

# Full Year Financial Results

for the year ending 31 December 2012

28 February 2013

## PERILYA ANNOUNCES A NET PROFIT AFTER TAX OF \$27.72 MILLION FOR THE 12 MONTHS ENDING 31 DECEMBER 2012

Perilya (ASX:PEM) today released its final financial results for the twelve month period ending 31 December 2012, reporting a net profit after tax of \$27.72 million, on operating revenue of \$353.79 million (\$360.19 million for the preceding period).

### Key Financial Highlights:

- Earnings before tax of \$39.27 million (\$52.96 million for the corresponding period last year).
- A net profit after tax of \$27.72 million (\$38.75 million for the corresponding period last year), which includes a negative sales adjustment of \$6.3 million to 2011 shipments from Cerro de Maimón as a result of unfavourable final assays has impacted on the 2012 full year results). Once this adjustment is excluded the 2012 and 2011 results are in-line.
- Free cash on hand of \$37.63 million (up from \$36.37 million for the corresponding period last year).
- Net cashflow from operations of \$65.19 million for the period (down from \$67.44 million for the corresponding period last year).
- Sales revenue (net of treatment & refining charges) of \$353.79 million (down from \$360.19 million for the corresponding period last year).
- Earnings per share of 3.61 cents.
- Cerro de Maimón production for the full year of 11,505 t of contained copper, 13,924 oz of gold and 346,794 oz of silver, ahead of, or in-line with, annual guidance of 10,500-11,000 t copper, 14,000-15,000 oz gold and 320,000-400,000 oz silver at a C1 cash cost of US\$0.62/lb of payable copper.
- Average price received for copper during the period was US\$3.60/lb resulting in the Cerro de Maimón generating a strong cash operating margin of US\$2.98/lb of payable copper (average price received for copper was \$3.99 for a cash operating margin of \$3.60/lb for the corresponding period last year).
- Combined zinc and lead production at Broken Hill of 130,953 tonnes (contained) exceeding both the January 2012 annual guidance and the September revised annual guidance of 110kt-120kt and 125kt-130kt of combined zinc and lead respectively, produced at an average notional\* C1 cash operating cost of US\$0.62/lb of payable zinc – within market guidance of US\$0.60 – US\$0.70/lb of payable zinc.
- Average price received for zinc during the period was US\$0.88/lb resulting in the Broken Hill Operations generating a cash operating margin of US\$0.26/lb of payable zinc (average price received for zinc of US\$0.99/lb at a cash operating margin of US\$0.43/lb for the corresponding period last year).
- Continuous improvement at both the Cerro de Maimón and the Broken Hill Operations in safety, operating costs and productivity achieved throughout the period.
- No impairment charges or impairment reversals during the period.
- Significant increase in Mineral Resource and mine life announced during the period for Cerro de Maimón.

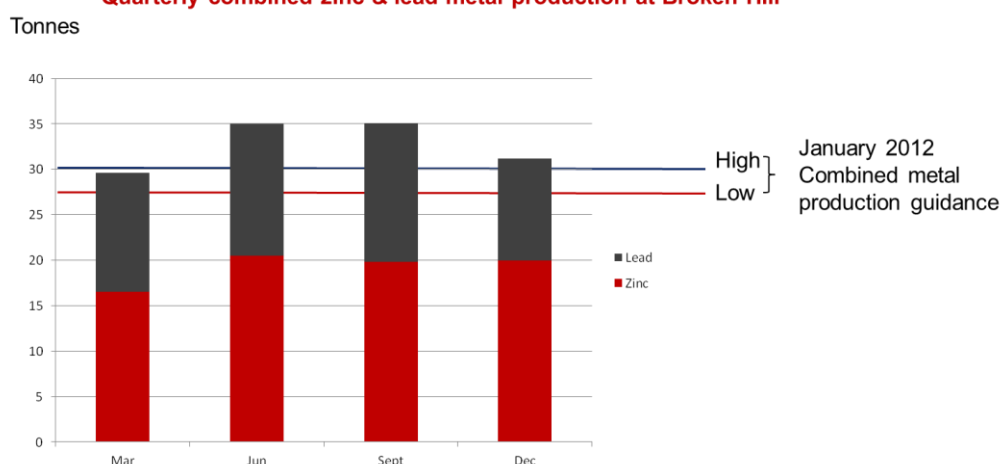
\* Notional net C1 cash cost assumes that all production including by products produced during the quarter are sold during the period

## COMMENTARY

The results for the 12 months to 31 December 2012 saw another strong year from both the Company's Broken Hill and Cerro de Maimón Operations across all areas (including metal production, productivity, costs and safety performance), resulting in the Company meeting or exceeding market guidance for metal production and costs for both operations for the period.

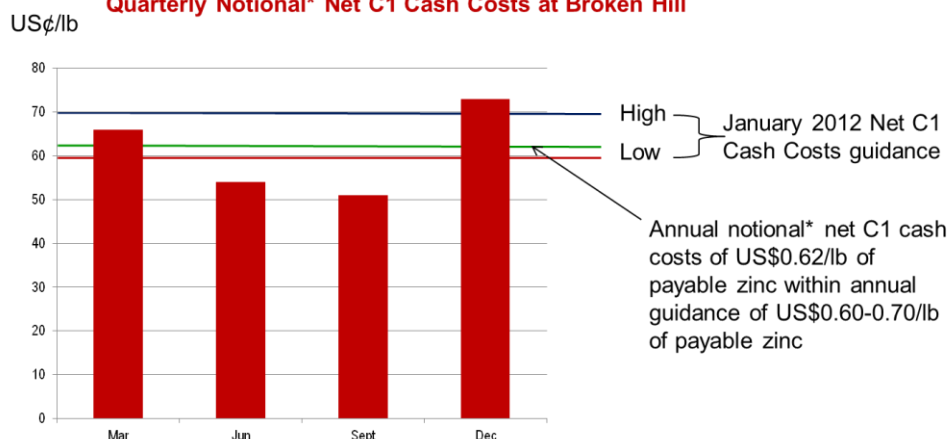
The 2012 financial year witnessed an exceptionally strong operational performance from Perilya's Broken Hill operations. The production performance at Broken Hill for the year was an outstanding effort and showed the benefit of the application of disciplined management improvement programs in a mature mine. These outstanding performances are highlighted by mining production being both ahead of guidance and 7.6% above corresponding period last year and the All Injury Frequency Rate being maintained at 14.1, the lowest ever achieved at the Broken Hill operations. These results are a reflection of the strong focus and delivery in terms of both production and safety performance by our entire team at Broken Hill. Combined metal production of 130,953 tonnes of contained lead and zinc was ahead of both January 2012 market guidance of 110,000-120,000 tonnes and the revised September 2012 market guidance of 120,000-130,000 tonnes.

### Quarterly combined zinc & lead metal production at Broken Hill



The Company has continued to maintain a very tight control on costs within the mine gate. The notional C1 cash costs for the period were US\$0.62/lb of payable zinc, within targeted C1 cash costs of US\$0.60 – US\$0.70/lb of payable zinc.

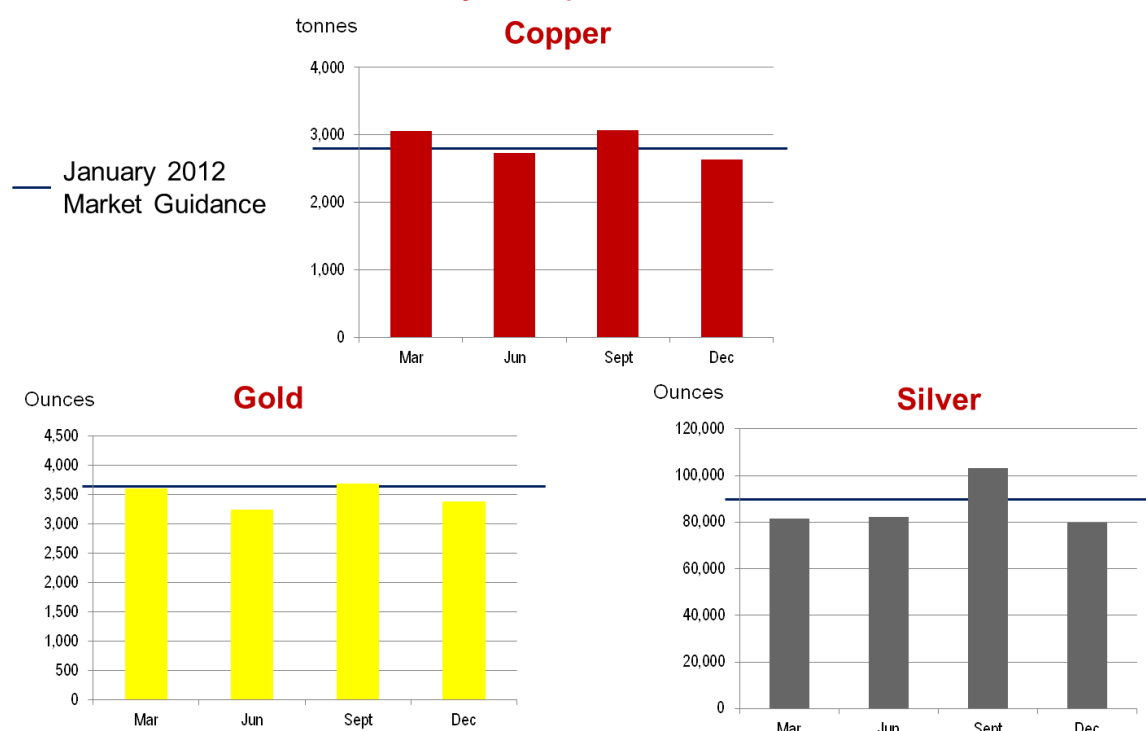
### Quarterly Notional\* Net C1 Cash Costs at Broken Hill



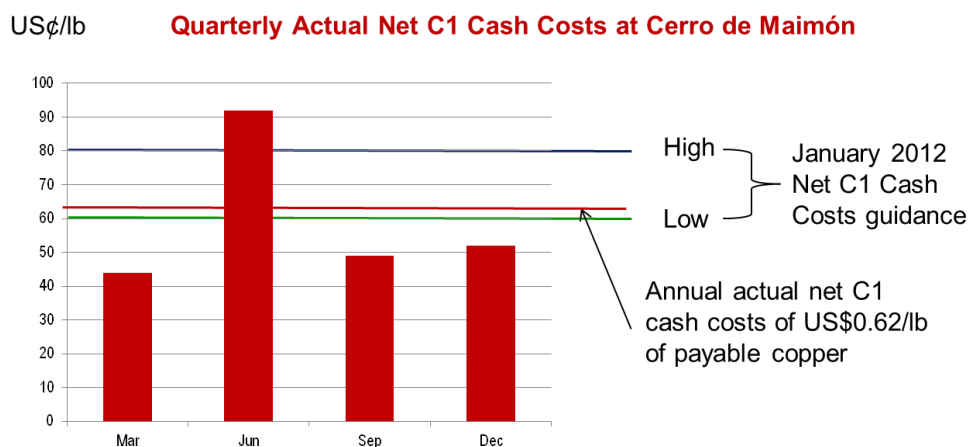
Just prior to the end of the year the new Resource and Reserve statement for Broken Hill was released re-affirming the long life still remaining in this asset.

At Cerro De Maimón the year also saw a strong performance, with production cash costs at the bottom end of guidance. Annual metal production was in-line with or, in the case of copper, exceeded market guidance, with total metal production of 11,505 t of copper, 13,924 oz of gold and 346,794 oz of silver. This outcome compares to market guidance of 10,500 – 11,000 t of copper, 14,000 – 15,000 oz of gold and 320,000 – 400,000 oz of silver. The Company has maintained a very tight control on costs within the mine gate.

### Quarterly metal production at Cerro de Maimón



The C1 cash costs for the period were US\$0.62/lb of payable copper, at the bottom end of guidance of between US\$0.60-US\$0.80/lb of payable copper.



During the year Perilya released a new Resource and Reserve Statement for Cerro de Maimón which has increased the Cerro de Maimón sulphide mineral resource by 24% to approximately 12.35 million tonnes at an average copper grade of 1.5% to add 35,940 tonnes of contained copper metal relative to the December 31<sup>st</sup> 2010 estimate. This represented a 24% increase in contained copper metal despite 18 months of mining depletion and processing of approximately 1.02 million tonnes (sulphide ore 702 kt and oxide ore 300 kt). The

total resource also shows notable increases in contained gold (+29%), silver (+39%) with the new sulphide resource component having higher contained gold (+ 50%) and silver (+51%) metal.

In addition, at its Broken Hill operations Perilya released an updated Ore Reserve estimate and life of mine plan. The mining plan associated with the updated Reserve shows a production life at the Southern Operations at current mining rates of around 10 years from 30 June 2012, of which the first 8 years is based on the Ore Reserve. An additional 2 years of planned production is from material not yet included in the resource.

### MANAGING DIRECTOR COMMENTS:

Perilya's Managing Director & CEO, Paul Arndt, commented on the financial year under review, saying that:

*"The results for FY 2012 have continued the very strong operational performance from both Australian and the Dominican Republic shown in 2011. This is demonstrated by our very strong performance against guidance for both physical production and cash costs. Perilya has achieved a strong profit result in a period that was heavily impacted by a sustained appreciation of the Australian dollar and a weakening of metal prices, particularly for zinc, lead and copper, which saw the average price received for zinc, lead and copper fall by 11%, 14% and 10% respectively against the average price received during FY2011."*

*"That such a positive result was achieved in a continuing period of declines in Australian dollar metal prices underlines the importance of the Company's strong focus on cost control and continuing productivity improvements across both operations."*

*"Broken Hill operations continued to perform strongly where the Company has maintained its tight control on costs with notional C1 cash costs for the year again being at the lower end of guidance. Further, mine and metal production significantly exceeded plan and another record year was achieved in terms of safety performance. All of these accomplishments reinforce that the new operating plan implemented in 2008/2009 is delivering sustained productivity improvements and tight operating cost control, and places the Broken Hill Operations in a far stronger position to both endure the difficult market conditions experienced during 2012 and to generate solid cash flow and profitability as economic situations improve."*

*"With internal projects currently under consideration, as we look forward, Perilya's focus will be to:*

- *Maintain a very strong focus on cash management and cost control.*
- *Continue to manage Operations to be cash accretive through the current downturn in metal prices and continuing strength of the Australian dollar;*
- *Bring Potosi / Silver Peak mine into production during 2013;*
- *Further extend the Cerro de Maimón Resource;*
- *Complete the pre-feasibility study for underground extension at Cerro de Maimón;*
- *Finalise the study for potential production of a separate zinc concentrate at Cerro de Maimón;*
- *Complete the study on North Mine at Broken Hill;*
- *Look for opportunities to maximise shareholder returns on Perilya's development projects, including the Moblan Lithium Project, Mt Oxide copper project and the Cumpié Hill laterite nickel project;*
- *Take advantage of lower asset prices to pursue acquisition opportunities as they present themselves."*

*2012 has been a very active but challenging year for Perilya and the base metals sector generally. As we look forward, the consistently strong operating performance, focus on cost control and strategic development activity will continue to position Perilya well in an environment of uncertain global markets and ensures Perilya is well leveraged to benefit from any upturn in commodity prices.*

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## About Perilya

Perilya is an Australian base and precious metals mining and exploration company, which owns and operates the iconic Broken Hill zinc, lead, silver mine in NSW Australia and, with the successful takeover of GlobeStar Mining Corporation in December 2010, the Cerro de Maimón copper, gold & silver mine in the Dominican Republic. The Company's operations at the Broken Hill mine went through a resizing in 2008 which has resulted in significant improvement in productivity, profitability and cashflows resulting in an extension to the life of mine to approximately 10 years.

In addition to its mining operations, the Company has an active exploration and development program which includes exploration and development programs in the Broken Hill region NSW Australia and in the Flinders region of South Australia in the vicinity of its Beltana zinc silicate project. The Company also has extensive exploration programs underway on its Dominican Republic mining and exploration concessions that include a laterite nickel project and highly prospective copper, gold & silver targets near its Cerro de Maimón mine.

The Company is reviewing options for the development of the Mount Oxide Copper Project in the Mount Isa region in Queensland. In addition, the Company has a 60% interest in the Moblan lithium project located in Quebec, Canada, which is currently undergoing a development study (the remaining 40% is held by SOQUEM, which is an investment company owned by the Quebec Government in Canada).

Perilya is owned 53.37% by Shenzhen Zhongjin Lingnan Nonfermet Co. Ltd, China's third largest zinc producer.

For more details, visit [www.perilya.com.au](http://www.perilya.com.au)

## Attribution Statement

The information in this report that relates to Mineral Resource for the Cerro de Maimón mine is based on information compiled by Mr Geoff Bullen who is a full-time employee of Perilya and is a Member of the Australian Institute of Geoscientists. Mr Bullen has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Bullen consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to the Broken Hill Mineral Resources, which includes the Southern Operations, Silver Peak, North Mine Uppers, Potosi, Central Blocks, Flying Doctor, Pinnacles (1130 and Henry George deposits) and North Mine Deeps is based on information compiled by Mr Noel Carroll who is a full-time employee of Perilya and is a Member of the Australian Institute of Geoscientists. Mr Carroll has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Carroll consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

The information in this report that relates to Ore Reserve for Southern Operations is based on information compiled by Mr Justin Woodward who is a full-time employee of Perilya and is a Member of the Australasian Institute of Mining and Metallurgy. Mr Woodward has sufficient experience which is relevant to the style of mineralisation and type of deposit under consideration and to the activity which he is undertaking to qualify as a Competent Person as defined in the 2012 Edition of the 'Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves'. Mr Woodward consents to the inclusion in the report of the matters based on the information in the form and context in which it appears.

# **PERILYA LIMITED**

ABN 85 009 193 695

**ANNUAL REPORT**  
FOR THE YEAR ENDED  
31 DECEMBER 2012

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**CORPORATE DIRECTORY**

31 DECEMBER 2012



Perilya Limited ("Perilya") is an Australian mining and exploration company. Perilya is the operator of the Broken Hill zinc, lead and silver mine in NSW, and the Cerro de Maimon copper, gold and silver mine in the Dominican Republic. Perilya's operations also include the Flinders Project in South Australia and the Mount Oxide Copper Project in Queensland. Perilya is owned 53.37% by Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd ("Zhongjin Lingnan"), China's third largest zinc producer, listed on the Shenzhen stock exchange with a market capitalisation as at the date of this report of approximately CNY23 billion (A\$3.6 billion).

Perilya was established in 1987. Its headquarters are in Perth, Western Australia and its current Board of Directors and Company Secretary comprises:

**Zhang Shuijian**

Non Executive Chairman

**Patrick O'Connor**

Non Executive Director and Deputy Chairman

**Paul Arndt**

Managing Director and Chief Executive Officer

**Minzhi Han**

Executive Director and General Manager, Metals and Marketing

**Anna Liscia**

Non Executive Director

**Wang Wen**

Non Executive Director

**Paul Marinko**

Company Secretary

**Head office and registered office**

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Perth, Western Australia 6000

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Perth, Western Australia 6832

Telephone: + 61 8 6330 1000

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Email: [perilya@perilya.com.au](mailto:perilya@perilya.com.au)Web: [www.perilya.com.au](http://www.perilya.com.au)**Auditors**

PricewaterhouseCoopers

Chartered Accountants

125 St George's Terrace

Perth, Western Australia 6000

**Share registry**

Computershare Registry Services Pty Ltd

Level 2, 45 St George's Terrace

Perth, Western Australia 6000

Telephone: + 61 8 9323 2000

**Securities exchange listing**

The company's shares are listed on the

Australian Securities Exchange Limited

ASX code: PEM



## BOARD OF DIRECTORS

31 DECEMBER 2012



### Zhang Shuijian

Executive Master Degree of Business Administration (EMBA)

**Non-Executive Chairman**

**Independent:** No

**Age:** 56

#### Term of office

Non-Executive Director since 5 February 2009, Non-Executive Chairman since 5 March 2009.

#### Skills, experience and expertise

Mr Zhang is a senior mining executive with over 30 years of experience in the resources industry. At Zhongjin Lingnan, Mr Zhang has led the expansion program of both the mining and smelter operations in recent years.

Prior to joining Zhongjin Lingnan, Mr Zhang worked at Jiangxi Copper (the largest copper producer in China), where he managed the Dexing Copper mine, the second largest copper mine in the world (on the basis of throughput). At Jiangxi Copper, Mr Zhang served as Executive Director and Vice President. Mr Zhang is also the current Vice Chairman of the China Nonferrous Metals Association, the trade body for the nonferrous metals industry in China.

Mr Zhang has a wealth of mining experience and skills in the areas of mining, business strategy and general management.

**Special Responsibilities:** Nil

#### Other current directorships

Director and President: Shenzhen Zhongjin Lingnan Nonfemet Co., Limited

Vice Chairman: China Nonferrous Metals Industry Association

Chairman: Nonfemet Finance Co. Ltd

Chairman: Zhongjin Lingnan Mining (HK) Company Limited

**Former directorships over the past three years:** Nil

### Patrick O'Connor

BCom (UWA), SEP Stanford Executive Program (USA), FAICD

**Non-Executive Director and Deputy Chairman**

**Independent:** Yes

**Age:** 49

#### Term of office

Non-Executive Chairman from 1 February 2006 to 4 March 2009, with a period as Executive Chairman from 5 February 2008 to 30 November 2008. Patrick has been Deputy Chairman since 5 March 2009.

#### Skills, experience and expertise

He is a fellow of the Australian Institute of Company Directors and attended the Stanford Executive Program at Stanford University, California, USA.

Patrick is a professional Company Director and has extensive executive leadership skills and wide experience in communicating with capital markets, shareholders and the media.

#### Perilya Board committee membership and other special responsibilities

Deputy Chairman

Chairman of the Audit & Risk Management Committee

Member of the Diversity, Remuneration & Nominations Committee

Chairman of the Contracts Committee

#### Other current directorships

Chairman: Xceed Resources Limited

#### Former directorships over the past three years:

Chairman: Water Corporation

## BOARD OF DIRECTORS

31 DECEMBER 2012



### Paul Arndt

BSc (1st class honours - UWA), MSc (Curtin), Grad Dip Engineering (Curtin)

**Managing Director and Chief Executive Officer**

**Independent:** No

**Age:** 54

#### Term of office

Appointed CEO on 1 October 2008 and Managing Director on 25 November 2008.

#### Skills, experience and expertise

In February 2008, the Board appointed Paul Arndt as Executive General Manager Operations & Projects to oversee performance improvements at the Broken Hill Operation. Subsequently, Paul was appointed Chief Executive Officer in October 2008 and Managing Director on 25 November 2008, following approval by shareholders at the Company's AGM. In response to the global financial downturn and the rapidly deteriorating circumstances in global metals markets in 2008, Paul planned and implemented the highly successful resizing of the organisation and in particular the Company's operations at Broken Hill. During Paul's time with Perilya he has been instrumental in delivering almost a doubling in productivity as well as significant reductions in direct operating costs at the Broken Hill Operation and, in the 2011 financial year, the consolidation of the acquisition of the former TSX listed GlobeStar Mining Corporation with operating and exploration assets in the Dominican Republic and Canada for CAD\$184 million. Paul was also instrumental in introducing Zhongjin Lingnan to Perilya and negotiating and completing arrangements that saw Zhongjin Lingnan acquire a 52% interest in the Company (now 53.37% following completion of a successful \$A102.2m accelerated rights issue in November 2011).

Paul brings a range of skills and qualities well suited to the role, including a steadfast and disciplined approach to addressing key business drivers and cost management. Paul brings a wealth of mining experience and skills in the areas of strategy, commercialisation, people and project management.

Former roles include senior general management positions with Newcrest Mining Limited at their Telfer operation in Western Australia, Pasminco Limited's Cockle Creek smelter in Boolaroo (NSW), and MIM Holdings Limited's Britannia zinc and lead operation in Avonmouth (UK).

#### Perilya Board committee membership and other special responsibilities

Managing Director

Member of Contracts Committee

**Other current directorships:** Nil

**Former directorships over the past three years:** Nil

### Minzhi Han

BA Business Administration

**Executive Director and General Manager, Metals and Marketing**

**Independent:** No

**Age:** 47

#### Term of office

Mr Han was appointed Non-Executive Director on 5 February 2009 and subsequently appointed an Executive Director on 1 July 2011.

#### Skills, experience and expertise

Mr Han is a senior commercial executive in the base metal industry with over 25 years of experience in marketing base metals and base metal concentrates, especially in zinc and lead. During Mr Han's time at Zhongjin Lingnan, he was also responsible for financial risk management.

Mr Han brings extensive commercial and financial risk management expertise to the Board.

#### Perilya Board committee membership and other special responsibilities

Nil

#### Other current directorships

Shum Yip Nonfemet Hong Kong Ltd

#### Former directorships over the past three years:

Nonfemet Commodities & Futures Agency Co. Ltd

Wuxuan Panlong Lead and Zinc Mining Co. Ltd

## BOARD OF DIRECTORS

31 DECEMBER 2012



### Anna Liscia

LLB

**Non-executive director**

**Independent:** Yes

**Age:** 52

#### Term of office

Anna was appointed non-executive director on 24 November 2011.

#### Skills, experience and expertise

Anna is a decorated legal practitioner in Western Australia with nearly 30 years' experience, who brings to Perilya a wealth of commercial, legal, regulatory and compliance experience.

Anna is an elected member of the Legal Practice Board of Western Australia, a director of Football West (the company responsible for the administration of soccer in Western Australia), a Board member of Ngarda Ngarli Yarndu Foundation Inc. (an Aboriginal Trust with interests in the property and mining sector), a Legal Panel Member of the Energy Review Board (statutory board dealing with disputes relating to the energy sector) and a member of the Women Lawyers of WA Inc.

#### Perilya Board committee membership and other special responsibilities

Chairperson of the Diversity, Remuneration & Nominations Committee

Member of the Audit & Risk Management Committee

Member of the Contracts Committee

#### Other current directorships

Elected member: Legal Practice Board of Western Australia

Director: Football West Limited

Director: Ngarda Ngarli Yarndu Foundation Inc

**Former directorships over the past three years:** Nil

### Wang Wen

BA Mining Mechanism

**Non-Executive Director**

**Independent:** No

**Age:** 46

#### Term of office

Mr Wang was appointed Non-Executive Director on 5 February 2009.

#### Skills, experience and expertise

Mr Wang was trained as a mining engineer in China and Germany. Mr Wang has 22 years mining experience at the Fankou Mine which has a throughput of 1.6 million tonnes a year, producing 180,000 tonnes of zinc and lead in concentrates. Mr Wang was instrumental in the Fankou Mine's expansion program undertaken during 2005-2008 to bring its mining capacity from 1.3 million to 1.6 million tonnes a year.

With his in-depth knowledge and understanding in base metals, base metal concentrates, the manufacturing circuit and the raw material going into the circuit, Mr Wang was promoted as general manager to marketing department of Zhongjin Lingnan in 2011, in charge of the overall purchasing and marketing business of the parent company. Mr Wang brings extensive mining and project management skills to the Board.

#### Perilya Board committee membership and other special responsibilities

Member of the Diversity, Remuneration & Nominations Committee

Member of the Audit & Risk Management Committee

#### Other current directorships:

Nonfemet Commodities & Futures Agency Co. Ltd

Wuxuan Panlong Lead and Zinc Mining Co. Ltd

**Former directorships over the past three years:** Nil

## CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2012



### STATEMENT ON CORPORATE GOVERNANCE AT PERILYA

This statement reports on Perilya's key governance framework, principles and practices as at the date of this report. These principles and practices are reviewed regularly and revised as appropriate to reflect changes in law and best practice in corporate governance.

#### ASX principles of good corporate governance

Perilya, as a listed entity, must comply with the *Corporations Act 2001* (Cth) ("*Corporations Act*"), the Australian Securities Exchange Limited ("ASX") Listing Rules ("ASX Listing Rules") and other Australian laws.

ASX Listing Rule 4.10.3 requires ASX listed companies to report on the extent to which they have followed the *Principles of Good Corporate Governance and Best Practice Recommendations* ("ASX Principles") released by the ASX Corporate Governance Council. The ASX Principles require the Board to consider carefully the development and adoption of appropriate corporate governance policies and practices founded on the ASX Principles.

#### Compliance with ASX principles of good corporate governance

Details of the Company's compliance with the ASX Principles are set out below. A checklist, cross referencing the ASX Principles to the relevant section of this statement and the remuneration report, is provided on pages 17 to 18 of this report and published on the company's website at [www.perilya.com.au](http://www.perilya.com.au).

### 1. The Board of directors

#### a) Board composition and expertise

The Board has an expansive range of relevant industry experience, financial and other skills and expertise to meet its objectives.

The current Board composition includes three nominees from the parent company, Shenzhen Zhongjin Lingnan Nonfemet Co., Ltd ("Zhongjin Lingnan") who are all regarded as non-independent directors. In addition, there are two independent non-executive directors and one executive director. Details on each of the director's backgrounds including experience, knowledge and skills and their status as an independent or non-independent director are set out on pages 4 to 6 of this report.

The Board considers that the executive and non-executive directors collectively bring the range of skills, knowledge and experience necessary to direct the Company.

In assessing the composition of the Board, the directors have regard to the following policies:

- the Chairman should be non-executive (but does not need to be independent where the Chairman or his associates control greater than 50% of Perilya);
- the role of the Chairman and Chief Executive Officer ("CEO") should not be filled by the same person;
- the Managing Director should be a full-time employee of the Company;
- the Board should include at least two independent non-executive directors; and
- the Board should have a broad range of qualifications, experience and expertise considered of benefit to the Company and to adequately represent both the interest of the parent company Zhongjin Lingnan and the 46.7% of minority shareholders.

**ASX Principle 2.1 (non-compliance)** - The Company presently does not meet the requirements of ASX Principle 2.1, which requires a majority of independent directors. The Company notes that on 5 February 2009, shareholders overwhelmingly supported the acquisition by Zhongjin Lingnan of a 50.1% interest in Perilya (now 53.37% following both a pro rata non-renounceable rights issue in December 2009 and an accelerated pro rata non-renounceable rights issue in November 2011) and the appointment of three senior executives of Zhongjin Lingnan to the Perilya Board. The Board believes that the qualifications, experience and expertise of all non-independent directors, being those directors nominated by Zhongjin Lingnan, bring considerable benefit to the Company and is appropriate to adequately represent the 53.37% ownership interest of the parent company Zhongjin Lingnan.

