal

To build enduring relationships with the Ba-Phalaborwa communities that are characterised by mutual respect, active partnership and long-term commitment.

Our commitment

We will:

- Ensure that all our employees have a common understanding of the policy;
- Work with our contractors and suppliers to ensure adherence to this policy;
- Maintain and develop the Palabora Foundation to assist local communities to become self reliant;
- Establish and maintain a mutually acceptable consultation and engagement process that promotes consensus in the community towards a common vision and actions aimed at continuous improvement;
- Conduct regular Baseline Community Assessments to ensure up to date information on social issues and economic development needs;
- Facilitate development of Ba-Phalaborwa communities and labour to promote self sufficiency and independence;
- Work with the Leolo Community Trust to achieve its objectives; and
- Develop and implement a cultural heritage management system.

Our responsibility

- Develop the necessary skills in our employees to deal effectively with community relations;
- Integrate the policy implementation into the long-term objectives and company plans;
- Benchmark our practice through information exchange within the Rio Tinto Group and local and international best practices; and .
- Establish and maintain the communities' complaints, dispute and grievance procedure.

Our systems

The aforementioned commitments will be met by using the following systems:

- Develop an appropriate structure to manage community relations and development;
- Communities multi-year planning;
- Develop and maintain a cultural and socio-economic database of the Ba-Phalaborwa community;
- Social Risk Analysis; Social Impact Assessment and Strategic Environmental Assessment;
- Establish quantifiable and appropriate reporting mechanisms; and
- Develop a Monitoring and Evaluation system to enable an empirical impact evaluation over a pre-determined period for community projects.

Palabora's policy on human rights is based on its support for the United Nations Declaration of Human Rights, and enshrined in the South African Constitution. The Company's approach to local communities is set out in its Communities Policy above and follows the Rio Tinto policy as stated in "The way we work". Once again, we are pleased to announce that we have retained both our ISO 9001 and 14001 accreditations during 2010.

Sustainable development review *continued...*

How we make a difference

While Palabora has its own directorship and management, it is also governed by high level strategic policies from Rio Tinto, the major shareholder, that provide context and guidance for Palabora's strategic planning, management and operating practices.

For example, Palabora operates within Rio Tinto standards for occupational health and safety, environment and financial practices. Palabora also operates within Rio Tinto guidelines on "The way we work", human rights, corporate governance and business ethics.

Palabora is committed to providing a safe and healthy work environment, ensuring sound environmental management, and supplying good quality products and services. This is achieved with continual improvement of business practices and prevention of pollution as well as complying with relevant legislation, regulations and other requirements, and ensuring an enlightened workforce. Palabora's environmental impacts, i.e. sulphur dioxide and dust emissions, water consumption and effluent, mineral and non-mineral waste, energy consumption, associated greenhouse gas emissions and cultural heritage, will be managed, ensuring responsible land stewardship and sustainable development through the global framework rollout.

Safety and health

Our goal

We will uphold our standards and continually improve our performance to achieve our goal of zero harm to our employees and surrounding communities. We will strive to create and maintain a work environment where every employee returns to his or her family at the end of shift unharmed.

Our commitment

- Provide a safe, healthy and environmentally responsible workplace for our employees, contractors and visitors and minimise our impact on the neighbouring communities and surroundings.
- Continually improve our operations to comply with all relevant legislation and maintain ISO 14001 and 9001 certification.
- Use our resources responsibly and efficiently, in particular energy, water and land.
- Manage our mineral and non-mineral wastes responsibly to ensure the lowest possible impact to the environment and health of employees and communities.
- Protect identified cultural heritage sites.
- Develop and implement sustainable solutions that contribute to global expectations.
- Regularly meet and communicate with employees, contractors and communities in terms of Safety, Health, Environment performance and publicly report to all stakeholders on our performance annually.
- Rehabilitate disturbed land and maintain our commitment to closure plans and funding.
- Provide the means necessary to sustain the requirements of this policy.

Our responsibility

- Each employee has a responsibility to prevent harm to himself, fellow employees, damage to assets and detrimental impacts to the environment and intervene when others do not.
- Each leader is accountable for his actions and those of his team and to communicate our requirements and expectations to all employees, contractors, visitors and other stakeholders to involve them in its implementation.
- No task will be undertaken without a clear understanding of the best method to mitigate the risk of injury, occupational health, damage to assets and environmental harm.
- All SHEQ systems will be audited regularly to confirm and improve our performance against this policy.

Our systems

Safety, health and environmental considerations are fully integrated into our business through hazard identification and risk assessments. Our work processes and training programmes are designed so they:

- Encourage effective employee participation;
- Protect the safety and health of our employees, contractors and visitors;
- Prevent or mitigate pollution;
- Build from a foundation of compliance with applicable legislations, corporate policies and business unit expectations; and
- Ensure open and transparent reporting of incidents.

Prevent all injuries and occupational illness

In 2010, management focus remained on improving safety performance. The theme for the 2010 safety strategy was one team, one goal (refer to safety strategy diagram on page 33). This was to encourage safety performance with the 2010 Soccer World Cup spirit. This was well received across the mine, with all levels across the business understanding their roles in improving safety awareness in their respective areas.

During 2010, Palabora continued to improve on the Rio Tinto HSE safety initiatives, which included but was not limited to:

- Semi Quantitative Risk Assessment (SQRA) Update
- Critical Risk Assessment Review
- Significant Potential Incident reporting

Due to effective implementation of the corrective actions identified during the initial SQRA in 2008, Palabora managed to achieve a risk reduction of 3 per cent for 2010. Of significance is that Palabora reduced its SQRA identified risk by 30 per cent of a possible 35 per cent reduction since 2008.

As mentioned earlier, Lost Time Injury and Medical Treatment cases remained the same in 2010 versus 2009 (LTI's – 12 in 2010 vs. 12 in 2009; MTCs – 9 in 2010 vs. 9 in 2009) while the number of First Aid Cases was reduced (FACs – 100 in 2010 vs. 111 in 2009).

The Lost Time Injury Frequency Rate was reduced from 0,29 in 2009 to 0,28 in 2010 and the All Injury Frequency Rate reduced from 0,5 in 2009 to 0,48 during 2010.

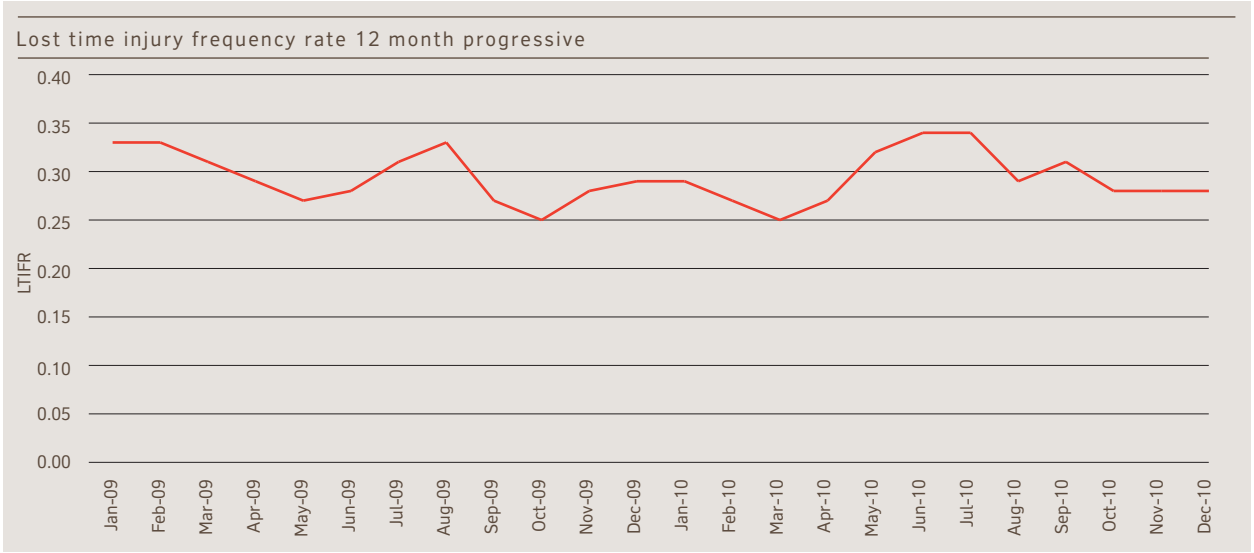
In 2011, Palabora is faced with a new challenge, of not just reducing the number of safety incidents, but creating a system that will maintain safety improvements. Given the stagnation that occurred during 2010 with regard to LTIs and AIFRs, new methods have been sourced and 2011 will bring a fresh outlook on how best to tackle the safety challenges at Palabora.



The safety of our employees

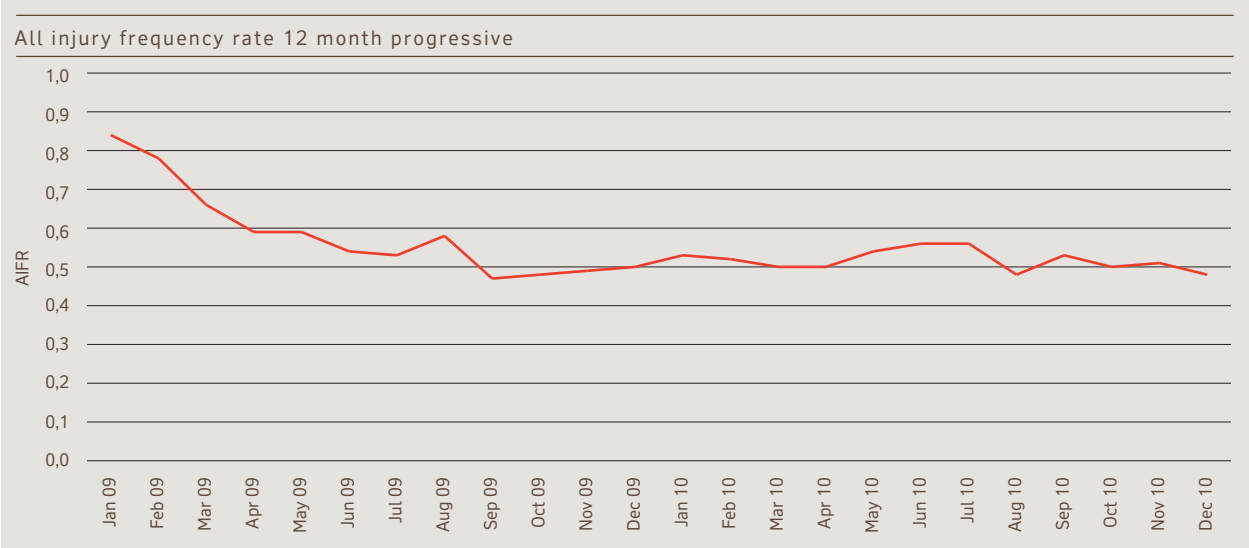
Employee safety and health has and always will remain the number one priority of Palabora; the well being of our permanent and contractor work force is a core value and intrinsic to the way we work. It remains a firm belief of management that injuries, occupational illnesses and safety incidences are preventable. However, it is not possible to remove all the risks and hazards that exist on a site that is as unique as Palabora. Palabora continues to equip our personnel with the best equipment and training to prevent injuries from occurring and as part of the drive towards zero harm a greater emphasis is being placed on personal and group safety responsibility.

This year Palabora has engaged with one of the world leaders in safety culture change management, an organisation called SAFEmap. They are regarded as one of the foremost safety consultancies in the resource, processing and manufacturing industries. Their unique Competency Based Safety methods have been designed and deployed in and for the mining industry and will form the basis of the Palabora safety approach for 2011. Their process aims to target and address unsafe behaviour amongst our employees. It is a long-term programme that kicks off with a survey to establish the safety culture on the mine. This data is analysed and a clear profile of Palabora obtained from which training programmes are developed to address issues amongst specific work teams. Training will be conducted on site and support teams and frameworks put in place to ensure the sustainability of the expected behavioural changes. Management will continue to play its part in improving safety and will drive the change and fully take part in all surveys and training sessions.



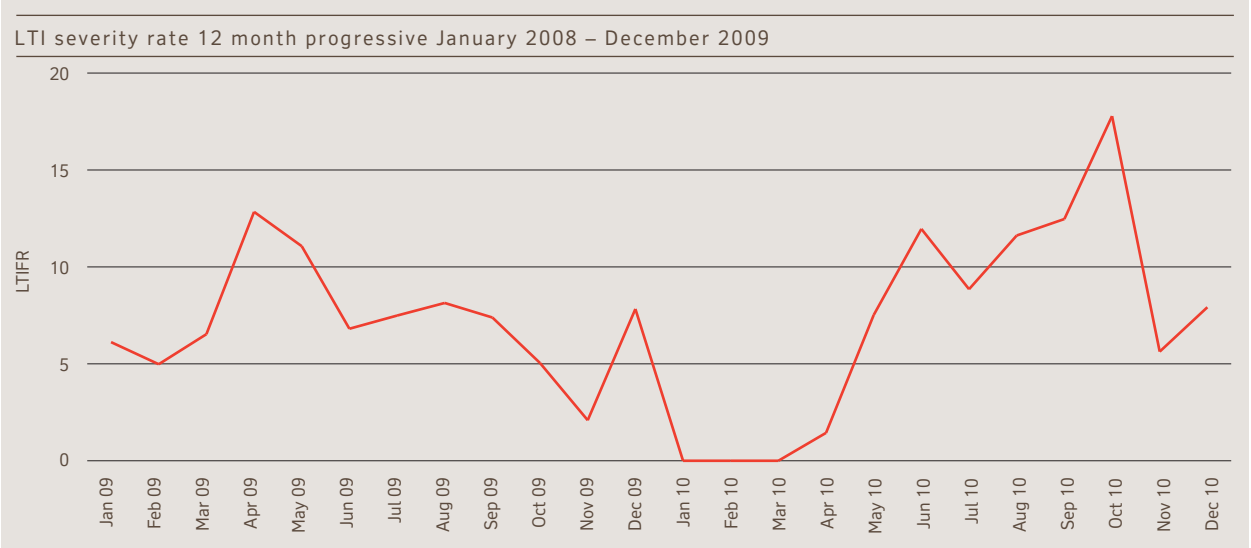
(Progressive LTIFR from January 2009 – December 2010)

Sustainable development review *continued...*



(Progressive AIFR from January 2009 – December 2010)

	2003	2004	2005	2006	2007	2008	2009	2010
Jan	0	3	2	0	1	0	0	0
Feb	1	1	1	1	0	1	1	0
Mar	2	1	4	2	0	3	2	1
Apr	2	0	2	2	4	2	1	2
May	0	0	1	1	1	1	0	2
Jun	2	0	0	0	0	1	1	2
Jul	2	4	3	2	2	0	1	1
Aug	1	2	3	2	0	2	3	1
Sep	1	2	0	5	1	3	0	1
Oct	3	0	0	0	2	2	1	0
Nov	1	0	1	2	0	0	1	1
Dec	2	1	5	1	4	1	1	1
Totals	17	14	22	18	15	16	12	12



(Lost time severity rate by month from January 2008 to July 2010)

Occupational health

Occupational diseases are defined as those diseases or ill health conditions which are primarily caused by exposure to physical, chemical, biological, ergonomic and psychological agencies in the workplace. Typical diseases include diseases of the lung (asbestosis, silicosis), diseases of the skin (dermatitis), diseases of the musculo-skeletal system (back problems, white finger), diseases of the ear (mainly noise induced hearing loss), as well as less tangible diseases such as work related stress, fatigue and ergonomic conditions.

Palabora is fully aware of such potential health risks in the business and maintains a staff of four employees in the Occupational Hygiene and Radiation section to support the business to ensure that the health of workers is not adversely affected. Levels of temperature, ventilation, noise, illumination, dust, hazardous substances, gases and radiation are monitored and in high exposure areas, programmes of measurement, control and risk reduction are in place. Four levels of control are recognised, namely eliminating the risk, controlling the risk at source, minimising the risk, and as a last resort and in so far as risk remains, providing personal protective equipment (PPE).

All employees and contractors undergo pre-engagement medical examinations to ensure fitness to work. This is followed by regular risk based medical examinations during employment and an exit medical examination when leaving the Company. There were no cases of occupational diseases reported during the year.

Minimise the spread of HIV and AIDS

The impact of HIV/AIDS continues to be felt at Palabora and in Phalaborwa as is the case in the rest of the country. The effects, though difficult to quantify due to the confidentiality and stigma that still surround the disease, include absenteeism, reduced productivity, loss of personnel and increased direct and indirect costs. It is realised that there are no quick fixes for the pandemic.

The Company does not discriminate against HIV positive employees. These employees are supported by counselling, emotional support, vitamins and food supplements in addition to their medical aid programmes. Medical aid is 50 per cent subsidised by the Company. Through the medical aid programmes, employees have access to HIV treatment and many of them return to productive work whilst on treatment. During 2010 there was an average of 89 known HIV positive employees still fit and working. Employees that are too sick to continue working and not responding to treatment are assisted by the medical and pensions departments to go on a disability pension via the Company pension fund and the Company's disability insurance. Palabora believes that only sustained education and awareness will eventually pay off to prevent the spreading of more infections. To this end, the Company has several ongoing initiatives.

Sustainable development review *continued...*

HIV/AIDS steering committee

The steering committee is made up of stakeholders from; Human Resources, SHEQ, Marketing Sales and Logistics, Palabora Foundation, National Union of Mineworkers and Solidarity. The committee is accountable to EXCO. The committee provides strategic leadership to the running of the programme. It builds the HIV strategy, coordinates its implementation, reviews the programme regularly and evaluates it.

Peer Group Educator Programme

The Peer Group Educators are the infantry of the programme, responsible for cascading it down to their colleagues or peers. Palabora has approximately 50 Peer Group Educators. They have a committee which provides them with leadership, linking them to the steering committee and co-ordinating their activities. They hold a Bosberaad each year to evaluate their programme and set an action plan for the following year. Their focus for 2010 was on:

- Education and Awareness
- HIV counselling and testing
- Diversity of gender and race in their composition
- Outreach Programme whose purpose is to help the indigent in the community
- World AIDS Day which is the finale of all the yearly activities

They conducted formal and informal discussions with their peers on different HIV related topics. They raised awareness in 2010 by taking part in various company activities such as fun day and fun run. They report their activities at their monthly meetings.

Education and awareness

Education and awareness is one of the key focus areas of our programme. The saying: 'knowledge is power' is taken literally at Palabora. Knowledge is known to lead to change in behaviour. We aim to equip our employees with basic HIV knowledge including its related conditions and its social dynamics of stigma, discrimination and social inequality.

Summary of the awareness and education activities:

- Awareness module offered as part of generic induction
- HIV slogans displayed on the electronic board at the mine entrance
- HIV boards placed strategically in the mine

Peer Group Educators held an HIV awareness day for employees on 25 June 2010 where information flyers were distributed from the mine entrance. World AIDS Day on 1 December was the main event of the year. A local industrial theatre group known as Avrieden Productions presented a drama in three sessions at different venues within the mine to reach as many employees as possible. The drama was based on the national theme of 'I am Responsible, We are Responsible, South Africa taking Responsibility.' It was well received by the employees and everyone received specially branded towels.

HIV Counselling and Testing

HIV Counselling and Testing is highly promoted and encouraged throughout all awareness and education activities, on both the Company's intranet and monthly newsletter and is freely available to both Palabora and contractor employees at the clinic and through the roll-out programme to the Departments. In 2010 we had the highest uptake at 59 per cent of Palabora and contractor employees.

Summary of prevention programmes:

- Condom distribution: Condoms are supplied at strategic locations all over the mine.
- STI treatment: All employees belong to a medical aid and STIs are now treated by the general practitioners of the employees.
- HIV treatment: The Company facilitates access to ARV treatment for all employees by a 50:50 subsidised medical aid for all employees. The available medical aid options have HIV programmes where a patient can register to obtain up-to-date support, care and HIV treatment. There are a number of employees on ARV treatment through these programmes.

HIV and health related statistics

	2006	2007	2008	2009	**2010**
HIV voluntary tests	453	726	826	1 718	**2 620**
Number of condoms issued	57 600	64 200	64 000	70 000	**78 100**
People reached by HIV talks during generic induction	3 287	2 497	3 101	2 183	**2 627**
People reached by HIV talks at sectional SHEQ meetings	962	458	260	154	**141**
Audio-visual audiences	5 072	4 700	5 941	5 035	**6 366**
People reached by HIV presentations by Training Officers	885	280	4 467	5 805	**318**
People reached by general health topics at sectional SHEQ meetings	674	515	624	883	**325**
People reached by health counselling sessions and other health problems	119	114	149	90	**67**

Environmental

Palabora is committed to reducing its impact on the environment in which it operates by managing its activities in an environmentally responsible manner. Palabora has incorporated the Rio Tinto Environmental Policies and Standards into the site Safety, Health, Environmental and Quality (SHEQ) policy and the standards and procedures that guide the operations on how to manage and limit the impacts on the environment. This ultimately contributes towards a sustainable approach to the way natural resources are used and undisturbed areas are conserved for future generations.

The following table is a summary of the objectives and targets with actual performances of key indicators and the main impacts on the environment for 2010.

Objectives	Ceilings 2010	Actual 2010	Ceilings 2011
Air quality: Reduce SO_2 and dust emissions to atmosphere			
• SO_2 annual ground level concentrations at Station 2	15ppb	13ppb	<15ppb
• Sulphur capture (overall)	>77 per cent	72 per cent	>77 per cent
• kg SO_2 emitted to atmosphere per tonne Cu anode produced	294	676	294
• Total tons SO_2 emitted to atmosphere during year	30 282	31 084	26 460
• Dust level at Station 2 (PM10)	<75 µg/m³/day <40 µg/m³/year	Not measured	<75 µg/m³/day <40 µg/m³/year
Water management: Reduce fresh water intake and increase recycle component			
• Fresh water consumption/intake (Ml) – excluding rainfall impounded	15Ml/day 5 475/year	18.15Ml/day 6 625/year	15MI/day 5 475/year
• Recycled water	24 126Ml	44 530Ml	30 300Ml
Greenhouse gas emissions for Copper Operations; Reduce GHG emissions per tonne of Cu			**Targets 2013**
• Electricity consumption (MWh)	<687 184	692 163	<767 481
• Total greenhouse emissions (tonnes CO_2-e)	<886 579	929 546	<1 089 713
• Total energy use (GJ)	<5 934 771	5 551 391	<6 671 217
• Energy efficiency value (GJ per kt new Cu cathode; 2008 is the baseline year)	<72,9	95,7	<68,5
Non-mineral waste management: Reduce amount of waste to be disposed and increase recycle component	See table 1	See table 1	See table 1
Land stewardship: Keep land disturbances to a minimum and rehabilitate areas once available	Disturbed: 0 ha Rehabilitated: 17 ha	Disturbed: 4.5ha Rehabilitated: 17 ha signed off	Disturbed: 0 ha Rehabilitate: 0 ha to sign off
Others			
Not to have significant environmental incidents	Category III – 0 Category IV – 0	Category III – 0 Category IV – 0	Category III – 0 Category IV – 0
Public complaints: Minimise impact on local community	<5	30	<15
ISO 14001 certification: Ensure a credible operational Environmental Management System is in place	Retain ISO 14001 certification	Retained ISO 14001 certification	Retain ISO 14001 certification

Sustainable development review *continued...*

Closure Management Plan

Palabora's aim is to prepare for closure in order to leave behind a safe and environmentally acceptable site and an economically self-sustaining community.

Palabora conducted a review of the Closure Management Plan in 2010. The development of this Closure Management Plan involved the detailed review of the Closure Statement prepared in 2005 with particular emphasis being placed on:

- Closure cost estimation (an overall estimate of +/- 15 per cent has been aimed for);
- Socio-economic issues (following a quantitative impact assessment);
- Environmental risk assessment of the site with and without planned closure actions;
- Palabora's Closure Cost Estimating Guidelines; and
- Rio Tinto's Technical Services review of the 2004 Closure Statement.

This document presents the review process followed, the findings of the review, the assumptions made and the updated Closure Management Plan for 2010. For the purposes of this exercise it has been assumed that the mine will commence decommissioning and closure in 2017 after the Copper lift 1 comes to an end. At this stage the vermiculite operations will continue until 2022, with magnetite operations continuing to approximately 2040.

Closure Scoping Study and Risk Assessment

- A review of previous closure studies and recent environmental investigations (undertaken in the last five years) was performed.
- Following the review process, site visits and information gathering exercises were performed. This involved the various project team members meeting with the relevant site personnel to gauge views on how infrastructure under their control could be decommissioned, rehabilitated and closed and what alternatives were considered.