The Chairman, Mr Zhang is the President and a Director of Zhongjin Lingnan. Mr Zhang joined Zhongjin Lingnan in 2000 as a Vice President and was promoted to President in 2002. Mr Han was a senior executive of Zhongjin Lingnan, however as from 1 July 2011 he resigned from this position to become an executive director of the Company. Mr Wang is a senior mining executive with the relevant skills and experience to assist the Company.

#### b) Board role and responsibilities

The roles and responsibilities of the Board are formalised in the Board Charter. The Board Charter defines in detail the matters that are reserved for the Board and its committees, and those that the Board has delegated to management. The central role of the Board is to

## CORPORATE GOVERNANCE STATEMENT

31 DECEMBER 2012



oversee and approve the Company's strategic direction, to select and appoint a CEO, to oversee the Company's management and business activities and report to shareholders.

In addition to matters required by law to be approved by the Board, the following powers are reserved to the Board for decision:

- strategy - providing strategic oversight and approving strategic plans and initiatives;
- Board performance and composition – evaluating the performance of non-executive directors, and determining the size and composition of the Board as well as recommending to shareholders the appointment and removal of directors;
- leadership selection – evaluating the performance of, and selection of, the CEO and those executives reporting directly to the CEO;
- corporate responsibility – considering the safety, social, ethical and environmental impacts of Perilya's activities, and setting policy and monitoring compliance with safety, corporate and social policies and practices;
- financial performance – approving Perilya's annual operating plans and budget, monitoring management, financial and operational performance;
- financial statements to shareholders – approving annual and half-year reports and disclosures to the market that contain, or relate to, financial projections, statements as to future financial performance or changes to the policy or strategy of the Company; and
- establishing procedures – ensuring that the Board is in a position to exercise its power and to discharge its responsibilities as set out in the Board Charter;

The Board also recognises its responsibilities to Perilya's employees, the communities and environments within which Perilya operates and, where relevant, other stakeholders.

Responsibility for management of Perilya's business activities is delegated to the CEO who is accountable to the Board.

The Board Charter is available in the corporate governance section of Perilya's website.

### c) Chairman

The Board elects one of the non-executive directors to be Chairman. The Chairman is responsible for leadership of the Board, for the efficient organisation and conduct of the Board's functions and for the promotion of relations between Board members and between Board and management to ensure that they are open, cordial and conducive to productive co-operation.

**ASX Principle 2.2 (non-compliance)** - The Company presently does not meet the requirements of ASX Principle 2.2, which requires an independent Chairman. The Company notes that the acquisition of Zhongjin Lingnan's initial 50.1% interest in Perilya (now 53.37% following both a pro rata non-renounceable rights issue in December 2009 and an accelerated pro rata non-renounceable rights issue in November 2011), together with the appointment of Directors, Messrs Zhang (Chairman of Perilya and President of Zhongjin Lingnan), Han and Wang was approved by shareholders on 5 February 2009. Mr Zhang's role as Chairman brings significant leadership and experience to Perilya's Board.

### d) Director independence

The Board has approved a policy on independence of directors, a copy of which is available in the corporate governance section of Perilya's website.

The policy provides that the independence of a director will be assessed by determining whether the director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgment.

The test of whether a relationship or business is material is based on the nature of the relationship or business and on the circumstances and activities of the director. Materiality is considered from the perspective of Perilya, the persons or organisations with which the director has an affiliation and from the perspective of the director. Materiality thresholds are considered by the Board from time to time. The Board considers that the following are material:

- a material customer is a customer of Perilya which accounts for more than 5% of Perilya's consolidated gross revenue;
- a supplier is material if Perilya accounts for more than 5% of the supplier's consolidated gross revenue;
- a substantial shareholder of Perilya who holds greater than 5% of the voting capital of Perilya; and
- service on the Board for a period exceeding 10 years is a period which could, or could reasonably be perceived to, materially interfere with a director's ability to act in the best interests of the Company.

As stated above, the directors Messrs Zhang, Han and Wang are not regarded as independent as they represent the interest of Zhongjin Lingnan, which holds a 53.37% interest in Perilya.

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Mr O'Connor and Ms Liscia are both regarded as independent as they are regarded, and have been assessed as being, free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

### e) Directors' retirement and re-election

Perilya's Constitution states that at each annual general meeting ("AGM") one of its directors (excluding the Managing Director and any director appointed to fill a casual vacancy) and any director who has held office for three or more years since their last election must retire. At least one non-executive director must stand for election at each AGM.

Any director appointed to fill a casual vacancy since the date of the previous AGM must submit themselves to shareholders for election at the next AGM. Directors who retire as required may offer themselves for re-election by shareholders at the next AGM. Re-appointment of directors retiring by rotation or filling a casual vacancy is not automatic.

### f) Board succession planning

The Board in conjunction with the Diversity, Remuneration and Nominations Committee reviews the size and composition of the Board and the mix of existing and desired competencies across members from time to time.

### g) Board performance evaluation

As part of the Board's ongoing drive to achieve its best possible performance, the Board undertakes an ongoing self-assessment and review of performance of the Board, committees and individual directors annually. The Chairman of the Board is responsible for determining the process for evaluating Board performance.

The last full review of the performance of the Board was undertaken in March 2012. In this review the Board discussed and considered in detail both the highlights and areas for improvement of performance of the Board, committees and individual directors. The Board has planned a further full review of performance of the Board, committees and individual directors in the first half of the 2013 calendar year.

### h) Nominations and appointment of new directors

Recommendations for nomination of new directors are considered by the Diversity, Remuneration and Nominations Committee and approved by the Board as a whole.

### i) Professional advice

Directors may, in carrying out their Company related duties, seek external professional advice. If external professional advice is sought a director is entitled to reimbursement of all reasonable costs where such a request for advice is approved by the Chairman. In the case of a request made by the Chairman, approval is required by at least two Board members.

### j) Conflicts of interest

Directors are required to disclose any actual or potential conflict, or any material personal interests, on appointment as a director and are required to keep these disclosures up to date.

In the event that there is, or may be, a conflict between the personal or other interests of a director, then the director with an actual or potential conflict of interest in relation to a matter before the Board does not receive the Board papers relating to that matter. When the matter comes before the Board for discussion, the director withdraws from the meeting for the period the matter is considered and takes no part in the discussion or decision making process.

The Board has established a formal process to review any potential conflicts that may arise as a result of Zhongjin Lingnan's 53.37% ownership. The process includes the review of relevant matters by a Contracts Committee which comprises the relevant independent non-executive directors, Mr O'Connor and Ms Liscia, the Managing Director & CEO, Mr Arndt and the Company's Company Secretary & General Counsel, Mr Marinko (as a non-voting member).

### k) Terms of appointment, induction training and continuing education

All new directors are provided with a formal letter of appointment setting out the key terms and conditions of their appointment, including duties, rights and responsibilities, the time commitment envisaged and the Board's expectations regarding their involvement with committee work.

A formal induction is provided to all new directors. It includes comprehensive meetings with the CEO, key executives and management, and

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information on key corporate and Board policies, visits to the Company's principal operations and completion of compulsory safety inductions.

All directors are expected to maintain the skills required to discharge their obligations to the Company. Directors are encouraged to undertake continuing professional education and where this involves industry seminars and approved education courses, this is paid for by the Company where appropriate.

**l) Directors' remuneration**

Details of remuneration paid to directors (independent non-executive) are set out in section 2.0 on pages 31 to 33 of the remuneration report.

The non-independent non-executive directors, Messrs Zhang and Wang, who are appointed representatives of Zhongjin Lingnan are entitled to receive remuneration at a commensurate level to the Company's independent directors, but to date have elected to decline to accept any directors' remuneration. Mr Han was appointed as an executive director on 1 July 2011 and receives remuneration commensurate with his executive duties.

**m) Board meetings**

The Chairman sets the agenda for each meeting in conjunction with the executive management and the Company Secretary. Any director may request additional matters be added to the agenda. Members of senior management attend meetings of the Board by invitation and sessions are also held for non-executive directors to meet without management being present.

Directors are entitled to request additional information where they consider the information is necessary to support informed decision making.

Details on the number of meetings and the attendance of Directors at Board and Board Committee Meetings are set out below in Table 1 on page 12.

**n) Company Secretary**

The Company Secretary is Mr Paul Marinko LLb (Hons). Mr Marinko joined Perilya in October 2006 as General Counsel, and was appointed Company Secretary on 25 November 2008. Mr Marinko is a barrister and solicitor and was admitted to practise in the Supreme Court of Western Australia and the Federal and High Courts of Australia in 1993. Paul has over 20 years of legal, corporate and commercial experience and has previously served as company secretary for an Australian publicly listed company. Mr Marinko has also practised and held partnerships in Australian commercial law firms and before joining Perilya held executive board roles on a number of Australian and US private companies. In addition to his role as Company Secretary, Mr Marinko continues to serve as Perilya's General Counsel and as a director of Perilya's operational subsidiaries.

Responsibilities for the secretarial function include providing advice to directors and executives on corporate governance and regulatory matters, recording minutes of directors meetings, developing Perilya's corporate governance framework and giving effect to the Board's decisions. All directors have access to advice from the Company Secretary.

**2. Board committees****a) Board committees and membership**

The Board currently has three standing committees to assist in the discharge of its responsibilities. These are the:

- Audit and Risk Management Committee;
- Diversity, Remuneration and Nominations Committee; and
- Contracts Committee.

All duties and responsibilities for health, safety and environment are included as a standing agenda item for every Board meeting.

The charters of all Board committees, detailing the roles and duties of each, are available in the corporate governance section of Perilya's website. All Board committee charters are reviewed at least annually.

As at the date of this report, the membership of each Board committee is as follows:



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<b>Audit and Risk Management Committee</b>	<b>Remuneration and Nominations Committee</b>	<b>Contracts Committee</b>
Patrick O'Connor (Chair)	Anna Liscia (Chair)	Patrick O'Connor (Chair)
Anna Liscia	Patrick O'Connor	Anna Liscia
Wang Wen	Wang Wen	Paul Arndt
		Paul Marinko (non-voting member)

Committee members are chosen for the skills, experience and other qualities they bring to the committees. The executive management attends, by invitation, Board committee meetings.

With the exception of papers being considered by the Contracts Committee, all papers considered by the standing committees are available on request to directors who are not on that committee.

In accordance with the Contracts Committee Charter and protocols establishing the Contracts Committee, all papers relating to matters before the Contracts Committee are not made available to Zhongjin Lingnan representatives or the Board until after those matters have been finally determined by the Contracts Committee.

Following each committee meeting, generally at the next Board meeting, the Board is given a verbal update by the Chair of each committee. In addition, minutes of all committee meetings are provided to all directors.

The Company Secretary provides secretariat services for each committee.

Other committees are convened to address major transactions or other matters calling for special attention.

Details on the number of meetings and the attendance of directors at Board Committee Meetings are set out below in Table 1 on page 12.

### **b) Audit and Risk Management Committee**

The role of the Audit and Risk Management Committee is to assist the Board to meet its oversight responsibilities in relation to the Company's financial statements, internal control structure and financial risk management procedures and the internal and external audit function. In doing so, it is the Committee's responsibility to maintain free and open communication between the Committee and the external auditors and the management of Perilya. Oversight of the operational risk management procedures is retained by the full Board.

The Audit and Risk Management Committee is required to have a minimum of two members composed of independent non-executive directors. The Chairman of the Audit and Risk Management Committee, Mr O'Connor, is an experienced company director and a Fellow of the Australian Institute of Company Directors. Further details of the qualifications of members of the Audit and Risk Management Committee are set out on pages 4 to 6 of this report.

The external auditors, the CEO and the Chief Financial Officer ("CFO") attend Committee meetings by invitation. The Committee meets at least four times per year.

### **c) Diversity, Remuneration and Nominations Committee**

The role of the Diversity, Remuneration and Nominations Committee is to assist the Board by reviewing and approving Perilya's remuneration policies and practices and the appointment of non-executive directors to the Board. The Committee's responsibilities include:

- assessing the necessary and desirable competencies of Board members;
- reviewing Board succession plans;
- reviewing the Company's remuneration framework, which is used to attract, retain and motivate employees from a diverse pool of candidates to achieve operational excellence and create value for shareholders, including reviewing and assessing the Company's recruitment and employment procedures with respect to diversity;
- reviewing the remuneration packages and incentive schemes for the CEO and senior executives, to establish rewards, which are fair and responsible, having regard to the financial results of the group, individual performance and general remuneration conditions;
- reviewing the performance and succession planning for the CEO and senior executives; and
- reviewing Perilya's corporate governance policies and practices.

In compliance with ASX Principle 8.2, the Diversity, Remuneration and Nominations Committee consists of a majority of independent directors, is chaired by an independent chair (Ms Liscia), and has at least three members.



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The CEO attends Committee meetings by invitation. The Committee meets at least two times per year.

### d) Contracts Committee

The role of the Contracts Committee is to assist the Board by reviewing and approving any proposed contract with Zhongjin Lingnan and its associates, to ensure arms-length terms and that related party transactions are assessed and are reasonable. The proceedings of the Contracts Committee are not disclosed to any Zhongjin Lingnan representatives of the Perilya Board until the relevant contract has been finalised or, if considered appropriate, rejected at the discretion of the Contracts Committee. The Contracts Committee is free to engage suitably qualified advisors. The Committee meets as required.

In making a determination on whether a proposed contract with a related party is on arms-length terms, the Contracts Committee measures the terms of the transaction against the terms that would reasonably be achieved by a hypothetical public company in the following circumstances:

- (i) The company is unrelated to the other party to the transaction in anyway;
- (ii) The company is free from any undue influence or pressure;
- (iii) The persons making decisions on behalf of the company are persons who are sufficiently:
  - *knowledgeable* about the circumstances of the transaction;
  - *experienced* in business; and
  - *well advised* to be able to form a sound judgement as to what is in the company's interests; and
- (iv) The company's only concern is to achieve the *best available commercial result* for itself in all of the circumstances:

In all cases the Contracts Committee aims to satisfy itself that what has been achieved is the best available commercial result for Perilya in all of the circumstances.

**Table 1: Directors in Office and attendance at Board and Board Committee Meetings in the year ended 31 December 2012**

	Board meetings		Board committee meetings					
	A	B	Audit and Risk Management Committee		Remuneration and Nominations Committee		Contracts Committee	
			A	B	A	B	A	B
Zhang Shuijian	10	10	-	-	-	-	-	-
Patrick O'Connor	10	10	4	4	3	3	-	-
Paul Arndt	10	10	-	-	-	-	-	-
Wang Wen	10	10	3	4	3	3	-	-
Minzhi Han	10	10	-	-	-	-	-	-
Anna Liscia	10	10	3	4	3	3	-	-

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the relevant committee during the year.

## 3. External Auditor relationship and independence

### a) Approach to audit and governance

The Board is committed to the basic principles that:

- Perilya's financial statements represent a true and fair view;
- Perilya's accounting practices are comprehensive, relevant and comply with applicable accounting standards and policies; and
- the external auditor is independent and serves all shareholder's interests.

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### b) External auditor relationship

Perilya's independent external auditor is PricewaterhouseCoopers ("PwC"). PwC was appointed by shareholders at the 1988 annual general meeting in accordance with the *Corporations Act 2001*. The shareholders approved re-election of the auditors at the 2009 Annual General Meeting.

The Board has adopted an External Auditor Policy which requires rotation of the audit partner at least every five years, prohibits the re-involvement of a previous audit partner in the audit service for two years following their rotation, and provides that a former partner of the audit firm, or member of the audit team, may only be recruited into a position as a director or senior employee of Perilya after the expiry of at least two years.

Furthermore, in accordance with the External Auditor Policy, the Audit and Risk Management Committee oversees detailed External Auditor Guidelines covering the terms of engagement of Perilya's external auditor. The guidelines include provisions directed to maintaining the independence of the external auditor and in assessing whether the provision of any non-audit services by the external auditor that may be proposed is appropriate. Such provisions are referenced to the Code of Ethics published by the International Federation of Accountants ("IFAC").

The External Auditor Guidelines contain a set of controls which address threats to the independence of the external auditor including, in particular, any threat which may arise by reason of self-interest, self-review, advocacy, familiarity or intimidation (all terms defined by the IFAC's Code of Ethics). The External Auditor Guidelines classify a range of non-audit services which are considered not acceptable for provision by the external auditor.

### c) Attendance of auditor at the AGM

Perilya's external auditor attends the AGM and is available to answer questions from shareholders on:

- the conduct of the audit;
- the preparation and content of the auditor's report;
- the accounting policies adopted by Perilya in relation to the preparation of the financial statements; and
- the independence of the auditor in relation to the conduct of the audit.

## 4. Risk management and internal control

### a) Approach to risk management

The Board and senior executives are responsible for overseeing the implementation of the Company's Risk Management Policy.

The Company's approach to risk management is based on the systematic identification, assessment, monitoring and management of material risks embedded in its business and management systems. This framework is based on the Australian Standards for Risk Management.

The Company's risk management plan is focussed on reviewing Perilya's risk management policies and practices for managing strategic, operational, compliance and financial risks.

### b) Risk Management Roles and Responsibilities

The Board is responsible for ensuring that risks, and also opportunities, are identified on a timely basis and that the group's objectives and activities are aligned with those risks and opportunities.

The Board has a number of mechanisms in place to ensure that management's objectives and activities are aligned with the risks identified by the Board. These include:

- Board approval of a strategic plan, which encompasses the Board's objectives and strategies along with identified risks and plans to manage such risks;
- Implementation of Board approved operating budgets and plans, then monitoring the actual progress against those budgets and plans;
- Audit and Risk Management Committee reporting on specific financial risks; and
- Dissemination of a Risk Management Policy guide to be used throughout the Company in identifying and communicating business risks.

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The executive management team is responsible for implementation of the Board approved risk management strategy and developing policies, processes and procedures to identify risks and mitigation strategies in Perilya's activities.

### **c) CEO and CFO assurance on corporate reporting**

The Board receives monthly reports about the financial condition and operational results of Perilya and its controlled entities.

The CEO and CFO provide, at the end of each six monthly period, a formal statement to the Board confirming that the Company's financial statements present a true and fair view, in all material respects, and the group's financial condition and operational results have been prepared in accordance with the relevant accounting standards.

The statement also confirms the integrity of Perilya's financial statements and notes to the financial statements are founded on a sound system of risk management and internal compliance and control which implements the policies approved by the Board, and that Perilya's risk management and internal compliance and control systems, to the extent they relate to financial statements, are operating efficiently and effectively in all material respects.

## **5. Promoting ethical and responsible behaviour**

### **a) Health and safety**

The Board has approved a Health and Safety Policy consistent with Perilya's commitment to ensuring the highest standards of occupational health and safety management at its operations. The health, safety and wellbeing of Perilya's people, contractors, suppliers, visitors and host communities are a key value for the Company.

Perilya's safety management system includes standards to guide all aspects of safety management at Perilya's operations, including the occupational health and safety charter and statements, departmental safety management plans, inductions and site security policy.

Perilya's systems are regularly reviewed and submitted for internal and external audit to ensure continuing compliance.

Perilya's philosophy is that all personnel share the responsibility for a safe workplace. A range of occupational health programs are in place to monitor the wellbeing of employees. Perilya's fitness for work policy is designed to further promote wellbeing and a safe workplace by addressing drug, alcohol and fatigue related issues. Perilya's safety performance is closely and carefully monitored by the Board and is a subject of a standing item for each Board meeting.

### **b) Codes of conduct**

The Board has approved a Code of Conduct for Directors and a Code of Conduct for Employees which describes the standards of ethical behaviour that directors and employees are required to maintain.

Compliance with the Codes of Conduct by Directors and Employees will also assist Perilya in effectively managing its operating risks and meeting its legal and compliance obligations, as well as enhancing Perilya's corporate reputation.

The Codes of Conduct describes Perilya's requirements on matters such as confidentiality, conflicts of interest, sound employment practices, compliance with laws and regulations, the protection and proper use of Perilya's assets and the responsibilities and accountabilities of individuals for reporting and investigating reports of unethical practices.

Conflicts of interest that may arise from potential transactions between Perilya and Zhongjin Lingnan are dealt with by the Contracts Committee.

A copy of each Code of Conduct is available in the corporate governance section of Perilya's website.

### **c) Concern reporting and whistleblowing**

The Board has approved a Whistleblower Policy which documents Perilya's commitment to maintaining an open working environment in which employees are able to report instances of unsafe work practices, unethical, unlawful or undesirable conduct without fear of intimidation or reprisal.

A copy of the Whistleblower Policy is available in the corporate governance section of Perilya's website.

### **d) Share trading policy**

Perilya's Securities Trading Policy is binding on all directors and employees. This policy provides a brief summary of the law on insider

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trading and other relevant laws, sets out the restrictions on dealing in securities by people who work for, or are associated with, Perilya and is intended to assist in maintaining market confidence in the integrity of dealings in Perilya's securities.

The policy stipulates that the only appropriate time for a director or employee to deal in Perilya's securities is when he or she is not in possession of 'price sensitive information' that is not generally available to the share market. A director wishing to deal in Perilya's securities may only do so after first having advised the Chairman of his or her intention. A senior executive wishing to deal must first notify the CEO. Confirmation of any dealing must also be given by the director or senior executive within two business days after the dealing.

Directors and senior executives' dealings in Perilya's securities are also subject to specified closed periods, which are set out in the Company's Share Trading Policy or as otherwise determined by the Board from time to time.

A copy of the Company's Share Trading Policy is available in the corporate governance section of Perilya's website.

### e) Gender diversity

On 26 May 2011, the Board approved the Company's Diversity Policy which documents Perilya's commitment to establishing policies and procedures that promote and advance diversity within the Company. Diversity includes but is not limited to, gender, age, cultural background, ethnicity and disabilities. The key goals of the Diversity Policy are:

- To attract, employ and retain a diverse pool of candidates for all positions, including the Board and senior management and to develop measurable objectives to monitor the Company's progress in this area;
- To ensure that the Company's recruitment and employment procedures encourage, promote and develop diversity and comply with relevant legislative and regulatory requirements for the benefit of the Company and its employees;
- To ensure that the Company's remuneration is appropriate and is not inequitable to any proportion of personnel who are employed by the Company (i.e. on the basis of gender, age, cultural background, ethnicity, disabilities etc.);
- To ensure that the Company's succession plan encourages, promotes and develops diversity within the Company and that there are appropriate personnel with relevant skills, experience and capability to be able to manage the Company's business strategies and objectives, ongoing operations, future growth and development; and
- To formulate and develop appropriate strategies and procedures to manage the Company's diversity including to prepare measureable objectives and develop and implement appropriate education, training and mentoring programs.

During the year under review, the Board reviewed the Company's performance against the measurable gender diversity objectives established in May 2011. This review focused on the Company's on-going objective to continue to incrementally grow the number of women performing a diverse range of roles within the Company, including roles at senior management level. The 2012 review highlighted the successful appointments and contributions to the Company from both Ms Liscia (appointed to the position of non-executive director in November 2011) and Ms Burgess (appointed to the position of General Manager, Projects & Group Metallurgy in July 2011).

The proportion of women employees in the whole organisation is currently 10% with 11% at senior management level and 17% at Board level.

A copy of the Diversity Policy is available in the corporate governance section of Perilya's website.

## 6. Shareholders and corporate responsibility

Perilya aims to produce positive outcomes for all stakeholders in managing its business and to maximise financial, social and environmental value from our activities.

In practice this means having a commitment to transparency, fair dealing, responsible treatment of employees and customers and positive links into the community.

Sustainable and responsible business practices within Perilya are viewed as an important long term driver of performance and shareholder value. Through such practices Perilya seeks to reduce operational and reputation risk and enhance operational efficiency while contributing to a more sustainable society.

Perilya accepts that the responsibilities of the Board and management, which flow from this approach, go beyond strict legal and financial obligations. In particular, the Perilya Board seeks to take a practical and broad view of directors' fiduciary duties, in line with stakeholders' expectations.

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### a) Continuous disclosure

Perilya is committed to maintaining a level of disclosure that meets the highest standards and provides all investors with timely and equal access to information.

Perilya's Continuous Disclosure Policy reinforces Perilya's commitment to ASX continuous disclosure requirements and outlines management's accountabilities and the processes to be followed for ensuring compliance. The policy also describes Perilya's guiding principles for market communications.

A copy of the Continuous Disclosure Policy is available in the corporate governance section of Perilya's website.

### b) Shareholder communications and participation

Perilya is committed to giving all shareholders comprehensive, timely and equal access to information about its activities so that they can make informed decisions. Similarly, prospective new investors are entitled to be able to make informed investment decisions when considering the purchase of shares in Perilya.

A wide range of communication approaches are employed including direct communications with shareholders and presentations to shareholders at the Company's Annual General Meeting. Publication of all relevant Company information, including the Company's Annual Report is in the Investor Information section of Perilya's website at [www.perilya.com.au](http://www.perilya.com.au). Shareholders are also given the opportunity to receive information in print or electronic format.

Perilya's Shareholder Communication Policy provides that the Company will communicate effectively with its shareholders, give shareholders ready access to balanced and understandable information about Perilya and encourages shareholder participation at General Meetings and Annual General Meetings. The way it does this includes:

- ensuring that financial statements are prepared in accordance with applicable laws;
- ensuring the disclosure of full and timely information about Perilya's activities in accordance with the general and continuous disclosure principles of the ASX Listing Rules and the *Corporations Act 2001*. This includes reporting on a quarterly basis the activities and prospects of the Company;
- the Chairman and CEO reporting to shareholders at the Company's annual general meeting;
- placing all ASX announcements (including quarterly reports and financial statements) on Perilya's website as soon as practicable following release; and
- ensuring that reports, notices of meeting and other shareholder communications are prepared in a clear and concise manner.

A copy of the Shareholder Communication Policy is available in the corporate governance section of Perilya's website.

## 7. Remuneration framework

Details of Perilya's remuneration framework are included in the remuneration report.

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### ASX PRINCIPLES COMPLIANCE STATEMENT

	ASX corporate governance council's best practice recommendations	Reference	Compliance
<b>Principle 1:</b>	<b>Lay solid foundations for management and oversight</b>		
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	1b	Comply
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Remuneration report	Comply
1.3	Companies should provide the information indicated in the Guide to reporting on Principle 1.	1a, 1b Remuneration report	Comply
<b>Principle 2:</b>	<b>Structure the board to add value</b>		
2.1	A majority of the board should be independent directors.	1a, 1d	Not in compliance
2.2	The chair should be an independent director.	1a, 1c	Not in compliance
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	1a, 1b	Comply
2.4	The board should establish a nomination committee.	1h, 2c	Comply
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	1g, 2a	Comply
2.6	Companies should provide the information indicated in the Guide to reporting on Principle 2.	Directors' report	Comply
<b>Principle 3:</b>	<b>Promote ethical and responsible decision-making</b>		
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> <li>the practices necessary to maintain confidence in the company's integrity;</li> <li>the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and</li> <li>the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.</li> </ul>	5a, 5b	Comply
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	5e	Comply
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	5e	Comply
3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	5e	Comply
3.5	Companies should provide the information indicated in the Guide to reporting on Principle 3	5a, 5b, 5c, 5d, 5e	Comply
<b>Principle 4:</b>	<b>Safeguard integrity in financial statements</b>		
4.1	The board should establish an audit committee.	2b	Comply
4.2	The audit committee should be structured so that it: <ul style="list-style-type: none"> <li>consists only non-executive directors;</li> <li>consists of a majority of independent directors;</li> <li>is chaired by an independent chair, who is not chair of the board; and</li> <li>has at least three members.</li> </ul>	2a, 2b 2a, 2b 2a 2a, 2b	Comply Comply Comply Comply

## CORPORATE GOVERNANCE STATEMENT

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4.3	The audit committee should have a formal charter.	2a	Comply
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	2a, 3b Directors' report	Comply
<b>Principle 5: Make timely and balanced disclosure</b>			
5.1	Companies should establish written policies designed to ensure compliance and ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	6, 6a	Comply
5.2	Companies should provide the information indicated in the Guide to reporting on Principle 5.	6a	Comply
<b>Principle 6: Respect the rights of shareholders</b>			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	6, 6b	Comply
6.2	Companies should provide the information indicated in the Guide to reporting on Principle 6.	6	Comply
<b>Principle 7: Recognise and manage risk</b>			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	2b, 4a, 4b	Comply
7.2	The board should require management to design and implement the risk management and internal control systems to manage the company's material business risks and to report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the Company's management of its material business risks.	4a	Comply
7.3	The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial statement risks.	4b, 4c	Comply
7.4	Companies should provide the information indicated in the Guide to reporting on Principle 7.	4a, 4b, Directors' report	Comply
<b>Principle 8: Remunerate fairly and responsibly</b>			
8.1	The board should establish a remuneration committee.	2c, Remuneration report	Comply
8.2	The remuneration committee should be structured so that: <ul style="list-style-type: none"> <li>• it consists of a majority of independent directors;</li> <li>• is chaired by an independent chair; and</li> <li>• has at least three members.</li> </ul>	2a, 2b	Comply
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Remuneration report	Comply
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Remuneration report	Comply

## DIRECTORS' REPORT

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The directors present their report on the consolidated entity comprising Perilya Limited ("Perilya" or "the company") and its controlled entities ("the consolidated entity") for the year ended 31 December 2012. Perilya is a company limited by shares that is incorporated and domiciled in Australia.

### Board of directors

The directors of Perilya Limited in office during the year and up to the date for this report were:

Name	Position	Independent	First appointed
Zhang Shuijian	Non-Executive Chairman	No, due to association with Zhongjin Lingnan	5 February 2009 – appointed Non-Executive Director 5 March 2009 – appointed Non-Executive Chairman
Patrick O'Connor	Non-Executive Director & Deputy Chairman	Yes	1 February 2006 – appointed Non-Executive Director 5 March 2009 – appointed Deputy Chairman
Paul Arndt	CEO & Managing Director	No, due to executive functions	CEO from 1 October 2008 and Managing Director from 25 November 2008
Minzhi Han	Executive Director and General Manager, Metals and Marketing	No, due to association with Zhongjin Lingnan and executive functions	5 February 2009 – appointed Non-Executive Director 1 July 2011 – became an Executive Director
Anna Liscia	Non-Executive Director	Yes	24 November 2011 - appointed Non-Executive Director to fill a casual vacancy. 10 May 2012 - Re-appointed as Non-Executive Director.
Wang Wen	Non-Executive Director	No, due to association with Zhongjin Lingnan	5 February 2009 – appointed Non-Executive Director

### Information on directors

Particulars on the skills, experience, expertise and responsibilities of each director at the date of this report, including all directorships of other listed companies held, or previously held, by a director at any time in the past three years, are on pages 4 to 6.