The actions stipulated to take place over the last five years (2005-2009), as given in the previous closure statement were reviewed:

- Principles of Sustainable Development stakeholder involvement was seen as critical. A comprehensive stakeholder engagement process was implemented in the 2010 closure update where specific groups were met and discussions took place around the impacts of mine closure The various stakeholder groups.
- The socio-economic knowledge base was updated on the basis of the information available in the Ba-Phalaborwa Integrated Development Plan (IDP) and the 2007 Community Census.

A review was undertaken from specialist studies that were conducted since the last update in 2005 and, in addition, consultation with the project team responsible for the water use licensing process currently being updated by Palabora in line with the requirements of the water use licence issued to Palabora in October 2009, and the waste management licensing in terms of the National Environmental Waste Management Act (NEM-WA) of 2008, and consolidation of the various Environmental Management Plans associated with authorisations for the South and East Paddock, Loole Creek alterations and associated activities, with the original EMP of the 2001 authorisation.

Closure strategy

For each unit of infrastructure, feasible alternatives were investigated, described and bills of quantity developed. This involved:

- Identification of target end land use and constraints that may affect achieving the target;
- Documenting the reasons why a particular alternative/s was selected;
- Scheduling the implementation of the closure scenario;
- Providing a detailed bill of materials; and
- Detailing how the closure will be managed to meet the closure objectives.

The closure strategy remains as previously described and the approach to closure costing has been retained.

Closure Management Plan

The results of the above steps were documented in the closure management plan.

- The focus of the revised plan is to reaffirm the closure objectives, strategy and costs. Relevant supporting information has been summarised, e.g. descriptions of the current environmental setting, but reference should still be made to the specialist studies carried out in the 1999 review (SRK Report 250614/7 Volume 2, January 1999) for additional information, and subsequent EMPs and Environmental Reports.
- A summary of the closure management plan will be presented at a feedback meeting to stakeholders identified in the closure database.

Public participation process

In order to carry out life of mine and closure planning in a meaningful manner, Palabora and the consultants undertook an inclusive consultative process with internal stakeholders between June and October 2010 and external stakeholders in June and July 2010. The issues raised and suggestions regarding final land uses have been used to inform the closure planning strategy as well as the closure impact assessment teams.

Cost estimate

- The closure cost of the preferred alternative was determined taking into account the risk assessment process, the closure strategy, the proposed closure programme and management requirements identified in the above process review.
- Where no clear alternative was chosen, the alternatives were evaluated on a cost/benefit basis.
- Consideration was given to the cost of closing in the 2010 present closure obligation (PCO) and at the end of the life of mine taking into consideration progressive clean up and any expected changes in operation (total projected cost – TPC).
- Tailings dams and waste dumps were assessed for closure in terms of the DMR requirements.
- A complete schedule of quantities and costs was provided.

The closure cost estimate component of the closure management plan in 2010 and the estimated present closure obligation (cost for direct costs as at December 2010) was 1 027,3 million rand where the total projected cost (TPC) estimate is 1 038,7 million rand. The revised life of mine plan which projects 2017 as the date for the copper stream to cease operating was used for these calculations.

The financial provision in the rehabilitation fund as at 31 December 2010 was 397,9 million rand (current market value).
The PCO estimate was updated to reflect December 2010 monetary terms as follows:

• Rehabilitation and infrastructure removal	519 million rand
• Monitoring	26 million rand
• Employee benefits	272 million rand
• Other	210 million rand
Total	1 027 million rand

People

As at the end of December 2010, the Company's staff complement was 2 151 permanent and 99 fixed term employees, making a total of 2 250. The average age of employees at the end of 2010 was 41.0 with an average length of service equating to 9,1 years per employee. In total, 90,4 per cent of Palabora's work force comes from the Ba-Phalaborwa area.

Employee relations

The labour relations climate remained cordial in 2010. Normal mutual engagements and interactions with both recognised unions on issues of mutual interest, including policy implementation, entrenchment of discipline and fair treatment matters, remained the focus of attention throughout the year.

With the support of our employees, the Company successfully conducted the 2010 Rio Tinto global employee engagement with the majority of the employees participating in the survey. As with the first survey, actions were identified for implementation. These survey actions are critical for the business to position the value proposition necessary to sustain the business, ensure its competitiveness and prominence regarding safety, business leadership and attraction and retention of talent.

With the historic multi-year wage agreement with the National Union of Mine Workers (NUM) coming to its closure, the parties are geared up for a challenging wage negotiation season. Concurrently, collective participation and engagement with organised labour in various forums such as Employment Equity, Skills Development and HIV/AIDS continued productively.

Employment equity and women in mining

As at the end of December 2010, Historically Disadvantaged South Africans (HDSA) at professional and management levels was 44,8 per cent, which is 4 per cent above the base target of 40 per cent required by the Minerals Petroleum Resources Development Act (MPRDA). Concerted efforts and focus was also made to progress females into the business, which resulted in the number of female employees increasing to a historic 10,9 per cent within Palabora. However, the Company continues to prioritise female employment in core mining roles, employment of the disabled and the numerical expectations by government.

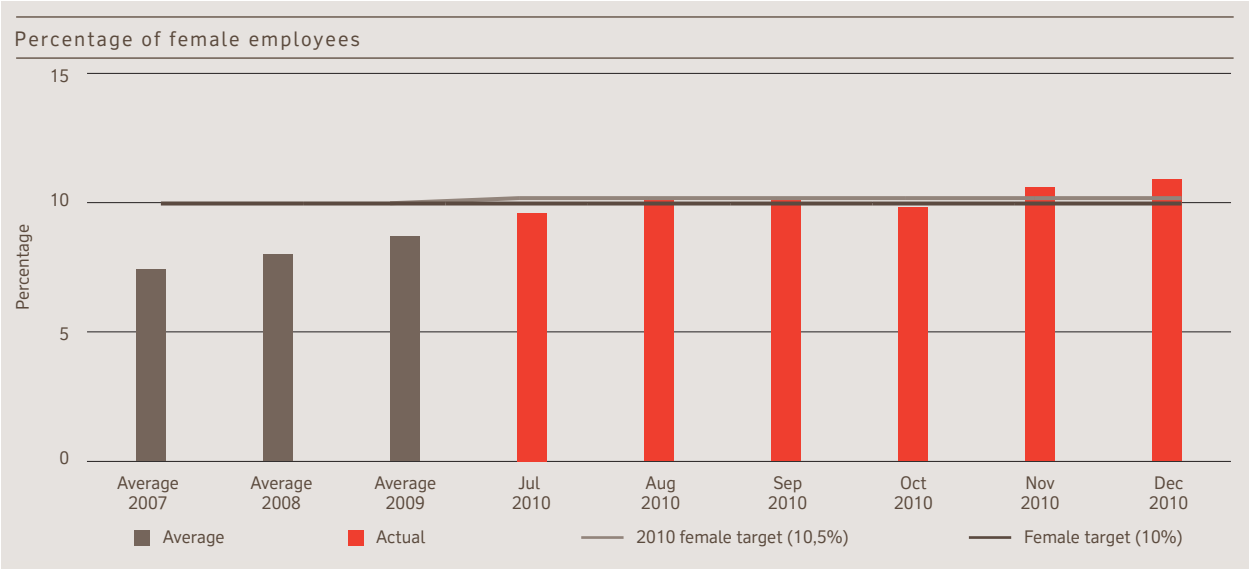
Training and organisational development

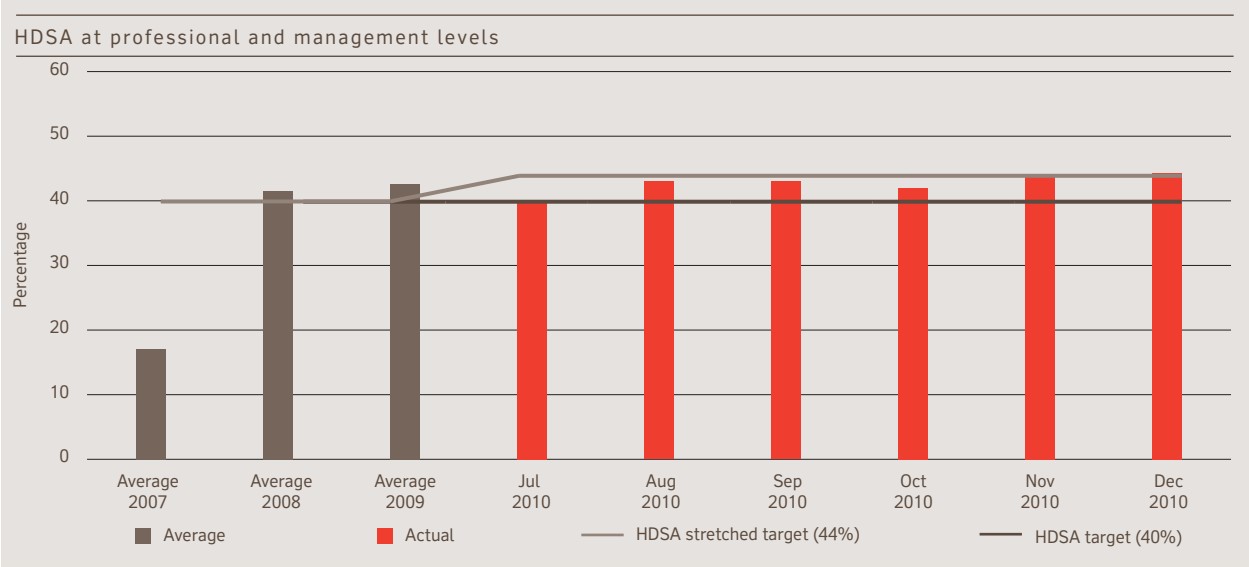
Focus was maintained on collaborative systems to underline and form the basis for globally compliant capability development practices in the business. Activities centred around:

- Integration of "The way we work" and "Leading at Rio Tinto" programmes into training programmes;
- Participation in national and sector talent management and skills development forums and groups to assure knowledge of current practices and objectives;
- Revised and newly implemented systems and processes to drive mentoring, coaching and development of talented employees, as well as employees with potential for accelerated development in terms of the social and labour plan;
- Graduate development continued in alignment with Rio Tinto, with revised structures to include regional talent management in future;
- Design of the new Rio Tinto Front Line Leadership Development Programme, to merge with the Rio Tinto regional programme;
- Continued capacity and relationship building with organised labour and collaborative forums to foster a sound and positive skills development environment;
- Continued close relationships with the Palabora Foundation including:
  - o Design of new and enhancement of existing skills development structures;
  - o Support for community based ABET training initiatives; and
  - o Inclusion in safety leadership training for the development of Foundation leadership;
- ABET training saw most Palabora candidates passing to next levels, and a successful World Literacy Day function was hosted by Palabora;
- Support of the Social and Labour Plan (SLP) development initiatives also saw the initiation of a Palabora core contractor forum which showed great progress in terms of people development amongst contractor groups; and
- Continuation of secondary school scholarship programme, aligned with Foundation/Palabora talent development programmes, saw the first four Grade 12 graduates, with excellent results.

Sustainable development review *continued...*

The chart below shows the Company's progress and standing on female employees and HDSA at professional and management levels.





Rio Tinto Capability Development initiatives impacting on Palabora human capital development plan

- Global banding- final alignment of internal bands with global benchmarks, and the implementation of global bands to supervisor level; and
- Talent management – the maintenance of a database, and personal development plans for resources with potential and/or specialist roles and the integration of the Business Unit and functional HR reviews.

Community and social contribution

Our social investment arm, the Palabora Foundation, has been involved in development of the local communities since 1986 and continues to do so with the objective of supporting the holistic development of disadvantaged people and their communities. We support the holistic development of disadvantaged people and communities by working with all stakeholders.

Palabora engages with a number of external stakeholders who are either interested or affected by Palabora's activities. Our stakeholder engagement process allows us to understand the concerns, needs and priorities of the communities associated with the operations as well as regulators' expectations. Palabora is an active member of the Phalaborwa Environmental Community Forum, which is a collective forum, including Sasol and Foskor (Pty) Limited. The purpose of this forum is for community members to voice their concerns regarding mining's possible impact on the environment and the community. Two environmental community forums were held during the second and fourth quarter of 2010.

Palabora also contributed to the Greening Limpopo project by donating 2 152 trees to the Mopani district. The trees comprised fruit and indigenous trees with 75 thousand rand being committed in 2010 towards this project, which will also be repeated in 2011. The table below details the distribution of trees across the Mopani district municipality.

Table: Greening Limpopo Project

Municipality	Type and quantity of trees
Ba-Phalaborwa	250 orange trees 250 mango trees 250 indigenous trees (River Bushwillow (40), Maroela (100), Essenhout (50), East African Mahogany (40) and Wild Plum (20))
Other four municipalities	876 mango trees 526 orange trees

On 19 March 2009, Palabora lodged its application for the conversion of "old order mining rights" to "new order mining rights" with the DMR in Polokwane along with the SLP, mining works programme and environmental management plan.

On 10 June 2010, Palabora concluded a Broad Based Black Economic Empowerment transaction agreement with its new partners in terms of which 26 per cent of the current Palabora will be owned by BBBEE partners. This will be achieved by the creation of a newly created subsidiary of Palabora which will be known as Palabora Copper. The partners include the five local tribes of the Ba-Phalaborwa area (Makhushane, Selwane, Maseke, Mashishimale and Majeje) whose share will be held in a trust. The employees' shareholding will also be held through the Employees' Trust. The agreement has been signed by all relevant parties and has been lodged with the DMR. The transaction was approved by Palabora's shareholders on 15 October 2010, with 99 per cent 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.

The host communities will not be required to contribute upfront equity for their stake in the subsidiary of Palabora as the transaction is being vendor-financed by Palabora. Palabora believes it has established a meaningful BBBEE transaction to achieve the "Spirit and Letter" of the law.

Palabora is still awaiting approval of the conversion of "old order mining rights" to "new order mining rights". However, the implementation of the SLP began in 2009.

The SLP is made up of six sections:

(i) The Preamble;
(ii) Human Resource Development Programme made up of;
  a) Skills development plan
  b) Career path plan
  c) Mentorship plan
  d) Internship and bursary plan
  e) Employment equity plan
(iii) Local-Economic Development Programme;
  a) Social and economic background information
  b) Socio-economic impact of the operation on the mine community
  c) Infrastructure development, poverty eradication and welfare creation projects
  d) Measures to address housing, living conditions and nutrition
  e) Procurement
(iv) Programme for managing downscaling and retrenchment;
  a) Establishment of a future forum
  b) Mechanisms to save jobs and avoid a decline in employment
  c) Mechanisms to provide alternative solutions and procedures for creating job security where job losses cannot be avoided
  d) Mechanisms to ameliorate the social and economic impact on individuals, regions and economies where retrenchment or closure of the mine is certain
(v) Financial provision for implementation of the SLP; and
(vi) Undertaking by the Managing Director and Chairman of the Board.

Sustainable development review *continued...*

Major indicators

Social and Labour Plan Human Resource Development

To ensure that the basic objectives of the SLP Human Resources Development Programme are achieved, great care has been taken to ensure that synergies between the national skills development strategy, employment equity goals, BEE and business objectives are identified and encapsulated into the SLP action plan. This has enabled an effective and dynamic development process contained in a single capability development system. Focus has thus been maintained on addressing the main objectives of the strategy in a structured and effective fashion. The main focus areas are:

i) **Skills development plan**

Palabora applied for and received registration as a further education and training institution and as such is able to align internal business skills training with national qualifications. Additionally, as a Mining Qualifications Authority (MQA) accredited business, the annual training report and workplace skills planning, forms the baseline of the skills development objective. This means that the annual training needs analysis identifying critical skills deficits in the business, also identifies potential portable skills and qualifications that employees could use in other business sectors and/or other communities, if they so desired. The annual workplace skills plan translates into the SLP HRDP targets which are aligned with employment equity targets contained in the business EE Plan.

Career planning

With the belief that all employees should have the opportunity to progress their careers if they so wish, career progression routes are in place for all areas and levels of the business. Natural progression routes are in place for the advancement from entry level operator and maintainer roles that can progress suitable candidates to higher technical and leadership roles. Formal job skills profiles dictate skills requirements for each role and employees are able to acquire all current role skills as well as the first skill set for the next role in the progression route. This equips them for seamless transition to the next role when available. An educational assistance process provides funding for employees who wish to further their education in terms of their current role. Further programmes provide for personal development programmes for high potential employees to equip them for future technical and leadership roles. Competency matrices are maintained which track the progress of the various programmes and also translate into internal and external training schedules. Core contractors are included in the overall talent management processes and progress in terms of equity and skills plans are monitored.

Coaching and mentoring

As all Palabora talent development is aligned with the Rio Tinto processes, a formal Group coaching and mentoring system is in place to ensure all development candidates are developed in terms of a common process. Safety, leadership, supervisory and personal development programmes have appointed coaches to guide and assist candidates throughout the development process. Designated coaches receive training to assure commonality of methodology and procedure. Adult numeracy and literacy programmes are run internally and in working hours to ensure opportunities for the advancement of current employees in terms of obtaining minimum entry qualifications for skills development programmes.

Bursaries and internships

Local communities are targeted as ideal feeder pools for future technical and leadership talent. Secondary school scholarships are offered to a number of high performing learners who are then enrolled in a private secondary school to guarantee individual attention from educators. These learners are also enrolled in the Palabora Foundation extramural physical science and mathematics classes to enhance the learning process. These candidates are then absorbed into university bursary programmes and performance is monitored until final qualification. Internal, structured development programmes then lead candidates through practical learning before entering the business in professional roles. A similar process allows for current high potential employees to enter part time or full time further education and training to assure the development of talent within the business.

Primary focus of the SLP:

The SLP action plans are applicable to permanent employees and core contractor employees of Palabora. The primary **focus areas** of the SLP are:

- Increasing literacy/numeracy;
- Implementing career development;
- Provide skills development opportunities;
- Mentoring Historically Disadvantaged South Africans (HDSAs) and empowerment groups;
- Providing study grants, bursaries, scholarships, learnerships to employees and the community;
- Increasing HDSA participation in management;
- Increasing women's participation in mining;
- Fostering enterprise development;
- Alignment with the IDPs (Initiatives Development Programme) of BPLM (Ba-Phalaborwa Local Municipality) and MDM (Mopani District Municipality);
- Implementing local economic development projects, which focus on basic services and infrastructure, poverty eradication and welfare creation;
- Improving housing and living conditions of employees;
- Providing access to adequate basic services and housing,
- Providing access to primary health care;

- Ensuring healthy nutrition;
- Increasing the participation of HDSAs and communities in procurement opportunities;
- Continuing HIV/AIDS awareness programmes and Voluntarily Counselling and Testing (VCT);
- Transforming Palabora in line with the Mining Charter;
- Maintaining and establishing training centres;
- Initiating a Future Forum (FF) with management and employees;
- Committing adequate funds for the SLP initiatives;
- Putting systems and performance indicators in place;
- Implementing and reporting on the progress of SLP initiatives;
- Measuring the sustainability and effectiveness of the SLP on employees and communities;
- Engaging with stakeholders; and
- Integrating core contractors.



These pre-school children are growing up in a free and democratic country

Annual financial statements 2010





Annual financial statements

46 Independent auditor's report
47 Statement of responsibility by the board of directors
48 Directors' report
52 Income statements
53 Statements of comprehensive income
54 Statements of financial position
55 Statements of changes in equity
56 Statements of cash flows
57 Notes to the financial statements
95 Analysis of shareholders
96 Selected data – financial and statistical
98 Ore reserves and mineral resources overview

Independent auditor's report

To the members of Palabora Mining Company Limited

We have audited the group annual financial statements and annual financial statements of Palabora Mining Company Limited, which comprise the consolidated and separate statements of financial position as at 31 December 2010, and the consolidated and separate income statements, statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, and the directors' report, as set out on pages 48 to 95.

Directors' responsibility for the financial statements

The Company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the consolidated and separate financial position of Palabora Mining Company Limited as at 31 December 2010, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



PricewaterhouseCoopers Inc
Director: J F M Kotzé
Registered Auditor

Sunninghill

4 May 2011

Statement of responsibility by the board of directors

The board is responsible for the preparation, integrity and fair presentation of the financial statements of Palabora Mining Company Limited and its subsidiaries. The financial statements, presented on pages 48 to 94, have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management. The board also reviewed the other information included in the annual report and is responsible for both its accuracy and its consistency with the financial statements. The going concern basis has been adopted in preparing the financial statements. The board has no reason to believe that the Company or the Group will not be a going concern in the foreseeable future based on forecasts, available cash resources and the continued financial support of the holding company, Rio Tinto. The viability of the Company and the Group are supported by the financial statements. The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers Inc, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The board believes that all representations made to the independent auditors during their audit were valid and appropriate.

PricewaterhouseCoopers Inc's audit report is presented on page 46.

The consolidated financial statements were approved by the board of directors on 21 April 2011 and are signed on its behalf by:



C N Zungu
Chairman



A W Lennox
Managing Director

21 April 2011

Directors' report

for the year ended 31 December 2010

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company and the Group for the year ended 31 December 2010.

Nature of business

The main business of the Group is mining, extraction and sale of copper, joint-product magnetite and associated by-products including anode slimes and sulphuric acid. In a smaller business segment, the Group also exploits a vermiculite deposit adjacent to the copper operation.

Corporate governance

The board is committed to high standards of corporate governance. These standards are evident throughout the Company in systems of internal controls, practices, policies and procedures. They provide the framework for innovation while ensuring sustainability of the business. The board continuously reviews governance matters and control systems to ensure that these are in line with international best practices. The board considers that for the year under review, the Company complied with the requirements of the King II Code of Corporate Governance. The board has already started addressing the challenges posed by the recommendations of the updated and revised King Report on Corporate Governance for South Africa 2009 (King III). Corporate governance is dealt within the Corporate Governance report on pages 12 to 18.

Group results

The Group profit after taxation for the year amounted to R595 million, compared with R284 million in 2009. Additional details on the results and financial position of the Company and Group are set out in the income statements, statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and notes. The performance of the Group and the nature of the various operations are dealt with in the statement by the chairman and reviewed by the managing director and chief financial officer.

Share capital

Authorised capital

The Company's authorised share capital of 100 000 000 shares of one rand each remained unchanged during the year.

Issued capital

The issued share capital of the Company remained unchanged at 48 337 497 ordinary shares of one rand each.

The directors are authorised to issue unissued shares until the next annual general meeting. Shareholders will be asked to extend the authority of the directors to control the unissued shares of the Company at the forthcoming annual general meeting.

Dividends

An interim dividend (no 141) of 207 cents per share was declared on 5 August 2010, and a final dividend (no 142) of 724 cents was declared on 3 February 2011, payable on 7 March 2011, being a total of 931 cents per share (2009: 785 cents per share). These dividends amounted to 450 million rand for the year (2009: 380 million rand).

Property, plant and equipment

There were no major changes in the nature of the Group's property, plant and equipment, or the policy relating to their use, during the year.

Holding company and related parties

The immediate holding company is Palabora Holdings Limited and the ultimate holding company is Rio Tinto plc, which is incorporated in the United Kingdom. Rio Tinto plc's beneficial interest is 57,69 per cent (2009: 57,69 per cent).

Financing the business

Operations for the year under review were financed by internally generated funds. No new borrowings were made during the current financial year.

The rand denominated copper hedging programme remained in place, with the settlement of 22 188 tonnes of copper commodity swap in 2010 resulting in a realised hedging loss of 845 million rand. The first tranche of the hedge was completed at the end of September 2008 (62,5 per cent of its planned copper sales from underground production). The second tranche represents the first 30 per cent of planned sales between October 2008 and September 2013 (see note 25).

Directors' report

for the year ended 31 December 2010 continued

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 copper price, 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.

Share based payments

The Company participates in a number of share based payment plans (for senior management) administered by Rio Tinto plc and Rio Tinto Limited. These plans are the Rio Tinto Share Option Plan (SOP), the Rio Tinto Management Share Plan (MSP) and the Mining Companies Comparative Plan (MCCP). Awards under the SOP and MSP are considered equity-settled by Rio Tinto, and are recharged to the Company once vested or once the options have been exercised. Recharges for the 2010 year amounted to 3,2 million rand (2009: 1,1 million rand). Awards under the MCCP plan are accounted for in accordance with the requirements applying to cash-settled share based payment transactions (refer to note 2.2.14). The expense recognised in this regard for the year was 1,8 million rand (2009: 3,2 million rand).

As a once-off agreement in 2009, a group of senior management that did not qualify for the Rio Tinto share incentive awards, were awarded the cash equivalent of 1 500 Palabora shares (or proportion thereof), vesting at the closing share price of Palabora as at 31 December 2009. This cash-settled share based retention bonus payable amounted to 1,8 million rand.