### Board meeting attendance

Particulars of the number of meetings of the Board of directors of Perilya and each Board committee of directors held and attended by each director during the year ended 31 December 2012 are set in Table 1 on page 12.

### Directors' interests in securities in Perilya

As at the date of this report, the relevant interests of each director in the ordinary shares, options and performance rights in Perilya Limited are:

	Fully paid ordinary shares		Options	Performance Rights
	Beneficial, private company or trust	Own name		
Zhang Shuijian	-	-	-	-
Patrick O'Connor	-	-	-	-
Paul Arndt	361,047	548,756	2,015,018	716,588
Anna Liscia	-	-	-	-
Wang Wen	-	-	-	-
Minzhi Han	-	-	-	300,284



## Company secretary

The Company Secretary is Paul Marinko. Mr Marinko was appointed to the position of company secretary on 25 November 2008 and has worked for Perilya since 2006 as general counsel.

## Non-IFRS information disclosure

Cash costs per payable pound ("C1 cash costs") of zinc/copper sold, as disclosed in the directors report, are calculated as the cash costs (e.g. mining, milling and concentrating, on-site administration and general expenses, royalties, metal concentrate treatment charges, freight and marketing costs) less the net value of by-product credits. C1 cash costs are compared from period to period to assess the overall efficiency and effectiveness of the Group's mining operations. This measure is also provided to allow users of the Group's financial information to assess the Group's profit potential and performance relative to other companies in the industry.

"C1 cash costs" is a non-IFRS measure and is unaudited. However, all the financial numbers used to calculate cash cost items and by-product credits are directly extracted from IFRS compliant financial information. For Broken Hill operations, notional C1 cash costs, assuming that all production including by products produced during the period are sold during the same period, are used in order to provide more meaningful information for the users of the Group's financial information.

## Principal activities

The principal activities of the consolidated entity during the financial year consisted of mining and exploring for base and precious metals.

## Review and results of operations

### Overview

#### Corporate

The world economic environment continued to deteriorate further in 2012 affecting not only global growth but the demand for commodities, which resulted in lower metal prices and a stronger AUD against the US dollar. These external factors created not only difficult trading conditions but also made forecasting difficult. Even under these extremely difficult economic conditions Perilya was still able to maintain a strong consolidated operating profit of \$27.72 million after tax for the year ended 31 December 2012 due to its disciplined approach on cost control at both the Broken Hill and Cerro de Maimon operations. The 2012 results as was previously advised in our half yearly accounts was also impacted by a one-off US\$6.35 million negative sales adjustment to revenue from the Cerro de Maimon Operation as a result of unfavourable final assays reducing not only the revenue from operations for this year by US\$6.35 million but operating profit after tax by approximately US\$4.51 million.

#### Broken Hill Operation

2012 saw the Broken Hill Operation continue its focus on combining mine development ore, establishment of new mining stopes and mining remnant pillars in the Southern Operation - an approach which has not only proven to be very successful in delivering both a safe and reliable production profile, but one which has also delivered excellent financial and operational results. During the 12 months to December the Broken Hill mine produced 130,953 tonnes of contained zinc and lead (combined) at an average C1 cash operating cost of US\$0.62/lb. The production results for the Broken Hill mine were outstanding. Notwithstanding this, the impact of the high Australian Dollar and lower metal prices during the year have adversely affected the final results (an average for the year of US\$0.88/lb compared to last year US\$0.99/lb), the operation generated a cash operating margin of US\$0.26/lb compared to last year US\$0.43/lb of payable zinc.

2012 also saw continued productivity improvements at Broken Hill which translated into lower costs, strengthening Broken Hill's ability to both endure the difficult market conditions that have existed over the past 2 years in particular and to continue to generate positive cash flow from its operations.

During the past 12 months not only has the operation continued to improve productivity and produce strong cash flow from operations, it has continued with its outstanding performance on safety once again in the All Injury Frequency Rate. By 31 December 2012, the All Injury Frequency Rate was 14.1, the same as last year, which is the lowest rate ever achieved at Broken Hill under Perilya's operation (31 December 2011: 14.1).

#### Cerro de Maimon Operation

The Cerro de Maimon Operation in 2012 was once again a significant contributor to the Company's overall operating and financial performance. During the 12 months to December the Cerro de Maimon mine produced 11,504 t of copper (31 December 2011: 11,707 t), 13,898 oz of gold (31 December 2011: 15,763 oz) and 345,105 oz of silver (31 December 2011: 587,100 oz) at an average C1 cash operating cost of US\$ 0.62/lb of payable copper (31 December 2011: US\$ 0.39/lb). The production results for the Cerro de Maimon mine for 2012 were outstanding and above the original feasibility forecasts, the C1 cash costs for the same period were also significantly below the original feasibility forecast at US\$0.62/lb of payable copper (31 December 2011: US\$0.39/lb) translating into the operation generating a cash operating margin of US\$2.98/lb of payable copper (31 December 2011: US\$3.60/lb).

## DIRECTORS' REPORT

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Since acquiring the Cerro de Maimon mine Perilya has worked hard at developing and implementing a strategy to significantly improve the safety at the mine. Perilya's efforts in this area have produced significant results and by year end the operations LTIFR (Lost Time Injury Frequency Rate) decreased to 2.3 compared to last year's 5.5, the MTIFR (Medically Treated Injury Frequency Rate) reduced to 0.8 compared to last year's 0.9 and the AIFR (All Injury Frequency Rate) dropped to 8.3 compared to last year's 13.9 with no reported injuries for the past 4 months of 2012.

2011 saw a significant increase in the Cerro de Maimon resource extending the life of mine for the oxide plant by a further 4 years and the sulphide circuit for at least 10 years. In August 2012 a new Mineral Resource Statement for Cerro de Maimon was released which showed an increase of more than 24% in contained copper relative to the previous Mineral Resource Statement dated 31 December 2010 despite 18 months of mining depletion.

The consolidated entity recorded a net profit after tax of \$27.72 million for the year ended 31 December 2012, compared to a net profit after tax of \$38.75 million for the year ended 31 December 2011.

	31 December 2012 \$'000	31 December 2011 \$'000
Revenue from operations	353,794	360,193
Profit after tax from operations	27,720	38,751
Profit after tax attributable to members	27,720	38,751

The earning result for 2012 before tax of \$ 39.27 million (down from \$52.96 million for the corresponding period last year) highlights not only how difficult the trading conditions were in 2012 but the impact that the lower metal prices and high Australian dollar had on the final result compared to 2011.

The net profit after tax of \$27.72 million includes a negative US\$6.35 million sales adjustment for 2011 shipments from Cerro de Maimon as a result of unfavourable final assays impacting the 2012 results by US\$4.51 million after tax (\$38.75 million for the corresponding period last year).

Highlights for the 12 months to December 2012 included the following:

- Cash costs at Broken Hill maintained at US\$0.62/lb of payable zinc (31 December 2011: US\$0.56/lb of payable zinc).
- Broken Hill annual combined zinc & lead metal production of 130,953 t above guidance of 110,000-120,000 t.
- The Broken Hill Operations continuous improvement in operating costs and productivity (tonnes mined per employee) achieved throughout the period.
- Cash costs at Cerro de Maimon at US\$0.62/lb of payable copper (31 December 2011: US\$0.39/lb of payable copper).
- Cerro de Maimon annual metal production 11,504 t of copper, 13,898 oz of gold and 345,105 oz silver was in-line with annual guidance of 10,500 -11,000 t of copper, 14,000-15,000 oz of gold and 320,000-400,000 oz of silver.

SUMMARY OF FINANCIAL PERFORMANCE	2012 Total (\$'000)	2011 Total (\$'000)
Revenue	353,794	360,193
Net profit after tax	27,720	38,751
Cash flow from operating activities	65,196	67,440
Total assets	666,943	633,840
Total equity	381,643	355,140

### Sales Revenue

The high Australian Dollar and lower metal prices in 2012 reduced net revenue only slightly from 2011 due to much higher physical sales volumes from the Broken Hill operation in particular which led to the net sales revenue of \$353.79 million for the 12 months ended 31 December 2012 (31 December 2011: \$360.19 million). Taking into account the negative US\$6.35 million sales adjustment for 2011 shipments from Cerro de Maimon in 2012, the net sales revenue year on year are virtually identical.

Average US dollar zinc price for the 12 months to December 2012 decreased by 11% to US\$1,948 per tonne and lead by 14% to US\$2,062 per tonne respectively compared to the average price during the previous 12 months. Average US dollar copper price for the 12 months to

## DIRECTORS' REPORT

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31 December 2012 was US\$7,950 per tonne a decrease of 10% compared to the average price during the previous 12 months.

### Cash and Deposits

At 31 December 2012 cash totalled \$37.63 million (31 December 2011: \$36.37 million) while additional deposits totalling \$24.42 million (31 December 2011: \$24.65 million) supported performance guarantees for mining licences in Australia and an environmental insurance policy relating to the Cerro de Maimon Mine in the Dominican Republic.

As at 31 December 2012, the consolidated entity also held \$0.52 million of available for sale investments (31 December 2011: \$0.64 million) held in a number of listed and unlisted equity investments.

### Debt

At 31 December 2012 Perilya had \$142.05 million of corporate debt (31 December 2011: \$115.78 million) (being debt other than equipment finance in the ordinary course of business) and approximately \$5.59 million (31 December 2011: \$7.64 million) in operating debt solely related to mobile equipment financing which is payable over a five year period.

\$89.66 million of the corporate debt is classified as current and \$52.39 million as non-current. This debt represents borrowings for the acquisition of GlobeStar in December 2010 and for additional working capital facilities considered necessary for the operations.

### Financial Position

At 31 December 2012 the company had net assets of \$381.64 million.

### BROKEN HILL OPERATION

Production for the 12 months ended 31 December 2012 was 76,877 tonnes of contained zinc and 54,073 tonnes of contained lead, (12 months to December 2011: 70,100 tonnes of contained zinc and 51,500 tonnes of contained lead). Grades for zinc were 14% higher and for lead it was 8% higher than the previous 12 month period which was a reflection of the individual stopes that were being mined and improved recoveries being obtained due to changes in processing.

SUMMARY OF OPERATING PERFORMANCE	December 2012	December 2011
Production statistics		
Zinc (contained metal - kt)	76.9	70.1
Lead (contained metal - kt)	54.1	51.5
Silver (contained metal - Moz)	1.576	1.441
Zinc grade (%)	5.0	4.4
Lead grade (%)	3.7	3.4
Silver grade (g/t)	39.5	35.9
Broken Hill - Cash costs and cash operating margin (US\$/lb payable zinc)		
Average price received	0.88	0.99
Less: Net cash costs *	0.62	0.56
Cash operating margin	0.26	0.43

\* Notional net C1 cash costs, assuming that all production including by products produced during the period are sold during the same period.

The C1 cash costs for the 12 months to December were higher than the previous 12 months due to the decrease in by-product credits resulting from the decline in lead and silver prices over the period.

The metal price received per pound of payable zinc for the 12 months also decreased by 11% over the previous 12 month period, which combined with the C1 cost resulted in a cash operating margin of US\$0.26/lb (previous 12 months showed a margin of US\$0.43/lb).

The production result from the Broken Hill operation in 2012 was outstanding and showed that even in a low commodity metal price environment it was still able to produce a positive cash flow from operations and is well positioned to benefit from future increases in metal prices as the global economic conditions improve.

The Potosi/Silver Peak mine development commenced in the latter half of 2011.

Perilya is continuing the development study of the North Mine which has been on care and maintenance since July 2008. The development study is focussed on the Upper and North Mine Deeps projects.

## CERRO DE MAIMON OPERATION

Production was 11,504 tonnes of contained copper, 345,105 ounces of silver and 13,898 ounces of gold in 2012 (12 months to December 2011: 11,707 tonnes of contained copper, 587,100 ounces of silver and 15,763 ounces of gold). Although 2012 production levels were below 2011, they were still significantly above the original feasibility forecast levels due to higher mill feed rate and recovery in the sulphide circuit.

SUMMARY OF OPERATING PERFORMANCE	December 2012	December 2011
Production statistics		
<u>Sulphide Plant</u>		
Sulphide ore processed (tonnes)	492,871	472,310
Copper grade (%)	2.9	3.0
Gold grade (g/t)	1.0	0.9
Silver grade (g/t)	31.4	46.4
Copper concentrate produced (tonnes)	51,360	48,987
Copper concentrate grade (%)	22.4	24.0
Copper in concentrate (tonnes)	11,504	11,777
Gold in concentrate (ounces)	6,465	6,544
Silver in concentrate (ounces)	291,918	516,350
<u>Oxide Plant</u>		
Oxide ore processed (tonnes)	221,242	209,268
Gold grade (g/t)	1.25	1.72
Silver grade (g/t)	13.79	19.08
Gold (ounces)	7,433	9,219
Silver (ounces)	53,187	70,750
Cerro de Maimon - Cash costs and cash operating margin (US\$/lb payable copper)		
Average price received	3.60	3.99
Less Net cash costs	0.62	0.39
Cash operating margin	2.98	3.60

The net C1 cash costs for the full year were US\$0.62/lb of payable copper (31 December 2011: US\$0.39/lb of payable copper), within the full year market guidance for FY2012 of US\$0.60 - 0.80/lb of payable copper, reduced from previous market guidance of \$US0.80/lb of payable copper.

The metal price received per pound of payable copper for the 12 months was US\$3.60/lb (31 December 2011: US\$3.99/lb of payable copper), which combined with the C1 cost, generated a cash operating margin of US\$2.98/lb for the 12 months ended 31 December 2012 (31 December 2011: cash operating margin of US\$3.60/lb of payable copper).

## POTOSI/SILVER PEAK PROJECT

The Potosi project is progressing in both declines to plan.

## FLINDERS PROJECT

The Company tenements in the Flinders region of South Australia are primarily prospective for high-grade zinc silicate mineralization. Until the world economic conditions improve and zinc inventories reduce, prices are expected to remain weak which makes developing particularly the North Moolooloo deposit uneconomic at present. We understand the deposit and costs of developing the deposit well, as it

## DIRECTORS' REPORT

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is very similar to our previously mined Beltana project which proved to be very profitable for Perilya in the past. Should the right conditions arise once again Perilya will be in a position to fast track the project into production if required.

### MOUNT OXIDE PROJECT

The Mount Oxide project is located in the Mount Isa region Western Succession that includes several major sediment hosted breccia copper deposits.

The Mt Oxide Copper Project study program which commenced late in 2011 was put on hold as further opportunities for the Mt Oxide deposit are reviewed.

### CORPORATE

#### Dividend

No dividends were paid during the year. No final dividend will be paid.

#### Hedging contracts

As at 31 December 2012 the Company had the following hedge contracts in place:

		Maturity: Mar 13 Quarter	TOTAL POSITIONS
ZINC:-			
Tonnes	t	13,188	<b>13,188</b>
Price	AU\$/t	1,963	<b>1,963</b>
LEAD:-			
Tonnes	t	10,217	<b>10,217</b>
Price	AU\$/t	2,214	<b>2,214</b>

These lead and zinc hedges have been deemed ineffective under accounting standards with the resultant movement in fair value (\$513,850) being recognised as an expense in the 31 December 2012 financial statements.

### METALS MARKETS

2012 saw metal prices continue to drop substantially from 2011 averages due to the continued deterioration of the world economy particularly the European economies which were in recession for most of 2012. From 1 January 2012 to 31 December 2012, zinc price decreased 11% to US\$1,948/tn, or US\$0.88/lb (31 December 2011: US\$2,193/tn or US\$0.99/lb). Lead price between 1 January 2012 to 31 December 2012 decreased 14% to US\$2,062/tn or US\$0.94/lb (31 December 2011: US\$2,402/tn or US\$1.09/lb). Copper price between 1 January 2012 to 31 December 2012 decreased 10% to US\$7,950/tn or US\$3.60/lb (31 December 2011: US\$8,796/tn or US\$3.99/lb).

In the latter part of 2012 we saw signs that the global economy was at least stabilising with demand for all metals rising and inventory levels falling suggesting we were entering an optimistic period globally going forward. Perilya's medium to long term outlook for zinc, lead and copper markets is that the fundamentals remain strong with supply constraint issues becoming a real possibility in the near term should the global economy strengthen at a faster rate than expected due to underinvestment in prior years by many mining companies due to the GFC.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs of the group during the financial year.

### Matters subsequent to the end of the financial year

The Board of Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

### Likely developments and expected results of operations

Further information about the likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

## Employees

The consolidated entity employed 653 employees (Australian and American entities combined) as at 31 December 2012 (31 December 2011: 629).

## Environmental disclosure

The company's operations are subject to various Commonwealth and State laws governing the protection of the environment in areas such as air and water quality, waste emission and disposal, environmental impact assessments, mine rehabilitation and access to, and use of, ground water. In particular, some operations are required to be licensed to conduct certain activities under the environmental protection legislation of the State in which they operate and such licenses include requirements specific to the subject site.

So far as the directors are aware, there have been no material breaches of the company's licenses and all mining and exploration activities have been undertaken in compliance with the relevant environmental regulations.

### Greenhouse gas and energy data reporting requirements

Perilya is subject to the reporting requirements of both the Energy Efficiency Opportunities Act 2006 and the National Greenhouse and Energy Reporting Act 2007. The Energy Efficiency Opportunities Act 2006 requires Perilya to assess its energy usage, including the identification, investigation and evaluation of energy saving opportunities, and to report publicly on the assessments undertaken, including what action Perilya intends to take as a result. Perilya continues to meet its obligations under this Act. The National Greenhouse and Energy Reporting Act 2007 requires Perilya to report its annual greenhouse gas emissions and energy use. The first measurement period for this Act ran from 1 July 2008 to 30 June 2009. Perilya has implemented systems and processes for the collection and calculation of the data required and has submitted its initial report.

## Options

### Options on Issue

Details of options over unissued shares in Perilya Limited as at the date of this report are set out below:

	Number	Exercise price	Grant date	Expiry date
Unlisted Employee Incentive Options	100,000	\$4.32	17.07.06	17.07.13
Unlisted Employee Incentive Options	2,589,721	\$0.87	04.06.10	31.03.14
Unlisted Employee Incentive Options	2,997,456	\$0.89	01.06.11	31.03.15
	<b>5,687,177</b>			

During the financial year no options were issued (31 December 2011: 2,997,456). No further options have been granted since the end of the financial year and the date of this report.

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

### Options exercised

During the financial year no options were exercised.

### Options forfeited or cancelled

During, or since the end of the financial period, no options (31 December 2011: nil) were forfeited or cancelled.

### Options expired or lapsed

During, or since the end of the financial period, 2,150,000 options (31 December 2011: 2,350,000) have expired or lapsed in accordance with the terms of the Employee Share Option Plan.

## Performance rights

### Performance rights on issue

Details of performance rights over unissued shares in Perilya Limited as at the date of this report are set out below:

Number	Grant date	Vesting date	Expiry date
2,774,834	10 May 2012	31 Dec 2013 – 31 Dec 2015	31 Dec 2015

No further performance rights have been granted since the end of the financial year and the date of this report.

## DIRECTORS' REPORT

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No performance rights holder has any right under these to participate in any other share issue of the company or any other entity.

### Performance rights issued, lapsed, forfeited or cancelled

During the financial year, 2,774,834 performance rights (31 December 2011: nil) were issued to senior executives. During or since the end of the financial year, 53,900 (31 December 2011: nil) performance rights were lapsed, forfeited or cancelled in accordance with the terms of the Perilya Long Term Incentive Share Plan.

### Indemnities and insurance

During the financial year the company paid a premium of \$92,062 to insure the directors and officers of the consolidated entity against liabilities incurred in the performance of their duties.

The officers of the group covered by the insurance policy include any person acting in the course of duties for the consolidated entity who is, or was, a director, executive officer, company secretary or a senior manager within the consolidated entity.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers, in their capacity as officers, of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

### Proceedings on behalf of the consolidated entity

At the date of this report there are no leave applications or proceedings brought on behalf of the consolidated entity under section 237 of the *Corporations Act 2001*.

### Non-audit services

In accordance with the company's External Auditor Policy and Guidelines, the company may decide to engage the external auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the consolidated entity are important.

Details of the amounts paid or payable to the auditor, PricewaterhouseCoopers, for audit and non-audit services provided during the financial year are set out in note 30 of the financial statements.

The board of directors has considered the position and, in accordance with advice received from the Audit and Risk Management Committee, are satisfied that the provision of the non-audit services detailed in note 30 of the financial statements were compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are also satisfied that the provision of these non-audit services did not compromise the auditor independence requirements of the *Corporations Act 2001* because:

- they have no reason to question the veracity of the auditor's independence declaration referred to in the section immediately following this section of the report; and
- the nature of the non-audit services provided is not inconsistent with those requirements.

### Auditor's independence declaration

PricewaterhouseCoopers continues as external auditor in accordance with section 327 of the *Corporations Act 2001*. The auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 44 and forms part of this report.



## DIRECTORS' REPORT

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### Remuneration report (audited)

The remuneration report summarises the key remuneration arrangements for the reporting period 1 January 2012 to 31 December 2012 for the Non-Executive Directors and Key Management Personnel of Perilya Limited and its controlled entities ("the Consolidated Group") in office during the financial year.

The remuneration report has been set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration
  - a. Non-Executive Directors
  - b. Key Management Personnel
3. Service agreements
4. Share-based compensation
5. Additional information.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001*.

#### 1.0 Principles used to determine the nature and amount of remuneration

##### Diversity, Remuneration and Nominations Committee

The Diversity, Remuneration and Nominations Committee (the "Committee") assists the Board to fulfil its responsibilities to shareholders by ensuring the Group has remuneration policies that fairly and competitively reward executives and the broader Perilya employee workforce. The Committee's decisions on reward structures are based on the current competitive environment, remuneration packages for executives and employees in the resources industry and the size and complexity of the Consolidated Group.

The Committee's responsibilities include reviewing the company's remuneration framework and evaluating the performance of the Chief Executive Officer ("CEO") and monitoring performance of the executive team.

Independent remuneration consultants are engaged by the Committee from time to time to ensure the company's remuneration system and reward practices are consistent with market practices. Since FY2010, Perilya has participated in the remuneration surveys used in compiling, and subscribed for, the McDonald & Company (Australasia) Pty Ltd's *Gold & General Mining Industry Remuneration Report*. The Committee uses the information contained in these reports, to provide it with independent advice on movements in industry remuneration levels to ensure that the remuneration levels and structure for the CEO and senior executives remained consistent with market practises. In addition, during FY2012 the Committee engaged Allion Legal to undertake a review of long term incentive ("LTI") plans for companies of similar size to Perilya together with a review of published articles, commentary and the experience of their firm with other corporate clients relating to LTI schemes to identify current trends in the market. Allion's instructions included reporting on the different types of performance conditions generally applied to LTI plans and analysing the pros and cons of each approach for the Committee's consideration. The report was used as part of the Committee's review and redesign of the LTI scheme for executives. Allion were not engaged to make any recommendations as to remuneration or incentive plans for any of the Company's key management personnel.

##### Directors' remuneration policy and structure

Perilya's non-executive director remuneration policy aims to reward the directors fairly and responsibly having regard to the:

- level of fees paid to directors relative to other comparative sized Australian mining companies;
- size and complexity of Perilya's operations; and
- responsibilities and work requirements of individual Board members.

Non-executive directors who are also executives of the parent company Zhongjin Lingnan have elected not to receive director fees during the period under review.

Fees paid to the non-executive directors of Perilya are reviewed annually by the Committee and based on advice from external remuneration consultants.

##### Directors' fees limits

Non-executive directors' fees are determined within an aggregated directors' fee limit of \$500,000, which was approved by shareholders at the 2006 Annual General Meeting.



## DIRECTORS' REPORT

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*Directors' fees framework*

Non-executive director's remuneration (for those directors other than those which also hold executive positions within Zhongjin Lingnan) consists only of a base fee inclusive of 9% statutory superannuation, details of which are set in Table 1 below.

Board fees are not paid to executive directors as the time spent on Board work and the responsibilities of Board membership are considered in determining the remuneration package provided as part of their normal employment conditions.

**Table 1 – Annual Board and committee fees payable to non-executive directors**

Position	Annual fees from 1 January 2012 to present \$
<b>Base Fee</b>	
Chairman of the Board*	-
Deputy Chairman of the Board	90,000
Independent Non-executive director	75,000
<b>Additional fees</b>	
Chairman of the Audit and Risk Management Committee	16,000
Member of the Audit and Risk Management Committee*	7,500
Chairman of the Remuneration and Nomination Committee	11,000
Member of the Remuneration and Nomination Committee*	7,500
Chairman of the Contracts Committee	-
Member of the Contracts Committee	-

\* Directors who also hold executive positions within Zhongjin Lingnan have declined to accept director's fees for being on a Board Committee

No retirement benefits are paid other than the statutory superannuation contributions of 9% required under Australian superannuation guarantee legislation. Superannuation amounts are included in the directors' overall fee entitlements.

**Executive remuneration policy and structure**

Perilya's executive remuneration policy sets the policy for rewarding the CEO and senior executives (who are direct reports to the CEO). The main principles underlying Perilya's executive remuneration policy are to:

- provide competitive rewards that attract, retain and motivate executives;
- set demanding levels of performance which are clearly linked to an executive's remuneration;
- structure remuneration at a level that reflects the executive's duties and accountabilities;
- set a competitive level of remuneration that is sufficient and reasonable;
- align executive incentive rewards with the creation of value for shareholders; and
- comply with applicable legal requirements and appropriate standards of governance.

Executive remuneration is reviewed annually having regard to individual and business performance against agreed financial and non-financial performance measures set at the beginning of the year.

**Voting and comments made at the company's 2011 Annual General Meeting**

Perilya received 99.51% of "yes" votes on its remuneration report for the 2011 financial year. Perilya did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

**Executive remuneration structure – Financial Year to 31 December 2012**

Perilya's remuneration structure for the CEO and senior executives up until 31 December 2012 was divided into three principal components:

- Base pay including superannuation;
- A cash-based short-term incentive ("STI") which is a variable annual reward, or "at risk" component that is subject to performance; and
- An annual long-term equity-based incentive payment ("LTI").

*Base pay*

The base pay component of executive remuneration comprises base salary plus superannuation contributions calculated at 9% of base salary. Certain executives (which include those executives based at the Broken Hill and Cerro de Maimón mine sites) are entitled to other

non-cash allowances such as housing, motor vehicle and health insurance.

Remuneration is determined by the scope of each executive's role, level of knowledge, skill and experience along with their individual performance. Perilya annually reviews and benchmarks this component of executive remuneration against appropriate market comparisons using information and advice from external consultants. There is no guarantee of base pay increases included in any executive's contract.

#### *Variable annual reward*

The company's executives' remuneration structure included a variable annual reward being a short term incentive (STI) based on an assessment of their individual performance and Perilya's overall performance. Each year, the Committee considers the appropriate targets and key performance indicators (KPIs) to link the STI and the level of payout if targets are met. This includes setting any maximum payout under the STI and minimum levels of performance to trigger payment of STI. Each year the Board considers and, where applicable, seeks shareholder approval for an annual award of a long term incentive (LTI) which is equity-based.

#### *Short-term incentive (STI) component*

Under the STI, the short term incentive component of an executive's annual remuneration is between 30% and 60% of their total fixed annual remuneration (being an aggregate of base salary plus superannuation) and is available to be paid in cash following an assessment of performance of both Perilya and the individual executive for the year against the key performance indicators and targets set by the Board.

The Board sets an annual profitability gateway based on a defined minimum normalised net profit after tax before the executives can be considered eligible for any STI payment (profitability gateway). The purpose of the profitability gateway is to ensure that irrespective of performance, an incentive bonus will only be paid to executives in years where a base level of net profit after tax is achieved. In addition to the profitability gateway, in order for an executive to receive any STI award based on the safety performance component, an additional gateway applies of there being no fatalities in the relevant period.

At the commencement of each year the Board sets a series of key performance indicators (KPI) for Perilya which are linked to Perilya's business principles, budget, business plan, growth and external indicators. Subject to first achieving the profitability gateway, the level of future STI annual awards will depend on Perilya as a group achieving "threshold" and "target" performance hurdles. Perilya must achieve the "threshold" KPI for any portion of the STI to be paid with respect to that particular criteria. The maximum STI will be paid upon achieving the "target" KPI's in all categories. The Board at all times retains to itself discretion as to the payment of any STI award. The Board has further retained to itself the discretion to award an additional payment, up to a maximum of an additional 100% of the STI component of the executive's annual remuneration, where it deems a "stretch" performance has been achieved.

In January 2011 the Board determined that as a number of the key performance indicators for determining any short term incentive payment to Key Management Personnel (**KMP**) were measured against production, costs and financial performance for the period under review, assessment of performance of KMP for any award of STI would be measured against the audited financial statements for the relevant period. It is the Board's view that this change will provide shareholders with greater certainty and transparency around the achievement of performance targets and the merits of any STI bonus payments.

The formulas prescribed by the Board for determining performance under the various categories, require that certain performance measures be "normalised" to adjust for assumptions on external factors under the budget versus actual outcomes for the period. This normalisation process requires a combination of empirical testing and the exercise of business judgement by the Board to ensure a fair and reasonable result consistent with the Company's remuneration principles and ensuring fair value for the shareholders. As such the calculation involves an element of Board discretion and is not sufficiently certain to enable the Company to reliably estimate the quantum of STI bonus that may be paid for the year ending 31 December 2012.

Pursuant to the Board's policy of ensuring that assessment of performance is measured against the actual audited financial statements for the period, assessment of performance for any STI award for FY2012 will occur at a date after receipt of the final audited financial statements by the Board. Any STI award being made pursuant to that assessment of performance will occur following release of the audited financial statements. Accordingly, the award of any STI payments to Executives for FY2012 did not accrue in the financial statements for 2012, but rather will be reported in the subsequent period.

STI payments made to Executives relating to their performance in FY2011 accrued during the year ending 31 December 2012. For FY2011 KMP's achieved between 92.5% and 100% of their respective STI entitlements based on evaluation of the threshold and target performance achieved against the performance criteria set by the Board at the commencement of 2011. The Board did not pay any discretionary STI to executives for "stretch" performance with respect to FY2011. The aggregate of the "threshold", "target" and "stretch" performances achieved by executives for 2011 is set out in Table 2 below. The Executives' respective STI entitlements for 2011 were paid in the second quarter of 2012 in accordance with the rules set by the Board for the STI component of remuneration.

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**Table 2 – Percentage of STI achieved by key management personnel for FY2011 and paid in FY2012**

Name	Position	Percentage of total STI entitlement paid in respect of FY2011
Paul Arndt	CEO and Managing Director	100%
Paul Marinko	Company Secretary and General Counsel	100%
Angelo Christou	Chief Financial Officer	100%
Peter Trout	General Manager – America Operations	100%
Andrew Lord	General Manager – Broken Hill	92.5%
Minzhi Han	Executive Director and General Manager, Metals and Marketing	100%

### Long-term incentive component (LTI)

- *Performance Rights – under the Perilya Long Term Incentive Plan (“LTIP”) (approved by shareholders in October 2007)*

The primary long-term incentive was focussed on the allocation of performance rights. However, on 1 September 2008, the Performance Rights Long Term Incentive Share Plan was suspended. In late 2011 the Board directed the Diversity, Remuneration and Nominations Committee to review the Company’s LTI scheme and make recommendations to the Board that would ensure that the LTI scheme achieved its aims, which included:

- attracting, retaining and rewarding key executives;
- linking long term benefits with clearly defined demanding levels of performance criteria; and
- aligning executive incentive rewards with the creation of value for shareholders.

Following that review, on 26 March 2012 the Board resolved to reactivate the Company’s Performance Rights Long Term Incentive Plan (“**Performance Rights Plan**”), which was subsequently approved by shareholders at the Company’s Annual General Meeting held on 10 May 2012.

The Performance Rights Plan’s purpose is to provide Perilya with a mechanism for driving superior long term performance for shareholders and retention of executives. It is targeted at Perilya’s senior management, being those executives and selected senior managers (as determined by the Board from time to time) whose responsibilities provide them with the opportunity to significantly influence long term Shareholder value. There are currently ten executives who would be eligible participate in the LTIP.

The key performance hurdles for the vesting of the performance rights are linked to the retention of key executives and shareholder value creation. The performance hurdles are based on three separate criteria, being, time based, total shareholder return (“TSR”) based and earnings per share (“EPS”) based.

On 10 May 2012, with applicable shareholders’ approval, the Board issued Key Executives (including the Managing Director) with an aggregate of 2,774,834 performance rights with a performance period running from 1 January 2012 to 31 December 2015.

The grant of Performance Rights are provided to Key Executives to incentivise and retain them for the longer term and to better align the interests of Key Executives with those of the Company’s shareholders.

Further detail on the Performance Rights Plan is set out in section 4.0(b) below.

- *Options – under the Perilya Employee Share Option Plan (approved by shareholders in November 2003 and reconfirmed at meetings held in November 2006 and November 2009) (“ESOP”)*

The Board resolved to re-instate a long term incentive (“LTI”) component of remuneration with effect from 1 January 2010. The Board determined that Key Executives will receive an award under the ESOP reflecting the LTI remuneration component based on a percentage of their respective total annual remuneration (being the aggregate total fixed annual remuneration plus the STI component potential in the relevant period). The LTI component of an executive’s annual remuneration is between 6% and 19% of their respective total annual remuneration. The form of LTI payment was formerly by way of options issued under Perilya’s ESOP to the value of the LTI entitlement. The Company uses the Black and Scholes option price calculation method to determine the value of each option granted in calculating the number of options to be issued under the LTI.

On 26 March 2012 the Board resolved to cease issuing options under the ESOP in favour of amending and reinstating the

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Company's Performance Rights Plan. The purpose of doing so was to create greater transparency and accountability to shareholders by ensuring LTI awards were closely linked to performance criteria that aligned the executive's interests with those of Perilya's shareholders. Accordingly there were no grants of options to executives under the Company's ESOP during FY2012.

- *Shares – under the Employee Share Acquisition Plan ("ESAP")*

On 1 September 2008, the ESAP was suspended. On 20 December 2011 the Board resolved to reactivate the ESAP for the sole purpose of:

- distributing vested shares under the ESAP to all relevant participating employees; and
- varying the ESAP Deed to allow for unallocated or unvested shares ("**Residual Shares**") to be utilised for the purposes of a one off equity incentive retention bonus for certain non-related party Employees under the ESAP (including 2 of the Company's Key Management Personnel), subject to time based vesting hurdles.

It is the Board's intention that upon vesting of all Residual Shares under the amended ESAP, which will occur on 31 December 2013 when all vesting conditions will have been satisfied, it will wind up the ESAP.

Further detail on the ESAP is set out in section 4.0 below.

## 2.0 Details of remuneration

### Amounts of Remuneration

The total remuneration paid to Directors, the key management personnel of the Group is set out in Tables 4 and 5 below. Key management personnel (as defined in AASB 124 *Related Party Disclosures*) of Perilya Limited and its controlled entities are those persons identified in this section who have authority and responsibility for planning, directing and controlling the activities of Perilya and its controlled entities whether directly or indirectly.

Data in Table 5 includes the seven group executives, as identified below, who received the highest remuneration for the year ending 31 December 2012. The executives considered to be key management personnel of the Group during the year ending 31 December 2012 are the executives set out in Table 3 below.

**Table 3 - Key management personnel**

#### Current key management personnel

Name	Position	Period (if less than the entire period)
Paul Arndt	CEO and Managing Director	N/A
Paul Marinko	Company Secretary and General Counsel	N/A
Angelo Christou	Chief Financial Officer	N/A
Peter Trout	General Manager – America Operations	N/A
	General Manager – Projects & Acquisitions	From 1/1/2013
Andrew Lord	General Manager – Broken Hill	N/A
	General Manager – America Operations	From 1/1/2013
David Hume	General Manager – Broken Hill	From 19/11/2012
Minzhi Han	Executive Director and General Manager, Metals and Marketing	N/A

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### Non-Executive Directors Remuneration

Details on the nature and amount of remuneration of Perilya's Non-Executive Directors for the year ended 31 December 2012 are as follows.

**Table 4 – Remuneration of Non-Executive Directors**

Name	Short-term benefits		Post employment	Total
	Director fees	Board committee fees	Superannuation	
	\$	\$	\$	
Zhang Shuijian <sup>(1)</sup>				
31 Dec 2012	-	-	-	-
31 Dec 2011	-	-	-	-
Patrick O'Connor				
31 Dec 2012	82,569	21,560	9,371	113,500
31 Dec 2011	82,569	16,973	8,958	108,500
Peter Harley <sup>(3)</sup>				
31 Dec 2012	-	-	-	-
31 Dec 2011	68,750	14,086	7,455	90,291
Anna Liscia <sup>(4)</sup>				
31 Dec 2012	68,807	16,972	7,721	93,500
31 Dec 2011	12,500	3,083	1,403	16,986
Minzhi Han <sup>(1),(2)</sup>				
31 Dec 2012	-	-	-	-
31 Dec 2011	-	-	-	-
Wang Wen <sup>(1)</sup>				
31 Dec 2012	-	-	-	-
31 Dec 2011	-	-	-	-
<b>Total</b>				
<b>31 Dec 2012</b>	<b>151,376</b>	<b>38,532</b>	<b>17,092</b>	<b>207,000</b>
<b>31 Dec 2011</b>	<b>163,819</b>	<b>34,142</b>	<b>17,816</b>	<b>215,777</b>

1) Messrs Zhang, Wang and Han have declined to accept any fees in connection with roles as Directors and Committee members.

2) Messrs Han became an Executive Director from 1 July 2011.

3) Peter Harley retired on 24 November 2011.

4) Anna Liscia appointed on 24 November 2011.

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### Key management personnel remuneration

Table 5 – Key management personnel remuneration

Name	Short-term employee benefits				Post employment	Share-based payments			Total	Performance related
		*2011 Incentive bonus payments	Other	Non-monetary		Fair value of Employee Share Acquisition Plan shares issued	Fair value of performance rights issued under Perilya Long Term Incentive Share Plan	Fair value of long-term incentive options		
	Cash salary				Superannuation					
	\$	\$		\$	\$	\$	\$	\$	\$	%
<b>CEO</b>										
Paul Arndt										
31 Dec 2012	718,500	420,000	-	3,906	37,500	-	52,117	191,900	<b>1,423,923</b>	47%
31 Dec 2011	650,000	-	-	12,024	50,000	-	-	168,107	<b>880,131</b>	19%
<b>Senior Executives</b>										
Paul Marinko										
31 Dec 2012	403,308	181,000	-	3,171	25,000	77,717	21,839	81,380	<b>793,415</b>	46%
31 Dec 2011	337,000	-	-	12,885	25,000	-	-	70,263	<b>445,148</b>	16%
Angelo Christou										
31 Dec 2012	355,647	181,000	-	2,472	28,353	-	21,839	42,191	<b>631,502</b>	39%
31 Dec 2011	332,110	-	-	2,100	34,705	-	-	24,669	<b>393,584</b>	6%
Peter Trout										
31 Dec 2012	390,962	181,000	-	86,583	-	-	22,238	42,191	<b>722,974</b>	34%
31 Dec 2011	282,962	-	-	25,196	18,704	-	-	24,669	<b>351,531</b>	7%
Andrew Lord										
31 Dec 2012	411,550	190,088	-	9,852	32,861	77,717	24,797	93,565	<b>840,430</b>	46%
31 Dec 2011	377,100	-	-	7,614	33,939	-	-	79,714	<b>498,367</b>	16%
David Hume										
31 Dec 2012	37,251	-	-	-	3,353	-	-	-	<b>40,604</b>	0%
31 Dec 2011	-	-	-	-	-	-	-	-	-	-
Minzhi Han										
31 Dec 2012	359,000	181,000	8,100	2,472	25,000	-	21,839	-	<b>597,411</b>	34%
31 Dec 2011	283,574	-	452	1,050	12,500	-	-	-	<b>297,575</b>	-
<b>Consolidated Entity Total</b>										
31 Dec 2012	<b>2,676,218</b>	<b>1,334,088</b>	<b>8,100</b>	<b>108,456</b>	<b>152,067</b>	<b>155,434</b>	<b>164,669</b>	<b>451,227</b>	<b>5,050,259</b>	
31 Dec 2011	<b>2,262,746</b>	<b>-</b>	<b>452</b>	<b>60,869</b>	<b>174,848</b>	<b>-</b>	<b>-</b>	<b>367,422</b>	<b>2,866,337</b>	

\* The KMPs' performance for the award of STI relating to 2012 will be determined following the completion of the audited 2012 financial statements. Accordingly, such award is not accrued in the 2012 financial statements, but rather will be reported in the subsequent period. STI payments reported above relate to STI awards for performance in FY2011, but paid and accounted for in FY2012.

### 3.0 Service agreements

On appointment to the Board, all Independent Non-Executive Directors enter into a service agreement with the company in the form of a letter of appointment. The letter summarises the Board policies and terms, including compensation, relevant to the office of director.

Remuneration and other terms of employment for the Chief Executive Officer and Managing Director, Chief Financial Officer and the other key management personnel are also formalised in service agreements. Major provisions of the agreements relating to remuneration of the CEO are set out below.

#### Remuneration of the Chief Executive Officer, Paul Arndt

Mr Paul Arndt was appointed on 25 November 2008 (with shareholders' approval) as Managing Director. Prior to this promotion, he was the Executive General Manager Operations & Development and was appointed as the Company's Chief Executive Officer on 1 October 2008.

Under the employment contract with Mr Arndt he is entitled to receive an annual base salary and superannuation, together with STI and LTI awards (at Board discretion). Details of Mr Arndt's contract and remuneration are described below and set out in Table 6 below.

The remuneration provisions of Mr Arndt's employment contract provided for:

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*Annual Salary*

Mr Arndt's annual salary is reviewed annually and his fixed remuneration for the 2012 financial year was set at \$756,000 per annum, inclusive of superannuation. Following the annual review of executive remuneration in December 2012, Mr Arndt's fixed remuneration with effect from 1 January 2013 was set at \$801,000 per annum, inclusive of superannuation.

*Short-term incentive component*

During FY2012 Mr Arndt was awarded a short term incentive bonus of \$420,000 in relation to his performance during FY2011, which in accordance with Board policy is assessed, accrued and reported on in the following financial year so that the Board may test his performance on the benchmarks set against the Company's audited financial statements for the relevant period. At the date of this report no short term incentive bonus has been paid to Mr Arndt for the 12 months ending 31 December 2012. Mr Arndt's short term incentive bonus for FY2012 will be subject to a performance review by the Board against, amongst other things, the audited financial statements for 2012 in accordance with the rules established by the Board. Accordingly, Mr Arndt's short term incentive payment for 2012 will be paid in the second quarter of 2013 and accrue in the accounts for 2013.

*Share based payments*

Mr Arndt was entitled to participate in the company's Employee Share Acquisition Plan ("ESAP") until the ESAP was suspended on 1 September 2008. All shares acquired for the benefit of Mr Arndt, under the ESAP during the period 1 July 2008 to 1 September 2008, were purchased on-market.

As approved by shareholders, on 10 May 2012, Mr Arndt was granted 716,588 performance rights over Perilya ordinary shares, representing a value of \$302,400. The value of the performance rights was calculated by Ernst & Young using the analytical approach and Monte-Carlo simulation valuation methodology.

*Termination benefits*

Other than statutory entitlements for annual leave and superannuation, Mr Arndt's contract did not provide for any termination payments, other than the service may be terminated by either party with six months notice by Perilya and three month notice by Mr Arndt.

**Contracts for key management personnel – currently employed in the Group at the date of this report**

A summary of the key contractual provisions as at the date of this report for each of the current key management personnel is set out in Table 6 below.

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Table 6 - Contractual provisions for key management personnel

Name and job title	Employing company	Contract duration	Notice period (company)	Base Salary*	Maximum STI & LTI**	Notice period (employee)	Termination provision
Paul Arndt – CEO & Managing Director	Perilya Management Pty Ltd	No fixed term and reviewed annually	6 months	\$801,000	STI: 60% of TFR LTI: 25% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Paul Marinko – General Counsel & Company Secretary	Perilya Management Pty Ltd	No fixed term and reviewed annually	3 months	\$401,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Angelo Christou – Chief Financial Officer	Perilya Management Pty Ltd	No fixed term and reviewed annually	3 months	\$401,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Peter Trout – General Manager – Projects & Acquisitions	Perilya Management Pty Ltd	No fixed term and reviewed annually	3 months	\$409,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Andrew Lord – General Manager – America Operations	Perilya Management Services Pty Ltd	No fixed term and reviewed annually	3 months	\$462,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
David Hume – General Manager Broken Hill	Perilya Broken Hill Limited	No fixed term and reviewed annually	3 Months	\$391,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.
Minzhi Han – Executive Director and General Manager, Metals and Marketing	Perilya Management Pty Ltd	No fixed term and reviewed annually	3 months	\$401,000	STI: 50% of TFR LTI: 22% of TAR	3 months	No entitlement to termination payment other than payment of accrued leave.

\* Including superannuation and for the period commencing 1 January 2013.

\*\* The maximum STI and LTI's are the maximums currently applied by the Board. The Board retains to itself discretion to pay STI and LTI's above the maximum for stretch performances. TFR is Total Fixed Remuneration (Base Salary plus superannuation), TAR is Total Annual Remuneration (TFR plus STI).

### 4.0 Share-based compensation

Key management personnel are eligible to participate in the company's Employee Share Option Plan (ESOP), the Employee Share Acquisition Plan (ESAP) and the Long Term Incentive Plan (LTIP).

On 1 September 2008, the ESOP and LTIP were suspended and no shares or any other equity based compensation was paid to Perilya senior executives under those plans.

#### (a) Options – Under Employee Share Option Plan (ESOP) (as approved by shareholders in November 2003 and reconfirmed at meetings held in November 2006 and November 2009)

The terms and conditions of options over Perilya Limited shares, affecting the remuneration of the key management personnel in office at the end of the reporting period or in future reporting periods, are set out below in Table 7. Further details on the how the Employee Share Option Plan operates are set out in the rules and in the notice of the 2009 Annual General Meeting at which the plan was re-approved by shareholders. Copies of the plan are available on the company's website.

All options with a grant date of 4 June 2010 and 1 June 2011 were approved by Shareholders at meetings held on 28 May 2010 and 6 May 2011 respectively.



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**Table 7 – Key terms over options held by key management personnel as at 31 December 2012**

Name	Grant date	Options	Exercise price	Fair value per option at grant date	Vesting date	Expiry date
Paul Arndt	4 June 2010	1,089,092	1,089,092 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
	1 June 2011	925,926	925,926 @ \$0.89	\$0.30	31 Mar 2014	31 Mar 2015
Paul Marinko	4 June 2010	464,029	464,029 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
	1 June 2011	394,163	394,163 @ \$0.89	\$0.30	31 Mar 2014	31 Mar 2015
Andrew Lord	4 June 2010	535,962	535,962 @ \$0.87	\$0.24	31 Mar 2013	31 Mar 2014
	1 June 2011	447,517	447,517 @ \$0.89	\$0.30	31 Mar 2014	31 Mar 2015
Angelo Christou	1 June 2011	394,163	394,163 @ \$0.89	\$0.30	31 Mar 2014	31 Mar 2015
Peter Trout	1 June 2011	394,163	394,163 @ \$0.89	\$0.30	31 Mar 2014	31 Mar 2015
Minzhi Han	-	-	-	-	-	-
David Hume	-	-	-	-	-	-

Options granted under the plan carry no dividend or voting rights. When exercisable, each option is convertible into one ordinary share.

**Table 8 – Options granted or vested in the year to December 2012 to key management personnel**

Name	Number of options granted during the year		Number of options vested during the year	
	2012	2011	2012	2011
Paul Arndt	-	925,926 @ \$0.89	-	1,000,000 @ \$0.73
Paul Marinko	-	394,163 @ \$0.89	-	350,000 @ \$0.73
Angelo Christou	-	394,163 @ \$0.89	-	-
Peter Trout	-	394,163 @ \$0.89	-	-
Andrew Lord	-	447,517 @ \$0.89	-	350,000 @ \$0.73
Minzhi Han	-	-	-	-
David Hume	-	-	-	-

Under the terms and condition of the Employee Share Option Plan (as approved by shareholders) the options granted vest immediately if there is a change of control in Perilya and any unvested options lapse on cessation of employment, unless otherwise approved by the Board or under special circumstances such as retirement or redundancy.

### *Other options remuneration information*

Further details relating to options and the portion of key management personnel remuneration related to equity compensation in the year ended 31 December 2012 are set out below in Table 9.

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Table 9 – Value of options as at 31 December 2012

Name	Percentage of remuneration consisting of options	Value of options granted, exercised or lapsed/cancelled in 12 months ended 31 December 2012			Total \$
		Granted <sup>(1)</sup> \$	Exercised \$	Lapsed/cancelled <sup>(1)</sup> \$	
Paul Arndt	13%	-	-	67,000	67,000
Paul Marinko	10%	-	-	23,450	23,450
Angelo Christou	7%	-	-	-	-
Peter Trout	6%	-	-	-	-
Andrew Lord	11%	-	-	23,450	23,450
Minzhi Han	-	-	-	-	-
David Hume	-	-	-	-	-

(1) Based on fair value at time of grant

The movement in option holdings for key management personnel, during the financial period, are set out below in Table 10.

Table 10 – Movement of options granted to key management personnel during the year ended December 2012

Name	Balance at the start of the year	Granted during the year as remuneration	Exercised during the year	Forfeited/ Lapsed	Balance at the end of the year	Vested during the year	Vested and exercisable at the end of the year
Paul Arndt	3,015,018	-	-	1,000,000	2,015,018	-	-
Paul Marinko	1,208,192	-	-	350,000	858,192	-	-
Angelo Christou	394,163	-	-	-	394,163	-	-
Peter Trout	394,163	-	-	-	394,163	-	-
Andrew Lord	1,333,479	-	-	350,000	983,479	-	-
Minzhi Han	-	-	-	-	-	-	-
David Hume	-	-	-	-	-	-	-
<b>Total</b>	<b>6,345,015</b>	<b>-</b>	<b>-</b>	<b>1,700,000</b>	<b>4,645,015</b>	<b>-</b>	<b>-</b>

There were no ordinary shares in the company issued, as a result of the exercise of remuneration options during the year, to key management personnel.

### (b) Performance Rights – Under Perilya Long Term Incentive Plan (LTIP)

On 1 September 2008, the Performance Rights LTIP was suspended and remains under review by the Committee. The Performance Rights LTIP provides for the issue of performance rights. On 26 March 2012 the Board resolved to reactivate the Company's Performance Rights Long Term Incentive Plan ("Performance Rights Plan"), which was subsequently approved by shareholders at the Company's Annual General meeting held on 10 May 2012.

The key performance hurdles for the vesting of the performance rights are linked to the retention of key executives and Shareholder value creation. The performance hurdles are based on three separate criteria, being, time based, total shareholder return ("TSR") based and earnings per share ("EPS") based.

Copies of the plan are available on the company's website.

The terms and conditions of performance rights over Perilya Limited shares, affecting the remuneration of the key management personnel in office at the end of the reporting period or in future reporting periods, are set out below in Table 11.

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Table 11 – Key terms over performance rights held by key management personnel as at 31 December 2012

Name	Grant date	Allocation date for grant	Fair value at grant date <sup>1</sup>	Vesting date	Performance condition for vesting to occur <sup>2</sup>	Vesting	Application of retesting	Expiry date
Paul Arndt	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015				
Paul Marinko	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015				
Angelo Christou	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015	See Table 11.1 – 11.3 below	See Table 11.1 – 11.3 below	Initial testing occurs after 3 years with retesting at the 4 <sup>th</sup> year	31 Dec 2015
Peter Trout	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015				
Andrew Lord	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015				
Minzhi Han	10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015				
David Hume	-	-	-	-				

1. The fair value, using an analytic approach and Monte-Carlo simulation, at the time of grant, using a 55% volatility rate and an interest rate of 3.7% was \$0.422 per right.
2. In the case of special circumstances, as determined by the Board, the performance hurdle may be waived and the Board may determine in its absolute discretion to allocate shares against all or part of the unvested performance rights.

Table 11.1 – Key terms over performance rights held by key management personnel as at 31 December 2012 – Time based component

Vesting component	Description	Duration of employment	Proportion of Time Based Performance Rights that vest
Time based	40% of the performance rights granted will be tested by reference to the length of time the relevant executive remains employed by Perilya	31 December of the year following the year of grant	25% of the rights subject to time condition
		31 December of the 2 <sup>nd</sup> year following the year of grant	37.5% of the rights subject to time condition
		31 December of the 3 <sup>rd</sup> year following the year of grant	37.5% of the rights subject to time condition

Table 11.2 – Key terms over performance rights held by key management personnel as at 31 December 2012 – TSR based component

Vesting component	Description	TSR Percentile	Proportion of TSR Based Performance Rights that vest
TSR based	30% of the performance rights granted will be tested based on TSR compared to the comparator group	Less than 50 <sup>th</sup> percentile	0%
		50 <sup>th</sup> percentile	50% of the rights subject to the TSR condition
		Between 50 <sup>th</sup> percentile and 75 <sup>th</sup> percentile	50% of the rights subject to the TSR condition plus an additional 2% of this award for each additional percentile ranking above the 50 <sup>th</sup> percentile
		At or above the 75 <sup>th</sup> percentile	100% of the rights subject to the TSR condition

### 1. Comparator Group for the purposes of testing the relative TSR performance of the vesting period

The TSR Comparator Group is the group of companies derived from the official ASX 300 metals and mining index, excluding BHP, Rio Tinto, Newcrest Mining, Fortescue Metals and metal/steel manufacturers.

## DIRECTORS' REPORT

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### Notes:

- A company whose market capitalisation changes to the extent that it no longer qualifies for inclusion in the ASX 300 metals & mining index remains in the comparator group.
- Companies included in the comparator group whose securities are suspended at the end of the Performance Period will remain in the comparator group at the end of the Performance Period. Companies in the comparative group that have been delisted from the official list of the ASX at the end of the Performance Period for reasons other than for financial failure, for example because of mergers and acquisitions, will be removed from the comparative group.
- Where a comparative group company becomes suspended or delisted because of financial failure, the company will remain included in the comparative group at the end of the Performance Period and will be placed in the last percentile ranking.
- Where a comparative group company merges with another company within the comparator group, the resultant entity remains in the comparator group and the acquired company is removed. If a company in the comparator group spins off another company, the subject company remains in the comparator group and the spun off company is not included.

**Table 11.3 – Key terms over performance rights held by key management personnel as at 31 December 2012 – EPS based component**

Vesting component	Description	EPS Percentage	Proportion of EPS Based Performance Rights that vest
EPS based	30% of the performance rights granted will be tested based on EPS performance over the testing period	Less than 10% p.a.	0%
		At 10% p.a.	50% of the rights subject to the EPS condition
		More than 10% but less than 20% p.a.	Pro-rated vesting of between 51% and 99% of the rights subject to the EPS condition
		At or above 20% p.a.	100% of the rights subject to the EPS condition

The Performance Rights LTIP provides that if the employment of any executive who participates in the plan is terminated for cause or by way of resignation then any unvested rights will immediately lapse unless the Board determines otherwise. If threshold performance is not met at the final retest date then any unvested rights that remain will also lapse immediately.

### *Movement in performance right holdings and share grants made on vesting*

The movement in performance right holdings and share grants made on vesting of rights, for key management personnel, during the financial year, are set out below in Table 12.

**Table 12 – Movement of performance rights granted to key management personnel during the year ended December 2012**

Name	Balance at the start of the year	Granted during the year as remuneration	Vested during the year	Cancelled or lapsed	Balance at the end of the year	Shares granted on vesting of rights
Paul Arndt	-	716,588	-	-	716,588	-
Paul Marinko	15,900	300,284	-	15,900	300,284	-
Angelo Christou	-	300,284	-	-	300,284	-
Peter Trout	-	305,758	-	-	305,758	-
Andrew Lord	-	340,948	-	-	340,948	-
Minzhi Han	-	300,284	-	-	300,284	-
David Hume	-	-	-	-	-	-
<b>Total</b>	<b>15,900</b>	<b>2,264,146</b>	<b>-</b>	<b>15,900</b>	<b>2,264,146</b>	<b>-</b>

### (c) Shares – Under Perilya Employee Share Acquisition Plan (ESAP)

On 1 September 2008, the ESAP was suspended pending a review by the Committee.

The Perilya Limited Employee Share Acquisition Plan ("ESAP") was implemented in August 2006, to acquire ordinary fully paid shares in Perilya on-market for the benefit of employees. The ESAP aimed to provide a sense of ownership in Perilya to employees and to align their

## DIRECTORS' REPORT

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interest with those of shareholders.

Initially under the terms of offers made pursuant to the ESAP, employees received an initial one-off offer for the issue of shares, equal to 10% of their annual salary, at no cost to the employees. In addition, employees could elect to purchase additional shares by way of salary sacrifice, with Perilya matching the employee's contributions, dollar for dollar, up to a further 10% of the employee's annual salary. Shares acquired in the ESAP were subject to restrictions preventing the disposal of the shares for up to two years from the date of purchase. Shares which did not meet the vesting conditions (other than shares purchased using an employee's before-tax salary contributions) were forfeited if the employee left Perilya. All shares acquired under the ESAP are held by the Plan's Trustee, CPU Share Plans Pty Ltd (managed by Computershare Limited) for the benefit of employees. All shares acquired in the ESAP were purchased on-market by the Trustee and are entitled to full dividends and voting rights.

Voting rights are exercised by the Trustee on behalf of the employee as beneficiaries to the plan.

Key management personnel (other than the Executive Chairman and non-executive directors) had the opportunity to participate in the ESAP under the same terms and conditions as offered to all eligible employees who may participate in the ESAP.

In response to the rapidly deteriorating economic environment due to the Global Financial Crisis and the high cost of the ESAP, on 21 August 2008, the ESAP was suspended. Subsequently, changes by the Federal Government to the tax rules applying to equity remuneration schemes, in the Board's view, adversely impacted on participants under the ESAP and as a result the Board determined that there was little benefit for employees in reactivating the ESAP.

All shares held by the Trustee under the ESAP and allocated to relevant Participating Employees have fully vested. In addition, the Trustee holds a further 740,355 unallocated or forfeited shares under the ESAP.

On 20 December 2011 the Board resolved to reactivate the ESAP for the sole purpose of:

1. distributing vested shares under the ESAP to all relevant participating employees; and
2. varying the ESAP Deed to allow for unallocated or unvested shares ("**Residual Shares**") to be utilised for the purposes of a one off equity incentive retention bonus for certain non-related party Employees under the ESAP (including 2 of the Company's Key Management Personnel), subject to time based vesting hurdles.

It is the Board's intention that upon vesting of all Residual Shares under the amended ESAP it will wind up the ESAP.

### *Movement in ESAP share holdings for Key Management Personnel*

Details of the movement of and shares held within the ESAP for key management personnel for period are set out below in Table 13.

**Table 13 – Movement in employer funded shares for key management personnel in the Perilya ESAP during the year ended December 2012** <sup>(1)</sup>

Name	Balance at the start of the year	Granted during the year as remuneration <sup>(1)</sup>	Sold or transferred out of the ESAP during the year	Forfeited during the year	Balance at the end of the year	Vested ESAP Shares			Balance currently subject to Plan restrictions <sup>(1)</sup>	Total value of shares held in the Plan \$ <sup>(2)</sup>
						Balance at the start of the year	Vested / (sold) during the year	Balance at the end of the year		
Paul Arndt	95,806	-	-	-	95,806	95,806	-	95,806	-	81,877
Paul Marinko	14,922	246,778	-	-	261,700	14,922	123,392	138,314	123,386	134,000
Angelo Christou	-	-	-	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-	-	-	-
Andrew Lord	49,993	246,779	-	-	296,772	49,993	123,392	173,385	123,387	140,764
Minzhi Han	-	-	-	-	-	-	-	-	-	-
David Hume	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>160,721</b>	<b>493,557</b>	<b>-</b>	<b>-</b>	<b>654,278</b>	<b>160,721</b>	<b>246,784</b>	<b>407,505</b>	<b>246,773</b>	<b>356,641</b>

(1) Shares granted during the year are subject to vesting conditions that 50% of the shares granted will vest 12 months from the date of the grant and the remaining 50% of shares allocated will vest 24 months from the date of grant. If the relevant Employee ceases employment prior to either vesting date then any unvested shares at the date of cessation of employment are forfeited.