Ore reserves

The total Proven Ore Reserves remaining as at 31 December 2010 were 62,18 million tonnes ore (2009: 75,33 million tonnes) at 0,60 per cent (2009: 0,60 per cent) copper content.

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 per cent 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 approval of its application for conversion of old order mining rights to new order mining rights from the DMR.

The RTZ (South African) Environmental Rehabilitation Fund

An accumulated fund contribution of R110 million (2009: R110 million) has been placed with the RTZ (South Africa) Environmental Rehabilitation Fund at 31 December 2010. The intention is to accumulate funds to be used on the restoration of mining property when the mine closes. The market value of this fund amounted to 398 million rand as at 31 December 2010 (2009: 360 million rand).

Subsidiaries and joint ventures

		Issued share capital 2010 R'000	Effective Group interest 2010 %	2009 %
Palfos Aviation (Pty) Limited	**	50	50	50
Zirlite Investments (Jersey) Limited (incorporated in Cyprus)		11	100	100
Palabora Europe Limited (incorporated in UK)		754	100	100
Mandoval Vermiculite Products Inc (incorporated in USA)		3 061	100	100
American Vermiculite Corporation (incorporated in USA)		107	100	100
Zirconia Sales Inc (incorporated in USA)	*	–	100	100
Palabora Asia Pte Limited (incorporated in Singapore)		2	100	100

** Share capital less than R500*

*** Sold major asset during 2004, company in process of being deregistered*

Directors' report

for the year ended 31 December 2010 continued

Foreign subsidiaries

Foreign subsidiaries, which are all unlisted, are mainly concerned with the marketing of vermiculite. The after-tax profits of subsidiaries for the year ended 31 December 2010 amounted to R31 million (2009: R30 million) and the net assets at 31 December 2010 amounted to R169 million (2009: R156 million).

Directorate and secretaries

The names of the directors and of the company secretary as at 31 December 2010 appear on pages 4 and 5. The addresses and names of the transfer secretaries appear on page 3.

The following changes have taken place in the composition of the board of directors during the year and since 31 December 2010 to the date of this report:

- Mr Johan Posthumus resigned as non-executive director from 5 February 2010;
- Mr Willan Abel was appointed as non-executive director from 5 February 2010;
- Ms Kay Priestly resigned as non-executive director from 31 May 2010;
- Ms Jo-Ann Yuen was appointed as non-executive director from 1 June 2010;
- Mr Matthew Gili resigned as managing director from 1 July 2010;
- Mr Anthony Lennox was appointed as managing director from 12 July 2010;
- Mr Nhlanhla Hlubi was appointed as non-executive director from 1 February 2011;
- Mr Lindsay Kirsner resigned as non-executive director from 3 February 2011; and
- Mr Craig Kinnell was appointed as non-executive director from 4 February 2011.

In terms of the articles of association, Messrs C N Zungu and R Abrahams and Ms F A du Plessis retire at the forthcoming annual general meeting but are all eligible and offer themselves for re-election.

Board audit committee

The members of the board audit committee as at 31 December 2010 were as follows:
Ms F A du Plessis* (chairperson)
Mr R Abrahams*

**Independent non-executive*

Mr K N Mathole is the appointed secretary for the Board Audit Committee.

Administration

The secretary of the Company is Mr K N Mathole.

Capital expenditure and commitments

Commitments contracted for at reporting date were 119 million rand (2009: 93 million rand). Capital expenditure that was approved by the board, but not contracted for at 31 December 2010 amounts to 245 million rand (2009: 135 million rand).

Events after balance sheet date

The board resolved to declare a dividend of R7,24 per share at a meeting held on 3 February 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.

No other material events have occurred between the date of these financial statements and the date of approval thereof, the knowledge of which would affect the ability of the users of these statements to make proper evaluations and decisions.

Special resolutions

No special resolutions were passed by Palabora Mining Company and its subsidiaries during the period 1 January 2010 to the date of this report.

Auditors

PricewaterhouseCoopers Inc will continue as auditors in accordance with section 270(2) of the Companies Act.

Directors' report

for the year ended 31 December 2010 continued

Remuneration policy

The Company's remuneration policy for the directors is determined by the board of directors and strives for competitive and fair reward in recognising and rewarding individual and team achievement that contributes to the attraction, retention and motivation of directors, and organisational growth and prosperity. The Managing Director and the Chief Financial Officer are remunerated by the Rio Tinto Group and charged to Palabora, the full salaries are shown below. The remuneration of non-executive directors consists of directors' fees and travel allowances. Board and Audit Committee attendance fees are paid quarterly and in arrears. For details of salaries, fees and other benefits for directors refer to the table below, under Directors' Emoluments.

Directors' emoluments

All amounts in R'000	Resigned	Appointed	Board meeting and preparation fees	Travel	Board Audit Committee fees	Salary	Bonuses and performance related payments	South African taxes	Other	**Total 2010**	Total 2009
Executive directors											
M D Gili (Managing Director)	1 Jul 10	1 Mar 08	–	–	–	1 182	590	2 476	471	**4 719**	5 965
A W Lennox (Managing Director)	N/A	12 Jul 10	–	–	–	1 147	–	–	466	**1 613**	–
C A Asubonten (Chief Financial Officer)	9 Jun 10	27 Jul 06	–	–	–	–	–	548	–	**548**	5 011
K Marshall (Managing Director)	29 Feb 08	23 Feb 04	–	–	–	–	–	125	–	**125**	–
Subtotal			–	–	–	2 329	590	3 149	937	**7 005**	10 976
Non-executive directors											
G M Negota (Chairman)	24 Mar 09	1 Apr 99	–	–	–	–	–	–	–	–	19
C N Zungu (Chairman)	N/A	1 Apr 02	46	11	–	–	–	–	126	**183**	97
C J Latcham	31 Jul 09	1 Aug 05	–	–	–	–	–	–	–	–	28
C Louwarts	N/A	16 Mar 09	13	–	4	–	–	–	–	**17**	86
J C Posthumus	5 Feb 10	27 Jan 04	14	7	7	–	–	–	2	**30**	99
K Priestly	31 May 10	1 Jan 09	35	34	15	–	–	–	–	**84**	93
L Kirsner	N/A	1 Aug 09	59	34	–	–	–	–	50	**143**	28
S Thomas	9 Jun 10	7 May 07	26	17	24	–	–	–	8	**75**	123
F du Plessis	N/A	11 Jan 10	50	25	17	–	–	–	73	**165**	–
R Abrahams	N/A	11 Jan 10	42	17	25	–	–	–	50	**134**	–
W J Abel	N/A	5 Feb 10	36	1	–	–	–	–	50	**87**	–
J Yuen	N/A	1 Jun 10	13	–	4	–	–	–	50	**67**	–
Subtotal			334	146	96	–	–	–	409	**985**	573

Mr M D Gili, Mr A W Lennox and Mr C A Asubonten are remunerated by the Rio Tinto Group and charged to Palabora. Their salaries are paid by Rio Tinto in US dollars. These amounts have been translated into SA rand using the average exchange rate for 2010. Other benefits for Mr Gili, Mr A W Lennox and Mr Asubonten include allowances.

Directors' interest

The directors (and his/her associates) do not have direct or indirect beneficial or non-beneficial interests in the Company issued share capital at 31 December 2010. The directors of the Company declare their interest in any transactions with the Company. No material contracts involving directors' interests were entered into during the year under review.

Shareholding

The shareholding in the issued share capital of the Company is held as indicated on page 95, and no directors held shares in the Company as at 31 December 2010.

Income statements

for the year ended 31 December 2010

	Note	GROUP 2010 R'm	GROUP 2009 R'm	COMPANY 2010 R'm	COMPANY 2009 R'm
Sale of products		**6 976**	5 831	**6 871**	5 710
Hedged loss realised		**(845)**	(547)	**(845)**	(547)
Revenue	4	**6 131**	5 284	**6 026**	5 163
Cost of sales	5	**(3 104)**	(3 106)	**(3 089)**	(3 078)
Gross profit		**3 027**	2 178	**2 937**	2 085
Selling and distribution costs	5	**(1 391)**	(1 185)	**(1 363)**	(1 147)
Administration expenses	5	**(482)**	(448)	**(470)**	(433)
Mineral and petroleum royalty charge		**(88)**	–	**(88)**	–
Other income	7	**30**	71	**30**	72
Exploration costs	8	**(40)**	(18)	**(40)**	(18)
Impairment loss	9	**–**	(9)	**–**	(9)
Other expenses	10	**(6)**	(12)	**(4)**	(11)
Profit before net finance cost and tax		**1 050**	577	**1 002**	539
Net finance cost	11	**(187)**	(124)	**(184)**	(127)
Finance cost		**(216)**	(190)	**(213)**	(193)
Finance income		**29**	66	**29**	66
Profit before tax		**863**	453	**818**	412
Income tax expense	12	**(268)**	(169)	**(254)**	(158)
Profit for the year		**595**	284	**564**	254
Profit attributable to:					
Equity holders of the parent		**595**	284	**564**	254
Earnings per share attributable to the equity holders of the parent (expressed in cents per share):					
Basic and diluted earnings per share (cents)	13	**1 231**	587		
Headline earnings per share (cents)	14	**1 228**	598		

The notes on pages 57 to 94 are an integral part of these consolidated financial statements.

Statements of comprehensive income

for the year ended 31 December 2010

	Note	GROUP 2010 R'm	GROUP 2009 R'm	COMPANY 2010 R'm	COMPANY 2009 R'm
Profit for the year		**595**	284	**564**	254
Other comprehensive income/(loss):					
Available-for-sale investments					
– Valuation gains arising during the year	17	**30**	16	**30**	16
Exchange differences on translation of foreign operations		**(20)**	(36)	**–**	–
Cash flow hedges					
– Mark to market losses arising during the year		**(365)**	(2 100)	**(365)**	(2 100)
– Transferred to profit or loss for the year	4	**845**	547	**845**	547
– Hedge ineffectiveness	10	**4**	3	**4**	3
Actuarial (loss)/gain on defined benefit plans	27	**(8)**	4	**(8)**	4
Income tax relating to components of other comprehensive income	12	**(142)**	409	**(142)**	409
Other comprehensive income/(loss) for the year, net of tax		**344**	(1 157)	**364**	(1 121)
Total comprehensive income/(loss) for the year		**939**	(873)	**928**	(867)
Total comprehensive income/(loss) attributable to:					
Equity holders of the parent		**939**	(873)		

The notes on pages 57 to 94 are an integral part of these consolidated financial statements.

Statements of financial position

as at 31 December 2010

	Note	GROUP 2010 R'm	GROUP 2009 R'm	COMPANY 2010 R'm	COMPANY 2009 R'm
Assets					
Non-current assets		**4 281**	4 252	**4 281**	4 252
Property, plant and equipment	15	**2 877**	2 990	**2 877**	2 990
Intangible assets	16	**8**	5	**8**	5
Other financial assets	17	**398**	360	**398**	360
Deferred income tax asset	18	**998**	897	**998**	897
Current assets		**3 298**	2 755	**3 119**	2 587
Stores inventories	19	**113**	115	**113**	115
Product inventories	20	**680**	619	**660**	580
Trade and other receivables	21	**864**	626	**799**	562
Investment and loans in subsidiaries and joint ventures	22	**–**	–	**9**	13
Cash and cash equivalents	23	**1 641**	1 395	**1 538**	1 317
Total assets		**7 579**	7 007	**7 400**	6 839
Equity					
Equity attributable to owners of the parent					
Share capital and premium	24	**629**	629	**629**	629
Other reserves	24	**(1 801)**	(2 151)	**(1 769)**	(2 139)
Retained earnings		**3 390**	3 201	**3 192**	3 034
Total equity		**2 218**	1 679	**2 052**	1 524
Liabilities					
Net-current liabilities		**3 385**	3 684	**3 385**	3 684
Other financial liabilities	25	**1 672**	2 335	**1 672**	2 335
Close-down and restoration obligation	26	**617**	433	**617**	433
Retirement benefits obligation	27	**168**	149	**168**	149
Deferred income tax liabilities	18	**928**	767	**928**	767
Current liabilities		**1 976**	1 644	**1 963**	1 631
Other financial liabilities	25	**1 049**	877	**1 049**	877
Retirement benefit obligation	27	**8**	8	**8**	8
Borrowings	28	**98**	103	**98**	103
Trade and other payables	29	**573**	427	**564**	417
Related party payables	30	**203**	162	**203**	162
Current income tax liabilities		**45**	67	**41**	64
Total liabilities		**5 361**	5 328	**5 348**	5 315
Total equity and liabilities		**7 579**	7 007	**7 400**	6 839

The notes on pages 57 to 94 are an integral part of these consolidated financial statements.

Statements of changes in equity

for the year ended 31 December 2010

GROUP	Note	Attributable to owners of the parent: Share capital R'm	Share premium R'm	Hedging reserve R'm	Trans-lation reserve R'm	Fair value reserve R'm	Retained earnings R'm	Total equity R'm
Balance at 1 January 2009		**48**	**581**	**(1 181)**	**26**	**231**	**2 966**	**2 671**
Total comprehensive income for the year		–	–	(1 136)	(36)	11	288	(873)
Dividends paid	24.4	–	–	–	–	–	(119)	(119)
Unclaimed dividends		–	–	–	(1)	–	1	–
Transfer of deferred tax on items included in other reserves		–	–	–	–	(65)	65	–
Balance at 31 December 2009		48	581	(2 317)	(11)	177	3 201	1 679
Total comprehensive income for the year		–	–	**348**	**(20)**	**22**	**589**	**939**
Dividends paid	24.4	–	–	–	–	–	**(400)**	**(400)**
Balance at 31 December 2010		**48**	**581**	**(1 969)**	**(31)**	**199**	**3 390**	**2 218**

COMPANY	Note	Attributable to owners of the parent: Share capital R'm	Share premium R'm	Hedging reserve R'm	Fair value reserve R'm	Retained earnings R'm	Total equity R'm
Balance at 1 January 2009		48	581	(1 181)	231	2 830	2 509
Total comprehensive income for the year		–	–	(1 135)	11	257	(867)
Dividends paid	24.4	–	–	–	–	(119)	(119)
Unclaimed dividends		–	–	–	–	1	1
Transfer of deferred tax on items included in other reserves		–	–	–	(65)	65	–
Balance at 31 December 2009		48	581	(2 316)	177	3 034	1 524
Total comprehensive income for the year		–	–	**348**	**22**	**558**	**928**
Dividends paid	24.4	–	–	_	–	**(400)**	**(400)**
Balance at 31 December 2010		**48**	**581**	**(1 968)**	**199**	**3 192**	**2 052**

The notes on pages 57 to 94 are an integral part of these consolidated financial statements.

Statements of cash flows

for the year ended 31 December 2010

	Note	GROUP 2010 R'm	GROUP 2009 R'm	COMPANY 2010 R'm	COMPANY 2009 R'm
Cash flows from operating activities					
Cash generated from operating activities	31	**1 343**	1 073	**1 301**	1 032
Pension fund surplus received		**–**	241	**–**	241
Interest paid		**(5)**	(36)	**(5)**	(35)
Interest received	11	**29**	30	**29**	30
Dividends paid	24.4	**(400)**	(119)	**(400)**	(119)
Income tax paid		**(375)**	(252)	**(362)**	(236)
Net cash generated from operating activities		**592**	937	**563**	913
Cash utilised in investing activities					
Acquisition of property, plant and equipment	15.1	**(217)**	(131)	**(217)**	(131)
Acquisition of intangible assets		**(5)**	(2)	**(5)**	(2)
Proceeds from disposal of property, plant and equipment		**3**	–	**3**	–
Invested in available-for-sale financial asset		**(7)**	(30)	**(7)**	(30)
Decrease in loans to subsidiaries and joint venture		**–**	–	**4**	44
Interest received		**–**	27	**–**	27
Dividend income		**4**	25	**4**	27
Net cash used in investing activities		**(222)**	(111)	**(218)**	(65)
Cash flow from financing activities					
Repayment of borrowings		**–**	(80)	**–**	(80)
Net cash generated from financing activities		**–**	(80)	**–**	(80)
Net increase in cash and cash equivalents		**370**	746	**345**	768
Cash and cash equivalents at beginning of year		**1 395**	747	**1 317**	647
Effects of exchange rate changes on the balance of cash held in foreign currencies		**(124)**	(98)	**(124)**	(98)
Cash and cash equivalents at end of year	23	**1 641**	1 395	**1 538**	1 317

The notes on pages 57 to 94 are an integral part of these consolidated financial statements.

Notes to the financial statements

for the year ended 31 December 2010

1. Corporate information

Palabora Mining Company Limited (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 Johannesburg Securities Exchange Limited (JSE).

2. Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards (IFRS) and Interpretations effective at 31 December 2010 of the International Accounting Standards Board (IASB) and the AC 500 as issued by the Accounting Practice Board, requirements of the South African Companies Act and regulations of the JSE Limited.

The principal accounting policies applied in the preparation of the consolidated financial statements for the year ended 31 December 2010 are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The accounting policies adopted are consistent with those of the previous financial year, except for the following new or amended standards and interpretations that were adopted from the annual period beginning 1 January 2010:

- **IFRS 1 (Revised), First-time adoption of International Financial Reporting Standards** (effective for financial periods beginning on/after 1 July 2009) – IFRS 1 has been amended many times since it was first issued to accommodate first-time adoption requirements resulting from new or amended IFRSs. As a result the text became increasingly complex. IFRS 1 has been restructured to make it easier to understand, and to allow it to accommodate more easily any future changes that might be necessary;
- **IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards and IAS 27 (Amendment), Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly controlled entity or associate** (effective for financial periods beginning on/after 1 July 2009) – When an entity adopts IFRS for the first-time, an exemption was added to IFRS 1 that will allow investments in subsidiaries, jointly controlled entities and associates to be measured at cost in accordance with IAS 27 or deemed cost (being the fair value determined in accordance with IAS 39 at the date of transition; or the previous GAAP carrying amount). Dividends received from subsidiaries, jointly controlled entities and associates will be recognised in profit and loss in the separate financial statements when the entities' right to receive dividends is established (i.e. there is no longer a need to distinguish between dividends declared from pre-acquisition and post-acquisition profits). IAS 36, Impairment of assets was consequentially amended to include the following additional impairment indicators: the carrying amount of the investment in a subsidiary, jointly controlled entity or associate, in the separate financial statements exceeds the carrying amount of the investee's net assets in the consolidated financial statements; and the dividend exceeds the total comprehensive income of the subsidiary, jointly controlled entity or associate in the period the dividend is declared;
- **IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards – Additional exemptions for first-time adopters** (effective for financial periods beginning on/after 1 January 2010) – The amendments address the retrospective application of IFRSs to particular situations [including: the use of deemed cost for oil and gas assets; determination of whether an arrangement contains a lease; and decommissioning liabilities included in the cost of property, plant and equipment] and are aimed at ensuring that entities applying IFRSs will not face undue cost or effort in the transition process. The change does not have a material impact on the Group or Company's financial statements;
- **IFRS 2 (Amendment), Share-based payments – Group cash-settled share-based payment transactions** (effective for financial periods beginning on/after 1 January 2010) – The amendment clarifies that an entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the Group settles the transaction, and no matter whether the transaction is settled in shares or cash. The amendment provides guidance on how to account for Group share-based payment schemes in entities' separate financial statements. The amendment incorporates guidance previously included in IFRIC 8, Scope of IFRS 2 and IFRIC 11, IFRS 2, Group and treasury share transactions. As a result, the IASB has withdrawn IFRIC 8 and IFRIC 11. The amendment does not have a material impact on the Group or Company's financial statements because the Company does not currently make share-based payments. The amendment does not have a material impact on the Group or Company's financial statements;

2. Summary of significant accounting policies continued

2.1 Basis of preparation continued

- **IFRS 3 (Revised), Business combinations** (effective for financial periods beginning on/after 1 July 2009) – The new standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with some contingent payments subsequently re-measured at fair value;
- **IAS 27 (Amendment), Consolidated and separate financial statements** (effective for financial periods beginning on/after 1 July 2009) – IAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control. They will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The change does not have a material impact on the Group or Company's financial statements because the Company did not make this kind of transactions;
- **IAS 39 (Amendment), Financial instruments: Recognition and measurement – Eligible hedged items** (effective for financial periods beginning on/after 1 July 2009) – The amendment clarifies how the existing principles underlying hedge accounting should be applied in the designation of: a one-sided risk in a hedged item; and inflation in a financial hedged item. The change does not have a material impact on the Group or Company's financial statements;
- **IFRIC 16, Hedges of a net investment in a foreign operation** (effective for financial periods beginning on or after 1 July 2009) –This interpretation clarifies the accounting treatment in respect of net investment hedging;
- **IFRIC 17, Distribution of non-cash assets to owners** (effective for financial periods beginning on or after 1 July 2009) – This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends;
- **IFRIC 18, Transfers of assets from customers** (effective for financial periods beginning on or after 1 July 2009) – This interpretation provides guidance on how to account for items of property, plant and equipment received from customers, or cash that is received and used to acquire or construct specific assets;
- **Improvements to IFRSs 2008 – IFRS 5, Non-current assets held for sale and discontinued operations – Plan to sell the controlling interest in a subsidiary** (effective for financial periods beginning on or after 1 July 2009) – This improvement clarifies that assets and liabilities of a subsidiary should be classified as held for sale if the parent is committed to a plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale;
- **Improvements to IFRSs 2009** – Improvements to IFRS is 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; and
- **AC 504, IAS 19 (AC 116), The limit on a defined benefit asset, minimum funding requirements and their interaction in the South African Pension Fund environment** (effective for financial periods beginning on or after 1 April 2009) – The South African Interpretation has been issued to provide guidance on the application of IFRIC 14: IAS 19, The limit on a defined benefit asset, minimum funding requirements and their interaction, in South Africa in relation to defined benefit pension obligations (governed by the Pension Funds Act, 1956 (the Act)) within the scope of IAS 19 (AC 116), Employee benefits.

The following standards, amendments to standards and interpretations have been issued but are not effective yet and have not been early adopted. The impact of all these amendments to standards and interpretations on the Group's financial statements is not expected to be significant:

- **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 IFRSs from presenting comparative information for new three level classification disclosures required by March 2009 amendments to IFRS 7 Financial instruments: Disclosures;
- **IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards – Removal of fixed dates for first-time adopters** (effective for financial periods beginning on or after 1 July 2011) – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs;
- **IFRS 1 (Amendment), First-time adoption of International Financial Reporting Standards – Guidance on severe hyperinflation** (effective for financial periods beginning on or after 1 July 2011) – Additional exemption for entities ceasing to suffer from severe hyperinflation;
- **IFRS 7 (Amendment), Financial instruments: Disclosures – Transfer of financial assets** (effective for financial periods beginning on or after 1 July 2011) – Amendments enhancing disclosures about transfers of financial assets;
- **IFRS 9, Financial instruments** (effective for financial periods beginning on or after 1 January 2013) – IFRS 9 addresses classification and measurement of financial assets. It uses a single approach to determine whether a financial asset is measured at amortised cost or at fair value;
- **IAS 12 (Amendment), Income taxes – Deferred tax: Recovery of underlying assets** (effective for financial periods beginning on or after 1 January 2012) – A limited scope amendment to the recovery of underlying assets;

Notes to the financial statements
for the year ended 31 December 2010 continued

2. Summary of significant accounting policies continued

2.1 Basis of preparation continued

- **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;
- **IAS 32 (Amendment), Financial instruments: Presentation** (effective for financial periods beginning on or after 1 February 2010) – Accounting for rights issues (including rights, options and warrants) that are denominated in a currency other than the functional currency of the issuer;
- **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;
- **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; and
- **Improvements to IFRSs 2010** (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.

2.2 Summary of significant accounting policies

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments and available-for-sale investments that have been measured at fair value.

2.2.1 Consolidation

The consolidated financial information includes the financial statements of the Company, its subsidiaries and its joint venture.

All intragroup balances, transactions, income and expenses and profits or losses, including unrealised profits from intergroup transactions, have been eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Where necessary, adjustments are made to the results of the subsidiaries and joint venture to bring their accounting policies in line with those used by the Group.

2.2.1.1 Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more that one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating intercompany transactions as noted above.

2.2.1.2 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control such that significant operating and financial decisions require the unanimous consent of the parties sharing control. The Group has an interest in a jointly controlled entity which involved the establishment of a private company in which each venturer has a long-term interest. Jointly controlled entities are accounted for using the equity accounting method. In addition, the carrying value will include any long-term debt interests that in substance form part of the Group's net investment.

2.2.2 Currency translations

The functional currency for each entity in the Group is the currency of the primary economic environment in which it operates, which is usually the currency of the country in which they operate. Transactions denominated in other currencies are converted to the functional currency at the exchange rate ruling at the date of the transaction unless hedge accounting applies. Monetary assets and liabilities denominated in foreign currencies are retranslated at year end exchange rates.