(2) Based on the assessed fair value at the date that shares are allocated to employees within the ESAP.

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### 5.0 Additional Information

#### Financial performance

Perilya's performance during the year ended 31 December 2012 and the four previous years are set out in Table 14 below.

Table 14 – Perilya's financial performance for the past five reporting periods

Year ended 31 December	31 Dec 2012	31 Dec 2011	31 Dec 2010	31 Dec 2009 <sup>(2)</sup>	2009
Net profit/(loss) after tax (\$'000)	27,720	38,751	74,176	28,513	(75,089)
Earnings per share (cents)	3.61	6.71	13.5 <sup>(3)</sup>	7.2	(27.9)
Dividends per share (cents) <sup>(1)</sup>	-	-	-	-	-
Dividend pay out ratio (%)	-	-	-	-	-
Market capitalisation (\$'000)	261,568	253,874	310,385	352,471	142,000
Closing share price (\$)	0.34	0.33	0.59	0.67	0.36
Total shareholder returns – 1 year (%)	3.0	(44.1)	(11.9)	294.1	(51.4)
Total shareholder returns – 3 year rolling (%)	(49.3)	(55.4)	(86.5)	(87.2)	(79.9)

(1) Dividends include dividends declared at year end.

(2) 6 month period as the company transitioned to a December 31<sup>st</sup> financial year end.

(3) Earnings per share has been restated to account for the November 2011 Rights Issue to shareholders in accordance with AASB 133.

#### Details of Remuneration: Cash bonuses and options

For each cash bonus and grant of options included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out in tables 15-17 below.

#### Options - under Perilya Employee Share Option Plan (ESOP)

The following table details the percentage of the available grant that vested in the financial year and the percentage forfeited because the person did not meet either/or service and performance criteria specified.

Table 15 – Option grants as at 31 December 2012

Name	Number of Options No.	Financial year granted Yr	Vested in current financial year %	Lapsed/cancelled in current financial year %	Financial year in which grants may vest for unvested grants Yr	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
Paul Arndt	1,000,000	2008	-	100%	2011	nil	nil
	1,089,092	2010	-	-	2013	nil	22,817
	925,926	2011	-	-	2014	nil	122,940
Paul Marinko	350,000	2008	-	100%	2011	nil	nil
	464,029	2010	-	-	2013	nil	9,722
	394,163	2011	-	-	2014	nil	52,681
Angelo Christou	394,163	2011	-	-	2014	nil	52,335
Peter Trout	394,163	2011	-	-	2014	nil	52,335
Andrew Lord	350,000	2008	-	100%	2011	nil	nil
	535,962	2010	-	-	2013	nil	11,229
	447,517	2011	-	-	2014	nil	59,419
Minzhi Han	-	-	-	-	-	-	-
David Hume	-	-	-	-	-	-	-

## DIRECTORS' REPORT

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### Performance Rights – under Perilya Long Term Incentive Share Plan (LTIP)

2,774,834 performance rights were issued during the reporting period.

The assessed fair value at the grant date of performance rights to the individual is allocated over the period from grant date to vesting date, and the amount is included in the remuneration as set out in Table 5 above.

Table 16 – Performance right grants as at 31 December 2012

	Number of shares	Financial year granted	Vested in financial year 2012	Lapsed/cancelled in financial year 2012	Financial year in which grants may vest for unvested grants <sup>(1)</sup>	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
Name	No.	Yr	%	%	Yr	\$	\$
Paul Arndt	716,588	2012	-	-	2013 – 2015	155,694	250,283
Paul Marinko	316,184	2007/2012	-	5%	2013 – 2015	65,243	140,880
Angelo Christou	300,284	2012	-	-	2013 – 2015	65,243	140,880
Peter Trout	305,758	2012	-	-	2013 – 2015	66,432	106,792
Andrew Lord	340,948	2012	-	-	2013 – 2015	74,078	119,083
Minzhi Han	300,284	2012	-	-	2013 – 2015	65,243	104,880
David Hume	-	-	-	-	-	-	-

(1) Assuming that shares vest in minimum conditions set for the award i.e. before retest provisions are applied.

Performance rights acquired under the Perilya Long Term Incentive Share Plan vest, over a period of 3 years, provided the vesting conditions are met. If the relevant performance conditions are not met there are retest provisions that extend the vesting conditions out to 4 years. Shares will vest if the time based conditions are satisfied, which represent the minimum value of shares yet to vest in the table above.

### Shares – under Perilya Employee Share Acquisition Plan (ESAP)

Table 17 – ESAP grants as at 31 December 2012

	Financial year granted	Number of shares	Vested in financial year 2012 <sup>(1)</sup>	Lapsed/forfeited in financial year 2012	Financial year in which grants may vest for unvested grants	Minimum total value of grant yet to vest	Maximum total value of grant yet to vest
Name	Yr	No.	%	%	Yr	\$	\$
Paul Arndt	2008	65,412	-	-	Fully vested	-	-
	2009	30,394	-	-	Fully vested	-	-
Paul Marinko	2008	14,922	-	-	Fully vested	-	-
	2012	246,778	50%	-	2013	-	30,866
Angelo Christou	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-
Andrew Lord	2009	49,993	-	-	Fully vested	-	-
	2012	246,779	50%	-	2013	-	30,866
Minzhi Han	-	-	-	-	-	-	-
David Hume	-	-	-	-	-	-	-

(1) The percentage vested represents the dollar value amount of the total grant, for the grant year, that has fully met vesting conditions as at reporting date and is no longer considered 'at risk'.

Shares acquired under the ESAP vest over periods of 12 to 24 months for employer funded free issue shares and over 24 months for employer funded matching contributions for employee salary-sacrificed purchases, provided the vesting conditions are met. No shares will vest if the conditions are not satisfied, hence the minimum value of shares yet to vest is nil.

## DIRECTORS' REPORT

31 DECEMBER 2012



### Ordinary share holdings

Details of Perilya ordinary shares held (directly or beneficially) by the each of the group's key management personnel (excluding non-executive directors) in office at the end of the reporting period are set out below in Table 18.

**Table 18 – Shareholdings key management personnel at 31 December 2012 <sup>(1)</sup>**

Name	Balance at the start of the year	Number received on exercise of options	Other changes during the year	Balance at the end of the year
Paul Arndt	909,803	-	-	909,803
Paul Marinko	210,373	-	123,392	333,765
Angelo Christou	238,095	-	-	238,095
Peter Trout	-	-	-	-
Andrew Lord	49,993	-	123,392	173,385
Minzhi Han	-	-	-	-
David Hume	-	-	-	-

(1) Excludes unvested ESAP related share holdings as these shares are controlled by the Trust

### Loans to directors and executives

During the year ended 31 December 2012 and up to and including the date of this report no loans have been made to any directors or executives of the Group.

### Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the director's report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of the directors.

**Zhang Shuijian**  
Chairman

Perth, Western Australia  
27 February 2013





## Auditor's Independence Declaration

As lead auditor for the audit of Perilya Limited for the year ended 31 December 2012, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Perilya Limited and the entities it controlled during the period.

A handwritten signature in blue ink, appearing to read 'Henry'.

Nick Henry  
Partner  
PricewaterhouseCoopers

Perth  
27 February 2013

**APPENDIX 4E**

FOR THE YEAR ENDED 31 DECEMBER 2012

**Appendix 4E under ASX Listing Rule 4.3A**

THIS INFORMATION SHOULD BE READ IN CONJUNCTION WITH PERILYA'S 2012 ANNUAL FINANCIAL STATEMENTS WHICH IS ENCLOSED.

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

			12 months to 31 December 2011 \$000		12 months to 31 December 2012 \$000
Revenue from ordinary activities	Down 2%	from	360,193	to	353,794
Profit/(Loss) after tax from ordinary activities	Down 28%	from	38,751	to	27,720
Profit/(Loss) after tax attributable to members	Down 28%	from	38,751	to	27,720

**DIVIDENDS/DISTRIBUTIONS**

	Amount per security	Franked amount per security at 30% tax
Final dividend for the year ended 31 December 2012	nil	nil

No interim dividend was paid for the year ended 31 December 2012 and the directors have decided not to pay a final dividend for the year ended 31 December 2012.

**NET TANGIBLE ASSETS PER SHARE**

	31 December 2011 \$000	31 December 2012 \$000
Net tangible assets per share	0.46	0.50

**DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE YEAR**

Nil.

**EXPLANATION OF RESULTS**

See commentary on results in the Directors Report on pages 20-24.

## ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2012

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These financial statements cover the consolidated entity consisting of Perilya Limited and its subsidiaries. The financial statements are presented in the Australian currency.

Perilya Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 8  
251 Adelaide Terrace  
Perth WA 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on pages 20 to 24, which is not part of these financial statements.

These financial statements were authorised for issue by the directors on 27 February 2013. The company has the power to amend and reissue the financial statements.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the company. All press releases, financial statements and other information are available at our Investor Information section on our website at: [www.perilya.com.au](http://www.perilya.com.au).

For queries in relation to our reporting please call: + 61 8 6330-1000 (within Australia 08 6330-1000) or alternately email [Perilya@perilya.com.au](mailto:Perilya@perilya.com.au).

## INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2012

		CONSOLIDATED	
		12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
	Notes		
<b>Revenue from operations</b>	4	<b>353,794</b>	360,193
Other income	5	846	1,525
Changes in inventories of finished goods and work in progress		1,398	(3,022)
Raw materials, power and consumables used		(93,682)	(83,318)
Employee benefits expense		(59,166)	(50,148)
Depreciation and amortisation expense	6	(46,756)	(39,008)
External services and consultants		(57,197)	(62,355)
Freight and handling		(27,918)	(29,125)
Royalties		(7,493)	(7,257)
Foreign exchange (loss) / gain		(1,393)	(4,275)
Other expenses from ordinary activities		(15,849)	(19,993)
Finance costs	6	(7,213)	(10,234)
Impairment of available-for-sale financial assets	6	(104)	(149)
Fair value movement of financial assets through profit and loss		-	125
<b>Profit before income tax</b>		<b>39,267</b>	52,959
Income tax (expense) / benefit	7	(11,547)	(14,208)
<b>Profit for the year</b>		<b>27,720</b>	38,751
<b>Profit is attributable to:</b>			
Owners of Perilya Limited		27,720	38,751
Non-controlling interests		-	-
		<b>27,720</b>	38,751
<b>Earnings per share from profit attributable to the ordinary equity holders of the company</b>		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	40(a)	3.61	6.71
Diluted earnings per share	40(b)	3.61	6.71

The above income statement should be read in conjunction with the accompanying notes.

## STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2012

		CONSOLIDATED	
		12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
	Notes		
<b>Profit for the year</b>		<b>27,720</b>	38,751
<b>Other comprehensive income</b>			
Cash flow hedges	25(a)	-	190
Available-for-sale financial assets	25(a)	(12)	(9)
Foreign currency translation		(2,231)	(167)
Income tax relating to components of other comprehensive income	7(c)	4	(32)
<b>Other comprehensive (expense) for the year, net of tax</b>		<b>(2,239)</b>	(18)
<b>Total comprehensive income for the year</b>		<b>25,481</b>	38,733
<b>Total comprehensive income for the year is attributable to:</b>			
Owners of Perilya Limited		25,481	38,733
Non-controlling interests		-	-
		<b>25,481</b>	38,733

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*

## STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2012

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
	Notes		
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	8	37,634	36,371
Trade and other receivables	9	48,375	64,181
Inventories	10	24,831	21,238
Available-for-sale financial assets	11	524	640
Financial assets at fair value through profit or loss	12	-	497
Total current assets		111,364	122,927
<b>Non-current assets</b>			
Restricted cash	8	24,417	24,652
Trade and other receivables	14	101	140
Exploration, development and evaluation expenditure	16	186,556	183,076
Mine properties in use	17	225,430	189,086
Property, plant and equipment	18	66,604	62,784
Deferred tax assets	15	52,471	51,175
Total non-current assets		555,579	510,913
<b>Total assets</b>		<b>666,943</b>	<b>633,840</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	46,501	49,120
Borrowings	20	93,028	43,221
Other liabilities	21	13,647	8,085
Current tax liabilities		3,869	15,743
Derivative financial instruments	13	514	8,646
Total current liabilities		157,559	124,815
<b>Non-current liabilities</b>			
Borrowings	22	54,605	80,195
Provisions	23	39,605	39,812
Deferred tax liabilities	15	33,531	33,878
Total non-current liabilities		127,741	153,885
<b>Total liabilities</b>		<b>285,300</b>	<b>278,700</b>
<b>Net assets</b>		<b>381,643</b>	<b>355,140</b>
<b>EQUITY</b>			
Contributed equity	24	310,526	310,314
Reserves	25	(2,024)	(595)
Retained earnings	26	73,141	45,421
<b>Total equity</b>		<b>381,643</b>	<b>355,140</b>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

		Contributed equity \$000	Retained earnings \$000	Reserves \$000	Non-controlling interests \$000	Total equity \$000
<b>CONSOLIDATED</b>	Notes					
<b>Balance at 1 January 2011</b>		<b>210,008</b>	<b>6,670</b>	<b>(1,020)</b>	<b>4,121</b>	<b>219,779</b>
Profit for the year		-	38,751	-	-	38,751
Other comprehensive expense		-	-	(18)	-	(18)
<b>Total comprehensive income/(expense) for the year</b>		<b>-</b>	<b>38,751</b>	<b>(18)</b>	<b>-</b>	<b>38,733</b>
<b>Transactions with owners in their capacity as owners</b>						
Contributions of equity, net of transaction costs	24(a)	100,306	-	-	-	100,306
Employee share based payments – value of employee services	25(a)	-	-	443	-	443
Transactions with non-controlling interests		-	-	-	(4,121)	(4,121)
Perilya Employee Share Acquisition plan	24(a) & 25(a)	-	-	-	-	-
		<b>100,306</b>	<b>-</b>	<b>443</b>	<b>(4,121)</b>	<b>96,628</b>
<b>Balance at 31 December 2011</b>		<b>310,314</b>	<b>45,421</b>	<b>(595)</b>	<b>-</b>	<b>355,140</b>
		<b>Contributed equity \$000</b>	<b>Retained earnings \$000</b>	<b>Reserves \$000</b>	<b>Non-controlling interests \$000</b>	<b>Total equity \$000</b>
<b>Balance at 1 January 2012</b>		<b>310,314</b>	<b>45,421</b>	<b>(595)</b>	<b>-</b>	<b>355,140</b>
Profit for the year		-	27,720	-	-	27,720
Other comprehensive expense		-	-	(2,239)	-	(2,239)
<b>Total comprehensive income/(expense) for the year</b>		<b>-</b>	<b>27,720</b>	<b>(2,239)</b>	<b>-</b>	<b>25,481</b>
<b>Transactions with owners in their capacity as owners</b>						
Adjustment to share issue costs	24(a)	51	-	-	-	51
Employee share based payments – value of employee services	25(a)	-	-	742	-	742
Perilya Employee Share Acquisition plan	24(a) & 25(a)	161	-	68	-	229
		<b>212</b>	<b>-</b>	<b>810</b>	<b>-</b>	<b>1,022</b>
<b>Balance at 31 December 2012</b>		<b>310,526</b>	<b>73,141</b>	<b>(2,024)</b>	<b>-</b>	<b>381,643</b>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

## STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2012

		CONSOLIDATED	
		12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
	Notes		
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations (inclusive of GST)		378,468	354,597
Cash payments in the course of operations (inclusive of GST)		(281,858)	(278,837)
		96,610	75,760
Interest received		903	1,796
Interest and other finance costs paid		(6,193)	(6,872)
Income taxes paid		(26,124)	(3,244)
<b>Net cash inflow from operating activities</b>	38	65,196	67,440
<b>Cash flows from investing activities</b>			
Payments for mine properties		(71,290)	(52,508)
Payments for property, plant and equipment		(13,223)	(24,969)
Payments for exploration and evaluation		(6,570)	(17,640)
Receipts of performance guarantee bonds		-	16
Receipts/(Payments) for other bonds		202	(75)
Proceeds from sale of available-for-sale financial assets		-	1,488
Proceeds from sale of fair value through profit and loss financial assets		665	-
Proceeds from sale of property, plant and equipment		604	950
<b>Net cash outflow from investing activities</b>		(89,612)	(92,738)
<b>Cash flows from financing activities</b>			
Proceeds from issues of shares and other equity securities		-	102,115
Payments for issues of shares and other equity securities		-	(1,809)
Proceeds from adjustment to share issue costs		51	-
Payments for acquisition of non-controlling interests		-	(4,138)
Dividends paid to company's shareholders		-	(1)
Proceeds from borrowings		39,204	47,802
Repayment of borrowings		(8,800)	(167,697)
Repayment of finance lease liabilities		(3,629)	(3,082)
<b>Net cash inflow/(outflow) from financing activities</b>		26,826	(26,810)
<b>Net increase/(decrease) in cash and cash equivalents</b>		2,410	(52,108)
Cash and cash equivalents at the beginning of the financial year		36,371	90,516
Effects of exchange rate changes on cash and cash equivalents		(1,147)	(2,037)
<b>Cash and cash equivalents at end of the year</b>	8	37,634	36,371
Non-cash investing and financing activities	39		

The above statement of cash flows should be read in conjunction with the accompanying notes.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012

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## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated. The financial statements are for the consolidated entity consisting of Perilya Limited and its subsidiaries.

### (a) Basis of preparation of financial statements

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

#### *Compliance with IFRS*

The consolidated financial statements of Perilya Limited group comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

#### *Historical cost convention*

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

#### *Early adoption of standards & issued standards not early adopted*

The consolidated entity has not elected to early adopt any accounting standards during the annual reporting period beginning 1 January 2012.

See section (ag) of this note for details related to issued standards not early adopted.

#### *Critical accounting estimates*

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2.

#### *Working Capital Deficiency*

The Perilya group has a working capital deficiency at balance date of \$46.20 million (2011: deficit of \$1.9 million) mainly due to expiring debt facilities becoming due and payable within 12 months in the event they are not refinanced beforehand. The Directors are confident that the working capital deficiency will be eliminated in future periods as a result of the following:

- The Group is forecasting to generate positive operating cash flows from its Broken Hill and Cerro de Maimon projects that will be utilised to reduce outstanding debt;
- The Group is in advanced discussions with financial

institutions regarding the refinancing of existing working capital facilities and is currently assessing its options in this regard.

- In addition to the above, the Group could also avail itself of other sources of funding or deferral of expenditure, if required.

### (b) Principles of consolidation

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Perilya Limited (the "company" or the "parent entity") as at 31 December 2012 and the results of all subsidiaries for the year then ended. Perilya Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than 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 acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, statement of comprehensive income, statement of changes in equity and statement of financial position respectively.

#### *(ii) Employee Share Trust*

The Group has a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

Shares granted to employees under the Perilya Employee Share Acquisition Plan (ESAP) can be either new issue shares or purchased on-market. Where shares are purchased on-market, those shares purchased by company sponsored funds and held by the ESAP Trust while vesting, are disclosed as treasury shares and deducted from contributed equity.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(b) Principles of consolidation (cont.)***(iii) Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting, after initially being recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

*(iv) Joint ventures*

The proportionate interests in the assets, liabilities and expenses of a joint venture activity have been incorporated in the financial statements under the appropriate headings. Details of interests in joint ventures are set out in note 36.

**(c) 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 makers have been identified as the executive management team and board of directors who make strategic decisions.

**(d) Foreign currency translation***(i) Functional and presentation currency*

Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Perilya Limited's functional and presentation currency.

*(ii) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at

year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when they are deferred in equity as qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

*(iii) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statement, as part of the gain or loss on sale where applicable.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**(e) Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(e) Revenue recognition (cont.)**

Revenue is recognised for the major business activities as follows:

**(i) Metal revenue**

Metal revenue is recognised, based on a provisional payable metal quantity and provisional metal price net of treatment costs, when the significant risks and rewards of the concentrate pass to the customer.

The provisional metal price is the spot metal price at the time of delivery. An adjustment is subsequently made to the provisional revenue amount to reflect the replacement of the provisional payable metal quantity with final payable quantity, and provisional metal price with the final metal price, which, for Broken Hill sales is the average metal price for the first or second month following the month of delivery and for Beltana and GlobeStar sales is the average metal price for between one to four months following the month of delivery.

**(ii) Interest income**

Interest income is recognised as it accrues based on the effective interest method, being the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**(iii) Dividends**

Dividends are recognised as revenue when the right to receive payment is established. This applies even if they are paid out of pre-acquisition profits. However, the investment may need to be tested for impairment as a consequence, refer note 1(m).

**(f) Income tax**

The income tax expense or benefit for the period is the tax payable or receivable on the current period's taxable income based on the income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax legislation 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 provided in full, 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.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(g) Leases**

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases (note 20 & 22). Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the asset's useful life or over the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases (note 32). 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.

**(h) Business combinations**

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(h) Business combinations (cont.)**

The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

**(i) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arm's length transaction.

For the purposes of assessing impairment, assets are grouped at

the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets, other than goodwill, that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment losses recognised on goodwill are not subsequently reversed.

**(j) Cash and cash equivalents**

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if utilised, are shown within borrowings in current liabilities on the statement of financial position.

Restricted cash, which is excluded from cash and cash equivalents, represents deposits and commercial bills that are used for monetary backing of performance guarantees, and is disclosed as either a current or non-current asset.

**(k) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment. Except for non-current receivables which include tenement bonds, trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (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 according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable may be or is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the income statement in 'Other expenses from ordinary activities'. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against 'Other expenses from ordinary activities' in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(l) Inventories**

Inventories of work in progress and finished goods are physically measured or estimated and valued at the lower of cost and net realisable value. Cost comprises direct material, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock on the basis of weighted average costs in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(m) Investments and other financial assets****Classification**

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

**(i) Financial assets at fair value through profit or loss**

This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the end of the reporting period.

**(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 included in current assets, except for those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in current and non-current Trade and other receivables (notes 9 and 14) in the statement of financial position.

**(iii) Available-for-sale financial assets**

Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date. Investments are designated as available-for-sale if they do not have fixed maturities and fixed or determinable payments and management intends to hold them for the medium to long term.

**Recognition and derecognition**

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

When securities classified as available-for-sale are sold, the accumulated fair value adjustments recognised in equity are included in the income statement as gains or losses on sale of available-for-sale financial assets.

**Subsequent measurement**

Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets are subsequently carried at fair value. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the available-for-sale financial assets fair value reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses on sale of available-for-sale financial assets.

**Fair value**

Details on how the fair values of financial instruments are determined are disclosed in note 28.

**Impairment**

The Group assesses, at each balance date, whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered as an indicator in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

**(n) Derivatives and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(n) Derivatives and hedging activities (cont.)**

The Group designates certain derivatives as either:

- hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or
- hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been, and will continue to be, highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 13. Movements in the hedging reserve in shareholders' equity are shown in 'Movements in the hedging reserve' in note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

*(i) Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of derivative contracts are recognised in the income statement within "sale of goods" with a corresponding offsetting amount to the carrying amount of the asset or liability being the fair value movement of the hedged asset or liability. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or other expense.

*(ii) Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of derivative contracts is recognised in the income statement within "sale of goods". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or

when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing 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 equity is immediately transferred to the income statement.

*(iii) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

**(o) Property, plant and equipment**

Land and buildings and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated.

Assets under construction are stated at historical costs and are not depreciated until they are ready for use.

The cost of mine based plant and equipment is written off over its expected economic life on units of production method, in the establishment of which, due regard is given to the life of the related area of interest.

Depreciation or amortisation of plant and equipment, excluding mine based plant and equipment, is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Motor vehicles and heavy mobile equipment	
- Underground	2-5 years
- Surface	5 years
- Office equipment	3-5 years

Other non-mine plant and equipment typically have the following estimated useful lives:

Plant and equipment	3 years
Office furniture	3-5 years
Leasehold improvements	3-6 years
Buildings	10 years

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(o) Property, plant and equipment (cont.)**

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

**(p) Maintenance and repairs**

Plant and equipment of the Group is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component or modification of an asset which will generate future economic benefits in excess of the assets original designed capacity. In these instances, the costs are capitalised and depreciated in accordance with note 1(o) above.

Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

**(q) Exploration and evaluation expenditure**

Exploration and evaluation costs including net direct costs relating to areas of interest with current tenure are carried forward to the extent that:

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

In the event that an area of interest is abandoned or, if facts and circumstances suggest that the carrying value of an exploration and evaluation asset is impaired (as outlined in 1(i)) then the accumulated costs carried forward are written off in the year in which that assessment is made.

Identifiable exploration assets acquired, outside of a business combination, from another mining company are recognised as assets at their cost of acquisition. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions above is met.

**(r) Mine properties**

Mine properties represent the acquisition costs and/or accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of a mineral resource has commenced. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when future economic benefits are established, otherwise such expenditure is classified as part of the cost of production. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

**(s) Restoration and rehabilitation**

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation, revegetation and monitoring of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances arising from mine extensions or changes in rehabilitation costs, whether due to changed legal requirements or anticipated technological advancements, will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a finance cost in the income statement. The carrying amount capitalised is depreciated over the life of the related asset.

In determining present obligations, the Group has assumed no significant future changes will occur in relevant Federal and State legislation in relation to restoration of such mineral properties.

**(t) Royalties**

Royalties, to the extent that they represent period costs, are accrued and charged against earnings when the liability from production or sale of the mineral crystallises.

In the case of business combinations, future royalty payments may represent a contingent purchase consideration and, such amounts are included in the cost of the business combination.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(u) Intangible assets***(i) Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised.

Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, identified according to operating segments (note 1(c)).

**(v) Trade and other payables**

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(w) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities, which are not an incremental cost relating to the actual draw-down of the facility, are recognised as prepayments and amortised on a straight-line basis over the term of the facility.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in other income or other expenses.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(x) Borrowing costs**

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs include:

- interest on bank overdrafts and short term and long term borrowings, including amounts paid or received on interest rate swaps;
- amortisation of discounts or premiums relating to borrowings;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings;
- finance lease charges; and
- the cost of unwinding discounted provisions.

**(y) Provisions**

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured as the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as an interest expense.

**(z) Employee benefits***(i) Wages and salaries, annual leave and sick leave*

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as a current provision in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled post 12 months of the reporting date are recognised as a non-current provision and are measured at the amounts expected to be paid when the liabilities are settled.

*(ii) Long service leave*

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

*(iii) Retirement benefit obligations*

Contributions to employees defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(z) Employee benefits (cont.)***(iv) Share based payments*

Share based compensation benefits are provided to employees via the Perilya Limited Employee Share Option Plan, the Perilya Employee Share Acquisition Plan ("ESAP") and the Perilya Long Term Incentive Share Plan. Information relating to share-based payments is set out in note 41.

The fair value of options granted under the Perilya Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The fair value of options granted is adjusted to reflect market vesting conditions but excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable.

At the end of each reporting period, the group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

Under the Perilya Employee Share Scheme ("ESAP"), the fair value of shares granted is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which employees become unconditionally entitled to the shares.

Under the Perilya Long Term Incentive Share Plan, the fair value of performance rights granted over shares is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which employees granted the rights become unconditionally entitled to the rights.

**(aa) Contributed equity**

Ordinary shares are classified as equity and incremental costs directly attributable to the issue of new shares, options or rights are shown in equity as a deduction, net of tax, from the proceeds. If the entity reacquires its own equity instruments for the purpose of reducing its issued capital, for example as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of

income taxes) is recognised directly in equity.

**(ab) Dividends**

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial period but not distributed at balance date.

**(ac) Earnings per share***(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(ad) Goods and services tax**

Revenue, expenses and assets are recognised, net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flow.

**(ae) Parent entity financial information**

The financial information for the parent entity, Perilya Limited, disclosed in note 42 has been prepared on the same basis as the consolidated financial statements, except as set out below:

*(i) Investments in subsidiaries, associates and joint venture entities*

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Perilya Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(ae) Parent entity financial information (cont.)***(ii) Tax consolidation legislation*

Perilya Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Perilya Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Perilya Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Perilya Limited for any current tax payable assumed and are compensated by Perilya Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Perilya Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidation entities are recognised as current amounts receivable from or payable to other entities in the group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

*(iii) Financial guarantees*

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

**(af) Rounding of amounts**

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

**(ag) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* and AASB 2010-7 *Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2015)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the group's accounting for its available-for-sale financial assets, since AASB 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the group recognised nil gains and losses on available-for-sale debt investments in other comprehensive income.

There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities. The derecognition rules have been transferred from AASB 139 *Financial Instruments: Recognition and Measurement* and have not been changed. The group has not yet decided when to adopt AASB 9.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**(ag) New accounting standards and interpretations (cont.)**

- AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures. AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation – Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However, the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. Control exists when the investor can use its power to affect the amount of its returns. There is also new guidance on participating and protective rights and on agent/principal relationships. While the group does not expect the new standard to have a significant impact on its composition, it has yet to perform a detailed analysis of the new guidance in the context of its various investees that may or may not be controlled under the new rules.

AASB 11 introduces a principles based approach to accounting for joint arrangements. The focus is no longer on the legal structure of joint arrangements, but rather on how rights and obligations are shared by the parties to the joint arrangement. Based on the assessment of rights and obligations, a joint arrangement will be classified as either a joint operation or a joint venture. Joint ventures are accounted for using the equity method, and the choice to proportionately consolidate will no longer be permitted. Parties to a joint operation will account their share of revenues, expenses, assets and liabilities in much the same way as under the previous standard. AASB 11 also provides guidance for parties that participate in joint arrangements but do not share joint control.

The group's investment in the joint venture partnership will be classified as a joint operations under the new rules. As the group already applies the proportional consolidation method in accounting for this investment, AASB 11 will not have any impact on the amounts recognised in its financial statements.

AASB 12 sets out the required disclosures for entities reporting under the two new standards, AASB 10 and AASB 11, and replaces the disclosure requirements currently found in AASB 127 and AASB 128. Application of

this standard by the group will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the group's investments. Amendments to AASB 128 provide clarification that an entity continues to apply the equity method and does not remeasure its retained interest as part of ownership changes where a joint venture becomes an associate, and vice versa. The amendments also introduce a "partial disposal" concept. The group is still assessing the impact of these amendments.

The group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 31 December 2013.

- AASB 13 *Fair Value Measurement* and AASB 2011-8 *Amendments to Australian Accounting Standards arising from AASB 13* (effective 1 January 2013)

AASB 13 was released in September 2011. It explains how to measure fair value and aims to enhance fair value disclosures. The group has yet to determine which, if any, of its current measurement techniques will have to change as a result of the new guidance. It is therefore not possible to state the impact, if any, of the new rules on any of the amounts recognised in the financial statements. However, application of the new standard will impact the type of information disclosed in the notes to the financial statements. The group does not intend to adopt the new standard before its operative date, which means that it would be first applied in the annual reporting period ending 31 December 2013.

- AASB Interpretation 20 *Stripping Costs in the Production Phase of a Surface Mine* and AASB 2011-12 *Amendments to Australian Accounting Standards arising from Interpretation 20* (effective 1 January 2013)

Interpretation 20 sets out the accounting for overburden waste removal (stripping) costs in the production phase of a mine. It states that these costs can only be recognised as an asset if they can be attributed to an identifiable component of the ore body, the costs relating to the improved access to that component can be measured reliably and it is probable that future economic benefits associated with the stripping activity (improved access to the orebody) will flow to the entity. The costs will be amortised over the life of the identified component of the ore body. This is different to the group's current accounting policy for these types of costs which is to expense them as incurred. The interpretation must be applied from the beginning of the earliest period presented and the group will have to commence capitalising costs as of that date. The group has not yet undertaken a review of its existing stripping cost assets in light of the requirements of the interpretation and hence is unable to quantify the effect, if any, on the amounts recognised in the financial statements. The group expects to adopt the interpretation from 1 January 2013.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and made and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances. The resulting accounting estimates and judgements will, by definition, seldom equal the related actual results. The estimates and assumptions that have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Critical accounting estimates and assumptions

#### (i) *Impairment of assets*

In accordance with accounting policy note 1(i), in determining whether the recoverable amount of each cash generating unit is the higher of fair value less costs to sell or value-in-use against which asset impairment is to be considered, the Group undertakes future cash flow calculations which are based on a number of critical estimates and assumptions including, for its mine properties, forward estimates of:

- mine life including quantities of mineral reserves and resources for which there is a high degree of confidence of economic extraction with given technology;
- production levels and demand;
- metal prices and treatment charges;
- inflation;
- US/Australian dollar exchange rates;
- cash costs of production; and
- discount rates applicable to the cash generating unit.

#### (ii) *Exploration and evaluation expenditure*

In accordance with accounting policy note 1(q) exploration and evaluation expenditure is capitalised when either, costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or exploration and/or evaluation activities in the area have not reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves. In determining this, assumptions, including the maintenance of title, ongoing expenditure and prospectivity are made and in the event that these assumptions no longer hold then this expenditure may, in part or full, be expensed through the income statement in future periods - see note 16 for disclosure of carrying values.

#### (iii) *Estimation of sales revenue on delivery*

As set out in accounting policy note 1(e), metals revenue is recognised based on a provisional payable metal quantity and provisional price being the spot metal price at the time of delivery. Provisional revenues estimated for the period are revised to actual revenue for the period when actual metal prices are determined with the adjustment taken to account in the period when payable metal quantity and metal prices are actualised.

#### (iv) *Restoration and rehabilitation provisions*

As set out in accounting policy note 1(s), the value of current restoration and rehabilitation provisions are based on a number of assumptions including the nature of restoration activities required and the valuation at the present value of a future obligation that necessitates estimates of the cost of performing the work required, the timing of future cash flows and the appropriate discount rate. Additionally current provisions are based on the assumption that no significant changes will occur in either relevant Federal or State legislation or other jurisdiction covering restoration of mineral properties. A change in any, or a combination, of these assumptions used to determine current provisions could have a material impact to the carrying value of the provision - see note 23 for disclosure of carrying values.

#### (v) *Income tax*

The Group is subject to income taxes in Australia, Malaysia, Canada and Dominican Republic ("DR") and significant judgement is required in determining the ultimate provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of the Group's business for which the ultimate tax determination is uncertain from the moment of incurrence, through the process of lodgement of statutory returns with the appropriate authorities, until a final tax assessment is determined. As such, the Group recognises liabilities for tax, and if appropriate for anticipated tax audit issues, based on whether tax and/or additional tax will be due and payable. Where the tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which the assessment is made.

The Group has recognised deferred tax assets relating to carried forward tax losses in Australia and DR. Utilisation of tax losses also depends on the ability of the Group to satisfy certain tests at the time the losses are recouped.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)****(b) Critical judgements in applying the Groups accounting policies***(i) Derivative financial instruments*

The Group makes judgements on the effectiveness of all derivative financial instruments entered into, including forward metal sales, forward metal option and forward currency option contracts in accordance with accounting policy note 1(n). Management's assessment is that, unless otherwise disclosed the derivatives have been highly effective in offsetting changes in the fair value of the future cash flows against which they have been designated and as such are compliant with the hedge effectiveness requirements of AASB 139. Further information on the Group's use of derivative financial instruments, including carrying values, is set out at note 13.

**3. SEGMENT INFORMATION****(a) Description of segments**

Management has determined the operating segments based on the reports reviewed by the executive management team and board of directors that are used to make strategic decisions.

The executive management team and board of directors consider the business from an operational perspective and have identified six reportable segments as at 31 December 2012.

Base metals consist of lead and zinc production which is sold into Australia and global markets from both Broken Hill and Beltana, and copper and gold production and sale from the Cerro de Maimon mine located in the Dominican Republic ("DR"). The executive management team considers these separately as they are three identifiable sites.

The Australia exploration segment operates predominantly in Australia with minor tenements held in Malaysia. This segment is monitored jointly as the only activity currently is in Australia.

The America exploration segment consists of exploration activities related to the non-producing mineral properties located primarily in the Dominican Republic and Canada.

The investment and administration segment represents all other activities including: hedging; management of financial instruments; investments and other head office costs.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 3. SEGMENT INFORMATION (CONTINUED)

## (b) Segment information provided to the executive management team and board of directors

The segment information provided to the executive management team and the board of directors for the reportable segments for the year ended 31 December 2012 is as follows:

	Base metals mining			Exploration		Investment & administration	Adjustments & Eliminations	Consolidated
	Broken Hill \$000	Beltana \$000	Cerro de Maimon \$000	Australia \$000	America \$000	\$000	\$000	\$000
Total segment revenue	240,148	-	112,410	-	-	4,213	(2,977)	353,794
Other revenue/income	663	-	181	-	-	2	-	846
Reconciliation to total revenue (note 4 and 5)	240,811	-	112,591	-	-	4,215	(2,977)	354,640
EBIT	4,729	(198)	49,060	-	-	(8,382)	-	45,209
Reconciliation of EBIT to operating profit/(loss) for the year								
Interest revenue	-	-	609	-	-	1,236	(574)	1,271
Finance costs	(1,498)	-	(643)	-	-	(5,646)	574	(7,213)
Share of net losses of associates	-	-	-	-	-	-	-	-
Profit/(loss) before income tax	3,231	(198)	49,026	-	-	(12,792)	-	39,267
Income tax expense								(11,547)
Profit for the year								27,720
Depreciation and amortisation expense	(35,477)	-	(11,230)	-	-	(49)	-	(46,756)
Impairment losses taken to income statement	-	-	-	-	-	(104)	-	(104)
Segment assets <sup>#</sup> *	242,131	1,986	176,889	50,180	136,376	244,660	(185,279)	666,943
Total assets per the balance sheet								666,943
Segment liabilities <sup>#</sup> *	234,606	106	37,490	-	-	198,377	(185,279)	285,300
Total liabilities per the balance sheet								285,300
Investments in associates	-	-	-	-	-	-	-	-
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	73,208	-	11,305	3,556	3,013	-	-	91,082

<sup>#</sup> Investment and administration segment assets include cash on deposit.

\* Base metals mining segment assets and segment liabilities include derivative financial instrument assets and liabilities.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 3. SEGMENT INFORMATION (CONTINUED)

## (b) Segment information provided to the executive management team and board of directors (continued)

The segment information provided to the executive management team and the board of directors for the reportable segments for the year ended 31 December 2011 is as follows:

	Base metals mining			Exploration		Investment & administration	Adjustments & Eliminations	Consolidated
	Broken Hill \$000	Beltana \$000	Cerro de Maimon \$000	Australia \$000	America \$000	\$000	\$000	\$000
Total segment revenue	231,732	75	126,323	-	-	2,063	-	360,193
Other revenue/income	1,023	-	84	-	-	418	-	1,525
Reconciliation to total revenue (note 4 and 5)	232,755	75	126,407	-	-	2,481	-	361,718
EBIT	11,828	(174)	68,820	-	-	(19,385)	-	61,089
Reconciliation of EBIT to operating profit/(loss) for the year								
Interest revenue	-	-	41	-	-	2,063	-	2,104
Finance costs	(1,855)	-	(606)	-	-	(7,773)	-	(10,234)
Share of net losses of associates	-	-	-	-	-	-	-	-
Profit/(loss) before income tax	9,973	(174)	68,255	-	-	(25,095)	-	52,959
Income tax expense								(14,208)
Profit for the year								38,751
Depreciation and amortisation expense	(28,761)	(13)	(10,199)	-	-	(35)	-	(39,008)
Impairment losses taken to income statement	-	-	-	-	-	(149)	-	(149)
Segment assets <sup>#</sup> *	213,515	10,994	157,575	46,624	136,452	190,667	(121,987)	633,840
Total assets per the balance sheet								633,840
Segment liabilities <sup>#</sup> *	204,230	105	69,679	-	-	126,673	(121,987)	278,700
Total liabilities per the balance sheet								278,700
Investments in associates	-	-	-	-	-	-	-	-
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	69,100	-	8,915	14,927	2,175	-	-	95,117

<sup>#</sup> Investment and administration segment assets include cash on deposit.

\* Base metals mining segment assets and segment liabilities include derivative financial instrument assets and liabilities.

## (c) Notes to and forming part of the segment information

## (i) Segment revenue

There are no sales between segments. The revenue from external parties reported to the executive management team and board of directors is measured in a manner consistent with that in the income statement. Revenues from external customers are derived from the sale of zinc, lead and copper concentrate on contract terms. Segment revenue reconciles to the total revenue in the above tables.

The entity is domiciled in Australia. The result of its revenue from external customers for Broken Hill is \$239,953,000 (31 December 2011: \$231,732,000); the total revenue from external customers from Beltana is nil (31 December 2011: \$75,000) and total revenue from external customers from Cerro de Maimon is \$112,375,000 (31 December 2011: \$126,323,000). Segment revenues are allocated based on the site from which the base metal inventory is located.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 3. SEGMENT INFORMATION (CONTINUED)

## (c) Notes to and forming part of the segment information (continued)

## (ii) EBIT

The executive management team and board of directors assess the performance of the operating segments based on a measure of EBIT. This measurement basis excludes the effect of interest and tax from the operating segments. EBIT reconciles to profit or loss before income tax in the above tables.

## (iii) Segment assets

The amounts provided to the executive management team and board of directors with respect to total assets are measured in a manner consistent with that of the financial statements. These assets are allocated based on the operations of the segment and the physical location of the asset. Investment in shares (classified as available for sale financial assets) held by the Group are included in the investment and administration segment. Segment assets reconcile to total assets in the above tables.

## (iv) Segment liabilities

The amounts provided to the executive management team and board of directors with respect to total liabilities are measured in a manner consistent with that of the financial statements. These liabilities are allocated based on the operations of the segment. Segment liabilities reconcile to the total liabilities in the above tables.

## 4. REVENUE

	CONSOLIDATED	
	12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
<i>Sales revenue</i>		
Sale of goods	352,328	358,055
<i>Other revenue</i>		
Loss on ineffective hedging	-	(106)
Interest	1,271	2,104
Rent and sub-lease rentals	195	140
	<b>353,794</b>	<b>360,193</b>

## 5. OTHER INCOME

	CONSOLIDATED	
	12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
Net gain on disposal of property, plant and equipment	585	633
Net gain on disposal of fair value through profit and loss financial assets	169	-
Net loss on disposal of available-for-sale financial assets	-	(13)
Other income	92	905
	<b>846</b>	<b>1,525</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 6. EXPENSES

	CONSOLIDATED	
	12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
<b>Profit before income tax includes the following specific expenses:</b>		
Depreciation:		
Buildings	457	167
Leasehold improvements	182	98
Plant and equipment	10,307	9,218
Total depreciation	10,946	9,483
Amortisation of mine properties	35,810	29,525
Total depreciation and amortisation expense	46,756	39,008
Impairment losses:		
Available-for-sale financial assets (notes 11)	104	149
Total impairment losses	104	149
Finance costs:		
Unwinding of discount on rehabilitation provision (note 23)	1,192	1,612
Interest and finance charges paid/payable	6,021	8,622
Total finance costs	7,213	10,234

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 7. INCOME TAX EXPENSE

## (a) Income tax expense/(benefit)

		CONSOLIDATED	
		12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
	Notes		
	Current tax expense/(benefit)	12,460	19,738
	Deferred tax (benefit)/expense	(913)	(5,530)
Income tax expense/(benefit)		11,547	14,208
<b>Deferred income tax (benefit)/expense included in income tax expense/(benefit) comprises</b>			
(Increase)/decrease in deferred tax assets	15(b)	(4,840)	(5,876)
Increase/(decrease) in deferred tax liabilities	15(d)	3,927	346
<b>Deferred tax (benefit)/expense</b>		<b>(913)</b>	<b>(5,530)</b>

## (b) Numerical reconciliation of income tax expense/(benefit) to prima facie tax payable

		CONSOLIDATED	
		12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
Profit from operations before income tax expense		39,267	52,959
Tax at the Australian tax rate of 30% (2011: 30%)		11,780	15,888
Tax rate adjustment (Canada: 26.5%, DR: 29%)		(433)	(737)
Tax effect of amounts which are not deductible/(assessable) in calculating taxable income			
Non deductible expenses		(358)	(247)
Share-based payments		223	133
Write-down/(write back) of deferred tax assets		287	(988)
DR municipal tax		(411)	1,370
Effect of foreign exchange		1,337	(748)
Other		(260)	(332)
		12,165	14,339
Adjustments for current tax of prior periods		(618)	(131)
<b>Income tax expense/(benefit)</b>		<b>11,547</b>	<b>14,208</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 7. INCOME TAX EXPENSE (CONTINUED)

## (c) Amounts recognised directly in equity

	CONSOLIDATED	
	12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity		
Net deferred tax credited directly to equity	4	(32)

## (d) Tax losses

	CONSOLIDATED	
	12 months to 31 December 2012 \$000	12 months to 31 December 2011 \$000
<u>Capital losses</u>		
Unused Dominican Republic capital tax losses for which no deferred tax asset has been recognised	1,121	-
Unused Australian capital tax losses for which no deferred tax asset has been recognised	6,196	6,196
	7,317	6,196
Potential tax benefit @ Australia:30%; DR:29%	2,195	1,859
<u>Income tax losses</u>		
Unused foreign tax losses for which no deferred tax asset has been recognised	12,613	12,770
Potential foreign tax benefit @ applicable tax rates	3,370	3,442

As at 31 December 2012, Perilya's subsidiary in Canada has accumulated gross tax losses totalling \$11,810,000. Perilya has not recognised deferred tax assets on these tax losses as Perilya does not consider it probable that these tax losses will be utilised in the near future. In accordance with the tax laws in Canada, these tax losses can be carried forward against future years' taxable income and will expire during the following years:

Year	\$'000
2014	34
2015	25
2026	13
2027	1,598
2028	2,236
2029	681
2030	51
2031	4,048
2032	3,124
	11,810

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 8. CURRENT AND NON-CURRENT ASSETS - CASH AND CASH EQUIVALENTS AND RESTRICTED CASH

## (a) Total cash (current and non-current)

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Cash at bank and in hand as per statement of cash flows	37,634	36,371
Add: Non-current - Restricted cash *	24,417	24,652
Cash at the end of the reporting period inclusive of restricted cash	62,051	61,023

\*Non-current restricted cash comprises deposits that are used for monetary backing for performance guarantees related to the Broken Hill mine and security for the environmental insurance policy related to the Cerro de Maimon mine.

## (b) Cash at bank and on hand

Cash at bank is deposited in trading accounts with major financial institutions under normal terms and conditions appropriate to the operations of the accounts. These deposits earn interest at rates set by these institutions and for the year ending 31 December 2012 the weighted average interest rate on these accounts was 2.12% (31 December 2011: 2.83%). Cash on hand is non-interest bearing.

## (c) Interest rate risk exposures

Further details of the Group's exposure to interest rate changes on cash and cash equivalents are set out in the financial risk management note (note 28).

## 9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Trade debtors <sup>(a)</sup>	34,949	51,592
Prepayments	1,481	2,644
Other debtors <sup>(d)</sup>	11,945	9,945
Total trade and other receivables	48,375	64,181

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**9. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)****(a) Impaired trade receivables**

As at 31 December 2012 receivables to the nominal value of \$131,000 were considered impaired and a provision of this amount exists against these receivables (31 December 2011: \$131,000). These receivables relate to the Group's Malaysian operations associated with dormant joint venture operations in that country.

**(b) Past due but not impaired**

Age analysis of both current and non-current receivables including past due but not impaired is set out in the financial risk management note (note 28).

**(c) Fair value and foreign exchange, interest rate and credit risk**

Information concerning fair value, foreign exchange, interest rate and credit risk of both current and non-current receivables is set out in the financial risk management note (note 28).

**(d) Other debtors**

Other debtors balance consists of various tax related receivables from the Dominican Tax Department; Canada and Quebec Revenue Department, and goods and services tax receivable from the Australian Tax Office.

**10. CURRENT ASSETS – INVENTORIES**

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Current inventories</b>		
Consumable supplies and spare parts, at cost	12,310	10,031
Less: Provision for obsolescence	(452)	(501)
	<b>11,858</b>	9,530
Zinc and lead ore, at cost	528	466
Copper ore, at cost	1,935	350
Zinc concentrates, at net realisable value	6,682	4,868
Lead concentrates, at cost	2,149	1,856
Copper concentrates, at cost	760	3,532
Precipitate, at cost	919	636
Total current inventories	<b>24,831</b>	21,238

**(a) Inventory expense**

Inventories recognised as expense during the year ended 31 December 2012 amounted to \$248,950,000 (31 December 2011: \$234,993,000).

The write down of inventories to net realisable value recognised as an expense during the year ended 31 December 2012 amounted to \$6,030,000 (31 December 2011: \$2,720,000) and is included in 'Changes in inventories of finished goods and work in progress' in the income statement.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 11. CURRENT ASSETS – AVAILABLE-FOR-SALE FINANCIAL ASSETS

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
At beginning of the year	Notes	640	2,298
Additions		-	-
Disposals		-	(1,500)
Impairment of securities <sup>(b)</sup>	6	(104)	(149)
Net revaluation (loss)/gain transferred to equity	25(a)	(12)	(9)
At end of the year		524	640
These available-for-sale financial assets comprise:			
Commercial paper		-	-
Listed Australian equities		47	153
Unlisted overseas equities <sup>(a)</sup>		477	487
		524	640

## (a) Unlisted securities

Unlisted securities are traded in inactive markets. Fair values for these assets are established using the methodologies outlined in accounting policy note 1(m).

## (b) Impairment and risk exposure

In the reporting period ended 31 December 2012, upon review of evidence and an analysis being undertaken, management has concluded that \$104,000 of impairment losses have been recognised against available-for-sale financial assets (31 December 2011: \$149,000). Previous losses have been recognised in the income statement.

For an analysis of the sensitivity of current available-for-sale financial assets to price and foreign exchange risk refer to note 28.

## 12. CURRENT ASSETS – FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are all held for trading and include the following:

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
Listed overseas equities *		-	497
		-	497

\*Listed overseas equities investment was sold during the year, resulting in a net gain of \$169,000 recognised in profit and loss.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Current liabilities</b>		
Forward metal sale contracts – held for trading	514	8,646
Total current derivative financial instrument liabilities	514	8,646
Total derivative financial instrument liabilities	514	8,646

## (a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to future price and currency fluctuations in the primary commodity markets in which it operates. This is done in accordance with the Group's financial risk management policies (refer to note 28).

*Forward metal sales contracts*

The Group hedges movements in USD base metal prices on its sales of its lead and zinc products. Contracts taken out with counterparties, to hedge this forward price risk, are timed to mature as closely as possible to when settlement of the sale is expected to occur.

These contracts are subject to the same risk management policies as all other derivative contracts (see note 28 for details).

At the 31 December 2012, these contracts are in place for 10,217 tonnes of lead and 13,188 tonnes of zinc sales with settlement periods in January and February 2013.

The above mentioned lead and zinc hedge contracts do not qualify for hedging accounting and are classified above as held for trading. Therefore, movements in fair value of these contracts between inception and settlement are taken to the income statement.

## (b) Risk exposures and cash flows associated with derivative instruments

Further information about exposure to (i) credit risk, price risk and foreign exchange risk; and (ii) liquidity risk related to undiscounted cash flow exposure from derivative contracts is provided at note 28.

## 14. NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Other receivables	101	140

Information relating to loans to and from related parties (controlled entities) is set out in note 33.

## (a) Impaired receivable and past due but not impaired

None of the non-current receivables are impaired.

Age analysis of both current and non-current receivables including past due but not impaired is set out in the financial risk management note (note 28).



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**14. NON-CURRENT ASSETS - TRADE AND OTHER RECEIVABLES (CONTINUED)****(b) Fair value and foreign exchange, interest rate and credit risk**

Information concerning fair value, foreign exchange, interest rate and credit risk of both current and non-current receivables is set out in the financial risk management note (note 28).

**15. DEFERRED TAX**

		CONSOLIDATED	
		31 December 2012	31 December 2011
		\$000	\$000
Deferred tax asset	Notes		
	15(a)	80,539	75,785
Set-off of deferred tax liabilities pursuant to set off provisions		(28,068)	(24,610)
Net deferred tax asset		52,471	51,175
Deferred tax liability	15(c)	61,599	58,488
Set-off of deferred tax liabilities pursuant to set off provisions		(28,068)	(24,610)
Net deferred tax liability		33,531	33,878

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 15. DEFERRED TAX (CONTINUED)

(a) The deferred tax asset balance comprises temporary differences attributable to:

	Note	CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
Provision for rehabilitation and restoration		6,645	5,891
Employee benefits		5,356	4,536
Accruals		4,043	4,228
Derivatives held for trading		154	2,594
Available-for-sale financial assets		3,416	3,385
Provision for obsolescence		136	150
Property, plant and equipment		3,977	6,744
Tax losses – Australia and the Dominican Republic		53,116	44,267
Unrealised foreign currency losses		1,673	1,673
Other items		2,023	2,317
Net deferred tax assets		80,539	75,785
Deferred tax assets to be recovered within 12 months		10,945	12,471
Deferred tax assets to be recovered after more than 12 months		69,594	63,314
Net deferred tax assets		80,539	75,785

(b) Movements in deferred tax asset:

	Notes	CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
At the beginning of the year		75,785	73,949
Credited to the income statement	7(a)	4,840	5,876
Credited/(charged) to equity - hedging reserve		-	(1,066)
Credited to equity – foreign currency translation reserve		-	22
Arising from acquisition of GlobeStar		-	(2,996)
Foreign exchange translation		(86)	-
At end of the year		80,539	75,785

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 15. DEFERRED TAX (CONTINUED)

(c) The deferred tax liability balance comprises temporary differences attributable to:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Receivables	58	185
Inventories	2,042	2,067
Mine properties in use	10,831	8,650
Exploration and evaluation	48,133	47,809
Treasury shares	273	343
Available-for-sale financial assets	(32)	(28)
Other	294	(538)
Net deferred tax liabilities	61,599	58,488
Deferred tax liabilities to be settled within 12 months	2,363	1,644
Deferred tax liabilities to be settled after more than 12 months	59,236	56,844
	61,599	58,488

(d) Movements in deferred tax liability

	Notes	CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
At the beginning of the year		58,488	54,689
Charged to the income statement	7(a)	3,927	346
Charged/(credited) to equity – available-for-sale financial assets fair value reserve	25(a)	(4)	(3)
Charged to equity – hedging reserve		-	(1,009)
Arising from acquisition of GlobeStar		-	4,465
Foreign exchange translation		(812)	-
At end of the year		61,599	58,488

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**16. NON-CURRENT ASSETS – EXPLORATION, DEVELOPMENT AND EVALUATION EXPENDITURE**

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
	Notes		
Cost or fair value at the beginning of the year		183,076	159,928
Expenditure incurred during the year		7,969	15,971
Capitalisation of depreciation related to exploration, development and evaluation assets	18 (a)	5	62
Reclass to mine properties		(1,520)	-
Arising from finalisation of acquisition of GlobeStar		-	5,659
Foreign exchange translation		(2,974)	1,456
Cost or fair value at end of the year		186,556	183,076

**17. NON-CURRENT ASSETS - MINE PROPERTIES IN USE**

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
	Notes		
Cost brought forward at the beginning of the year		448,174	388,463
Expenditure incurred during the year on existing properties		6,518	15,758
Transfer from assets under construction	18	65,542	44,434
Arising from finalisation of acquisition of GlobeStar		-	1,907
Reclass from exploration, development and evaluation		2,180	-
Reclass from property, plant and equipment		137	-
Foreign exchange translation		(2,188)	(2,388)
Cost carried forward at the end of the year		520,363	448,174
Amortisation and impairment brought forward at the beginning of the year		259,088	230,048
Amortisation for the year	6	35,810	29,525
Reclass from exploration, development and evaluation		660	-
Reclass from property, plant and equipment		107	-
Foreign exchange translation		(732)	(485)
Amortisation and impairment carried forward at the end of the year		294,933	259,088
Net book amount at the end of the year		225,430	189,086

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**17. NON-CURRENT ASSETS - MINE PROPERTIES IN USE (CONTINUED)****(a) Impairment of capitalised value of mine properties in use and other assets**

For 31 December 2012, both Broken Hill and Cerro de Maimon mine property and other associated assets were tested as separate cash generating units (CGU) for impairment as outlined in note 1(i). The recoverable amount of CGU is based on "fair value less cost to sell" calculations. These calculations used discounted cash flow projections based on the financial budgets and the life of mine plan approved by management covering the mine life of each CGU.

The primary assumptions underlying the cash flow projections include:

- Metal production volume over the mine life based on the approved financial budgets and life of mine plans;
- Metal prices and foreign exchange rates based on relevant long-term consensus adjusted to reflect management's expectations; and
- A pre-tax discount rate of 18% based on the weighted average cost of capital which is believed to reflect the risks specific to the asset (31 December 2011: 16%).

Based on the impairment testing performed at 31 December 2012, Broken Hill and Cerro de Maimon mine property and other associated assets were not impaired (31 December 2011: nil).

**(b) Assets pledged as security**

Refer to note 22 for information on non-current asset pledged as security by the company and its controlled entities.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 18. NON-CURRENT ASSETS - PROPERTY PLANT AND EQUIPMENT

## (a) Carrying amounts and movements of each class of property, plant and equipment

Reconciliation of the movement in the carrying values of classes of property, plant and equipment at the beginning and the end of each period covered by these financial statements are set out below:

Consolidated	Notes	Land and buildings \$000	Leasehold improvements \$000	Assets under construction \$000	Leased plant and equipment \$000	Other plant and equipment \$000	Total \$000
<b>At 1 January 2011</b>							
At cost		7,870	1,658	17,965	38,579	108,538	174,610
Less: accumulated depreciation and impairment		(7,407)	(1,599)	-	(31,859)	(93,160)	(134,025)
Net book amount carried forward		463	59	17,965	6,720	15,378	40,585
<b>Year ended 31 December 2011</b>							
Opening net book amount brought forward		463	59	17,965	6,720	15,378	40,585
Additions		-	289	76,091	-	128	76,508
Disposals		-	-	-	-	(329)	(329)
Transfers between categories of assets		-	-	-	(84)	84	-
Transfers in/(out) from assets under construction	17	3,552	-	(89,914)	7,037	34,891	(44,434)
Depreciation/amortisation expense	6	(167)	(98)	-	(3,138)	(6,080)	(9,483)
Depreciation capitalised to 'Exploration, development and evaluation'	16	(25)	-	-	-	(37)	(62)
Foreign exchange translation		-	3	-	-	(4)	(1)
Closing net book amount		3,823	253	4,142	10,535	44,031	62,784
<b>At 31 December 2011</b>							
At cost		11,422	1,895	4,142	45,578	144,361	207,398
Less: accumulated depreciation and impairment		(7,599)	(1,642)	-	(35,043)	(100,330)	(144,614)
Closing net book amount at 31 December 2011		3,823	253	4,142	10,535	44,031	62,784
<b>Year ended 31 December 2012</b>							
Opening net book amount brought forward		3,823	253	4,142	10,535	44,031	62,784
Additions		965	28	79,272	-	117	80,382
Disposals		-	-	-	-	(23)	(23)
Reclass to mine properties		(5)	-	-	-	(25)	(30)
Transfers in/(out) from assets under construction	17	440	-	(74,026)	1,579	6,465	(65,542)
Depreciation/amortisation expense	6	(457)	(182)	-	(2,940)	(7,367)	(10,946)
Depreciation capitalised to 'Exploration, development and evaluation'	16	(5)	-	-	-	-	(5)
Foreign exchange translation		(2)	(7)	(6)	-	(1)	(16)
Closing net book amount		4,759	92	9,382	9,174	43,197	66,604
<b>At 31 December 2012</b>							
At cost		12,822	2,012	9,382	47,157	150,751	222,124
Less: accumulated depreciation and impairment		(8,063)	(1,920)	-	(37,983)	(107,554)	(155,520)
Closing net book amount at 31 December 2012		4,759	92	9,382	9,174	43,197	66,604

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**18. NON-CURRENT ASSETS - PROPERTY PLANT AND EQUIPMENT (CONTINUED)****(b) Assets pledged as security**

Refer to note 22 for information on non-current asset assets pledged as security by the company and its controlled entities.