These consolidated financial statements are presented in South African rand, as it most reliably reflects the business performance of the Group as a whole.

2. Summary of significant accounting policies continued

2.2 Summary of significant accounting policies continued

2.2.2 Currency translations continued

On consolidation, statement of comprehensive income items are translated from the functional currency into SA rand at average rates of exchange. Statement of financial position items are translated into SA rand at year end exchange rates. Exchange differences on the translation of the net assets of entities with functional currencies other than the SA rand, and any offsetting exchange differences on net debt hedging those net assets, are recognised directly in the foreign currency translation reserve via other comprehensive income. Exchange gains and losses which arise on balances between Group entities are taken to the foreign currency translation reserve where the intragroup balance is, in substance, part of the Group's net investment in the entity. The balance of the foreign currency translation reserve relating to an operation that is disposed of is transferred to the income statement at the time of the disposal.

All other exchange differences are charged or credited to the income statement in the year in which they arise.

2.2.3 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of property, plant and equipment comprises its purchase price, any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated close down and restoration costs associated with the asset. Once a mining project has been established as having a high degree of confidence and is commercially viable, expenditure other than that of land, buildings, plant and equipment is capitalised under "Capital works in progress".

Property, plant and equipment is depreciated over its useful life, or over the remaining life of the mine if shorter. The major categories of property, plant and equipment are depreciated on a units of production basis and/or straight-line basis as follows:

Units of production basis: For mining properties and certain mining equipment, the economic benefits from the assets are consumed in a pattern which is linked to the production level of the mine. In applying the units of production method, depreciation is normally calculated using the quantity of material extracted from the mine in the period as a percentage of the total quantity of material to be extracted in current and future periods based on proved and probable ore reserves.

Straight-line basis: Assets within operations for which production is not expected to fluctuate significantly from one year to another or which have a physical life shorter that the mine are depreciated on a straight-line basis as follows:

• Land	Not depreciated
• Buildings	20 years
• Improvements on property	10 years
• Plant, machinery and equipment	5 years
• Computer equipment	4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Changes to the estimated residual values or useful lives are accounted for prospectively.

Expenditure on repairs and maintenance of property, plant and equipment are charged to the income statement as incurred. The cost of assets sold or scrapped and the related accumulated depreciation is eliminated from the accounts at the time of disposal and the resulting profits or losses are reflected in the income statement.

2.2.4 Intangible assets

Computer software

Purchased intangible assets are initially recorded at cost and finite life intangible assets are amortised over their useful economic lives on a straight-line basis. Acquired computer software licences are recognised on the basis of the cost incurred and when brought to use. Computer software has an estimated useful life of three to five years and is carried at cost less accumulated amortisation less accumulated impairment losses. Amortisation is recognised as part of cost of sales in the income statement.

2.2.5 Impairment of non-financial assets

An impairment review of non-financial assets is carried out annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is normally assessed at the level of cash-generating units which are identified as the smallest identifiable group of assets that generate cash inflows, which are largely independent of the cash inflows from other assets.

Notes to the financial statements
for the year ended 31 December 2010 continued

2. Summary of significant accounting policies continued
2.2 Summary of significant accounting policies continued
2.2.5 Impairment of non-financial assets continued

When there is an indication of impairment, the net carrying value of assets is compared with their recoverable amount. The recoverable amount is the higher of value in use and fair value less cost to sell. The value in use for each separate income-generating unit is determined. Estimated future net cash flows are calculated using estimates of ore reserves, estimated future sales prices (considering historical and current prices, price trends and related factors) and operating, capital and restoration costs.

Where the recoverable amount is less than the carrying value of the assets, the impairment loss identified is charged against the identified non-financial assets to reduce their carrying value to their recoverable amounts. The revised carrying amounts are depreciated over the remaining useful lives of the non-financial assets.

Non-financial assets other than goodwill that have suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

2.2.6 Current and deferred income tax

The income tax expense in the income statement comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company's subsidiaries and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The State Share tax on mining profit was replaced by the Mineral and Petroleum Resources Royalty Act, 2008 with effect from 1 March 2010.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and joint ventures, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.2.7 Stores and product inventories

2.2.7.1 Stores

Stores consist of consumable and maintenance stores and are valued at the lower of cost and net realisable value, primarily on a weighted average cost basis. Average cost is calculated by reference to the purchase price together with opening inventory.

2.2.7.2 Product inventories

Product inventories are valued at the lower of cost and net realisable value, primarily on a weighted average cost basis. Average costs are calculated by reference to the cost levels experienced over a defined production period which largely reflects the production process and timing thereof.

2. Summary of significant accounting policies continued

2.2 Summary of significant accounting policies continued

2.2.7 Stores and product inventories continued

Cost for raw materials is the purchase price and for partly processed and saleable products it is generally the cost of production. The cost of product inventories comprises the direct cost of production which includes mining and production overheads, depreciation and amortisation. No value is attributed to material before it reaches the concentrator or to inventories of anode slimes.

Net realisable value is the estimated selling price in the ordinary course of business, less costs to complete and applicable variable selling expenses.

2.2.8 Cash and cash equivalents

For the purposes of the statement of financial position, cash and cash equivalents comprise cash on hand, deposits held on call with banks and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value. For the purposes of the statement of cash flows, cash and cash equivalents are net of bank overdrafts that are repayable on demand which are shown as current liabilities on the balance sheet.

2.2.9 Provisions

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

2.2.9.1 Close down and restoration obligation

Close down and restoration costs include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. Estimated close down and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mining development or during the production phase, based on the net present value of estimated future costs.

Provisions for close down and restoration costs do not include any additional obligations which are expected to arise from future disturbance. The costs are estimated on the basis of a closure plan. The cost estimates are updated annually during the life of the operation to reflect known developments, e.g. revisions to cost estimates and to the estimated lives of operations, and are subject to formal review at regular intervals.

Close down and restoration costs are a normal consequence of mining, and the majority of close down and restoration expenditure is incurred at the end of the life of the mine. Although the ultimate cost to be incurred is uncertain, the Group estimates its respective costs based on feasibility and engineering studies using current restoration standards and techniques. The unwinding of discount applied in establishing the net present value of provision is charged to the income statement in each accounting period. The amortisation of the discount is shown as "financing cost" rather than as an operating cost.

The initial closure provision together with other movements in the provisions for close down and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are recognised within property, plant and equipment under the "decommissioning asset" category. These costs are then depreciated over the lives of the assets to which they relate. Discount rates are determined by pre-tax rates that reflect current market assessments of the time value of money, adjusted for risk specific to the liability.

2.2.9.2 Post-employment medical benefits

The Group provides post-retirement medical benefits for certain retired employees and their spouses by way of contributions to medical aid schemes. The expected costs of these benefits are accrued over the period of employment using the projected unit credit method. The liability recognised in the statement of financial position is the present value of the obligation at reporting date less the fair value of plan assets, together with adjustments for unrecognised past service costs. Actuarial gains and losses arising in the year are taken to other comprehensive income.

Actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Past service costs are recognised immediately in the income statement, unless the changes to the pension plan are conditional, in which case the costs are amortised on a straight-line basis over the vesting period.

Notes to the financial statements
for the year ended 31 December 2010 continued

2. Summary of significant accounting policies continued
2.2 Summary of significant accounting policies continued
2.2.9 Provisions continued
2.2.9.2 Post-employment medical benefits continued

The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds with terms corresponding to that of the liability. Valuations of these obligations are carried out on a periodic basis by professionally qualified independent actuaries, using the projected unit credit method.

2.2.10 Financial instruments
2.2.10.1 Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

i. **Financial assets at fair value through profit or loss**

Derivatives are included in this category unless they are designated as hedges. Assets in this category are classified as current assets. Generally, the Group does not acquire financial assets for the purpose of selling in the short term. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement.

ii. **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables comprise trade and other receivables and cash and cash equivalents in the statement of financial position. Loans and receivables are carried at amortised cost less any impairment.

iii. **Held-to-maturity financial assets**

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments that an entity intends and is able to hold to maturity and that do not meet the definition of loans and receivables and are not designated on initial recognition as assets at fair value through profit or loss or as available for sale. Held-to-maturity investments are measured at amortised cost.

iv. **Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated as available for sale or not classified in any of the other categories. They are included in non-current assets unless the Group intends to dispose of the investment within twelve months of the reporting date. Changes in the fair value of the available-for-sale assets are recognised in other comprehensive income. When available-for-sale financial assets are sold, the accumulated fair value adjustments recognised in other comprehensive income are included in the income statement within "net operating costs".

Financial assets not carried at fair value through profit or loss are initially recognised on the trade date at fair value plus transaction costs. Financial assets are derecognised when the investments mature or are sold, and substantially all the risks and rewards of ownership have been transferred.

2.2.10.2 Financial liabilities

Borrowings and other financial liabilities are recognised initially at fair value, net of transaction costs incurred and are subsequently stated at amortised cost. Any difference between the amounts originally received (net of transaction cost) and the redemption value is recognised in the income statement over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

2.2.10.3 Derivative financial instruments and hedge accounting

Derivatives are initially recognised at their fair value on the date the derivative contract is entered into and are subsequently remeasured at their fair value at each final reporting date. The method of recognising the resulting gain or loss depends on whether or not the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and risk management objective and strategy for undertaking the hedge.

2. Summary of significant accounting policies continued

2.2 Summary of significant accounting policies continued

2.2.10 Financial instruments continued

2.2.10.3 Derivative financial instruments and hedge accounting continued

The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Hedges that are expected to be highly effective in achieving offsetting changes in fair value or cash flows are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "other expenditure". Amounts accumulated in equity are recycled in the income statement in the period when the hedged item affects profit or loss. The realised gain or loss relating to the effective portion of commodity contracts hedging sales is recognised in the income statement within "Revenue". When the forecast transaction that is being hedged results in the recognition of a non-financial asset the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and adjust the cost of the asset.

When a cash flow hedging instrument expires or is sold, or when a cash flow hedge no longer meets the criteria for hedge accounting, although the forecasted transaction is still expected to occur, any cumulative gain or loss relating to the instrument which is held in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

2.2.10.4 Fair value

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties. Where relevant market prices are available, these have been used to determine fair values. In other cases, fair values have been calculated using quotations from independent financial institutions, or by using valuation techniques consistent with general market practice applicable to the instrument.

i. The fair values of cash, short-term borrowings and loans to joint ventures approximate their carrying values as a result of their short maturity or because they carry floating rates of interest.

ii. The fair values of medium- and long-term borrowings are calculated as the present value of the estimated future cash flows using an appropriate market based yield curve. The carrying value of borrowings are reflected at their amortised cost.

iii. Derivative financial assets and liabilities are carried at fair value based on published price quotations for the period for which a liquid active market exists. Beyond this period, the Group's own assumptions are used.

The fair value of the derivative instruments used for hedge accounting is classified as a non-current asset or liability if the remaining maturity of the hedged item is more that twelve months, and as a current asset or liability if the remaining hedged item is less than twelve months.

2.2.10.5 Impairment of financial assets

Available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale an evaluation is made as to whether a decline in fair value is 'significant' or 'prolonged' based on an analysis of indicators such as significant adverse changes in the technological, market, economic or legal environment in which the company invested operates.

Notes to the financial statements
for the year ended 31 December 2010 continued

2. Summary of significant accounting policies continued
2.2 Summary of significant accounting policies continued
2.2.10 Financial instruments continued
2.2.10.5 Impairment of financial assets continued
If an available-for-sale financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement is transferred from equity to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in the income statement.

Reversals of impairment losses on debt instruments are reversed through the income statement; if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised.

2.2.10.6 Derecognition of financial assets and liabilities
Financial assets
A financial asset is derecognised when the contractual rights to the cash flows that comprise the financial asset expire or substantially all the risks and rewards of the asset are transferred.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. Gains and losses on derecognition are recognised within "net finance cost".

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

2.2.10.7 Trade receivables
Trade receivables are recognised initially at fair value and are subsequently measured at amortised cost reduced by any provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due. Indicators of impairment would include financial difficulties of the debtor, likelihood of the debtor's insolvency, default in payment or a significant deterioration in credit worthiness.

An impairment is recognised in the income statement within "other expenditure". When a trade receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against "other income" in the income statement.

2.2.10.8 Trade payables
Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.2.11 Contingencies
Contingent liabilities are not recognised in the financial statements but are disclosed by way of a note unless their occurrence is remote. If it becomes probable that an outflow of future economic benefits will be required, a provision is recognised in the financial statements.

Contingent assets are not recognised in the financial statement but they are disclosed by way of a note if they are deemed probable.

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

2.2.13 Revenue recognition
2.2.13.1 Revenue – Sale of goods
Revenue comprises sales to third parties at invoiced amounts, with most sales being ex works, free on board (FOB), cost freight insurance (CFI) or cost freight rail (CFR). Amounts billed to customers in respect of shipping and handling are classed as revenue where the Group is responsible for carriage, insurance and freight. All shipping and handling costs incurred by the Group are recognised as selling and distribution expenses. If the Group is acting solely as an agent, amounts billed to customers are offset against the relevant costs. By-product sales are included in revenue.

2. Summary of significant accounting policies continued

2.2 Summary of significant accounting policies continued

2.2.13 Revenue recognition continued

2.2.13.1 Revenue – Sale of goods continued

A large proportion of Group production is sold under medium- to long-term contracts, but revenue is only recognised on individual sales when persuasive evidence exists indicating that all of the following criteria are met:

- The significant risks and rewards of ownership of the product have been transferred to the buyer;
- Neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold has been retained;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the sale will flow to the Group; and
- The costs incurred or to be incurred in respect of the sale can be measured reliably.

These conditions are generally satisfied when title passes to the customer. In most instances revenue is recognised when the product is delivered to the destination specified by the customer, which is typically the vessel on which it will be shipped, the destination port or the customer's premises, dependent on shipping terms.

The revenue from sales of many products is subject to adjustment based on an inspection of the product by the customer. In such cases, revenue is initially recognised on a provisional pricing basis using the Group's best estimate of contained metal. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined. Certain products are "provisionally priced", ie the selling price is subject to final adjustment at the end of a period normally ranging from 30 to 180 days after delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract.

Revenue is initially recognised when the conditions set out above have been met, using market prices at that date. At each reporting date the provisionally priced metal is marked to market, with adjustments recorded in revenue, based on the forward selling price for the quotational period stipulated in the contract until the quotational period expires. For this purpose, the selling price can be measured reliably for those products, such as copper, for which there exists an active and freely traded commodity market such as the London Metal Exchange, and the value of product sold by the Group is directly linked to the form in which it is traded on the market.

2.2.13.2 Dividends received

Dividends receivable are recognised when the right to receive payment is established. Dividends received is recognised in the income statement within "other income".

2.2.13.3 Interest received

Interest receivable is recognised on a time proportion basis, taking into account the principal outstanding and the effective rate over the period to maturity, when it is determined that such income will accrue to the Group. Interest received is recognised in the income statement within "net finance cost".

2.2.14 Share-based payments

Certain employees are participants in Rio Tinto's performance share plan, the Mining Companies Comparative Plan (MCCP), which provides participants with a conditional right to receive shares. The plan is administered by Rio Tinto, and once vested, the Company is charged for the settlement of the shares.

The fair value of cash-settled share plans is recognised as a liability over the vesting period of the awards. Movements in that liability between accounting dates are recognised as an expense. The grant date fair value of the awards is determined from the market value of the shares at the date of award and adjusted for any market based vesting conditions attached to the award, for example relative Total Shareholder Return (TSR) performance.

Fair values are subsequently remeasured at each accounting date to reflect the market value of shares at the measurement date and, where relevant, the number of awards expected to vest based on the current and anticipated TSR performance.

2.2.15 Exploration costs

Exploration expenditure comprises costs that are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;

Notes to the financial statements
for the year ended 31 December 2010 continued

2. Summary of significant accounting policies continued
2.2 Summary of significant accounting policies continued
2.2.15 Exploration costs continued
- examining and testing extraction and treatment methods; and/or
- compiling prefeasibility and feasibility studies.

Exploration expenditure relates to the initial search for deposits with economic potential. Evaluation expenditure arises from a detailed assessment of deposits or other projects that have been identified as having economic potential.

Expenditure on exploration activity is not capitalised. Capitalisation of evaluation expenditure commences when there is a high degree of confidence in the project's viability and it is probable that future economic benefits will flow to the Group.

2.2.16 Employee benefits
2.2.16.1 Pension plan
With effect from 1 September 2002. the Group's significant pension plan is a defined contribution plan. The assets of this plan are separate from the Company's finances. The cost of the Company's contribution to the defined contribution plan, which is based on a proportion of pensionable emoluments, is recognised as an expense in the period in which it arises.

2.2.16.2 Bonus plans
The Group recognises a liability and an expense for performance and retention bonuses, based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.2.17 Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.2.18 Mineral and petroleum royalty charge
The mineral and petroleum royalty charge relates to the Mineral and Petroleum Resources Royalty Act, 2008. Companies that win or recover mineral resources must pay a royalty in respect of the transfer of that mineral resources. Royalty charges are charged to the income statement as an expense in the period in which it arises.

2.2.19 Borrowing costs
Borrowing costs are charged within "net finance costs" in the income statement. When borrowings are utilised to fund qualifying capital expenditure, such borrowing costs that are directly attributable to the capital expenditure are capitalised from the point at which the capital expenditure and related borrowing costs are incurred until commercial levels of production are achieved.

2.2.20 Secondary tax on companies
Secondary tax on companies is a tax that the Company is liable for when the Company declares dividends to its shareholders. The calculation of secondary tax on companies is regulated by sections 64B and 64C of the Income Tax Act (the Act), and is payable on the net amount. The net amount is calculated as the amount of dividends declared, reduced by the amount of certain dividends received. In terms of the Act, if an entity has an excess of dividends accrued over dividends declared during a given dividend cycle, that excess is carried forward to the next dividend cycle and is then deemed to be a dividend that accrued to the entity during the next dividend cycle. This excess is generally referred to as unused STC credits.

Secondary tax on companies due is charged within "income tax expense" in the income statement.

2.2.21 Segment reporting
Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors, assisted by the general managers, who make strategic decisions.

3. Critical accounting estimates and judgements

3.1 Judgements in applying accounting policies and key sources of estimation uncertainty

Many of the amounts included in the consolidated financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the consolidated financial statements. Information about such judgements and estimations is contained in the accounting policies and/or the notes to the consolidated financial statements, and the key areas are summarised below.

Areas of judgement and key sources of estimation uncertainty that have the most significant effect on the amounts recognised in the consolidated financial statements are:

3.1.1 Determination of ore reserves

In assessing the life of the mine for accounting purposes, mineral resources are only taken into account where there is a high degree of confidence of economic extraction. There are numerous uncertainties inherent in estimating ore reserves; and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being restated.

3.1.2 Impairment of assets

The Group tests whether assets have suffered any impairment in accordance with the accounting policy in note 2.2.5. The recoverable amounts of cash-generating units have been derived from value-in-use calculations (being the net present value of expected future cash flows of the relevant cash-generating unit). These calculations require the use of estimates of future commodity prices and exchange rates. Estimates are based on management's interpretation of market forecasts. In line with market practice, fair value is estimated using a discounted cash flow analysis. The price assumption for copper is based on prevailing market prices for the first two years and long-term forecast prices thereafter. The rand exchange rate is forecast principally based on an historical average. The cash flow forecasts are discounted at a post-tax rate of seven per cent.

3.1.3 Provisions

Provision for future rehabilitation and post-retirement medical benefits cost have been determined, based on calculations which require the use of estimates (see notes 26 and 27).

3.1.4 Derivative financial instrument

Management uses quoted London Metal Exchange (LME) prices for the first 63 months (as used in the bank models) and thereafter market estimates as proxies instead of bank models for the fair valuing of the derivative financial instrument. As at 31 December 2010, the full valuation was based on quoted LME prices as the remaining period of the instrument was less than 63 months.

3.1.5 Recoverability of potential deferred tax assets

Deferred income tax assets are recognised to the extent that future taxable benefits are generated, against which the deferred tax asset can be realised.

3.1.6 Estimation of asset lives

See note 2.2.3 on the estimation of asset lives.

3.1.7 Contingencies

See note 37 on the estimation of contingencies.

3.2 Changes in estimates

3.2.1 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 2010 is valued at 176 million rand compared with 157 million rand at 31 December 2009. The main assumptions are summarised in note 27. The valuation resulted in an actuarial loss of 8 million rand before tax (2009: 4 million rand gain) being recognised in other comprehensive income (see note 27).

3.2.2 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 2010:

- R131 million increase due to increased closure costs estimates following a full closure review;
- A decrease in the long-term inflation rate from 7,1% to 5,3% resulted in a 13 million rand increase in the provision; and

Notes to the financial statements
for the year ended 31 December 2010 continued

3. Critical accounting estimates and judgements continued

3.2 Changes in estimates continued

3.2.2 Close down and restoration obligation continued

- Finance charges (unwinding of discount) through the income statement resulted in an increase of 41 million rand in the provision.

3.2.3 Mark to market valuation of hedge book

Following the changes in the forward copper market and the realisation of 22 188 tonnes of copper, the mark-to-market revaluation of the hedge book has resulted in a 491 million rand decrease in the hedge liability.

3.2.4 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 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 (see note 33).

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

	Copper R'm	Joint-product: Magnetite R'm	By-products: Other R'm	Industrial Minerals R'm	Total R'm
Year ended 31 December 2009					
Reportable segment operating profit – as reported previously	301	90	129	41	561
Change in overhead allocation	(4)	–	(12)	16	–
Change in joint-product allocation	(134)	134	–	–	–
Change in depreciation allocation	65	(65)	–	–	–
Reportable segment operating profit – as reported currently	228	159	117	57	561

4. Revenue

A portion of the Group's revenue from the sale of goods denominated in foreign currencies is cash flow hedged. The cash flows paid under the terms of the hedging instrument are designed to reduce variability in the rand proceeds of the copper sales (see note 25).

At 31 December 2010 the Group has deferred revenue of 81 million rand (2009: 10 million rand) which represents the fair value of that portion of the consideration received for prepayments made by customers on the sale of magnetite. This amount will be recognised in sale of goods in accordance with the delivery of the outstanding tonnes of the product (see note 29).

	GROUP		COMPANY	
	2010 R'm	2009 R'm	**2010 R'm**	2009 R'm
5. Expenses by nature				
Depreciation and amortisation charges (notes 15 and 16)	**483**	551	**483**	551
Employee benefit expense (note 6.1)	**843**	789	**834**	778
Labour hire	**108**	93	**108**	93
Changes in stores inventories	**(11)**	3	**(11)**	3
Changes in inventory of finished goods and work in progress	**(62)**	235	**(76)**	208
Product purchases	**614**	581	**614**	581
Raw materials and consumables used	**305**	287	**305**	287
Repairs and maintenance	**822**	675	**822**	675
Material transport on-site	**95**	77	**95**	77
Shipping and freight cost	**1 300**	1 111	**1 277**	1 085
Other costs	**480**	337	**471**	320
	4 977	4 739	**4 922**	4 658
Comprising:				
Cost of sales	**3 104**	3 106	**3 089**	3 078
Selling and distribution costs	**1 391**	1 185	**1 363**	1 147
Administrative expenses	**482**	448	**470**	433
	4 977	4 739	**4 922**	4 658
6. Profit before tax and net finance cost				
Profit before tax and net finance cost is stated after charging:				
6.1 Employee benefit expense				
Salaries and wages	**777**	725	**768**	714
Pension costs	**42**	38	**42**	38
Compensation of directors and key management				
– Salaries – non-executive directors	**1**	1	**1**	1
– Salaries – key management (executive directors)	**7**	11	**7**	11
Post-retirement benefits				
– Current service costs	**2**	2	**2**	2
– Interest costs	**14**	12	**14**	12
	843	789	**834**	778
6.2 Auditor's remuneration				
Fees for audit services	**3 444**	3 707	**2 870**	2 622
Fees for other services	**819**	476	**390**	476
Audit expenses	**286**	81	**286**	81
	4 549	4 264	**3 546**	3 179

Notes to the financial statements
for the year ended 31 December 2010 continued

	GROUP		COMPANY	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
7. Other income				
Amortisation of gain on financial instrument at inception	11	26	11	26
Dividend income from subsidiaries	–	–	–	2
Dividend income on available-for-sale financial assets	3	23	3	23
Liquidation dividend income	1	3	1	3
Salvage yard sales	4	3	4	3
Diesel rebate	7	6	7	5
Waste recovery	–	10	–	10
Profit on sale of property, plant and equipment	2	–	2	–
Sundry revenue	2	–	2	–
	30	71	30	72

	GROUP and COMPANY	
	2010 R'm	2009 R'm
8. Exploration costs		
Lift II exploration expenditure	40	18

The exploration costs relate to expenditure incurred on the Lift II pre-feasibility drilling and development expenditure. The area known as Lift II is the copper mineralisation area below the current footprint. This large area requires considerable diamond drilling to confirm its tonnage and grade.