**19. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES**

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Trade creditors and accruals	45,598	48,696
Other payables	903	424
	<b>46,501</b>	<b>49,120</b>

**(a) Risk exposure and fair value**

Refer to note 28 for information regarding related risk exposure and fair value estimation.

**20. CURRENT LIABILITIES - BORROWINGS**

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
<b>Secured</b>			
Finance leases	32(c)	3,370	3,471
Loan facilities	(b)	60,757	9,295
Total secured current borrowings		<b>64,127</b>	<b>12,766</b>
<b>Unsecured</b>			
Insurance funding liabilities		-	888
Loan facilities	(a)	28,901	29,567
Total unsecured current borrowings		<b>28,901</b>	<b>30,455</b>
Total current borrowings		<b>93,028</b>	<b>43,221</b>

**(a) Unsecured loan facilities**

The USD \$30 million working capital facility from Industrial & Commercial Bank of China was rolled over in May 2012. The term of this working capital facility is one year. The interest rate of the facility is 3-month LIBOR plus a margin of 2.2% per annum. The facility is not secured over any of the assets of Perilya.

**(b) Secured loan facilities**

A USD \$100 million long term facility from China Development Bank was obtained in 2010 to fund the acquisition of GlobeStar Mining of which USD \$91.2 million was utilised. The term of this facility is five years with the principal repayable at 5%, 10%, 25%, 25% and 35% on 8 December in each year. During 2011, USD \$4.6 million principal was repaid and during 2012, USD \$9.1 million principal was repaid. The interest rate on this facility is 3 month LIBOR plus a margin of 3.3% per annum. The facility is secured by the assets of Cerro de Maimon operations in the Dominican Republic from December 2011. The non- current portion of this loan is shown in note 22.

The USD \$40 million working capital facility from China Development Bank was rolled over in June 2012. The term of this working capital facility is one year. The interest rate of the facility is 3-month LIBOR plus a margin of 5% per annum. The facility is secured by the assets of Mt Oxide Pty Ltd and Perilya Freehold Mining Pty Ltd.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**20. CURRENT LIABILITIES – BORROWINGS (CONTINUED)****(c) Risk exposures**

Details of the Group's exposure to risks arising from current and non-current borrowings are set out in note 28.

**21. CURRENT LIABILITIES - OTHER**

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Employee benefits - annual leave <sup>(a)</sup>	9,417	8,085
Employee benefits – long service leave <sup>(a)</sup>	4,230	-
	<b>13,647</b>	<b>8,085</b>

**(a) Amounts not expected to be settled within the next 12 months**

Since the Group does not have an unconditional right to defer settlement, annual leave and long service leave provisions are presented as current.

**22. NON-CURRENT LIABILITIES - BORROWINGS**

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
	Notes		
<b>Secured</b>			
Finance leases	32(c)	2,215	4,169
Loan facility	20(b)	52,390	76,026
Total secured non-current borrowings		<b>54,605</b>	<b>80,195</b>
Total non-current borrowings		<b>54,605</b>	<b>80,195</b>

**(a) Assets pledged as security**

While the parent entity goes guarantor over finance leases entered into by subsidiaries in Australia, these lease liabilities are effectively secured by the asset financed as the rights to the leased assets recognised in the financial statements revert to the lessor or financier in the event of default. At the end of the year the assets securing lease liabilities have a carrying value of \$9,174,000 (31 December 2011: \$10,535,000).

The carrying value of Cerro de Maimon assets securing the China Development Bank acquisition facility is \$86,068,000 at the end of the year.

The carrying value of Mt Oxide Pty Ltd and Perilya Freehold Mining Pty Ltd securing the China Development Bank working capital facility is \$40,174,000 at the end of the year.

**(b) Risk exposures**

Details of the Group's exposure to risks arising from interest rate changes are set out in note 28.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 23. NON-CURRENT LIABILITIES - PROVISIONS

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Employee benefits - long service leave	4,206	7,034
Restoration and rehabilitation*	35,399	32,778
	39,605	39,812

\* The expected expenditure is to be minimal during the next 12 months with the significant proportion of the provision to be expended at the end of mine life.

## (a) Movements in provisions

Movements in each class of provision, other than employee benefits, are set out below:

		Restoration and rehabilitation	
Consolidated	Note	31 December 2012 \$000	31 December 2011 \$000
Carrying amount at start of the year		32,778	21,087
Increase in provision		2,843	8,522
Unwinding of discount	6	1,192	1,612
Amounts used during the year		(1,176)	(204)
Arising from finalisation of acquisition of GlobeStar		-	1,908
Foreign exchange translation		(238)	(147)
Carrying amount at the end of the year		35,399	32,778

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 24. CONTRIBUTED EQUITY

## (a) Share capital and movement

	CONSOLIDATED			
	31 December 2012 Shares	31 December 2011 Shares	31 December 2012 \$000	31 December 2011 \$000
Opening balance of issued and fully paid shares	769,316,426	526,075,563	311,455	211,149
Rights issue	-	243,240,863	-	102,161
Less: adjustment to transaction costs arising from shares issued	-	-	51	(1,855)
Options exercised from employee share option plan issues <sup>(c)</sup>	-	-	-	-
Closing balance at the end of the year of issued and fully paid shares	769,316,426	769,316,426	311,506	311,455
Opening balance of treasury shares <sup>(d)</sup>	(746,191)	(746,191)	(1,141)	(1,141)
Treasury shares purchased	-	-	-	-
Perilya ESAP shares issued to participants	370,176	-	161	-
Closing balance at the end of the year of treasury shares	(376,015)	(746,191)	(980)	(1,141)
Total consolidated contributed equity	768,940,411	768,570,235	310,526	310,314

## (b) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

## (c) Options

Information relating to the Perilya Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the reporting period and options outstanding at the end of the reporting period are set out in note 41.

## (d) Treasury shares

Treasury shares are shares held in the Perilya Employee Share Acquisition Plan Trust for the purpose of issuing shares under the Perilya Employee Share Acquisition Plan (ESAP) (see note 41 for further information). The movement in these shares is set out under section (a) of this note.

## (e) Capital risk management

Information on the Group's and the parent entities objectives when managing capital are provided at note 28.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 25. RESERVES

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Available-for-sale financial assets fair value reserve	(75)	(67)
Share-based payments reserve	4,279	3,469
Hedging reserve - cash flow hedges	-	-
Foreign currency translation reserve	(6,228)	(3,997)
	(2,024)	(595)

## (a) Movements

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
	Notes		
<i>Available-for-sale financial assets fair value reserve</i>			
Balance at the beginning of the year		(67)	(61)
Revaluation		(12)	(9)
Plus/(less): Deferred tax on revaluation	15(d)	4	3
Transfer to net profit		-	-
Plus/(less): Deferred tax on transfer	15(d)	-	-
Balance at the end of the year		(75)	(67)
<i>Share-based payments reserve</i>			
Balance at the beginning of the year		3,469	3,026
Option expense		541	443
Performance rights expense		201	-
ESAP shares expensed		229	-
Issue of shares held by Perilya ESAP Trust to employees	24(a)	(161)	-
Funding of acquisition of shares by the Perilya ESAP Trust		-	-
Balance at the end of the year		4,279	3,469
<i>Hedging reserve – cash flow hedges</i>			
Balance at the beginning of the year		-	(132)
Revaluation – gross		-	2,103
Plus/(less): Deferred tax on revaluation		-	(631)
Transfer to net profit – gross		-	(1,914)
Less: Deferred tax on transfer		-	574
Balance at the end of the year		-	-
<i>Foreign currency translation reserve</i>			
Balance at the beginning of the year		(3,997)	(3,853)
Foreign currency translation		(2,231)	(144)
Balance at the end of the year		(6,228)	(3,997)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 25. RESERVES (CONTINUED)

## (b) Nature and purpose of reserves

(i) *Available-for-sale financial assets fair value reserve*

Changes in the fair value and exchange differences arising on translation of investments, such as equities, classified as available-for-sale financial assets, are taken to the available-for-sale financial assets fair value reserve, as described in note 1(m). Amounts are recognised in profit and loss when the associated assets are sold or impaired.

(ii) *Share-based payments reserve*

The share-based payments reserve is used to recognise:

- the fair value of options issued to employees but not yet vested;
- the fair value of performance rights issued to employees but not yet vested;
- the fair value of shares issued to employees but not yet vested and held by the Perilya Employee Share Acquisition Plan Trust; and
- the issue of shares held by the Perilya Employee Share Acquisition Plan Trust to employees.

(iii) *Hedging reserve - cash flow hedges*

The hedging reserve is used to record gains and losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in note 1(n). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iv) *Foreign currency translation reserve*

The foreign currency translation reserve is used to record currency differences arising from the translation of the financial statements of foreign operations.

## 26. RETAINED EARNINGS

Movements in retained earnings were as follows:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Balance of accumulated losses at the beginning of the year	45,421	6,670
Net profit for the year	27,720	38,751
Balance at the end of the year	73,141	45,421

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 27. DIVIDENDS

## (a) Dividends paid on ordinary shares

During the year ended 31 December 2012 no dividends have been paid (31 December 2011: nil).

## (b) Dividends not recognised at year end

Subsequent to the end of the current reporting period end the directors have decided against payment of a final dividend for the year ended 31 December 2012.

## (c) Perilya Dividend Reinvestment Plan

The Perilya Dividend Reinvestment Plan ("DRP") was approved by shareholders on 29 November 2006 and applies in respect of eligible dividends payable on participating shares at the record date of payment of the dividend.

Participation in the DRP is optional and, to commence, amend or cease participation in the DRP, shareholders are required to complete and duly lodge the required application form by the date, and within the terms and conditions, set by the directors for the specified dividend. Shares issued to participants may be either new shares or shares acquired on market for transfer to participants.

In line with non-payment of a final dividend for the reporting period ended 30 June 2008 the directors resolved to suspend the company's DRP until further notice.

## (d) Franked dividends

The franked portions of the dividends recommended after 31 December 2012 will be franked out of existing franking credits.

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Franking credits available for subsequent financial years based on a tax rate of 30% (31 December 2011: 30%)	56,857	56,857

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the provision for income tax;
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

In line with the non-payment of a final dividend for the year ending 31 December 2012 there will be no reduction in the franking account balance disclosed above (31 December 2011: nil).

## 28. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk, in the normal course of its business. The Group therefore has an overall risk management program that focuses on the unpredictability of financial and metal commodity markets and seeks to minimise potential adverse effects on the financial performance of the Group.

The Group uses different methods to measure different types of risk to which it is exposed including sensitivity analysis in the case of interest rate, foreign exchange and other price risks and aging analysis for credit risk. The Group then uses derivative financial instruments such as forward metal, forward metal option and forward foreign exchange option contracts to hedge certain risk exposures.

Financial risk management is carried out by the finance area of the Group, under policies approved by the Board of Directors with identification, evaluation and hedging of financial and commodity price risks being undertaken in close co-operation with the Group's operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as use of derivative financial instruments and investment of excess liquidity.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Group holds the following financial instruments:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Financial assets</b>		
Cash and cash equivalents and restricted cash	62,051	61,023
Trade and other receivables (excluding prepayments)	46,894	61,537
Available-for-sale financial assets	524	640
Held-for-trading financial assets	-	497
	<b>109,469</b>	<b>123,697</b>
<b>Financial liabilities</b>		
Trade and other payables	46,501	49,120
Borrowings	147,633	123,416
Derivative financial instruments	514	8,646
	<b>194,648</b>	<b>181,182</b>

## (a) Market risk

## (i) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. While the Group primarily operated through the year nationally it is exposed to foreign exchange risk as it sells its metal products in US dollars on the international market and maintains a USD denominated bank account and has USD denominated trade debtor transactions. As such a strongly appreciating Australian dollar or rapidly weakening US dollar environment, or an ongoing volatile AUD/USD environment, exposes the Group to risks related to the movements in the AUD/USD exchange rate. These risks are measured using sensitivity analysis and cash flow forecasting and to manage this risk the Group uses forward metal contracts denominated in AUD to limit the exposure to foreign exchange risk.

Additionally the Group is exposed to foreign exchange risk in relation to:

- investments in available-for-sale financial assets denominated in foreign currencies (see also note 11);
- foreign currency transactions for operations in Canada and the Dominican Republic where USD is the functional currency; and
- foreign currency transactions for exploration and evaluation activities in Malaysia.

Investments in available-for-sale financial assets are generally made for strategic reasons and while investments can be material, risks related to movements in the AUD relative to the exchange rate of the denominated currency of the investment are not actively managed.

In relation to amounts denominated in Malaysian Ringgit (RM), foreign currency accounts are maintained at minimum levels and are aligned with approved expenditure programmes. As these amounts are considered immaterial, risks related to movements in the AUD/RM exchange rate are also not actively managed.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Market risk (continued)

## (i) Foreign exchange risk (continued)

As at the reporting date exposures to foreign currency risk for financial instruments, expressed in AUD, are as follows:

	CONSOLIDATED					
	31 December 2012			31 December 2011		
	USD \$000	CAD \$000	DR Peso \$000	USD \$000	CAD \$000	DR Peso \$000
<b>Financial assets</b>						
Cash and cash equivalents and restricted cash	7,952	1,652	383	4,038	132	458
Receivables	15,064	621	6,759	30,760	241	6,866
Receivables – Intercompany	-	-	-	86,381	-	-
Financial and other assets	477	-	-	487	-	-
	<b>23,493</b>	<b>2,273</b>	<b>7,142</b>	<b>121,666</b>	<b>373</b>	<b>7,325</b>
<b>Financial liabilities</b>						
Payables	854	252	2,217	11,406	57	1,894
Payables – Intercompany	12,262	-	-	-	-	-
Loan Facility	67,429	-	-	114,888	-	-
	<b>80,545</b>	<b>252</b>	<b>2,217</b>	<b>126,294</b>	<b>57</b>	<b>1,894</b>

Sensitivity

The following table summarises the sensitivity of financial instruments held at balance date to movement in the exchange rates with all other variables held constant. The 10% sensitivity is based on management's estimate of reasonably possible changes over a financial year.

	Impact on profit		Impact on equity	
	Consolidated		Consolidated	
	31 December 2012 \$000	31 December 2011 \$000	31 December 2012 \$000	31 December 2011 \$000
<b>Pre-tax gain/(loss)</b>				
AUD/USD +10%	5,228	465	(43)	(44)
AUD/USD -10%	(6,389)	(568)	53	54
USD/CAD +10%	(184)	(28)	-	-
USD/CAD -10%	225	34	-	-
USD/DR Peso +10%	(448)	(452)	-	-
USD/DR Peso -10%	547	553	-	-

The Group's exposure to other foreign exchange movements is not material.

## (ii) Price risk – metal commodity price risk

The Group is exposed to commodity price risk for its primary metal products. These risks are measured using sensitivity analysis and cash flow forecasting and to manage:

- Exposures arising from provisional revenue amount which is to be finalised at the end of quotation period; and
- Exposures arising from the forward commodity price hedging contracts.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Market risk (continued)

## (ii) Price risk – base metal commodity price risk (continued)

The Group's policy is to hedge no more than 70% of anticipated zinc sales and no more than 70% of lead sales in the subsequent 18 months. Balance date exposures and further details of current commodity price derivative operations are provided at note 13. When necessary these contracts may be rolled over into new contracts at maturity, subject to counterparty credit approval.

Sensitivity

The following table summarises the sensitivity of the fair value of instruments held at balance date to movements in the relevant forward commodity price, with all other variables held constant. The 20% sensitivity is based on management's estimate of reasonably possible changes over a financial year.

	Impact on profit		Impact on equity	
	Consolidated		Consolidated	
	31 December 2012 \$000	31 December 2011 \$000	31 December 2012 \$000	31 December 2011 \$000
<b>Pre-tax gain/(loss)</b>				
<i>20% increase in:</i>				
Zinc forward price	(50)	6,450	-	-
Lead forward price	(23)	2,672	-	-
Copper forward price	4,167	2,679	-	-
Gold forward price	548	286	-	-
Silver forward price	2,008	(3,209)	-	-
<i>20% decrease in:</i>				
Zinc forward price	50	(5,807)	-	-
Lead forward price	23	(2,672)	-	-
Copper forward price	(4,167)	(2,679)	-	-
Gold forward price	(548)	(286)	-	-
Silver forward price	(2,008)	3,209	-	-

## (iii) Price risk – available-for-sale financial assets

The Group is also exposed to equity securities price risk. This arises from investments held by the Group and classified on the balance sheet as available-for-sale. The majority of investments held by the Group are (i) publicly traded on the Australian Stock Exchange (ASX) and (ii) have been made for strategic rather than trading purposes.

Investments in available-for-sale assets are made in accordance with policies approved by the Board of Directors, which limit exposure of the Group to equity market risk by limiting capital invested in both (i) the market, and (ii) individual equity exposures. The Group does not use any form of derivative instruments to hedge this price risk and at 31 December 2012 this amount was immaterial.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (a) Market risk (continued)

## (iv) Interest rate risk

Interest rate risk is the risk that the Group's financial position will be adversely affected by movements in interest rates that will lead to opportunity losses that may arise on fixed rate borrowings in a falling interest rate environment. The Group's aim is to minimise interest rates.

The Group's main exposure to changes in interest rates is in relation to that on its borrowing facility, which is based on 3 month LIBOR. The Group's policy in respect to borrowings is to limit debt exposure to the minimum required for operational purposes and wherever possible to utilise financing terms that enable management to fix the interest rate for 1, 2 or 3 months at a time.

The Group does not enter into any hedge/interest rate swap instruments to manage interest rate risk exposure.

As at the end of the year the Group's interest rate risk exposure, and the Group's weighted average interest rate for each class of financial assets and liabilities was:

	CONSOLIDATED			
	31 December 2012		31 December 2011	
	\$000	Weighted average interest rate	\$000	Weighted average interest rate
<b>Financial assets (at fixed interest rate or fair value)</b>				
Cash, cash equivalents & restricted cash	62,051	2.12%	61,023	2.83%
Available-for-sale financial assets	-	n/a	-	n/a
	<b>62,051</b>		<b>61,023</b>	
<b>Financial liabilities (at variable interest rate)</b>				
Borrowing facilities	142,048	3.95%	114,888	3.35%
	<b>142,048</b>		<b>114,888</b>	
<b>Financial liabilities (at fixed interest rate)</b>				
Insurance funding	-	n/a	888	2.59%
Finance leases	5,585	5.61%	7,640	8.18%
<b>Total liabilities</b>	<b>147,633</b>		<b>123,416</b>	

Sensitivity

If interest rates were to move by 1% with all other variables held constant then the pre tax impact on the Group's profit would be a movement of \$856,000 (31 December 2011: \$624,000).

## (b) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted under a financial instrument resulting in a financial loss to the Group and arises from deposits with banks and financial institutions, derivative financial instruments as well as credit exposures to customers including outstanding receivables and committed transactions.

While the Group has policies in place to ensure that sales of its products are made to customers with an appropriate credit history it does have a concentration of credit risk in relation to its primary metal sales due to its dependence for a significant volume of its sales revenues on a few principal buyers. Sales to these customers are made in accordance with contractual protocols with each transaction secured via recognised bank instruments that are ultimately settled in cash. Additionally goods are sold subject to retention of title clauses related to payment so that in the event of non-payment the Group may have a secured claim.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Credit risk (continued)

All customers have been existing customers for more than six months and there have been no defaults in the past. In accordance with AASB 7 this would meet the requirements of group 2 counterparties. The Group had no new customers less than six months (group 1) or customers with defaults (group 3).

In relation to managing other potential credit risk exposures, the Group has in place policies that aim to ensure that derivative counterparties and cash transactions are limited to high credit quality financial institutions (as indicated by appropriate credit ratings determined by recognised ratings agencies) and that the amount of credit exposure to any one financial institution is limited as far as is considered commercially appropriate.

The maximum exposure to credit risk at the reporting date was as follows:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Current</b>		
Cash and cash equivalents	37,634	36,371
Trade receivables	34,949	51,593
Other receivables – other entities	11,945	9,945
Available-for-sale financial assets	524	640
<b>Non-current</b>		
Restricted cash	24,417	24,652
Trade receivables	101	140

The ageing of current receivables at the reporting date was as follows (see also notes 9 and 14):

	Total	Receivables ageing analysis between		
		<30 days \$000	30-60 days \$000	>60 days \$000 <sup>(1)</sup>
<b>31 December 2012</b>				
<b>Consolidated</b>				
Trade receivables	34,949	28,594	3,031	3,324
Other receivables	11,945	1,692	375	9,878
<b>Total receivables</b>	<b>46,894</b>	<b>30,286</b>	<b>3,406</b>	<b>13,202</b>

Note 1: The Group's normal terms related to product sales allows close out of invoicing to extend beyond 60 days therefore, as at the date of this report, no receivables for the 31 December 2012 reporting period are classified as 'past due not impaired'.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (b) Credit risk (continued)

	Total	Receivables ageing analysis between		
31 December 2011		<30 days	30-60 days	>60 days
Consolidated	\$'000	\$'000	\$'000	\$'000 <sup>(1)</sup>
Trade receivables	51,592	47,419	3,577	596
Other receivables	9,945	3,149	1,228	5,568
<b>Total receivables</b>	<b>61,537</b>	<b>50,568</b>	<b>4,805</b>	<b>6,164</b>

Note 1: The Group's normal terms related to product sales allows close out of invoicing to extend beyond 60 days therefore, as at the date of this report, no receivables for the 31 December 2011 reporting period are classified as 'past due not impaired'.

Credit risk further arises in relation to financial guarantees given to certain parties – see note 42 for details.

## (c) Liquidity risk

Liquidity risk is the risk that the Group will not meet its financial obligations as they fall due. Prudent liquidity risk management therefore implies that, under both normal and stressed conditions, the Group maintains:

- sufficient cash and marketable securities;
- access to, or availability of, funding through an adequate amount of committed credit facilities; and
- the ability to close-out any open market positions.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows; matching maturity profiles of financial assets and liabilities; and by maintaining flexibility in funding including ensuring that surplus funds are generally only invested in instruments that are tradeable in highly liquid markets or that can be relinquished with minimal risk of loss.

*Maturities of financial liabilities*

The tables below analyse the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	< 1 Year \$'000	Between 1-5 years \$'000	Total contractual cash flow \$'000
<b>31 December 2012 - Consolidated</b>			
<b>Non-derivatives</b>			
Payables	46,501	-	46,501
Interest Bearing	93,540	56,072	149,612
Lease liabilities	3,370	2,215	5,585
<b>Total non-derivatives</b>	<b>143,411</b>	<b>58,287</b>	<b>201,698</b>
<b>Derivatives</b>			
Forward metal sales contracts – held for trading	514	-	514
<b>Total derivatives</b>	<b>514</b>	<b>-</b>	<b>514</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (c) Liquidity risk (continued)

31 December 2011 - Consolidated	< 1 Year \$'000	Between 1-5 years \$'000	Total contractual cash flow \$'000
<b>Non-derivatives</b>			
Payables	49,120	-	49,120
Interest Bearing	43,865	84,535	128,400
Lease liabilities	3,471	4,169	7,640
<b>Total non-derivatives</b>	<b>96,456</b>	<b>88,704</b>	<b>185,160</b>
<b>Derivatives</b>			
Forward metal sales contracts – held for trading	8,646	-	8,646
<b>Total derivatives</b>	<b>8,646</b>	<b>-</b>	<b>8,646</b>

For both the reporting period ended 31 December 2012 and the comparative period the Group had no contractual liabilities that would result in cash flows extending beyond a 5 year time frame.

## (d) Fair value disclosures

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

As of 1 July 2009, Perilya Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities, (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices), (level2), and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs), (level 3).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (d) Fair value disclosures (continued)

The following tables present the Group's assets and liabilities measured and recognised at fair value at 31 December 2012 and 31 December 2011:

CONSOLIDATED – as at 31 December 2012				
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>Assets</b>				
Trade receivables	-	34,949	-	34,949
Held-for-trading financial assets				
Equity securities	-	-	-	-
Available-for-sale financial assets				
Equity securities	47	-	477	524
<b>Total assets</b>	<b>47</b>	<b>34,949</b>	<b>477</b>	<b>35,473</b>
<b>Liabilities</b>				
Trade payables	-	-	-	-
Derivative financial instruments				
Forward metal sales contracts – held for trading	-	514	-	514
<b>Total liabilities</b>	<b>-</b>	<b>514</b>	<b>-</b>	<b>514</b>

CONSOLIDATED – as at 31 December 2011				
	Level 1 \$000	Level 2 \$000	Level 3 \$000	Total \$000
<b>Assets</b>				
Trade receivables	-	51,593	-	51,593
Held-for-trading financial assets				
Equity securities	497	-	-	497
Available-for-sale financial assets				
Equity securities	153	-	487	640
<b>Total assets</b>	<b>650</b>	<b>51,593</b>	<b>487</b>	<b>52,730</b>
<b>Liabilities</b>				
Trade payables	-	2,760	-	2,760
Derivative financial instruments				
Forward metal sales contracts – held for trading	-	8,646	-	8,646
<b>Total liabilities</b>	<b>-</b>	<b>11,406</b>	<b>-</b>	<b>11,406</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (d) Fair value disclosures (continued)

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the reporting date. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

Derivative financial instruments are fair valued by comparing the contracted rate to the current market rate for a contract with the same remaining period to maturity. Commercial paper is fair valued using dealer quotes for and assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in level 2.

The following table presents the changes in level 3 instruments for the year:

	CONSOLIDATED	
	Available for sale equity securities 31 December 2012 \$000	Available for sale equity securities 31 December 2011 \$000
Opening balance	487	487
Losses recognised in other comprehensive income	(10)	-
Closing balance	477	487

The net fair value of cash and cash equivalents and non-interest bearing financial assets and financial liabilities of the consolidated entity approximates their carrying amounts.

The carrying values (less impairment provision if provided) of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The carrying value of financial liabilities approximates their fair values which, for disclosure purposes, are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## (e) Capital risk management

The Group manages its capital so as to retain a strong capital base to sustain the future development of the business and to ensure that the Group, will be able to continue to provide returns for shareholders as well as maintaining investor, creditor and market confidence.

Total capital is calculated as equity as shown in the balance sheet (including non-controlling interests) plus debt.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group continuously reviews the capital structure to ensure that:

- sufficient finance for the Group is maintained and at a reasonable cost;
- sufficient funds are available to meet capital expenditure and ongoing operational requirements; and
- distributions to shareholders can be met within stated dividend policy requirements.

There were no changes to the Group's approach to capital management during the reporting period.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

## 28. FINANCIAL RISK MANAGEMENT (CONTINUED)

## (e) Capital risk management (continued)

Beyond any covenants disclosed elsewhere in these notes, neither the parent entity nor any of its subsidiaries within the Group are subject to externally imposed capital requirements.

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Total borrowings	147,633	123,416
Less: Cash and cash equivalents	(37,634)	(36,371)
Net debt	109,999	87,045
Total equity	381,643	355,140
Total capital	491,642	442,185

## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES

## (a) Directors

The following persons were directors of Perilya Limited during the financial year:

(i) *Chairman – Non-executive*

Zhang Shuijian

(ii) *Executive directors*

Paul Arndt

Minzhi Han

(iii) *Non-executive directors*

Patrick O'Connor (Deputy Chairman)

Anna Liscia

Wang Wen

## (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, during the reporting period or for the periods of employment as indicated:

Name	Position	Employer
Minzhi Han	General Manager – Metals and Marketing	Perilya Management Limited
Paul Marinko	Company Secretary & General Counsel	Perilya Management Limited
Andrew Lord	General Manager – Broken Hill	Perilya Broken Hill Limited
Angelo Christou	Chief Financial Officer	Perilya Management Limited
Peter Trout	General Manager – America Operations	Perilya Management Limited
David Hume	General Manager – Broken Hill (from 19/11/2012)	Perilya Broken Hill Limited

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## (c) Key management personnel compensation

	CONSOLIDATED <sup>(1)</sup>	
	31 December 2012 \$000	31 December 2011 \$000
Short-term employee benefits	4,316,770	2,522,027
Post-employment benefits	169,159	192,665
Share-based payments	771,330	367,422
	5,257,259	3,082,114

(1) The data in this table is sourced from Tables 4 and 5 of the remuneration report which can be found on page 32 - 33.

## (d) Equity instrument disclosures relating to key management personnel

## (i) Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 4(a) of the remuneration report on pages 35 to 37.

## (ii) Options holdings

The number of options over ordinary shares in the company held during the financial year by each director of Perilya Limited and other key management personnel of the Group, including their personally related parties, are set out below:

31 December 2012 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes <sup>#</sup>	Balance at end of the reporting period <sup>#</sup>	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
<b>Directors of Perilya Limited</b>								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	3,015,018	-	-	-	(1,000,000)	2,015,018	-	2,015,018
Patrick O'Connor	-	-	-	-	-	-	-	-
Minzhi Han	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Anna Liscia	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
<b>Other key management personnel</b>								
Paul Marinko	1,208,192	-	-	-	(350,000)	858,192	-	858,192
Andrew Lord	1,333,479	-	-	-	(350,000)	983,479	-	983,479
Angelo Christou	394,163	-	-	-	-	394,163	-	394,163
Peter Trout	394,163	-	-	-	-	394,163	-	394,163
David Hume	-	-	-	-	-	-	-	-

<sup>#</sup> For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the reporting period' column. These personnel may have either forfeited these options on leaving or, where options have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their options, the balances in the 'Balance at end of the reporting period column' indicate the individuals options holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## (d) Equity instrument disclosures relating to key management personnel (continued)

No options are vested and un-exercisable at the end of the reporting period.