9. Impairment loss		
Impairment loss	–	9

The write off of unrecoverable costs relates to the magnetite feasibility project relating to the pipeline study.

	GROUP		COMPANY	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
10. Other expenses				
Hedge ineffectiveness (see note 25)	4	3	4	3
Impairment of accounts receivable	2	–	–	–
Penalties and interest – Receiver of Revenue	–	9	–	8
	6	12	4	11

	GROUP		COMPANY	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
11. Net finance cost				
Finance cost	(216)	(190)	(213)	(193)
Interest expense on borrowings	(5)	(36)	(5)	(35)
Unwinding of discount on close down and restoration costs	(41)	(38)	(41)	(38)
Net foreign exchange loss on operating activities	(50)	(116)	(47)	(120)
Net foreign exchange loss on financing activities	(120)	–	(120)	–
Finance income	29	66	29	66
Interest income on short-term bank deposits	19	30	19	30
Interest income on pension surplus fund	–	22	–	22
Interest income on available-for-sale financial asset	5	5	5	5
Interest income on accounts receivable balances	5	–	5	–
Net foreign exchange gain on financing activities	–	9	–	9
	(187)	(124)	(184)	(127)
12. Income tax expense				
The major components of income tax expense are:				
Normal income tax	(311)	(262)	(297)	(251)
South African				
– Mining tax: Current	(315)	(243)	(315)	(243)
– Mining tax: Prior year	18	–	18	–
– Non-mining tax: Current	–	(7)	–	(8)
Foreign				
– Current	(14)	(12)	–	–
Secondary tax on companies	(39)	–	(39)	–
Deferred income tax	82	93	82	93
– Current	84	93	84	93
– Prior year	(2)	–	(2)	–
Income tax expense reported in the income statement	(268)	(169)	(254)	(158)
The tax rate reconciliation is as follows:	%	%	%	%
Current statutory rate	28,0	28,0	28,0	28,0
Adjusted for:				
– Estimated state share (after tax) rate	3,6	3,6	3,6	3,6
– Actual state share and state share deduction on mining tax	(3,8)	0,5	(3,8)	0,5
– Dividend income	–	(0,3)	–	(0,3)
– Disallowable expenditure	0,4	1,4	0,4	1,4
– Deferred tax on unutilised STC credits	0,1	2,9	0,1	2,9
– Secondary tax on companies	4,8	(0,9)	4,8	–
– Prior year under/(over) provision	(2,0)	–	(2,0)	–
– Other	0,1	2,2	0,1	2,2
Effective tax rate	31,2	37,4	31,2	38,3

The state share tax on mining was replaced by the Mineral and Petroleum Resources Royalty Act with effect from 1 March 2010.

Notes to the financial statements
for the year ended 31 December 2010 continued

12. Income tax expense continued

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	Before tax R'm	Deferred tax R'm	After tax R'm
GROUP			
Year ended 31 December 2010			
Available-for-sale investments	**30**	**(8)**	**22**
Exchange differences on translating foreign operations	**(20)**	**–**	**(20)**
Cash flow hedges	**484**	**(136)**	**348**
Actuarial losses on defined benefit plans	**(8)**	**2**	**(6)**
Other comprehensive income	**486**	**(142)**	**344**
Year ended 31 December 2009			
Available-for-sale investments	16	(4)	12
Exchange differences on translating foreign operations	(36)	–	(36)
Cash flow hedges	(1 550)	414	(1 136)
Actuarial losses on defined benefit plans	4	(1)	3
Other comprehensive income	(1 566)	409	(1 157)
COMPANY			
Year ended 31 December 2010			
Available-for-sale investments	**30**	**(8)**	**22**
Cash flow hedges	**484**	**(136)**	**348**
Actuarial losses on defined benefit plans	**(8)**	**2**	**(6)**
Other comprehensive income	**506**	**(142)**	**364**
Year ended 31 December 2009			
Available-for-sale investments	16	(4)	12
Cash flow hedges	(1 550)	414	(1 136)
Actuarial losses on defined benefit plans	5	(1)	4
Other comprehensive income	(1 529)	409	(1 120)

13. 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.

	GROUP	
	2010 R'm	2009 R'm
Reconciliation of net profit for earnings per share		
Net profit attributable to equity holders of parent	**595**	284
Reconciliation of weighted average number of shares		
Weighted average number of ordinary shares of basic and diluted earnings per share (million)	**48**	48
Earnings per share (cents)	**1 231**	587

14. Headline earnings

Basic and diluted

	Profit before tax R'm	Tax expense R'm	Profit after tax R'm
GROUP			
Year ended 31 December 2010			
Net profit per income statement	**863**	**(268)**	**595**
Profit on disposal of property, plant and equipment	**(2)**	**1**	**(1)**
Headline earnings	**861**	**(267)**	**594**
Weighted average number of ordinary shares of basic and diluted headline earnings per share (million)			**48**
Headline profit per share (cents)			**1 228**
Year ended 31 December 2009			
Net profit per income statement	453	(169)	284
Impairment loss	9	(3)	6
Headline earnings	462	(172)	290
Weighted average number of ordinary shares of basic and diluted headline earnings per share (million)			48
Headline profit per share (cents)			598

Notes to the financial statements
for the year ended 31 December 2010 continued

15. Property, plant and equipment

	Land and buildings R'm	Plant and equipment R'm	Capital work in progress R'm	Decommis-sioning asset R'm	Total R'm
GROUP					
Carrying value – 1 January 2009	184	2 931	186	113	3 414
Cost	1 064	5 415	186	163	6 828
Accumulated depreciation	(880)	(2 484)	–	(50)	(3 414)
Additions	–	65	66	3	134
Impairment loss	–	–	(9)	–	(9)
Depreciation	(29)	(510)	–	(10)	(549)
Reclassification	(1)	71	(70)	–	–
Carrying value – 31 December 2009	**154**	**2 557**	**173**	**106**	**2 990**
Cost	**1 064**	**5 549**	**182**	**166**	**6 961**
Accumulated depreciation	**(910)**	**(2 992)**	**(9)**	**(60)**	**(3 971)**
Additions	**–**	**40**	**191**	**143**	**374**
Disposals	**–**	**(6)**	**–**	**–**	**(6)**
Depreciation	**(26)**	**(439)**	**–**	**(16)**	**(481)**
Reclassification	**1**	**83**	**(84)**	**–**	**–**
Carrying value – 31 December 2010	**129**	**2 235**	**280**	**233**	**2 877**
Cost	**1 065**	**5 677**	**299**	**310**	**7 351**
Accumulated depreciation	**(936)**	**(3 442)**	**(19)**	**(77)**	**(4 474)**
COMPANY					
Carrying value – 1 January 2009	184	2 930	186	113	3 413
Cost	1 064	5 411	186	163	6 824
Accumulated depreciation	(880)	(2 481)	–	(50)	(3 411)
Additions	–	66	66	3	135
Impairment loss	–	–	(9)	–	(9)
Depreciation	(29)	(510)	–	(10)	(549)
Reclassification	(1)	71	(70)	–	–
Carrying value – 31 December 2009	**154**	**2 557**	**173**	**106**	**2 990**
Cost	**1 064**	**5 546**	**182**	**166**	**6 958**
Accumulated depreciation	**(910)**	**(2 989)**	**(9)**	**(60)**	**(3 968)**
Additions	**–**	**40**	**191**	**143**	**374**
Disposals	**–**	**(6)**	**–**	**–**	**(6)**
Depreciation	**(26)**	**(439)**	**–**	**(16)**	**(481)**
Reclassification	**1**	**83**	**(84)**	**–**	**–**
Carrying value – 31 December 2010	**129**	**2 235**	**280**	**233**	**2 877**
Cost	**1 065**	**5 675**	**299**	**310**	**7 349**
Accumulated depreciation	**(936)**	**(3 440)**	**(19)**	**(77)**	**(4 472)**

All the property, plant and equipment are owned assets. All immovable property, plant and equipment of the Company have been pledged as security (refer to note 28).

	GROUP and COMPANY 2010 R'm	2009 R'm
15. Property, plant and equipment continued		
15.1 Additions		
Cash additions	217	131
Capitalisation of additional estimated closure costs (note 26)	143	4
Capital and insurance spares reclassified	14	(1)
	374	134
16. Intangible assets		
Computer software licences		
Carrying value – 1 January	5	4
Cost	45	42
Accumulated amortisation	(40)	(38)
Additions	5	3
Amortisation charge	(2)	(2)
Carrying value – 31 December	8	5
Cost	50	45
Accumulated amortisation	(42)	(40)
17. Other financial assets		
Available-for-sale financial assets		
RTZ (SA) Environmental Rehabilitation Trust Fund		
Balance at 1 January	360	313
Additions	–	3
Dividend income reinvested	3	23
Interest income reinvested	5	5
Net valuation gain recognised in other comprehensive income	30	16
Balance at 31 December	398	360

The available-for-sale investment is held through the RTZ (South Africa) Environmental Rehabilitation Trust Fund. The fund is an irrevocable trust under the Company's control. The monies in the fund are invested primarily in equity securities (available-for-sale when monies are needed for rehabilitation).

Other financial assets are denominated in SA rand and none of these financial assets are either due or impaired.

Notes to the financial statements
for the year ended 31 December 2010 continued

	GROUP and COMPANY 2010 R'm	2009 R'm
18. Deferred income tax		
At 1 January	**130**	(372)
Tax charged to income statement	**82**	93
Tax charged to statement of other comprehensive income	**(142)**	409
At 31 December	**70**	130
Deferred income tax assets arising from:		
Provisions	**237**	77
Derivative financial instruments	**761**	897
STC credits	**–**	1
	998	975
Deferred income tax liabilities arising from:		
Accelerated capital allowances	**(808)**	(834)
Available-for-sale investment	**(111)**	(5)
Other	**(9)**	(6)
	(928)	(845)
Net deferred income tax assets	**70**	130
Comprising:		
Deferred income tax assets	**998**	897
Deferred income tax liabilities	**(928)**	(767)
	70	130

At 31 December 2010, the Company had no unredeemed capital expenditure (2009: nil).

	GROUP 2010 R'm	2009 R'm	COMPANY 2010 R'm	2009 R'm
19. Stores inventories				
Consumable stores	**113**	115		
Valued at net realisable value included above	**29**	33		

In 2010 changes in stores inventories recognised as cost of sales amounted to 11 million rand credit (2009: 3 million rand) for the Group and the Company.

	GROUP 2010 R'm	2009 R'm	COMPANY 2010 R'm	2009 R'm
20. Product inventories				
Work in progress	**394**	384	**394**	384
Finished goods	**286**	235	**266**	196
	680	619	**660**	580
Valued at net realisable value included above	**–**	–	**–**	–

In 2010 changes in finished goods and work in progress recognised as cost of sales amounted to 62 million rand credit (2009: 235 million rand) for the Group, and 76 million rand credit (2009: 208 million rand) for the Company.

	GROUP		COMPANY	
	2010 R'm	2009 R'm	**2010 R'm**	2009 R'm
21. Trade and other receivables				
Trade receivables	**815**	602	**748**	537
Provision for impairment of receivables	**(4)**	(3)	**(1)**	(1)
Receiver of Revenue	**–**	7	**–**	7
Related party receivables (note 30)	**2**	2	**2**	2
Pre-payments	**2**	1	**1**	1
Other	**49**	17	**49**	16
Total trade and other receivables	**864**	626	**799**	562
Movement in provision for impairment of receivables				
Balance at 1 January	**(3)**	(5)	**(1)**	(3)
Additional provision for receivables impairment	**(2)**	–	**–**	–
Receivables written off as uncollectible	**1**	2	**–**	2
Balance 31 December	**(4)**	(3)	**(1)**	(1)
Comprising:				
Trade receivables	**(3)**	(2)	**–**	–
Related party receivables (note 30)	**(1)**	(1)	**(1)**	(1)
Total provision for impairment of receivables	**(4)**	(3)	**(1)**	(1)
22. Investment and loans in subsidiaries and joint ventures				
Accounts receivable	**–**	–	**9**	13
Additional information regarding the Company's subsidiaries and joint venture is set out in the directors' report and notes 30 and 32.				
23. Cash and cash equivalents				
Cash on hand and in the bank	**1 641**	1 395	**1 538**	1 317
The Group had no bank overdrafts for the year under review (2009: No bank overdrafts).				

Notes to the financial statements
for the year ended 31 December 2010 continued

	GROUP and COMPANY 2010 R'm	2009 R'm
24. Capital and reserves		
24.1 Share capital		
Authorised		
100 000 000 ordinary shares of R1 each	**100**	100
Issued		
48 337 497 ordinary shares of R1 each	**48**	48
All the issued shares are fully paid up.		
24.2 Share premium		
Balance at 31 December	**581**	581
Total share capital and share premium	**629**	629

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

24.3 Other reserves
See the statements of changes in equity for detail on other reserves.

24.3.1 Translation reserve
The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations.

24.3.2 Hedging reserve
The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

24.3.3 Fair value reserve
The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investments are derecognised or impaired.

	GROUP		COMPANY	
	2010 R'm	2009 R'm	**2010 R'm**	2009 R'm
24.4 Dividends				
The following dividends were declared and paid:				
Previous year final dividend:				
620 cents per qualifying ordinary share (2008: 82 cents)	**300**	39	**300**	39
Interim dividend:				
207 cents per qualifying ordinary share (2009: 165 cents)	**100**	80	**100**	80
	400	119	**400**	119
After the respective reporting dates the following dividends were proposed by the directors:				
Year final dividend declared:				
724 cents per qualifying ordinary share (2009: 620 cents)	**350**	300	350	300
Secondary tax on companies due on closing date of dividend cycle	**35**	29	**35**	29
The dividend declared is recognised in the period it is paid.				

25. Other financial liabilities

Derivative financial instrument – Cash flow hedge

At 31 December 2010, the Group held a commodity swap contract designated as a hedge of expected future sales 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 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 set out in the table below.

As at 31 December 2010 the cashflow hedge of the expected future sales were assessed to be highly effective and the ineffective portion of 4 million rand was recognised directly in the income statement (see note 10).

The combined hedged book amounts to 59 292 tonnes (2009: 81 480 tonnes) of copper for a total amount of 2 721 million rand as at 31 December 2010 spread over two years and eight months.

	GROUP and COMPANY			
Table of terms: 2010		**Average**		**Derivative**
	Quantity	**hedged price**	**Hedged value**	**liability**
Maturity year	**tonnes**	**ZAR/t**	**R'm**	**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 gains				11
Total of derivative financial instrument				2 721
Non-current				
Derivative financial instrument				1 672
Unamortised component of non-observable inception gains				–
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

Notes to the financial statements
for the year ended 31 December 2010 continued

25. Other financial liabilities continued

Table of terms: 2009	GROUP and COMPANY			
Maturity year	Quantity tonnes	Average hedged price ZAR/t	Hedged value R'm	Derivative liability R'm
2010	22 188	15 739	349	863
2011	21 825	15 739	344	867
2012	21 137	15 739	333	833
2013	16 330	15 739	257	627
	81 480		1 283	3 190
Unamortised component of non-observable inception gains				22
Total of derivative financial instrument				3 212
Non-current				
Derivative financial instrument				2 327
Unamortised component of non-observable inception gains				8
Total non-current portion				2 335
Current				
Derivative financial instrument				863
Unamortised component of non-observable inception gains				14
Total current portion				877
Total of derivative financial instrument				3 212

Trading derivatives are classified as current liabilities. The full fair value of a hedging derivative is classified as a non current liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability, if the maturity of the hedged item is less than 12 months.

26. Close down and restoration obligation

	GROUP and COMPANY	
	2010 R'm	2009 R'm
Balance at 1 January	433	391
Capitalisation of provisions	143	4
– Discount and inflation rate adjustment	12	3
– Revised closure obligation and closure programme adjustment	131	1
Finance charge for the year (see note 11)	41	38
Balance at 31 December	617	433

The Group's policy on close down and restoration costs is described in note 2.2.9.1.

Close down and restoration costs are a normal consequence of mining, and the majority of close down and restoration expenditure is incurred at the end of the relevant operation. The expected date of closure, on which the close down and restoration cost estimate is based, is quarter 1 of 2016. Although the ultimate cost to be incurred is uncertain, the Group estimate their respective cost based on feasibility and engineering studies using current restoration standards and techniques.

Refer to note 3.2.2 for more detail on the change in estimate of the close down and restoration obligation.

	GROUP and COMPANY 2010 R'm	2009 R'm
27. Retirement benefits obligations		
Post-employment medical benefits		
Present value of the unfunded obligation	176	157
Fair value of plan assets	–	–
Liability recognised in the statement of financial position	176	157
The movement in the defined benefit obligation is as follows:		
Balance at 1 January	157	155
Current service costs (income statement)	2	2
Interest costs (income statement)	14	12
Net actuarial loss/(gain) recognised (other comprehensive income)	8	(4)
Benefits paid	(5)	(8)
Balance at 31 December	176	157
Comprising:		
Current portion	8	8
Non-current portion	168	149
	176	157

The cumulative actuarial loss recognised in the statement of comprehensive income to date was 38 million rand (2009: 30 million rand).

The Group's best estimate of contributions expected to be paid during the year starting on 1 January 2011 is 8 million rand.

Trend information

	GROUP and COMPANY 2008	2007	2006
Present value of unfunded obligation	155	146	122
Fair value of plan assets	–	–	–
Experience adjustments in respect of present value of obligation (net actuarial loss)	2	19	13

The Group's provision for post-employment medical benefits is based on the assumptions used by the independent actuaries who include appropriate mortality tables, long-term estimates of increases in medical costs and appropriate discount rates. The level of claims is based on the Group's experience. The post-employment medical benefit plan is unfunded. During 2010 the actuarial valuation of the present value of the liability was updated by Alexander Forbes. The expected date of the next actuarial valuation is 2012.

An actuarial loss of 8 million rand arose during 2010 (2009: 5 million rand gain) due to the factors as described in note 3.2.1.

The principal actuarial assumptions used were as follows:

	GROUP and COMPANY 2010	2009
Discount rate (%)	8,25	9,50
Health care cost inflation (%)	7,25	8,00
CPI inflation (%)	5,25	6,00
Expected retirement age (years)	58	58
Full eligibility age (years)	53	53
Membership discontinued at retirement (%)	–	–

Assumptions regarding future mortality experience are based on actuarial advice in accordance with published statistics and experience. Mortality assumptions are based on the following post-retirement mortality tables: PA (90) ultimate table rated down two years with 1 per cent improvement per annum from 2006.

Notes to the financial statements
for the year ended 31 December 2010 continued

27. Retirement benefits obligations continued

Sensitivity analysis of the accumulated post-employment benefit obligation

The results of the sensitivity analysis of the accumulated post-employment benefit obligation (APBO) to changes in health care cost inflation, health care cost inflation in the next five years and the average retirement age is as follows:

	2010 Health care cost inflation		2009 Health care cost inflation	
	- 1%	+ 1%	– 1%	+ 1%
Accumulated post-employment benefit obligation (R'm)	156	200	141	179
Percentage change	-11,3%	13,7%	-10,9%	13,3%

	Health care cost in next 5 years		Health care cost in next 5 years	
	+ 5%	+ 10%	+ 5%	+ 10%
Accumulated post-employment benefit obligation (R'm)	207	241	185	216
Percentage change	17,5%	37,3%	17,2%	36,8%

	Average retirement age 1 year younger	1 year older	Average retirement age 1 year younger	1 year older
Accumulated post-employment benefit obligation (R'm)	180	173	161	155
Percentage change	2,0%	-2,0%	2,1%	-2,0%

Pension scheme

The only active pension scheme in the Group is a defined contribution fund known as the Palabora Pension Fund, which was established in September 2002. Membership is compulsory for all permanent employees of Palabora Mining Company and the Palabora Foundation. Members can elect to contribute at a rate of either 6 per cent or 7,5 per cent of their pensionable salaries. The employer contributes at a rate of 12,5 per cent of pensionable salaries, of which 7,5 per cent is paid to members, 4 per cent to the provision of risk benefits and 1 per cent for administrative costs.

28. Borrowings and net cash

			GROUP and COMPANY	
Description of loan	Currency	Effective interest rate %	2010 R'm	2009 R'm
Current				
Revolving credit facility – Tranche A	ZAR	Jibar + 2,35%	48	48
Revolving credit facility – Tranche B	USD	Libor + 2,00%	50	55
Total borrowings			98	103

On 21 September 2005, the Group concluded its debt restructuring programme and entered into a senior project facility with an available commitment of R1 500 million. Loans provided by the major shareholder Rio Tinto were subordinated. During the 2010 financial year the Group made no drawdown on the available facilities. The facility entered into is secured by a first charge over all immovable property and equipment via a sequence of notarial bonds and the rights to debtors were ceded in favour of the lenders. The effect of discounting is not material.

The revolving credit facility

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).

	GROUP		COMPANY	
	2010 R'm	2009 R'm	**2010 R'm**	2009 R'm
29. Trade and other payables				
Trade payables	**328**	308	**325**	304
Leave pay accrual	**54**	48	**53**	47
Prepayments received (deferred income)	**81**	10	**81**	10
Payroll accruals	**44**	54	**44**	54
Receiver of Revenue	**30**	–	**29**	–
Other	**36**	7	**32**	2
	573	427	**564**	417

		2010		2009	
	Nature of transactions	**Volume of transactions R'm**	**Amount outstanding R'm**	Volume of transactions R'm	Amount outstanding R'm
30. Related parties					
GROUP and COMPANY					
Receivables					
Other related parties					
Other Rio Tinto group companies	Recovery of travel expenses and staff costs	**1**	**2**	1	2
Total related party receivables (note 21)			**2**		2
Less: Impairment of related party receivables (note 21)			**(1)**		(1)
Net current related party receivables			**1**		1
Payables					
Key management personnel					
Executive and non-executive directors	Directors' fees and salaries	**8**	**–**	12	–
Other related parties					
Other Rio Tinto group companies	Consulting/ specialised services/ secondee salaries/ directors' fees/ management fees	**120**	**178**	104	141
Rio Tinto Shipping Limited	Freight assistance	**627**	**25**	437	21
Total related party payables			**203**		162
COMPANY					
Receivables					
Subsidiaries					
Palabora Asia Pte Limited	Dividends	**3**	**3**	3	3
American Vermiculite Corporation	Sale of goods	**44**	**3**	62	8
Palabora Europe Limited	Sale of goods	**155**	**–**	167	–
Joint venture					
Palfos Aviation (Pty) Limited	Recovery of tax payments	**1**	3	–	2
Investment in subsidiaries and joint ventures (note 22)			**9**		13

Notes to the financial statements
for the year ended 31 December 2010 continued

	GROUP		COMPANY	
	2010 R'm	2009 R'm	2010 R'm	2009 R'm
31. Cash generated from operations				
Profit before tax	863	453	818	412
Adjustments for non-cash items				
– Depreciation of property, plant and equipment	481	549	481	549
– Amortisation of intangible assets	2	2	2	2
– Impairment loss	–	9	–	9
– Gain on disposal of property, plant and equipment	(2)	–	(2)	–
– Foreign exchange gains on operating activities	(47)	(14)	(45)	(19)
– Cash flow hedge non-cash transactions through income statement	(7)	(23)	(7)	(23)
– Provisions and other non-cash items	19	22	20	22
– Exchange differences on translation of foreign subsidiaries	(20)	(36)	–	–
Adjustments – other:				
– Net finance cost	187	124	184	127
– Dividend income	(4)	(25)	(4)	(27)
Changes in working capital (excluding the effects of exchange differences on consolidation):				
– Stores inventories	5	(8)	5	(8)
– Product inventories	(75)	218	(94)	182
– Trade and other receivables	(241)	(215)	(241)	(213)
– Trade and other payables	147	(23)	148	(21)
– Related parties payables	40	47	41	47
– Utilisation of non-current provisions	(5)	(7)	(5)	(7)
	1 343	1 073	1 301	1 032

32. Interest in joint venture

	GROUP	
	2010 R'm	2009 R'm
Non-current assets	–	–
Current assets	1	1
Total assets	1	1
Non-current liabilities	–	–
Current liabilities	(3)	(3)
Total liabilities	(3)	(3)
Net (liabilities)/assets	(2)	(2)

The joint venture is a dormant company and did not operate during the year.

33. 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: Other: includes anode slimes, sulphuric acid and nickel sulphate.
- Industrial minerals: produces and markets vermiculite.

Information regarding the results of each reportable segment is included below. The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2.2.

Segment profit represents the profit earned by each segment with an allocation of central administration expenses. Performance is measured on segment operating profit or loss which in certain aspects, as explained in the table below, is measured differently from operating profit or loss in the consolidated financial statements. Segment operating profit or loss is used to measure performance as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

Reportable segment revenue represents revenue generated from external customers. There were no inter-segment sales for the current year (2009: R Nil).

Transfer prices between or within operating segments are set on an arm's length basis in a manner similar to transactions with third parties.

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

	Copper R'm	Joint-product: Magnetite R'm	By-products: Other R'm	Industrial minerals R'm	Total R'm
Year ended 31 December 2010					
External customers revenue					
Sales from products	4 058	2 339	194	385	6 976
Hedge loss realised	(845)	–	–	–	(845)
Reportable segment revenue	3 213	2 339	194	385	6 131
Reportable segment operating profit before depreciation and amortisation	522	823	104	27	1 476
Depreciation	(372)	(61)	(6)	(10)	(449)
Reportable segment operating profit	150	762	98	17	1 027
Year ended 31 December 2009					
External customers revenue					
Sales from products	3 713	1 513	177	428	5 831
Hedge loss realised	(547)	–	–	–	(547)
Reportable segment revenue	3 166	1 513	177	428	5 284
Reportable segment operating profit before depreciation and amortisation	669	233	123	67	1 092
Depreciation	(441)	(65)	(6)	(10)	(522)
Impairment	–	(9)	–	–	(9)
Reportable segment operating profit	228	159	117	57	561

Notes to the financial statements
for the year ended 31 December 2010 continued

33. Operating segments continued

Reportable segment operating profit before depreciation and amortisation include:

	Copper R'm	Joint-product: Magnetite R'm	By-products: Other R'm	Industrial minerals R'm	Total R'm
Year ended 31 December 2010					
Joint product cost allocation	**149**	**(149)**	**–**	**–**	**–**
Overhead allocation costs	**(374)**	**(85)**	**(15)**	**(26)**	**(500)**
Selling and logistic costs	**(11)**	**(1 218)**	**(1)**	**(164)**	**(1 394)**
Year ended 31 December 2009					
Joint product cost allocation	165	(165)	–	–	–
Overhead allocation costs	(328)	(50)	(12)	(21)	(411)
Selling and logistic costs	(18)	(968)	–	(176)	(1 162)

Reconciliation of reportable segment operating profit to profit after tax:

	GROUP	
	2010 R'm	2009 R'm
Reportable segment operating profit	**1 027**	561
Unallocated amounts:		
– Other	**57**	43
– Unallocated depreciation and amortisation of tangible and intangible assets	**(34)**	(27)
– Net finance income cost	**(187)**	(124)
Profit from operations before tax	**863**	453
Income tax expense	**(268)**	(169)
Profit after tax	**595**	284

Geographical segments

The segments management, sales offices and mining facilities are based in South Africa, which is also the Group's country of domicile. The industrial minerals segment has sales offices in United Kingdom (Europe region), United States of America (America region) and Singapore (Asia region).

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers.

	2010		2009	
Region	**Revenue R'm**	**Non-current assets R'm**	Revenue R'm	Non-current assets R'm
South Africa	**2 839**	**3 283**	2 445	3 355
Asia	**1 898**	**–**	1 491	–
Australia	**50**	**–**	35	–
Europe	**1 235**	**–**	1 177	–
America	**86**	**–**	110	–
Other Africa	**23**	**–**	26	–
	6 131	**3 283**	5 284	3 355

Major customers

The following single customers' revenue amounts to 10 per cent or more of the Group revenue:

			Revenue	
Details	**Segment**	**Region**	**2010 R'm**	2009 R'm
Customer A	Copper	South Africa	**810**	859
Customer B	Magnetite	Asia	**2 065**	1 212
			2 875	2 071

34. Financial risk management

The principal financial risks arising from the Group's activities are those related to credit risk, liquidity risk and market risk (commodity price risk, currency risk and interest rate risk). The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

The Group's principal financial instruments comprise the commodity swap contract. The Group has various other financial instruments such as trade debtors, trade creditors, bank loans and cash, which arise directly from its operations. It is currently, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

For analysis purposes, only Group numbers are reported, as the differences between the Group and the Company are deemed insignificant. The standard tax rate was used in the sensitivity analysis calculations.

34.1 Credit risk

Credit risk arises from cash and cash equivalents, as well as outstanding receivables and committed transactions. The Group's exposure to credit risk arises from default of counter parties on receivables, with a maximum exposure equal to the carrying amount of trade and other receivables. The Group trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant (also refer to note 21).

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. To manage the risk, only banks and financial institutions of a good credit quality are accepted.

There are no significant concentrations of credit risk within the Group.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2010 R'm	2009 R'm
Available-for-sale financial assets	**398**	360
Trade and other receivables[1]	**862**	618
Cash and cash equivalents	**1 641**	1 395
	2 901	2 373

[1] *Includes trade receivables, provision for impairment of trade receivables, Rio Tinto Group companies and other receivables as per note 21 and note 30*

The ageing of trade receivables at the reporting date was:

	2010		2009	
	Gross R'm	**Impairment R'm**	Gross R'm	Impairment R'm
Not past due	**789**	**–**	595	–
Past due 30 – 60 days	**2**	**–**	5	–
Past due 61 – 90 days	**7**	**–**	–	–
Past due 91 – 120 days	**7**	**–**	–	–
Past due 121 days and more	**10**	**3**	2	2
Trade receivables	**815**	**3**	602	2

For copper products, which represent 60% of the amounts receivable, payment terms are up to net thirty (30) days after invoice date unless otherwise agreed to by the seller and subject to seller's determination regarding the buyer's qualification for credit. Overdue amounts will attract an interest charge, calculated daily, of prime plus 3 per cent.

Impairment of trade receivables are provided for based on estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

Notes to the financial statements
for the year ended 31 December 2010 continued

34. Financial risk management continued

34.1 Credit risk continued

The credit limit and outstanding balance for the top five counterparties for the group at reporting date was:

			2010		2009	
Counterparty	Region	Segment	Credit limit R'm	Carrying amount R'm	Credit limit R'm	Carrying amount R'm
Debtor C	Asia	Magnetite	308	–	308	172
Debtor D	Europe	Copper	240	19	240	5
Debtor E	South Africa	Copper	199	77	162	4
Debtor F	Europe	Copper	164	–	164	22
Debtor G	South Africa	Copper	176	181	110	55
			1 087	277	984	258

The Group only transacts with entities of a good credit quality. This information is supplied by independent rating agencies where available and, if not available, the Group uses other publicly available financial information and its own trading records to rate its major customers. There were no defaults recorded on the above customers.

Before accepting any new customer, the Group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits for the customer.

34.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below analyses the Group's financial assets and liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Within 1 year R'm	1 – 2 years R'm	2 – 5 years R'm	More than 5 years R'm	Total R'm
Year ended 31 December 2010					
Assets					
Available-for-sale financial assets	–	–	–	398	398
Trade and other receivables[1]	862	–	–	–	862
Cash and cash equivalents	1 641	–	–	–	1 641
Non-derivative financial liabilities					
Borrowings	(98)	–	–	–	(98)
Trade and other payables[2]	(567)	–	–	–	(567)
Derivative financial liabilities					
Commodity swap contract	(1 049)	(969)	(703)	–	(2 721)
	789	(969)	(703)	398	(485)
Year ended 31 December 2009					
Assets					
Available-for-sale financial assets	–	–	–	360	360
Trade and other receivables[1]	618	–	–	–	618
Cash and cash equivalents	1 395	–	–	–	1 395
Non-derivative financial liabilities					
Borrowings	(103)	–	–	–	(103)
Trade and other payables[2]	(477)	–	–	–	(477)
Derivative financial liabilities					
Commodity swap contract	(877)	(867)	(1 468)	–	(3 212)
	556	(867)	(1 468)	360	(1 419)

[1] Includes trade receivables, provision for impairment of trade receivables, Rio Tinto Group companies and other receivables as per note 21 and note 30
[2] Includes trade payables, amount due to related parties, interest accruals and other payables as per note 29 and note 30

34. Financial risk management continued

34.3 Market risk

Market risk is the risk that changes in commodity market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

34.3.1 Currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to the US dollar. As at 31 December 2010, the Group's borrowings amounts to 98 million rand (2009: 103 million rand), of which 51 per cent (2009: 54 per cent) is denominated in US dollars for an equivalent of 7,5 million US dollars (2009: 7,5 million US dollars). As a result of the US dollar denominated borrowings, the Group's statement of financial position and statement of comprehensive income can be affected by movements in the US dollar/SA rand exchange rates.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. The Group generally does not enter into forward sales, derivatives or other hedging arrangements to manage this risk.

The Group also has transactional currency exposures. Such exposure arises mainly from sales by operating units in currencies other than the unit's functional currency. Approximately 55 per cent (2009: 50 per cent) of the Group's sales, pre-hedge, are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 75 per cent (2009: 72 per cent) of costs are denominated in the Group's presentation currency. The Group generally does not enter into forward sales, derivatives or other hedging arrangements to manage this risk.

The following table sets out the carrying amount of the Group's financial assets and liabilities that are exposed to currency risk:

	US dollar risk R'm	UK pound risk R'm	Euro risk R'm	Singapore dollar risk R'm
As at 31 December 2010				
Trade receivables	**210**	**–**	**–**	**–**
Cash and cash equivalents	**1 447**	**36**	**10**	**8**
Trade payables	**(30)**	**–**	**–**	**–**
Borrowings	**(50)**	**–**	**–**	**–**
	1 577	**36**	**10**	**8**
As at 31 December 2009				
Trade receivables	238	–	–	–
Cash and cash equivalents	879	6	17	8
Trade payables	(8)	(1)	–	–
Borrowings	(55)	–	–	–
	1 054	5	17	8

Notes to the financial statements
for the year ended 31 December 2010 continued

34. Financial risk management continued

34.3 Market risk continued

34.3.1 Currency risk continued

Foreign currency sensitivity analysis

The following table details the Group's sensitivity to a 10% strengthening in SA rand against the relevant foreign currencies. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The assumption is made that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2009.

The analysis excludes foreign exchange translation differences resulting from the Group companies that have a functional currency different from the presentation currency.

	US dollar effect R'm	UK pound effect R'm	Euro effect R'm	Singapore dollar effect R'm
As at 31 December 2010				
Profit/(loss) after tax	(100)	(3)	(1)	(1)
Equity	–	–	–	–
As at 31 December 2009				
Profit/(loss) after tax	(76)	–	(1)	(1)
Equity	–	–	–	–

A 10% weakening of the rand against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

34.3.2 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from its short-term borrowings subject to Libor or Jibar. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. At the reporting date, the Group had not entered into derivatives to manage the interest rate risk.

The following table sets out the carrying amount, by maturity, of the Group's financial assets and liabilities that are exposed to interest rate risk:

	Within 1 year R'm	1 – 5 years R'm	More than 5 years R'm	Total R'm
Year ended 31 December 2010				
Revolving credit facility	98	–	–	98
Year ended 31 December 2009				
Revolving credit facility	103	–	–	103

Interest rate sensitivity analysis

At 31 December 2010, if interest rates on borrowings had been 1 per cent higher/lower for both Libor and Jibar interest rates respectively with all other variables held constant, post-tax profit for the year would have been lower/ higher by less than R1 million for the rates respectively. The same applies for the comparative year. This implies that the Group has a low interest rate exposure. The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables, in particular foreign exchange rates, remain constant. The analysis is performed on the same basis for 2009.

34. Financial risk management continued

34.3 Market risk continued

34.3.3 Commodity price risk

Copper price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of copper. The copper market is predominately priced in US dollars which exposes the Group to the risk that fluctuations in the SA rand/US dollar exchange rates may have on current or future earnings. Although the Group's usual policy is to sell its products at prevailing market prices, the Group entered into a commodity swap contract as part of the debt restructuring programme in 2005. The details of the swap are described in note 25.

Commodity price sensitivity analysis

At 31 December 2010, if the LME copper price had weakened/strengthened by 10% with all other variables held constant, post-tax profit for the year would have been 42 million rand (2009: 56 million rand) higher/lower as a result of realisation of the hedge loss. The analysis has been performed on the basis of the change occurring at the start of the reporting period and assumes that all other variables remain constant. The analysis is performed on the same basis for 2009. Hedge losses associated with a 10% increase from the year end price would affect equity directly by a decrease of 371 million rand (2009: decrease of 430 million rand).

34.4 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2010 and 31 December 2009.

Consistent with industry practice, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated statement of financial position plus net debt.

The Group is subject to externally imposed capital requirements in the form of loan covenants, which may have an impact on the manner in which capital is utilised. The Group has complied with these capital requirements during the years under review.

34.5 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – Inputs for the assets or liabilities that are not based on observable market date (that is, unobservable inputs).

The following table presents the Group's assets and liabilities that are measured at fair value:

Year ended 31 December 2010	Level 1 R'm	Level 2 R'm	Level 3 R'm	Total balance R'm
Assets				
Available-for-sale financial assets				
– Debt investments	398	–	–	398
Total assets	398	–	–	398
Liabilities				
Derivatives used for hedging				
– Non-current	–	(1 672)	–	(1 672)
– Current	–	(1 049)	–	(1 049)
Total liabilities	–	(2 721)	–	(2 721)

Notes to the financial statements
for the year ended 31 December 2010 continued

34. Financial risk management continued
34.5 Fair value estimation continued

Year ended 31 December 2009	Level 1 R'm	Level 2 R'm	Level 3 R'm	Total balance R'm
Assets				
Available-for-sale financial assets				
– Debt investments	360	–	–	360
Total assets	360	–	–	360
Liabilities				
Derivatives used for hedging				
– Non-current	–	(2 335)	–	(2 335)
– Current	–	(877)	–	(877)
Total liabilities	–	(3 212)	–	(3 212)

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing services or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments;
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves;
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

35. Financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	31 December 2010		31 December 2009	
	Carrying amount R'm	Fair value R'm	Carrying amount R'm	Fair value R'm
Assets carried at fair value				
Available-for-sale financial assets	**398**	**398**	360	360
Assets carried at amortised cost				
Trade and other receivables[1]	**862**	**862**	618	618
Cash and cash equivalents	**1 641**	**1 641**	1 395	1 395
	2 503	**2 503**	2 013	2 013
Liabilities carried at fair value				
Commodity swap contract	**(2 721)**	**(2 721)**	(3 212)	(3 212)
Liabilities carried at amortised cost				
Accounts payable and group companies[2]	**(567)**	**(567)**	(477)	(477)
Borrowings	**(98)**	**(98)**	(103)	(103)
	(665)	**(665)**	(580)	(580)

[1] Includes trade receivables, provision for impairment of trade receivables, related party receivables and other receivables as per note 21 and note 30

[2] Includes trade payables, related party payables, interest accruals and other payables as per note 29 and note 30

The carrying values (less any impairment allowance) of financial instruments carried at amortised cost are assumed to approximate their fair values. The fair values of the available-for-sale financial asset and derivative financial liability are measured as per note 34.5. For analysis purposes, only Group numbers are reported, as the difference between the Group and the Company is deemed insignificant.

36. Borrowing powers

In terms of the Articles of Association, the Company's borrowing powers are unlimited. At 31 December 2010, the Group's net cash was 1 543 million rand (2009: 1 292 million rand net cash).

37. Contingent liabilities

Legal matters

Various legal matters, including labour cases before the CCMA, are in progress. The potential exposure is approximately 3 million rand (2009: 34 million rand).

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, if any, is uncertain.

38. Commitments

Commitments contracted for at the balance sheet date were 119 million rand (2009: 93 million rand). Capital expenditure that was approved by the board, but not contracted for at 31 December 2010 amounts to 245 million rand (2009: 135 million rand).

39. Events after the reporting date

Dividend declaration

The board resolved to declare a dividend of 724 cents per share at a meeting held on 3 February 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.

Analysis of shareholders

Register date: 31 December 2010
Issued share capital: 48 337 497 shares

Shareholder spread	Number of shareholders	%	Number of shares	%
1 – 1 000 shares	1 356	75,75	438 458	0,91
1 001 – 10 000 shares	319	17,82	1 055 996	2,18
10 001 – 100 000 shares	83	4,64	3 060 003	6,33
100 001 – 1 000 000 shares	28	1,56	7 103 145	14,69
1 000 001 shares and over	4	0,23	36 679 895	75,89
Total	1 790	100,00	48 337 497	100,00

Distribution of shareholders	Number of shareholders	%	Number of shares	%
Banks	36	2,01	857 058	1,77
Brokers	20	1,12	157 102	0,33
Close corporations	32	1,79	34 633	0,07
Endowment funds	18	1,01	234 123	0,48
Individuals	1 307	73,02	1 242 652	2,57
Insurance companies	15	0,84	556 342	1,15
Investment companies	4	0,22	2 539 989	5,25
Medical aid schemes	2	0,11	87 774	0,18
Mutual funds	53	2,96	3 449 582	7,14
Nominees and trusts	171	9,55	294 907	0,61
Other corporations	21	1,17	14 726	0,03
Pension funds	44	2,46	4 288 642	8,87
Private companies	60	3,35	912 602	1,89
Public companies	7	0,39	33 667 365	69,66
Total	1 790	100,00	48 337 497	100,00

Public/non-public shareholders	Number of shareholdings	%	Number of shares	%
Non-public shareholders	3	0,17	36 037 792	74,55
Strategic holdings (more than 10%)	2	0,11	36 006 849	74,49
Palabora Pension Fund	1	0,06	30 943	0,06
Public shareholders	1 787	99,83	12 299 705	25,45
Total	1 790	100,00	48 337 497	100,00

Beneficial shareholders holding of 1% or more	Number of shares	%
Rio Tinto Group*	27 889 346	57,70
Anglo American Corporation*	8 117 509	16,79
Oasis Crescent Equity Fund	1 440 128	2,98
Government Employees Pension Fund	884 157	1.83
Investment Solutions Limited	858 959	1,78
Eskom Pension & Provident Fund	674 679	1,40

** Strategic Holdings (more than 10%)*

There was no change in holding from the date of the financials until the final annual report was signed off.

Selected data – Financial and statistical

	2010	2009	2008	2007	2006
Group					
Financial results (millions of rands)					
Operating results					
Profit before taxation	**863**	453	830	2 789	738
Income tax expense	**(268)**	(169)	(111)	(928)	(270)
Net profit for the year	**595**	284	719	1 861	468
Dividends paid	**(400)**	(119)	(150)	–	–
Other comprehensive income items taken to retained earnings	**(6)**	70	(2)	(19)	(12)
Retained earnings movement for the year	**189**	235	567	1 842	456
Assets					
Property, plant and equipment	**2 877**	2 990	3 413	3 576	1 971
Intangible assets	**8**	5	4	–	–
Other financial assets	**398**	360	314	312	276
Current assets	**3 298**	2 755	2 358	2 123	2 124
Deferred income tax asset	**998**	897	495	1 171	796
Total assets	**7 579**	7 007	6 584	7 182	5 167
Liabilities and equity attributable to owners of the parent					
Borrowings	**98**	103	192	408	1 675
Other financial liabilities	**2 721**	3 212	1 685	3 604	2 453
Provisions	**793**	590	546	508	436
Other current liabilities	**821**	656	623	758	592
Deferred income tax liabilities	**928**	767	867	1 055	259
Total liabilities	**5 361**	5 328	3 913	6 333	5 415
Share capital and premium	**629**	629	629	629	629
Other reserves	**(1 801)**	(2 151)	(924)	(2 179)	(1 434)
Retained earnings	**3 390**	3 201	2 966	2 399	557
Total equity	**2 218**	1 679	2 671	849	(248)
Total equity and liabilities	**7 579**	7 007	6 584	7 182	5 167
Net cash flow from operating activities	**592**	937	404	1 618	958
Net cash flow from investing activities	**(222)**	(111)	(295)	(167)	(128)
Net cash flow from financing activities	**–**	(80)	(283)	(1 267)	(350)
Net increase/(decrease) in cash and cash equivalents	**370**	746	(174)	184	480
Capital expenditure and commitments					
Capital expenditure	**222**	137	314	309	229
Approved expenditure	**245**	135	179	153	103
Contracts placed	**119**	92	86	86	33

Selected data – Financial and statistical
continued

	2010	2009	2008	2007	2006
Other selective income statement items (millions of rands)					
Depreciation of property, plant and equipment	481	549	469	287	269
Amortisation of intangible assets	2	2	1	–	9
Changes in inventory of finished goods and work in progress	(61)	235	(240)	191	(136)
Product purchases					
– Concentrate	30	261	771	1 003	1 013
– Blister	101	(2)	5	–	–
– Cathode	192	318	49	–	–
– Rod	290	4	–	–	–
Selling and distribution costs	1 391	1 185	587	356	268
Statistics per share					
Shares in issue (million)	48	48	48	48	48
Profit/(loss) in cents	1 231	587	1 489	3 850	1 291
Headline profit/(loss) in cents	1 228	598	1 493	1 491	1 329
Dividends in cents (paid)	827	247	310	–	–
Dividend cover	1,49	2,38	4,80	–	–
Market price during year in cents					
– High	13 800	10 800	16 131	10 486	5 750
– Low	9 010	4 690	4 000	4 685	2 665
Market price at 31 December in cents	11 400	10 595	6 900	9 760	5 750
Market capitalisation at 31 December	5 510	5 121	3 335	4 718	2 779
Number of employees at 31 December	2 151	2 021	2 191	2 110	1 903
Sales revenue (millions of rands)					
Copper (including hedge)	3 213	3 167	3 166	3 921	3 256
– Rod	2 416	2 059	3 189	3 432	3 424
– Cathode and other	1 121	1 189	1 166	1 371	401
– Low grade concentrate and reverts	521	466	389	438	463
– Hedge realised	(845)	(547)	(1 578)	(1 320)	(1 032)
Joint-product: Magnetite	2 339	1 513	790	361	219
By-product: Other products	194	176	238	189	151
– Anode slimes	181	139	148	138	117
– Nickel sulphate	10	9	8	19	5
– Sulphuric acid	3	28	82	32	29
Industrial minerals	385	428	411	387	356
Total sale of goods	6 131	5 284	4 605	4 858	3 982
Average copper price realised per metric tonne (pre-hedge) (rand per tonne)	55 947	47 373	57 675	51 706	47 237
Sales statistics (metric tonnes)					
Copper rod	42 802	48 445	51 954	64 468	72 590
Copper cathode	12 143	28 228	23 640	28 379	8 396
Copper low grade concentrate and reverts	17 580	10 366	9 500	11 629	16 011
Vermiculite	178 599	183 264	188 897	185 433	17 511
Magnetite	2 640 489	2 568 564	1 898 859	1 337 007	1 021 887
Anode slimes	126	89	105	112	102
Nickel sulphate	372	370	173	142	127
Sulphuric acid	51 593	85 464	109 178	149 863	136 498
Spot SA rand/US dollar exchange rate at 31 December	6,6400	7,3952	9,3710	6,8000	6,9790
Average SA rand/US dollar exchange rate	7,3244	8,3276	8,2629	7,0506	6,7700

Ore reserves and mineral resources overview

Copper

Reserves

The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code) sets out the internationally recognised procedures and standards for reporting of mineral resources and reserves in South Africa. This code was developed by the South African Institute of Mining and Metallurgy and is the recommended guideline for reserves and resource reporting for companies listed on the JSE Limited. The reserves and resources were calculated in compliance with the SAMREC code by competent person. Competent person address 1 Copper Road, Phalaborwa.

The major change to the ore reserve was due to tonnes mined during the year. A total of 11,12 Mt at a grade of 0,64 per cent copper were mined during 2010.

At a Shut Off grade of 0,50 per cent copper the ore reserve as calculated by the PCBC software was 62 Mt at 0,61 per cent copper which is equivalent to five years Life of Mine.

Reserves were compiled by Nkosikhona Samuel Ngidi. Sam holds a BSc Honours Degree in Mining Engineering from the University of the Witwatersrand. He has 10 years' experience in massive mining methods such as sub-level caving, front caving and mechanised block caving. Sam is a registered member of the South African Institute of Mining and Metallurgy.

Resources

Current measured resources at the mine include sulphide stockpiles, mixed stockpiles, oxide stockpiles and indicated magnetite stockpiles.

The resources were compiled by Hans-Dieter Paetzold. Hans-Dieter holds an Honours degree in Geology from the Rand Afrikaans (Johannesburg) University. He has ten years' experience in mining and exploration as well as project management. He has also worked on platinum, hydrothermal gold and alluvial diamonds as a contract geologist.

Summary of Reserves

Proved and Probable Ore Reserves

		Tonnes, Mt				Grade, % Cu				Recovered metal, t	
Location	Category	2007	2008	2009	2010	2007	2008	2009	2010	2009	2010
Copper Underground	Proved	103,89	90,95	75,33	62,18	0,62	0,62	0,61	0,61	406 429	333 105
	Probable	0	0	0	0	0	0	0	0		
	Total	103,89	90,95	75,33	62,18	0,82	0,62	0,61	0,61	406 429	333 105

Mineral Resources

		Tonnes, Mt				Grade, % Cu				Recovered Metal, t	
Location	Category	2007	2008	2009	2010	2007	2008	2009	2010	2009	2010
Copper Mixed Stockpiles	Measured	0,44	0,44	0,44	0,44	0,50	0,50	0,50	0,50	1 100	1 100
	Total	0,44	0,44	0,44	0,44	0,50	0,50	0,50	0,50	1 100	1 100
Copper Oxide Stockpiles	Measured	2,85	2,24	2,23	2,23	0,62	0,61	0,61	0,61	6 836	6 836
	Inferred	0	0	0	0	0	0	0	0	0	0
	Total	2,85	2,24	2,23	2,23	0,62	0,61	0,61	0,61	6 836	6 836
Copper Sulphide Stockpiles	Measured	4,6	4,39	3,70	3,70	0,11	0,11	0,10	0,10	2 707	2 707
	Total	4,6	4,39	3,70	3,70	0,11	0,11	0,10	0,10	2 707	2 707

Notes:

1. *The metal recovery for the ore reserves is assumed to be 88 per cent*
2. *The metal recovery for the mineral resources is assumed to be 60 per cent for the sulphide and 50 per cent for the mixed and oxide stockpiles*

Ore reserves and mineral resources overview

continued

Vermiculite

Resources

The Vermiculite operation continued in 2010 with business improvement work to provide predictable ore from the mine to the plant and produced a grade estimation block model for long- and short-term planning.

The current block model was sent to A&B Global Mining to work on an economical pit optimisation for the PP&V mining area. A&B Global Mining will be using Earthworks NPV Scheduler, which is a software package by Datamine. NPV Scheduler will use all of the optimisation parameters (mining and processing costs, recoveries, plant feed requirement, pit design parameters) to assign a revenue value to each block in the block model. It then calculates the optimum sequence to remove the blocks that have positive revenue.

The four different optimisation scenarios were tested:

- Case 1 – The area that NPV Scheduler recommends mining, using the original block model and +425mm particle size.
- Case 2 – The area that NPV Scheduler recommends mining, using a block model with a factor applied to the +425mm particle size.
- Case 3 – Do a rough 'hand drawn' optimisation using the areas where the high-grade/economical material appears to be laying.
- Case 4 – Run NPV again using +180mm as the particle size and creating a pit from the results.

Case 2 was used which resulted in four new pit shells. After the pit optimisation was done the ore reserves, resources was calculated, with a five year mining plan that will be subdivided into yearly and monthly mine plans.

There was a significant increase in the total PPV tonnes due to the four new economical pit shells for the PP&V area. Vermiculite ore was mined from the PP&V mine and was blended with 20% Ex. Copper Pit reserves. Total tonnes mined in 2010 were 3 623 820, comprising 1 935 660 tonnes ore and 1 688 160 tonnes waste.

Reserves 2010

Category	Mining area	Tonnes mined (Mega tonnes)	Grade	Vermiculite (Mega tonnes)
Proved	PP&V	3,218	17,61 (+425)	23,202
Probable	PP&V	0,405	29,18 (+425)	0,4
Total	PP&V	3,624	17,8	23,4

No material from VODT and VO mine was mined during 2010.

Resources 2010

Category	Mining area	Tonnes mined (Mega tonnes)	Grade	Vermiculite (Mega tonnes)
Measured	Dump 4 (Cu-verm)	0,166	28,35 (+425)	0,665
Indicated	VOD	0	28,5 (+180)	12,95
Inferred	VODT	0	28,5 (+180)	3,21
Total		0,166	28,45	16,991

The contemporary resource and reserve estimate was compiled by Urbanus Human (VO Mining Geologist).

A full audit of resources and reserves began in 2011 to assess and determine compliance with Rio Tinto Group standards. The audit is expected to run well into 2011. Material findings, if any, will be reported on later in the year once the audit is complete.

Ore reserves and mineral resources overview

Mining and milling

	Mining	Milling								
		Ore treated		Copper concentrate produced (incl, recycled material)				Finished magnetite conc produced		
Year	Material loaded and hauled Metric tonnes	Metric tonnes	% Cu	Metric tonnes	% Cu	Tonnes Cu	% Rec	Metric tonnes	% Fe	% TiO2
1964	859 444	–	–	–	–	–	–	–	–	–
1965	13 032 175	35 878	1,080	597	33,30	199	59,54	–	–	–
1966	23 483 559	10 880 635	0,780	205 519	31,62	64 980	78,15	315 161	67,2	0,78
1967	26 365 391	13 257 691	0,710	230 115	33,47	77 106	81,90	872 309	67,0	0,75
1968	33 160 107	14 258 160	0,640	210 698	35,18	74 133	81,61	726 206	66,2	0,83
1969	29 970 399	15 700 128	0,600	247 481	32,22	79 748	84,34	1 032 293	66,1	0,88
1970	41 231 770	18 948 438	0,540	261 154	33,23	86 769	84,39	977 455	66,5	0,94
1971	42 805 300	19 086 776	0,570	270 675	33,83	91 578	83,96	951 531	66,6	0,92
1972	45 192 690	19 298 692	0,560	260 133	35,18	91 524	84,06	946 425	66,6	0,90
1973	47 347 590	19 184 961	0,570	249 828	37,29	93 158	84,89	726 257	66,0	0,96
1974	50 021 150	19 232 245	0,560	259 939	35,19	91 468	84,45	741 864	66,2	1,17
1975	56 716 240	19 527 088	0,560	266 073	35,15	93 527	84,71	587 922	65,7	1,07
1976	79 286 530	19 627 222	0,550	257 244	36,72	94 450	86,81	563 808	65,8	1,10
1977	89 480 040	24 863 927	0,520	307 248	35,64	109 503	84,89	449 798	65,8	1,22
1978	90 029 980	27 473 847	0,510	330 883	35,86	118 641	84,87	96 476	66,2	1,19
1979	86 214 160	27 076 914	0,490	296 295	37,76	111 872	84,84	–	–	–
1980	107 940 469	28 571 069	0,480	322 149	35,95	115 826	84,39	94 667	64,6	1,05
1981	100 741 752	28 748 075	0,510	355 131	35,00	124 311	84,77	119 228	65,1	1,05
1982	98 881 581	29 314 456	0,500	331 299	37,36	123 761	84,04	91 363	64,8	1,25
1983	100 972 849	28 943 773	0,510	322 453	36,50	121 337	82,63	48 737	67,3	0,90
1984	101 660 644	29 199 214	0,500	332 261	38,37	123 668	84,07	156 313	67,1	1,09
1985	100 230 188	27 084 009	0,510	311 245	36,46	113 476	82,04	79 601	67,1	1,24
1986	95 390 673	29 412 163	0,490	338 473	35,70	120 842	83,82	110 000	67,2	1,18
1987	82 605 747	29 425 615	0,500	339 585	36,73	124 730	84,23	70 931	67,1	1,07
1988	71 505 213	29 230 845	0,450	294 429	37,94	111 692	84,12	55 556	64,6	2,05
1989	62 121 824	29 408 436	0,490	323 120	37,43	120 937	83,57	178 204	64,8	2,31
1990	49 102 124	29 293 312	0,510	324 946	38,72	125 829	84,12	50 800	64,7	1,74
1991	37 315 989	28 179 598	0,530	348 800	36,16	126 112	84,01	104 121	65,0	1,77
1992	37 767 664	28 964 423	0,531	366 245	35,17	128 794	83,79	90 311	65,1	1,74
1993	37 811 244	28 544 250	0,526	369 927	34,17	126 401	84,15	150 264	62,3	2,04
1994	38 224 317	28 351 531	0,543	380 352	33,54	127 571	82,82	133 133	63,4	2,15
1995	34 786 613	29 550 629	0,577	418 936	33,83	141 723	83,12	133 428	65,3	2,09
1996	33 193 259	29 153 304	0,585	421 711	34,00	143 365	84,06	118 288	66,9	1,87
1997	30 794 431	28 846 152	0,553	389 280*	35,34*	137 576*	83,73*	183 574	65,5	1,60
1998	30 342 455	28 758 548	0,580	446 786*	33,22*	148 413*	83,93*	217 338	61,7	1,60
1999	25 418 937	28 343 747	0,471	386 099*	34,07*	131 536*	83,78*	190 692	–	–
2000	20 054 094	25 735 830	0,587	388 151*	32,86*	127 548*	77,36*	239 847	–	–
2001	12 002 168	14 522 487	0,655	225 300*	33,94*	76 466*	82,36*	200 995	–	–
2002	9 976 390	9 932 721	0,629	205 484*	31,32*	64 367*	80,27*	171 651	–	–
2003	11 527 633	11 414 895	0,588	172 329*	32,32*	55 695*	78,06*	215 087	–	–
2004	8 500 484	8 548 858	0,743	172 412*	29,53*	50 915*	80,12*	573 808	–	–
2005	10 033 608	9 541 297	0,716	210 586*	31,29*	65 892*	90,33*	888 266	–	–
2006	11 020 497	10 730 099	0,710	221 230*	29,92*	66 202*	87,17*	1 127 426	–	–
2007	11 845 518	16 761 240	0,579	267 774*	29,87*	79 990*	84,28*	1 306 001	–	–
2008	11 764 747	15 154 345	0,601	284 826*	29,71*	84 619*	80,24*	1 951 149	–	–
2009	11 537 494	11 329 853	0,734	270 800*	30,49*	82 564*	86,66*	2 845 264	–	–
2010	11 236 784	11 657 481	0,642	245 982*	30,32*	74 576*	83,70*	2 993 382	–	–

** Includes concentrate produced from recycled smelter inventory*

Ore reserves and mineral resources overview

continued

Smelting and heavy minerals

	Smelting								Heavy Minerals		
	Total concen-trate smelted	Anodes produced									
		P.M.C.	Purch.	Toll	Total						
Year	Metric tonnes					% Cu	% Recovery	100 % Sulphuric Acid M. tonnes	Year	U3O8 in calcine produced kilograms	ZrO_2 processed to chemicals Metric tonnes
1964	–	–	–	–	–	–	–	–	1964	–	–
1965	–	–	–	–	–	–	–	–	1965	–	–
1966	204 448	61 939	–	–	61 939	99,26	96,65	46 340	1966	–	–
1967	231 500	76 539	–	–	76 539	99,30	98,09	94 813	1967	–	–
1968	227 780	72 060	–	14 121	86 181	99,50	98,29	92 828	1968	–	–
1969	286 913	77 290	1 249	3 064	81 603	99,49	98,20	96 060	1969	–	–
1970	273 659	87 602	4 301	659	92 562	99,50	97,81	82 799	1970	–	–
1971	281 034	90 290	7 664	–	97 954	99,49	98,60	70 327	1971	60 842	–
1972	300 284	90 252	9 635	13 143	113 030	99,52	99,36	81 324	1972	140 275	39
1973	293 687	93 637	2 300	12 834	108 771	99,55	98,29	103 676	1973	131 089	643
1974	312 681	90 364	2 057	19 724	112 145	99,49	97,79	98 379	1974	124 312	3 103
1975	266 315	91 816	2 536	11 193	105 544	99,47	97,47	108 496	1975	125 291	5 196
1976	256 684	93 360	2 304	10 223	105 888	99,44	98,32	114 882	1976	143 277	367
1977	353 638	106 519	2 414	17 104	126 037	99,48	97,96	130 533	1977	88 661	1 506
1978	367 349	114 678	36	15 368	130 082	99,50	97,29	133 653	1978	140 860	3 067
1979	342 606	112 204	–	18 066	130 270	99,52	98,03	122 410	1979	121 252	4 452
1980	357 802	115 826	–	15 178	131 004	99,47	98,94	117 488	1980	170 369	4 359
1981	373 743	120 082	118	7 977	128 177	99,45	97,69	116 855	1981	234 206	4 941
1982	346 254	122 316	118	9 864	132 298	99,47	98,01	128 373	1982	257 879	6 490
1983	369 236	120 679	1 346	12 928	134 953	99,50	98,48	127 855	1983	218 635	5 531
1984	370 913	117 196	7 748	12 900	137 845	99,53	97,43	116 023	1984	159 769	9 158
1985	366 997	112 347	7 310	12 616	132 273	99,47	97,61	135 631	1985	217 828	11 297
1986	366 479	107 553	13 794	10 589	131 936	99,48	97,38	147 067	1986	185 443	12 011
1987	360 817	116 863	12 569	–	129 432	99,43	96,56	150 701	1987	175 944	10 129
1988	325 316	107 927	12 539	–	120 466	99,55	97,53	134 610	1988	87 496	13 017
1989	359 293	111 235	15 111	–	126 345	99,56	97,32	135 661	1989	110 671	12 489
1990	331 669	111 559	8 468	–	120 027	99,57	96,67	97 655	1990	109 170	14 639
1991	333 375	119 359	2 940	–	122 299	99,57	96,55	123 535	1991	130 501	13 104
1992	302 782	100 849	4 602	–	105 451	99,51	96,64	107 942	1992	115 048	12 239
1993	331 243	110 549	1 327	–	111 876	99,49	97,11	120 984	1993	92 570	13 188
1994	364 396	112 498	4 650	–	117 148	99,46	97,55	147 657	1994	162 254	12 163
1995	366 964	111 221	2 794	–	114 014	99,49	96,77	158 895	1995	132 653	13 243
1996	327 687	101 217	4 541	–	105 758	99,44	96,38	142 491	1996	100 168	11 448
1997	371 893*	111 557	7 485	–	119 042	99,48	92,47	121 650	1997	87 070	9 387
1998	319 201*	106 296	–	–	106 296	99,44	94,75	135 148	1998	104 950	7 486
1999	337 861*	101 583	–	–	101 583	99,41	97,84	140 229	1999	96 210	–
2000	311 394*	90 727	–	–	90 727	99,40	95,40	139 491	2000	86 200	–
2001	317 983*	85 517	–	–	85 517	99,44	95,58	139 214	2001	41 565	–
2002	258 556*	82 261	–	–	82 261	99,45	97,13	117 238	2002	–	–
2003	267 633*	77 118	–	–	77 118	99,41	96,69	117 623	2003	–	–
2004	256 187*	40 651	26 528	–	67 179	99,48	95,96	104 259	2004	–	–
2005	304 373*	57 084	27 842	–	84 926	99,48	95,94	136 474	2005	–	–
2006	288 526*	57 015	21 966	–	78 980	99,49	95,61	138 338	2006	–	–
2007	295 839*	70 161	21 043	–	91 204	99,45	93,59	153 719	2007	–	–
2008	261 287*	62 197	13 746	–	75 943	99,43	95,14	112 802	2008	–	–
2009	266 637*	59 110	6 827	–	65 937	99,41	91,54	89 932	2009	–	–
2010	240 811*	53 456	2 209	–	55 665	99,46	94,15	50 159	2010	–	–

** Includes recycled concentrate smelted*

Ore reserves and mineral resources overview

continued

Refining

Year	Refining							
	Palabora copper produced			Other copper produced				
		Processed to:			Processed to shapes			
	Total cathode	Cast shapes	Rod	Total cathode	Purchased	Toll	Total	Precious metal content of refinery slimes produced
	Metric tonnes							Kilograms
1964	–	–	–	–	–	–	–	–
1965	–	–	–	–	–	–	–	–
1966	–	–	–	–	–	–	–	–
1967	–	–	–	–	–	–	–	–
1968	37 241	25 490	2 399	7 362	–	7 362	44 603	5 122
1969	41 397	17 606	21 428	5 192	1 241	3 951	46 589	5 020
1970	48 086	20 083	30 316	5 335	4 272	1 063	53 421	6 811
1971	52 005	15 930	36 046	7 613	7 613	–	59 618	7 898
1972	51 998	16 560	35 463	9 322	9 322	–	61 320	10 517
1973	70 114	23 357	46 385	2 252	2 252	–	72 366	11 946
1974	61 391	15 715	44 343	9 199	2 021	7 178	70 590	10 347
1975	61 923	16 007	43 204	8 144	2 518*	5 292	70 067	12 199
1976	71 501	14 589	36 175	10 438	2 271	764	81 939	11 848
1977	106 698	7 808	35 782	19 983	2 383	–	126 681	16 159
1978	114 652	15 782	37 121	14 757	37	1 313	129 409	20 516
1979	111 014	8 051	48 829	17 253	–	2 662	128 267	22 537
1980	114 008	3 621	72 230	15 584	–	2 340	129 592	22 680
1981	120 924	152	79 668	6 359	–	–	127 283	15 545
1982	116 080	511	70 082	10 394	–	–	126 474	19 162
1983	124 852	1 153	68 050	13 886	–	–	138 738	19 671
1984	116 448	715	77 950	20 047	–	–	136 495	18 707
1985	112 008	995	66 492	20 035	–	–	132 043	17 292
1986	104 846	1 049	66 369	24 018	–	–	128 864	17 020
1987	106 662	824	67 424	20 610	–	–	127 272	17 724
1988	99 164	1 238	74 049	19 292	–	–	118 456	17 227
1989	115 689	–	69 646	10 517	–	–	126 206	17 118
1990	107 750	20	63 508	8 255	–	–	116 005	17 759
1991	117 965	4	60 863	705	–	–	118 670	16 339
1992	104 246	1	59 359	–	–	–	104 246	14 338
1993	109 145	76	62 520	506	–	–	109 650	14 852
1994	111 138	2	75 181	4 410	–	–	115 549	14 883
1995	112 855	9	79 758	2 926	–	–	115 782	14 371
1996	100 180	109	71 764	4 163	–	–	104 343	12 677
1997	105 557	164	82 529	7 607	–	–	113 164	15 546
1998	104 026	5 003	68 742	58 940	–	–	104 085	11 291
1999	100 044	3 285	56 640	–	–	–	100 608	10 446
2000	87 683	6 169	66 999	–	–	–	88 254	7 804
2001	86 904	2 697	65 801	–	–	–	86 904	9 518
2002	81 619	5 277	73 513	–	–	–	81 619	8 285
2003	73 395	–	63 974	–	–	–	73 395	13 981
2004	67 585	–	60 677	–	–	–	67 585	21 410
2005	80 319	–	69 784	–	–	–	80 319	20 978
2006	81 163	–	72 466	–	–	–	81 163	15 729
2007	91 686	–	66 890	–	–	–	91 686	12 243
2008	75 918	–	51 374	–	753	–	76 671	9 271
2009	69 387	–	47 551	–	6 231	–	75 618	7 616
2010	57 984	–	37 488	–	–	–	57 984	6 250

** Excludes 1 079 tonnes cathode purchased on behalf of customers, and converted to rod to meet increase in South African demand*

*** Excludes 854 tonnes cathode purchased that were sold directly to customers*

Ore reserves and mineral resources overview

continued

Vermiculite

Year	Vermiculite division				
	Mining		Processing		
	Material loaded and hauled		Ore treated	Tailings	Vermiculite concentrate % Vermiculite
	Metric tons				
1964	1 489 208	595 748	–	101 836	93,40
1965	1 242 945	587 450	–	115 132	88,00
1966	1 361 948	596 542	–	103 176	90,60
1967	1 602 883	697 902	–	100 552	92,60
1968	1 911 308	697 350	–	110 040	91,70
1969	1 886 049	791 065	–	128 787	91,10
1970	1 783 318	747 840	–	123 500	90,70
1971	1 866 398	702 925	–	132 071	88,40
1972	1 914 326	974 455	–	147 903	88,10
1973	2 061 924	1 126 286	–	155 852	90,60
1974	1 851 145	1 125 364	–	182 613	89,70
1975	1 769 546	1 228 259	–	207 386	90,50
1976	1 984 050	1 218 195	–	222 079	90,00
1977	1 437 834	1 059 713	–	165 420	90,50
1978	1 756 125	1 208 880	–	209 093	90,10
1979	1 968 750	1 317 353	–	193 627	89,80
1980	2 133 833	1 337 355	–	181 794	89,90
1981	2 095 898	1 254 803	–	175 125	89,40
1982	2 066 265	1 190 813	–	180 992	89,30
1983	1 835 190	1 024 088	–	139 292	89,80
1984	1 930 095	1 138 905	–	164 421	89,90
1985	2 073 915	1 142 843	–	177 598	90,00
1986	2 005 155	1 129 972	–	193 973	89,90
1987	2 174 063	1 372 073	280 778	185 838	89,80
1988	2 201 626	1 390 680	414 652	203 101	88,50
1989	2 291 064	1 358 213	397 056	195 525	88,80
1990	2 610 952	1 239 783	445 783	217 738	89,40
1991	3 452 025	1 753 447	91 759	197 768	90,38
1992	2 952 320	1 424 680	236 240	163 894	90,89
1993	2 827 520	1 557 640	112 240	161 501	89,80
1994	3 153 560	1 961 990	299 920	216 196	90,21
1995	2 896 440	1 907 840	197 600	211 965	90,39
1996	2 737 380	2 074 040	117 100	190 364	89,62
1997	3 298 080	1 931 080	188 260	207 070	90,74
1998	3 440 940	1 893 540	280 920	207 345	90,50
1999	2 844 740	1 965 900	86 160	208 603	90,70
2000	2 944 240	2 031 100	44 160	208 422	90,65
2001	2 768 900	1 753 920	242 640	166 078	90,52
2002	3 651 360	2 270 580	–	224 258	90,10
2003	2 902 680	1 768 620	280 920	207 345	90,55
2004	2 520 600	1 793 700	–	193 504	90,55
2005	2 434 260	1 648 260	–	209 799	90 79
2006	2 775 840	1 786 920	–	197 765	92,80
2007	2 828 700	1 612 020	–	199 150	91,50
2008	3 582 780	1 827 600	293 572	199 111	90,31
2009	3 611 750	1 829 820	268 525	194 349	91,00
2010	3 623 820	1 770 900	1 055 550	195 453	89,00

Notice to members

Palabora Mining Company Limited
Incorporated in the Republic of South Africa
(Registration number 1956/002134/06)
("Palabora" or "the Company")
JSE code: PAM
ISIN: ZAE000005245

This document is important and requires your immediate attention

If you are in any doubt about what action you should take, consult your broker, Central Securities Depository Participant (CSDP), legal adviser, banker, financial adviser, accountant or other professional adviser immediately.

If you have disposed of all your shares in the Company, please forward this document, together with the enclosed form of proxy, to the purchaser of such shares or the broker, banker or other agent through whom you disposed of such shares.

Included in this document are:
- The notice of meeting, setting out the resolutions to be proposed thereat, together with explanatory notes. There are also guidance notes if you wish to attend the meeting or to vote by proxy; and
- A proxy form for use by shareholders holding Palabora ordinary shares in certificated form or recorded in sub registered electronic form in "own name".

Shareholders on the Palabora share register who have dematerialised their ordinary shares through Strate, other than those whose shareholding is recorded in their "own name" in the sub register maintained by their CSDP, and who wish to attend the meeting in person, will need to request their CSDP or broker to provide them with the necessary authority to do so in terms of the custody agreement entered into between the dematerialised shareholders and their CSDP or broker.

A shareholder (including certificated shareholders and dematerialised shareholders who hold their shares with "own name" registration) entitled to attend and vote at the meeting may appoint one or more proxy or proxies to attend, participate and vote in his/her/its stead. A proxy **does not** have to be a shareholder of the Company. The appointment of a proxy will not preclude the shareholder who appointed that proxy from attending the annual general meeting and participating and voting in person thereat to the exclusion of any such proxy. A form of proxy for use at the meeting is attached.

Notice to shareholders: Annual General Meeting (AGM)

Notice is hereby given to shareholders as at the record date of 26 May 2011, that the fifty fifth annual general meeting of shareholders of the Company will be held in the boardroom, 1 Copper Road, Phalaborwa, on Tuesday, 28 June 2011 at 9:00 (South African time), to (i) deal with such other business as may lawfully be dealt with at the meeting and (ii) consider and, if deemed fit to pass, with or without modification, the following ordinary and special resolutions, in the manner required by the Companies Act, 71 of 2008, as amended (Companies Act), as read with the JSE Limited Listings Requirements (JSE Listings Requirements), which meeting is to be participated in and voted at by shareholders as at the record date of 27 June 2011 in terms of section 62(3)(a), read with section 59, of the Companies Act.

When reading the resolutions below, please refer to the explanatory notes for AGM resolutions on pages 108 to 110.

Ordinary resolutions

1. Presentation of annual financial statements

The audited annual financial statements of the Company (as approved by the board of directors of the Company), including the directors' report, the audit committee report and the external auditors' report for the year ended 31 December 2010, have been distributed as required and will be presented to shareholders.

The complete annual financial statements are set out on pages 48 to 95 of the integrated annual report.

2. Ordinary resolution number 1

Re-election of W J Abel as a director

"Resolved that W J Abel, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a director of the Company."

Age: 60
First appointed: 5 February 2010
Educational qualification: Bsc (Mining Engineering) from London University and an MBA from Wits University

Directorships: Palabora Mining Company Limited and Palabora Holdings Limited

Appointed as a non-executive

3. **Ordinary resolution number 2**
Re-election of C N Zungu as a director

"Resolved that C N Zungu, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a director of the Company."

Age: 55
First appointed: April 2002
Educational qualification: BCom from the University of Zululand and attended Graduate Advancement programme at Wits Business School in 1982, the Industrial Relations Development programme at Stellenboch School of Business Leadership in 19991 and the Advanced Executive Programme at the Unisa School of Business Leadership in 1997

Directorships: Palabora Mining Company Limited and EmpowerEd

Appointed as an independent non-executive director

4. **Ordinary resolution number 3**
Re-election of A W Lennox as a director

"Resolved that A W Lennox, who retires by rotation in terms of the memorandum of incorporation of the Company and who is eligible and available for re-election, is re-elected as a director of the Company."

Age: 51
First appointed: 12 July 2010
Educational qualification: Bachelor of Engineering (Hons) Degree from the University of New South Wales

Directorships: Palabora Mining Company Limited, Rio Tinto South Africa Limited and Palabora Holdings Limited

Appointed as Managing Director

5. **Ordinary resolution number 4**
Election of the risk and audit committee – Election of N A Hlubi
"Resolved that F du Plessis, R Abrahams and N A Hlubi be elected as members of the risk and audit committee, with effect from the end of this meeting in terms of section 94(2) of the Companies Act."

6. **Ordinary resolution number 5**
Reappointment of independent auditors
"Resolved that PricewaterhouseCoopers Inc are reappointed as auditors of the Company until the conclusion of the next annual general meeting."

7. **Ordinary resolution number 6**
Authorise directors to fix the remuneration of the auditors
"Resolved that the directors are authorised to fix the remuneration of the auditors for the year ended 31 December 2010."

8. **Ordinary resolution number 7**
General authority to directors to allot and issue ordinary shares
"Resolved that the authorised but unissued shares in the capital of the Company be and are hereby placed under the control of the directors for allotment and issue at the discretion of the directors of the Company subject to the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements and such authority will endure until the forthcoming annual general meeting of the Company (whereupon this authority shall lapse, unless it is renewed at the aforementioned annual general meeting) provided that it shall not extend beyond 15 months of the date of this meeting."

Special resolutions

1. **Special resolution number 1**
Proposed increase of remuneration payable to non-executive directors
"Resolved that the non-executive directors' remuneration, payable quarterly in arrears, be increased as set out below with retrospective effect from 1 January 2011:

Notice to members continued

	Annual retainer fee		Attendance fee per annum	
	Current	Proposed	Current	Proposed
Palabora Board				
Chairperson	R235 504	R251 989	R68 928	R73 752
Member	R100 512	R107 547	R33 504	R35 849
International member	R100 512	R107 547	R50 256	R53 774
Ad hoc work performed by the non-executive directors	R1047 per hour	R1120 per hour	N/A	N/A
Board committees				
Chairperson	R125 640	R134 435	R16 752	R17 924
Member	R100 512	R107 547	R25 128	R26 886

#Board members serving on the board committees will only receive attendance fees for serving on those committees.

"The board committees Chairperson's annual retainer includes board membership functions."

Special resolution number 1 is proposed in order to comply with the requirements of the Companies Act and the Company's memorandum of incorporation. The above rates have been selected to ensure that the remuneration of non-executive directors remains competitive in order to enable the Company to retain and attract persons of the calibre, appropriate capabilities, skills and experience required in order to make meaningful contributions to the Company.

In arriving at the proposal set out in special resolution number 1, a review of the remuneration paid to non-executive directors was conducted and the 7% wage increase offered to Palabora employees in professional and managerial positions was taken into consideration. The revised remuneration proposal was recommended by the board of directors which also sanctioned the proposal for recommendations to the shareholders.

At the board meeting held on 21 April 2011, the board established and approved the nomination and remuneration committee, which committee will be responsible for reviewing board remuneration in future.

The proposed revised remuneration is considered to be fair and reasonable and in the best interests of the Company.

2. Special resolution number 2

Financial assistance to subsidiaries and other related and inter-related entities and to directors, prescribed officers and other persons participating in share or other employee incentive schemes

"Resolved that, to the extent required by the Companies Act, the board of directors of the Company may, subject to compliance with the requirements of the Company's memorandum of incorporation, the Companies Act and the JSE Listings Requirements, each as presently constituted and as amended from time to time, authorise the Company to provide direct or indirect financial assistance by way of loan, guarantee, the provision of security or otherwise, to:

1. any of its present or future subsidiaries and/or any other company or corporation that is or becomes related or inter-related to the Company for any purpose or in connection with any matter, including, but not limited to, acquisition of or subscription for any option or any securities issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company; and
2. any of its present or future directors or prescribed officers (or any person related to any of them or to any company or corporation related or inter-related to any of them), or to any other person who is a participant in any of the Company's or group of companies' share or other employee incentive schemes, for the purpose of, or in connection with, the acquisition of or subscription for any option or any securities issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company, where such financial assistance is provided in terms of any such scheme that does not satisfy the requirements of section 97 of the Companies Act, such authority to endure until the forthcoming annual general meeting of the Company."

Proxies

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend, participate in and vote at the meeting in the place of the shareholder, or two or more proxies. A proxy need not also be a shareholder of the Company.

A form of proxy, in which is set out the relevant instructions for its completion, is attached for use by certificated shareholders and dematerialised shareholders with "own name" registration of the Company who wish to appoint a proxy. The instrument appointing a proxy and the authority, if any, under which it is signed must be received by the Company or its South African transfer secretaries at the addresses given below by not later than 9:00 (South African time) on Monday, 27 June 2011.

All beneficial owners of shares who have dematerialised their shares through a CSDP or broker, other than those shareholders who have dematerialised their shares in "own name" registrations, and all beneficial owners of shares who hold certificated shares through a nominee, must provide their CSDP, broker or nominee with their voting instructions. Voting instructions must reach the CSDP, broker or nominee in sufficient time and in accordance with the agreement between the beneficial owner, and the CSDP, broker or nominee (as the case may be) to allow the CSDP, broker or nominee to carry out the instructions and lodge the requisite authority by 9:00 (South African time) on Monday, 27 June 2011.

Should such beneficial owners, however, wish to attend the meeting in person, they may do so by requesting their CSDP, broker or nominee to issue them with appropriate authority in terms of the agreement entered into between the beneficial owner, and the CSDP, broker or nominee (as the case may be).

Shareholders who hold certificated shares in their own name and shareholders who have dematerialised their shares in "own name" registration must lodge their completed proxy forms at the registered office of the Company or with the Company's South African transfer secretaries at the address below not later than 9:00 (South African time) on Monday, 27 June 2011.

By order of the board of directors



Keith Mathole
Company secretary

21 April 2011

Business address and registered office
1 Copper Road
Phalaborwa, 1389
PO Box 65, Phalaborwa, 1390
Fax number 015 780 2018

South African transfer secretaries
Computershare Investor Services (Proprietary) Limited
Registration number 2004/003647/07
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Fax number: +27 11 688 5238

Shareholder communication
Computershare Investor Services (Proprietary) Limited
Registration number 2004/003647/07
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Toll-free: 0800 202 360
Tel: +27 11 870 8206 (International)
Fax number: +27 11 688 5238

Notice to members continued

EXPLANATORY NOTES TO RESOLUTIONS PROPOSED AT THE FIFTY FIFTH ANNUAL GENERAL MEETING OF THE COMPANY

Re-election of directors retiring by rotation at the annual general meeting – ordinary resolutions numbers 1 to 3

The reason for the proposed ordinary resolutions numbers 1 to 3 is to elect, in accordance with the memorandum of incorporation of the Company and by way of a series of votes, each of which is on the candidacy of a single individual to fill a single vacancy, as required under section 68(2) of the Companies Act, W J Abel, C N Zungu and A W Lennox, as directors of the Company, them having retired by rotation in terms of the Company's memorandum of incorporation and being eligible for re-election. Biographical details of the retiring directors offering themselves for re-election are set out on page 4.

Election of the audit committee – ordinary resolutions number 4

In terms of the Companies Act, the audit committee is no longer a committee of the board but a committee elected by the shareholders at each annual general meeting.

In terms of the Companies Regulations, at least one-third of the members of the Company's audit committee at any particular time must have academic qualifications, or experience, in economics, law, corporate governance, finance, accounting, commerce, industry, public affairs or human resource management.

Mindful of the aforegoing, the board of directors has approved the recommendation that the current members of the audit and risk committee continue in such role for the financial year ending 31 December 2011, subject to the elections being made by the shareholders, as proposed in ordinary resolutions numbers 4.

Approval of reappointment of external auditors – ordinary resolution numbers 6 to 7

In compliance with section 90 of the Companies Act, PricewaterhouseCoopers Inc are proposed to be reappointed as joint auditors for the financial year ending 31 December 2011 and until the conclusion of the next annual general meeting.

Authorising the directors to deal, as they in their discretion think fit, with the unissued ordinary shares – ordinary resolution number 8

In terms of the Company's memorandum of incorporation, read with the JSE Listings Requirements, the members of the Company may authorise the directors to, *inter alia,* issue any unissued ordinary shares and/or grant options over them, as the directors in their discretion think fit.

The authority will be subject to the Companies Act and the JSE Listings Requirements respectively.

The directors have decided to seek this authority in accordance with best practice. The directors have no current plans to make use of this authority, but wish to ensure, by having it in place, that the Company has the necessary flexibility in managing the Company's capital resources and to enable the Company to take advantage of any business opportunity that may arise in the future.

Remuneration payable to non-executive directors – special resolution number 1

In terms of sections 66(8) and (9) of the Companies Act, which took effect on 1 May 2011, remuneration may only be paid to directors for their service as directors in accordance with a special resolution approved by the shareholders within the previous two years and if not prohibited in terms of a company's memorandum of incorporation. In terms of the Company's memorandum of incorporation, directors shall be entitled to such remuneration as directors as may be determined by the directors from time to time. Although the Company has been advised that, in terms of the transitional provisions of the Companies Act, article 93 of the memorandum of incorporation could possibly prevail in the interim in respect of this apparent conflict between such article and the Companies Act, the board of directors nonetheless wishes to comply with the provisions of the Companies Act and as such the resolution is proposed as a special resolution.

Full particulars of remuneration paid to non-executive directors for the financial year ended 31 December 2010 are set out on page 51 and the proposed revised fees to be effective from 1 January 2011. The directors will receive the top-up payment in order to compensate them for the fact that their fees were not increased with effect from the commencement of the financial year ending 31 December 2011.

General authority for the Company to provide financial assistance to its subsidiaries and other related and inter-related companies and corporations and to directors, prescribed officers and other persons participating in share or other employee incentive schemes – special resolution number 2

Notwithstanding the title of section 45 of the Companies Act, being "Loans or other financial assistance to directors", on a proper interpretation, the body of the section may also apply to financial assistance provided by a company to related or inter-related companies and corporations, including, *inter alia,* its subsidiaries, for any purpose.

Furthermore, section 44 of the Companies Act may also apply to the financial assistance so provided by a company to related or inter-related companies, in the event that the financial assistance is provided for the purpose of, or in connection with, the acquisition or subscription for any option, or any securities, issued or to be issued by the Company or a related or inter-related company, or for the purchase of any securities of the Company or a related or inter-related company.

Both sections 44 and 45 of the Companies Act provide, *inter alia,* that the particular financial assistance must be provided only pursuant to a special resolution of the shareholders, adopted within the previous 2 years, which approved such assistance either for the specific recipient, or generally for a category of potential recipients, and the specific recipient falls within that category and the board of directors must be satisfied that:
(a) immediately after providing the financial assistance, the Company would satisfy the solvency and liquidity test; and
(b) the terms under which the financial assistance is proposed to be given are fair and reasonable to the Company.

The Company would like the ability to provide financial assistance, if necessary, also in other circumstances, in accordance with section 45 of the Companies Act. Furthermore, it may be necessary or desirous for the Company to provide financial assistance to related or inter-related companies and corporations to acquire or subscribe for options or securities or purchase securities of the Company or another company related or inter-related to it. Under the Companies Act, the Company will however require the special resolution referred to above to be adopted. In the circumstances and in order to, *inter alia,* ensure that Palabora's subsidiaries and other related and inter-related companies and corporations have access to financing and/or financial backing from the Company (as opposed to banks), it is necessary to obtain the approval of shareholders, as set out in special resolution number 2.

Sections 44 and 45 contain exemptions in respect of employee share schemes that satisfy the requirements of section 97 of the Companies Act. To the extent that any of the Company's share or other employee incentive schemes do not satisfy such requirements, financial assistance (as contemplated in sections 44 and 45) to be provided under such schemes will, *inter alia,* also require approval by special resolution. Accordingly, special resolution number 2 authorises financial assistance to any of the Company's directors or prescribed officers (or any person related to any of them or to any company or corporation related or inter-related to them), or to any other person who is a participant in any of the Company's share or other employee incentive schemes, in order to facilitate their participation in any such schemes that do not satisfy the requirements of section 97 of the Companies Act.

Voting and proxies

1. Every holder of shares present in person or by proxy at the meeting, or, in the case of a body corporate represented at the meeting, shall be entitled to one vote on a show of hands and on a poll shall be entitled to one vote for every share held. Duly completed proxy forms or powers of attorney must be lodged at the registered offices of the Company or with the Company's South African transfer secretaries, Computershare, at 70 Marshall Street, Johannesburg, 2001 (PO Box 61051, Marshalltown, 2107), not less than 48 hours before the time appointed for holding the meeting. As the meeting is to be held at 9:00 (South African time) on Tuesday, 28 June 2011, proxy forms or powers of attorney must be lodged at or before 9:00 (South African time) on Monday, 27 June 2011. The name and address of the South African transfer secretaries are given on the back of the proxy form.

2. A shareholder (including certificated shareholders and dematerialised shareholders who hold their shares with "own name" registration) entitled to attend and vote at the meeting may appoint one or more proxies to attend, participate and vote in his/her/its stead. A proxy does not have to be a shareholder of the Company. The appointment of a proxy will not preclude the shareholder who appointed that proxy from attending the annual general meeting and participating and voting in person thereat to the exclusion of any such proxy. A form of proxy for use at the meeting is attached.

3. The attention of shareholders is directed to the additional notes relating to the form of proxy attached, which notes are set out in the proxy form.

4. Dematerialised shareholders other than dematerialised shareholders who hold their shares with "own name" registration, who wish to attend the annual general meeting must contact their CSDP or broker who will furnish them with the necessary authority to attend the annual general meeting or they must instruct their CSDP or broker as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between such shareholder and its CSDP or broker.

Notice to members continued

Appendix to the notice of annual general meeting

Important notes about the annual general meeting (AGM)

Date: Tuesday, 28 June 2011, at 9:00 (South African time)

Venue: The boardroom, 1 Copper Road, Phalaborwa

Time: The AGM will start promptly at 9:00 (South African time)

Shareholders wishing to attend are advised to be in the boardroom by not later than 8:30.

Admission: Shareholders attending the AGM are asked to register at the registration desk at the venue. Shareholders and proxies may be required to provide proof of identity.

Security: Mobile telephones should be switched off for the duration of the proceedings.

PLEASE NOTE

1. **Certificated shareholders and dematerialised shareholders who hold their shares with "own name" registration**
   Shareholders wishing to attend the AGM have to ensure beforehand, with the transfer secretaries of the Company, that their shares are in fact registered in their names. Should this not be the case and the shares be registered in any other name or in the name of a nominee company, it is incumbent on shareholders attending the meeting to make the necessary arrangements with that party to be able to attend and vote in their personal capacity. The proxy form contains detailed instructions in this regard.

2. **Enquiries**
   Any shareholders having difficulties or queries in regard to the AGM or the above are invited to contact the Company Secretary, Keith Mathole on 015 780 2911. Calls will be monitored for quality control purposes and customer safety.

3. **Results of annual general meeting**
   The results of the annual general meeting will be posted on SENS as soon as practically possible after the AGM.

Proxy form

RioTinto

To be completed by certificated shareholders and dematerialised shareholders with "own name" registration only.

Palabora Mining Company Limited
(incorporated in the Republic of South Africa)
(Registration number 1956/002134/06)
Share code PAM
ISIN code ZAE000005245 (Palabora or the Company)

For use at the annual general meeting to be held at 9:00 (South African time) on Tuesday, 28 June 2011, in the boardroom, 1 Copper Road, Phalaborwa. A shareholder entitled to attend and vote at the annual general meeting may appoint one or more proxies to attend, vote and speak in his/her/its stead at the annual general meeting. **A proxy need not be a shareholder of the Company.**

I/We (names in block letters)

of (address)

being a shareholder(s) of the Company and entitled to vote, do hereby appoint

of or, failing him/her

of or, failing him/her

the chairman of the annual general meeting
as my/our proxy to represent me/us at the annual general meeting, to be at 09:00 (South African time) on Tuesday, 28 June 2011, in the boardroom, 1 Copper Road, Phalaborwa, for the purposes of considering and, if deemed fit, passing, with or without modification, the resolutions to be proposed thereat and at each adjournment or postponement thereof, and to vote for and/or against the resolutions and/or abstain from voting in respect of the shares in the issued share capital of the Company registered in my/our name as follows:

		For	Against	Abstain
	Ordinary resolutions			
1.	Ordinary resolution number 1: Re-election of W J Abel as a director			
2.	Ordinary resolution number 2: Re-election of C N Zungu as a director			
3.	Ordinary resolution number 3: Re-election of A W Lennox as a director			
4.	Ordinary resolution number 4:			
	(i) To elect F du Plessis as a member of the risk and audit committee			
	(ii) To elect M R Abrahams as a member of the risk and audit committee			
	(iii) To elect NA Hlubi as a member of the risk and audit committee			
5.	Ordinary resolution number 5: Reappointment of independent auditors			
6.	Ordinary resolution number 6: Auditors' remuneration			
7.	Ordinary resolution number 7: To grant a general authority to the directors from time to time to allot and issue the unissued ordinary shares of R1,00 in the share capital of the Company			
	Special resolutions			
8.	Special resolution number 1: To approve the remuneration payable to non-executive directors			
9	Special resolution number 2: To approve the granting of financial assistance by the Company to its subsidiaries and other related and inter-related companies and corporations and to directors, prescribed officers and other persons participating in share or other employee incentive schemes			

In terms of sections 65 (7) and (9) of the Companies Act, which took effect on 1 May 2011, for an ordinary resolution to be approved by shareholders, it must be supported by more than 50% of the voting rights exercised on the resolution. For a special resolution to be approved by the shareholders, it must be supported by at least 75% of the voting rights exercised on the resolution.

Please indicate with an "X" in the appropriate spaces provided above how you wish your vote to be cast. If no indication is given, the proxy will be entitled to vote or abstain as he/she deems fit.

Please read the notes on the reverse side hereof.

Signed this: day of 2011

Full name(s) (in block letters)

Signature:

Assisted by (if applicable):

Notes to proxy form

1. Only shareholders who are registered in the register or sub-register of the Company under their own name may complete a proxy or alternatively attend the meeting. Beneficial owners who are not the registered holder and who wish to attend the meeting in person, may do so by requesting the registered holder, being their Central Security Depository Participant (CSDP), broker or nominee, to issue them with a letter of representation in terms of the custody agreements entered into with the registered holder. Letters of representation must be lodged with the Company's registrars by no later than 9:00 on Monday, 27 June 2011.

2. Beneficial owners who are not the registered holder and who do not wish to attend the meeting in person must provide the registered holder, being the CSDP, broker or nominee, with their voting instructions. The voting instructions must reach the registered holder in sufficient time to allow the registered holder to advise the Company or the Company's registrar of their instructions by no later than 9:00 on Monday, 27 June 2011.

3. A shareholder may insert the name of a proxy or the names of two alternative proxies of his/her/its choice in the space/s provided, with or without deleting "the chairman of the general meeting", but any such deletion or insertion must be initialled by the shareholder. Any insertion or deletion not complying with the foregoing will be declared not to have been validly effected. The person whose name stands first on the proxy form and who is present at the general meeting will be entitled to act as proxy to the exclusion of those whose names follow. In the event that no names are indicated, the proxy shall be exercised by the chairman of the general meeting.

4. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" or the relevant number of votes exercisable by that shareholder in the appropriate box provided. An "X" in the appropriate box indicates the maximum number of votes exercisable by that shareholder. Failure to comply with the above will be deemed to authorize the proxy to vote or to abstain from voting at the annual general meeting as he/she/it deems it in respect of the entire shareholder's votes exercisable thereat. A shareholder or his/her proxy is not obliged to use all the votes exercisable by the shareholder or by his/her/its proxy, but the total of the votes cast and in respect of which abstention is recorded, may not exceed the maximum number of votes exercisable by the shareholder or by his/her proxy.

5. To be effective, completed proxy forms must be lodged with the Company at its registered address or at the Company's South African transfer secretaries at the address stipulated below, not less than 48 hours before the time appointed for the holding of the meeting, in accordance with the Company's memorandum of incorporation. As the meeting is to be held at 9:00 on Tuesday, 28 June 2011, proxy forms must be lodged on or before 9:00 on Monday, 27 June 2011.

6. The completion and lodging of this proxy form will not preclude the relevant shareholder from attending the annual general meeting and speaking and voting in person thereat instead of any proxy appointed in terms hereof.

7. The chairman of the general meeting may reject or accept any proxy form which is completed and/or received other than in compliance with these notes.

8. Any alteration to this proxy form, other than a deletion of alternatives, must be initialled by the signatory.

9. Documentary evidence establishing the authority of a person signing this proxy form in a representative or other legal capacity must be attached to this proxy form, unless previously recorded by the Company or the registrars or waived by the chairperson of the annual general meeting.

10. Where there are joint holders of shares:

    10.1 any one holder may sign the proxy form; and
    10.2 the vote of the senior shareholder (for which purpose seniority will be determined by the order in which the names of the shareholders appear in the Company's register) who tenders a vote (whether in person or by proxy) will be accepted to the exclusion of the vote(s) of the other joint shareholders.

11. A minor must be assisted by his/her parent or legal guardian, unless the relevant documents establishing his/her legal capacity are produced or have been registered by the transfer secretaries.

12. A proxy may not delegate his/her authority to act on behalf of the shareholder, to another person.

Office of the South African Transfer Secretaries
Computershare Investor Services (Pty) Limited
Registration number 2004/003647/07
70 Marshall Street, Johannesburg, 2001
PO Box 61051, Marshalltown, 2107
Fax number: +27 11 668 5238

Definitions

ABET	Adult Basic Education and Training
AIDS	Acquired Immune Deficiency Syndrome
AIFR	All Injury Frequency Rate
BAC	Board Audit Committee
BBBEE	Broad Based Black Economic Empowerment
BEE	Black Economic Empowerment
CCMA	Council for Conciliation, Mediation and Arbitration
CSDP	Central Securities Depositary Participant
EBIT	Earnings before interest and tax
EE	Employment Equity
EU	European Union
FSB	Financial Services Board
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretation Committee
IFRS	International Financial Reporting Standards
HDSA	Historically Disadvantaged South Africans
HIRA	Hazard Identification and Risk Assessment
HIV	Human Immunodeficiency Virus
KING II	King Report on Corporate Governance of South Africa 2002
KING III	King Report on Corporate Governance of South Africa 2009
LHD	Load Haul Dump
LME	London Metal Exchange
LOM	Life of Mine
LTI	Lost Time Injury
LTIFR	Lost Time Injury Frequency Rate
MQA	Mining Qualification Authority
MTC	Medical Treatment Cases
NGO	Non Governmental Organisations
NUM	National Union of Mine Workers
PCBC	Personal Computer Block Caving
PP&V	Palabora Phosphate and Vermiculite
PROTEC	Programme for Technological Careers
SENS	Securities Exchange News Service
STLF	Senior Term Loan Facility
UASA	United Association of South Africa
VO	Vermiculite Operations
VOD	Vermiculite Operations Dump
VODT	Vermiculite Operations Dump Tailings

website: www.palabora.com