31 December 2011 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes <sup>#</sup>	Balance at end of the reporting period <sup>#</sup>	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
<b>Directors of Perilya Limited</b>								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	3,089,092	925,926	-	-	(1,000,000)	3,015,018	1,000,000	2,015,018
Patrick O'Connor	-	-	-	-	-	-	-	-
Minzhi Han	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Anna Liscia	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
<b>Other key management personnel</b>								
Paul Marinko	1,164,029	394,163	-	-	(350,000)	1,208,192	350,000	858,192
Andrew Lord	1,235,962	447,517	-	-	(350,000)	1,333,479	350,000	983,479
Angelo Christou	-	394,163	-	-	-	394,163	-	394,163
Peter Trout	-	394,163	-	-	-	394,163	-	394,163

<sup>#</sup> For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the reporting period' column. These personnel may have either forfeited these options on leaving or, where options have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their options, the balances in the 'Balance at end of the reporting period column' indicate the individuals options holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

## (iii) Shares provided as remuneration

Details of shares provided as remuneration under the Perilya ESAP, together with terms and conditions, can be found at section 4(c) of the remuneration report on page 39 - 40.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## (d) Equity instrument disclosures relating to key management personnel (continued)

(iv) Share holdings<sup>(1)</sup>

The numbers of shares in the company held during the reporting period by each director of Perilya Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

31 December 2012 Name	Balance at the start of the reporting period	Received during the reporting period on exercise of options	Other changes during the reporting period <sup>(2)</sup>	Balance at the end of the reporting period
<b>Directors of Perilya Limited</b>				
Zhang Shuijian <sup>(3)</sup>	-	-	-	-
Paul Arndt	909,803	-	-	909,803
Patrick O'Connor	-	-	-	-
Minzhi Han	-	-	-	-
Anna Liscia	-	-	-	-
Wang Wen	-	-	-	-
<b>Other key management personnel</b>				
Paul Marinko	210,373	-	123,392	333,765
Andrew Lord	49,993	-	123,392	173,385
Angelo Christou	238,095	-	-	238,095
Peter Trout	-	-	-	-
David Hume	-	-	-	-

- (1) This table excludes unvested ESAP related share holdings still held in the Plan as these shares are controlled by the Trust and still subject to the recipient satisfying specified service conditions. Vested ESAP shares are included in 'Other changes' as while still held in the Plan the recipient now has an unconditional right to receive those shares. For details related to employer share remuneration received by key management personnel, under the Perilya ESAP, see Table 13 of the directors' report on page 40. For further detail on the operations of the plan see note 41.
- (2) Other changes may include reductions, for disclosure purposes only, for those directors and key management personnel who have left the company – therefore the balance at year end for that person cannot be taken to be indicative of whether or not an interest is still retained in those shares.
- (3) Mr Zhang, by virtue of his directorship in Zhongjin, is taken to have held 410,574,921 shares in Perilya Limited. However, this is not shown in the table.

31 December 2011 Name	Balance at the start of the reporting period	Received during the reporting period on exercise of options	Other changes during the reporting period <sup>(2)</sup>	Balance at the end of the reporting period
<b>Directors of Perilya Limited</b>				
Zhang Shuijian <sup>(3)</sup>	-	-	-	-
Paul Arndt	368,440	-	541,363	909,803
Patrick O'Connor	-	-	-	-
Minzhi Han	-	-	-	-
Peter Harley	100,000	-	(100,000)	-
Anna Liscia	-	-	-	-
Wang Wen	-	-	-	-
<b>Other key management personnel</b>				
Paul Marinko	19,896	-	190,477	210,373
Andrew Lord	49,993	-	-	49,993
Angelo Christou	-	-	238,095	238,095
Peter Trout	-	-	-	-

- (1) This table excludes unvested ESAP related share holdings still held in the Plan as these shares are controlled by the Trust and still subject to the recipient satisfying specified service conditions. Vested ESAP shares are included in 'Other changes' as while still held in the Plan the recipient now has an unconditional right to receive those shares. For details related to employer share remuneration received by key management personnel, under the Perilya ESAP, see Table 13 of the directors' report on page 40. For further detail on the operations of the plan see note 41.
- (2) Other changes may include reductions, for disclosure purposes only, for those directors and key management personnel who have left the company – therefore the balance at year end for that person cannot be taken to be indicative of whether or not an interest is still retained in those shares.
- (3) Mr Zhang, by virtue of his directorship in Zhongjin, is taken to have held 410,574,921 shares in Perilya Limited. However, this is not shown in the table.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

## (d) Equity instrument disclosures relating to key management personnel (continued)

## (v) Performance rights

In October 2007 shareholders approved the implementation of the Perilya Long Term Incentive Share Plan which is used to remunerate key management personnel and other executives via the issuing of rights over Perilya Limited shares which then vest over set periods dependent on specified performance hurdles been met.

The numbers of performance rights in the company held during the reporting period by each director of Perilya Limited and other key management personnel of the Group, including their personally-related entities, are set out below:

31 December 2012 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes <sup>#</sup>	Balance at end of the reporting period or on leaving the company <sup>#</sup>	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
<b>Directors of Perilya Limited</b>								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	-	716,588	-	-	-	716,588	-	716,588
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	300,284	-	-	-	300,284	-	300,284
Anna Liscia	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
<b>Other key management personnel</b>								
Paul Marinko	15,900	300,284	-	-	(15,900)	300,284	-	300,284
Andrew Lord	-	340,948	-	-	-	340,948	-	340,948
Angelo Christou	-	300,284	-	-	-	300,284	-	300,284
Peter Trout	-	305,758	-	-	-	305,758	-	305,758
David Hume	-	-	-	-	-	-	-	-

<sup>#</sup> For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the year' column. These personnel may have either forfeited these performance rights on leaving or, where rights have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their performance rights, the balances in the 'Balance at end of the year column' indicate the individuals performance rights holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

31 December 2011 Name	Balance at the start of the reporting period	Granted as compensation	Exercised	Sold	Other changes <sup>#</sup>	Balance at end of the reporting period or on leaving the company <sup>#</sup>	Vested and exercisable at the end of the reporting period	Unvested at the end of the reporting period
<b>Directors of Perilya Limited</b>								
Zhang Shuijian	-	-	-	-	-	-	-	-
Paul Arndt	-	-	-	-	-	-	-	-
Patrick O'Connor	-	-	-	-	-	-	-	-
Han Minzhi	-	-	-	-	-	-	-	-
Peter Harley	-	-	-	-	-	-	-	-
Anna Liscia	-	-	-	-	-	-	-	-
Wang Wen	-	-	-	-	-	-	-	-
<b>Other key management personnel</b>								
Paul Marinko	15,900	-	-	-	-	15,900	-	15,900
Andrew Lord	-	-	-	-	-	-	-	-
Angelo Christou	-	-	-	-	-	-	-	-
Peter Trout	-	-	-	-	-	-	-	-

<sup>#</sup> For those directors and key management personnel who have left the company for reasons other than redundancy, the balances are taken to zero at the period end as reflected by data in the 'Other changes during the year' column. These personnel may have either forfeited these performance rights on leaving or, where rights have vested, they may be retained and be exercisable. For those directors and key management personnel who were retrenched and retained rights to their performance rights, the balances in the 'Balance at end of the year column' indicate the individuals performance rights holding as at the date of their ceasing employment within the Group that were still vested and exercisable at period end.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)****(d) Equity instrument disclosures relating to key management personnel (continued)****(v) Performance rights (continued)**

Further information on the plan can be found in sections 4(b) of the remuneration report on pages 37 to 39 and note 41 of these financial statements.

**(e) Loans to key management personnel**

There were no loans made, outstanding or repaid by any directors or other key management personnel during the reporting period (2011: nil).

**(f) Other transactions with key management personnel**

Apart from details as disclosed above, in the remuneration report on pages 27 to 43 and in note 33 (detailing related party transactions), there were no other transactions with directors or other key management personnel during the reporting period.

**30. REMUNERATION OF AUDITORS**

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

**(a) Assurance services**

	CONSOLIDATED	
	31 December 2012 \$	31 December 2011 \$
<i>Audit services</i>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial statements	414,111	398,000
PricewaterhouseCoopers network firms		
Audit and review of financial statements	168,480	147,000
Total remuneration for assurance services	582,591	545,000

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 30. REMUNERATION OF AUDITORS (CONTINUED)

## (b) Taxation services

	CONSOLIDATED	
	31 December 2012 \$	31 December 2011 \$
PricewaterhouseCoopers Australian firm		
Tax compliance services	146,600	78,200
Tax advice on potential acquisitions	12,500	-
PricewaterhouseCoopers network firms		
Tax compliance services	118,391	10,928
Deloitte Dominican Republic firm		
Tax compliance services	-	14,552
Total remuneration for taxation services	277,491	103,680

The Group employs PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally taxation services where PricewaterhouseCoopers acts as the Group's taxation agent and in relation to provision of general corporate advice. It is the Group's policy to seek competitive tenders for all major consulting projects.

## 31. CONTINGENCIES

There were no known contingent assets or liabilities which were not provided for in the financial statements of the Group as at 31 December 2012, other than:

## (a) Contingent assets

*Valuation of Perilya Broken Hill Land*

On 19 October 2012, Lloyd AJ of the New South Wales Land and Environment Court ("Court") allowed Perilya Broken Hill Limited's ("PBHL") appeal against a decision of the NSW Valuer-General to disallow PBHL's objection to the valuation of its parcels of mining leased land known as North, South and Potosi mines ("Land"). The NSW Valuer-General originally valued the Land at \$20.9 million but in allowing PBHL's appeal the Court revoked this determination and ordered that the value of the Land be determined as \$4.9 million. The matter is currently the subject of an appeal to the NSW Court of Appeal by the NSW Valuer-General.

In response to the Court's decision, the NSW Valuer-General has amended the *Register of Land Values* kept by the NSW Valuer General to reflect the value determined by the Court of \$4.9 million. Under s14DD(2) of the *Valuation of Land Act 1916* the rates payable under the *Local Government Act 1993* which are calculated by reference to land value must be recalculated to reflect the altered valuation and any overpayment made by Perilya must be refunded. Perilya is pursuing the Broken Hill City Council for approximately \$6.88 million in over paid rates between 2007 and 2010.

The contingent asset is not recognised as a receivable at 31 December 2012 as the receipt of the over paid rates is dependent on the outcome of the appeal process.

## (b) Contingent liabilities

*Land Tax relating to Perilya Broken Hill Land*

On 17 December 2012, PBHL received a Land Tax Assessment Notice from the NSW Office of State Revenue relating to PBHL's North, South and Potosi mines. The assessment notice requires PBHL to pay land tax of approximately \$1.77 million with retrospective application covering the 5 year period between the 2008 and 2012 tax years. The assessment is inconsistent with the values recorded in the *Register of Land Values* kept by the NSW Valuer-General. Further, in light of the Court's decision relating to valuation of PBHL land referred to above under "Contingent assets", the Company considers the amount of land tax claimed by the NSW Office of State Revenue to be excessive.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 31. CONTINGENCIES (CONTINUED)

## (b) Contingent liabilities

*Land Tax relating to Perilya Broken Hill Land*

In the Company's view the levying of any land tax should await the outcome of litigation relating to the original decision of the Court as this litigation is likely to have a material effect on the amount of land tax to be assessed. The Company has lodged an objection to the valuation used for the purposes of the Land Tax Assessment relating to all five years between 2008 and 2012 of assessment and the Chief Commissioner has granted the Company a three month extension of the obligation to pay in order to allow the objection to the underlying land valuations to be determined. If necessary, the Company will consider applying for a further extension until the objection has been finally dealt with. The objection to the land valuations for land tax purposes for the years 2006 -2011 inclusive are on the same basis as the Company's objection and successful appeal of the 2007 land valuation for the Company's Broken Hill Mining leases.

The contingent liability is not recognised as a payable at 31 December 2012 as the land tax payment is dependent on the outcome of the appeal process described under "Contingent assets".

## 32. COMMITMENTS

## (a) Capital commitments

Capital expenditure contracted for at the end of the reporting period but not recognised as liabilities is as follows:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<i>Property, plant and equipment</i>		
Commitments in relation to capital expenditure contracted for, but not provided for are payable as follows:		
Within one year	11,720	857
Later than one year but not later than five years	-	3,518
Later than five years	-	-
Total capital commitments	11,720	4,375

## (b) Lease commitments – non-cancellable operating leases

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<i>Operating leases</i>		
Commitments in relation to non-cancellable operating leases contracted for at the reporting date, but not recognised as liabilities payable:		
Within one year	398	412
Later than one year but not later than five years	1,543	1,292
Later than five years	310	512
Total lease commitments	2,251	2,216

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 32. COMMITMENTS (CONTINUED)

## (b) Lease commitments – non-cancellable operating leases (continued)

The operating lease reflected relate to Perilya's head office located at Level 8, 251 Adelaide Terrace, Perth and hire of equipment at Broken Hill.

During the year ended 31 December 2012, \$511,000 was recognised as an expense in the income statement in respect of operating leases (31 December 2011: \$728,000).

## (c) Lease commitments – finance leases

The Group enters finance leases with various financial institutions as a means of funding the acquisition of some property, plant and equipment. Lease payments are fixed and have no escalation clauses and under the contractual terms of the agreements the Group retains the equipment on completion on the agreed repayment schedule between the Group and the financier or has the option to acquire the leased assets for agreed fair values on the expiry of the leases.

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
Commitments in relation to finance leases are payable as follows:	Notes		
Within one year		3,616	3,893
Later than one year but not later than five years		2,283	4,372
		5,899	8,265
Less: future finance charges		(314)	(625)
Total recognised as a liability		5,585	7,640
Representing lease liabilities:			
Current	20	3,370	3,471
Non-current	22	2,215	4,169

The weighted average interest rate implicit across all finance leases is 5.61% (31 December 2011: 8.18%).

## (d) Exploration and mining expenditure commitments

		CONSOLIDATED	
		31 December 2012 \$000	31 December 2011 \$000
Minimum exploration and mining expenditure commitments relating to existing mineral tenements are as follows:			
Within one year		21,117	19,763

In order to maintain current rights of tenure to exploration tenements, the Group is required to perform minimum exploration work to meet the minimum expenditure requirements specified by various State and national governments under whose jurisdiction the Group's tenements reside.

As at 31 December 2012 the Group maintains current rights of tenure to tenements which require estimated expenditure outlays for 2013 of \$7.9 million on exploration tenements (31 December 2011: \$6.6 million); and \$13.2 million on the Broken Hill mine tenements (31 December 2011: \$13.2million).

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 32. COMMITMENTS (CONTINUED)

## (d) Exploration expenditure commitments (continued)

Ongoing expenditure obligations exist until such time as the tenement is relinquished. Under certain circumstances these obligations are subject to the possibility of adjustment to the amount and/or timing of such obligations, however, they are expected to be fulfilled in the normal course of operations. Further outlays in respect of tenements will continue beyond 2012 however the amount is impractical to quantify. These obligations are not provided for in the financial statements.

## 33. RELATED PARTY TRANSACTIONS

## (a) Identity of related parties

The consolidated entity has a related party relationship with its joint ventures (see note 36) and with its key management personnel (see notes 29 and 41).

## (b) Transactions with ultimate parent

The ultimate Australian parent entity within the Group is Perilya Limited. The ultimate controlling party is Shenzhen Zhongjin Lingnan Nonfemet Co. Ltd ("Zhongjin Lingnan" – incorporated in China) which at 31 December 2012 owns 53.37% of the issued ordinary shares of Perilya Limited (31 December 2011: 53.37%)

During the 12 months ended 31 December 2012, Perilya Limited entered into a sales contract with Shum Yip Nonfemet Hong Kong Limited, a wholly owned subsidiary of Zhongjin Lingnan. The total net revenue amounted to USD \$40,705,783 for the 12 months ended 31 December 2012.

The abovementioned sale was based on arm's length commercial terms and conditions, consistent with Perilya's Policy.

## (c) Transactions with state-owned banks and entities

Perilya's ultimate parent, Zhongjin Lingnan, is 39.57% owned by the People's Republic of China ("PRC") Government. Therefore Perilya is subject to significant influence from the PRC Government. The PRC Government controls a number of state-owned banks and entities in China. Therefore transactions with these state-owned banks and entities are regarded as related party transactions.

The significant transactions with the state-owned banks are as follows:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Bank of China</b>		
Bank balances and deposits	10	10
Interest expense on bank loans	-	2,090
<b>China Development Bank</b>		
Bank loans	113,146	85,321
Interest expense on bank loans	4,163	4,702
<b>Industrial and Commercial Bank of China</b>		
Bank balances and deposits	582	4,028
Bank loans	28,902	29,567
Interest expense on bank loans	905	544



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 33. RELATED PARTY TRANSACTIONS (CONTINUED)

## (c) Transactions with state-owned banks and entities (continued)

During the 12 months ended 31 December 2012, Perilya Limited entered into a sales contract with Jiangtong Southern (Hong Kong) Limited for sale of lead and zinc concentrate and Jiangxi Copper Company Limited for sale of copper concentrate. These two companies are either controlled or significantly influenced by the PRC Government. The total net revenue amount to USD \$61,241,487 with Jiangtong Southern (Hong Kong) Limited and USD \$54,174,424 with Jiangxi Copper Company Limited for the 12 months ended 31 December 2012.

The abovementioned sales were based on arm's length commercial terms and conditions.

## (d) Key management personnel and remuneration benefits

Disclosures relating to key management personnel including information on remuneration are disclosed in note 29 and information related to option transactions and performance rights are disclosed in note 41.

## 34. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries and controlled entities in accordance with the accounting policy described in note 1(b):

Name of entity	Country of incorporation	Class of shares	Equity holding	
			31 December 2012 %	31 December 2011 %
Perilya Broken Hill Limited*	Australia	Ordinary	100	100
ACN 106 537 008 Pty Ltd (formerly Perilya Daisy Milano Pty Ltd)	Australia	Ordinary	100	100
Perilya Exploration Pty Ltd (formerly Ranger Minerals Pty Ltd)	Australia	Ordinary	100	100
Perilya Investments Pty Ltd (formerly Kolmar Pty Ltd)	Australia	Ordinary	100	100
Noble Mining Corporation Pty Ltd	Australia	Ordinary	100	100
Perilya Freehold Mining Pty Ltd (formerly Freehold Mining Ltd)*	Australia	Ordinary	100	100
Perilya Management Pty Ltd (formerly Strike Energy Pty Ltd)	Australia	Ordinary	100	100
Riverpoint Holdings Pty Ltd	Australia	Ordinary	100	100
Powerform Investments Pty Ltd	Australia	Ordinary	100	100
Richview Investments Pty Ltd	Australia	Ordinary	100	100
Mt Oxide Pty Ltd	Australia	Ordinary	100	100
Perilya Employee Share Acquisition Plan - Tax Deferred Trust	Australia	-	100	100
Perilya (Malaysia) Sdn Bhd	Malaysia	Ordinary	100	100
Perilya Canada Limited	Canada	Ordinary	100	100
GlobeStar Mining Corporation	Canada	Ordinary	100	100
TGW Corp. Inc	Canada	Ordinary	100	100
Sarmin Exploration Corp.	Canada	Ordinary	100	100
Corporacion Minera Dominicana S.A.S	Dominican Republic	Ordinary	100	100
Cormidom Exploration SRL	Dominican Republic	Ordinary	100	100
Fundacion Cormidom	Dominican Republic	Ordinary	100	100
Talyn Limited	Ireland	Ordinary	100	100
Riverpoint Holdings (Mauritius) Pty Ltd	Mauritius	Ordinary	100	100
Calabrid Trading 16 (Pty) Ltd	South Africa	Ordinary	100	100
Defacto Investments 275 Pty Ltd	South Africa	Ordinary	51.3	51.3

\* These subsidiaries have been granted relief from the necessity to prepare financial statements in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information see note 35.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 35. DEED OF CROSS GUARANTEE

Perilya Limited, Perilya Broken Hill Limited and Perilya Freehold Mining Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purpose of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Perilya Limited, they also represent the 'Extended Closed Group'.

## (a) Consolidated income statement and a summary of movements in consolidated retained profits

Set out below is a consolidated income statement and a summary of movements in consolidated retained profits for the reporting period ended 31 December 2012 of the Closed Group consisting of Perilya Limited, Perilya Broken Hill Limited and Perilya Freehold Mining Pty Ltd.

	CLOSED GROUP	
	31 December 2012 \$000	31 December 2011 \$000
<b>Income statement</b>		
<b>Revenue from continuing operations</b>	<b>240,148</b>	<b>231,807</b>
Other income	663	1,011
Changes in inventories of finished goods and work in progress	2,206	2,297
Raw materials, power and consumables used	(76,246)	(66,905)
Employee benefits expense	(47,083)	(41,993)
Depreciation and amortisation expense	(35,477)	(28,774)
External services and consultants	(39,997)	(44,630)
Freight and handling	(22,920)	(24,287)
Royalties	(6,424)	(5,921)
Foreign exchange loss	(1,538)	(2,203)
Impairment losses	(104)	(149)
Other expenses from ordinary activities	(9,698)	(10,356)
Finance costs	(1,498)	(1,854)
<b>Profit before income tax</b>	<b>2,032</b>	<b>8,043</b>
Income tax (expense) / benefit	(1,469)	(3,279)
<b>Profit for the period attributable to members of Perilya Limited</b>	<b>563</b>	<b>4,764</b>
<b>Summary of movements in consolidated retained profits</b>		
<b>Accumulated losses at the beginning of the year</b>	<b>(24,920)</b>	<b>(29,684)</b>
Profit for the year	563	4,764
<b>Accumulated losses at the end of the year</b>	<b>(24,357)</b>	<b>(24,920)</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 35. DEED OF CROSS GUARANTEE (CONTINUED)

## (b) Balance sheet

Set out below is a consolidated balance sheet as at 31 December 2012 of the Closed Group.

	CLOSED GROUP	
	31 December 2012 \$000	31 December 2011 \$000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	22,047	16,242
Trade and other receivables	18,061	33,499
Inventories	15,712	13,579
Available-for-sale financial assets	48	153
Total current assets	55,868	63,473
<b>Non-current assets</b>		
Restricted cash	24,392	24,554
Trade and other receivables	96,869	58,276
Other financial assets	140,603	234,322
Exploration, development and evaluation expenditure	20,495	17,591
Mine properties in use	139,362	98,670
Property, plant and equipment	63,189	62,439
Deferred tax assets	60,983	63,949
Total non-current assets	545,893	559,801
<b>Total assets</b>	<b>601,761</b>	<b>623,274</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Trade and other payables	200,666	170,610
Borrowings	70,799	42,333
Provisions	12,959	7,572
Derivative financial instruments	514	8,646
Total current liabilities	284,938	229,161
<b>Non-current liabilities</b>		
Borrowings	2,216	80,195
Provisions	28,024	28,921
Total non-current liabilities	30,240	109,116
Total liabilities	315,178	338,277
<b>Net assets</b>	<b>286,583</b>	<b>284,997</b>
<b>EQUITY</b>		
Contributed equity	311,505	311,455
Reserves	(565)	(1,538)
Retained profits	(24,357)	(24,920)
<b>Total equity</b>	<b>286,583</b>	<b>284,997</b>

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 36. INTERESTS IN JOINT VENTURES

Companies within the economic entity are participants in the following joint ventures as at 31 December 2012. The joint ventures are not separate legal entities, they are contractual arrangements between the participants for the sharing of costs and output and do not in themselves generate revenue or profit. The percentage interests at each reporting date may vary depending on the monies expended by the joint venturers. The Group's percentage interests in future output if all the venturers fulfil their obligations to the joint ventures are as follows:

Joint venture	Location	Principal activity	% Holding	
			31 December 2012	31 December 2011
Coultra <sup>(1)</sup>	NSW	Base metal exploration	51	51
Greenshire <sup>(1)</sup>	NSW	Base metal exploration	90	90
Stirling Vale <sup>(1)</sup>	NSW	Base metal exploration	51	51
Beltana Corridor <sup>(1)</sup>	SA	Base metal exploration	85	85
Blinman (Minotaur) <sup>(1)</sup>	SA	Base metal exploration	90	80
Mt Frome <sup>(1)</sup>	SA	Base metal exploration	90	90
Reaphook <sup>(1)</sup>	SA	Base metal exploration	85	85
Aroona <sup>(1)</sup>	SA	Base metal exploration	80	80
Malaysia Wide <sup>(2)</sup>	Malaysia	Gold and base metal exploration	50	50
Ranau <sup>(2)</sup>	Malaysia	Gold and base metal exploration	50	50
Dee Range <sup>(1)</sup>	QLD	Gold and base metal exploration	90	90
Ulam Range <sup>(1)</sup>	QLD	Gold and base metal exploration	90	90
Moblan West <sup>(2)</sup>	Canada	Lithium exploration	60	60
Moblan East <sup>(2)</sup>	Canada	Lithium exploration	60	60
Kanowna	WA	Gold exploration	76	76
Rustenberg <sup>(2)</sup>	South Africa	Platinum group metals exploration	52	52
Los Hojanchos <sup>(2)</sup>	Dominican Republic	Gold and base metal exploration	50	50
La Manosa <sup>(2)</sup>	Dominican Republic	Gold and base metal exploration	50	50

(1) Indicates the interest in the joint venture is controlled by Perilya Limited or its associated subsidiary and is not jointly controlled.

(2) Indicates jointly controlled ventures – see note (a)

## (a) Jointly controlled assets

The Group's aggregate interests in the assets employed in its joint venture operations are included in the consolidated balance sheet, in accordance with the accounting policy described in note 1(b), under the following classifications:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
<b>Current assets</b>		
Receivables	21	25
Other	-	-
Total current assets	21	25
<b>Non-current assets</b>		
Exploration and evaluation expenditure	40,840	39,630
Property, plant and equipment	29	29
Total non-current assets	40,869	39,659
Total assets	40,890	39,684

The contingent liabilities and commitments in respect thereto are referred to in notes 31 and 32.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**37. EVENTS OCCURRING AFTER THE END OF THE REPORTING PERIOD**

The Board of Directors are not aware of any matter or circumstance that has arisen since the end of the financial year that has significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in future financial years.

**38. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FLOW FROM OPERATING ACTIVITIES**

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Profit for the year	27,720	38,751
Depreciation and amortisation	46,756	39,008
Non-cash share-based payments employee benefits expense	976	444
Net exchange differences	628	1,937
Impairment of available-for-sale financial assets	104	149
Fair value movement of financial assets through profit and loss	-	(125)
(Gain)/loss on sale of available-for-sale financial assets	-	13
(Gain)/loss on sale of plant and equipment	(585)	(632)
(Gain)/loss on sale of financial assets through profit and loss	(169)	-
Change in operating assets and liabilities		
(Increase)/decrease in trade debtors	14,084	(22,451)
Decrease/(increase) in other debtors	(2,490)	472
Decrease/(increase) in inventories	(3,766)	1,061
(Increase)/decrease in prepayments	1,118	(664)
Increase/(decrease) in trade creditors and other payables	(495)	1,137
Increase/(decrease) in provisions	2,750	13,599
Increase/(decrease) in tax assets and liabilities	(13,202)	10,952
(Decrease)/increase in derivative financial instruments	(8,233)	(16,211)
Net cash inflow from operating activities	65,196	67,440

**39. NON-CASH INVESTING AND FINANCING ACTIVITIES**

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Acquisition of plant and equipment on finance leases	1,579	7,038

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 40. EARNINGS PER SHARE

## (a) Basic earnings per share

	CONSOLIDATED	
	31 December 2012 cents	31 December 2011 cents
Profit attributable to the ordinary owners of the company	3.61	6.71

(b) Diluted earnings per share <sup>(e)</sup>

	CONSOLIDATED	
	31 December 2012 Cents	31 December 2011 Cents
Profit attributable to the ordinary owners of the company	3.61	6.71

## (c) Reconciliation of earnings used in calculating earnings per share

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Profit attributable to the ordinary owners of the company used in calculating basic and diluted earnings per share	27,720	38,751

## (d) Weighted average number of shares used as the denominator

	CONSOLIDATED	
	31 December 2012	31 December 2011
Weighted average number of ordinary shares used in the denominator in calculating basic earnings per share	768,570,235	577,365,009
Adjustments for calculation of diluted earnings per share		
Unlisted options <sup>(e)</sup>	-	-
Weighted average number of ordinary shares and potential ordinary shares used in the denominator in calculating diluted earnings per share	768,570,235	577,365,009

## (e) Information concerning the classification of securities

Treasury shares (as disclosed in note 24) are deducted from total shares on issue for the purposes of calculating earnings per share.

Options granted to employees under the Perilya Limited Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive for the period ended 31 December 2012.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 41. SHARE-BASED PAYMENTS

## (a) Employee options plans (approved by shareholders in November 2006 and November 2009)

Options have been granted to employees under two established options plans ("the plans"), namely the old Perilya Limited 2000 Employee Incentive Scheme ("the incentive scheme") and its subsequent replacement, the Perilya Limited Employee Share Option Plan ("the current plan"), which was approved by shareholders at the 2003 annual general meetings and re-affirmed at the 2006 and the 2009 annual general meetings. Staff eligible to participate in the schemes, over the relevant periods, have been, or are, generally those at senior management level and above (including executive and non-executive directors) or those employees considered eligible to participate by the Board or its delegated committee.

Set out below are current balance summaries of options granted under the plans, as at 31 December 2012:

Grant date	Expiry date	Exercise price	Note	Balance at start of the reporting period Number	Granted during the reporting period Number	Exercised during the reporting period Number	Lapsed/cancelled during the reporting period Number	Expired Number	Balance at the end of the reporting period Number	Exercisable at the end of the reporting period Number
<b>31 Dec 2012</b>										
17-Jul-06	17-Jul-12	\$3.89	(i)	100,000	-	-	-	(100,000)	-	-
17-Jul-06	17-Jul-13	\$4.32	(i)	100,000	-	-	-	-	100,000	100,000
26-Nov-08	30-Sep-12	\$0.73	(i)	2,050,000	-	-	-	(2,050,000)	-	-
04-Jun-10	31-Mar-14	\$0.87	(i)	2,589,721	-	-	-	-	2,589,721	-
01-Jun-11	31-Mar-15	\$0.89	(i)	2,997,456	-	-	-	-	2,997,456	-
Total				7,837,177	-	-	-	(2,150,000)	5,687,177	100,000
Weighted average exercise price				\$0.92	-	-	-	\$0.88	\$0.94	\$4.32

Grant date	Expiry date	Exercise price	Note	Balance at start of the reporting period Number	Granted during the reporting period Number	Exercised during the reporting period Number	Lapsed/cancelled during the reporting period Number	Expired Number	Balance at the end of the reporting period Number	Exercisable at the end of the reporting period Number
<b>31 Dec 2011</b>										
17-Jul-06	17-Jul-11	\$3.46	(i)	300,000	-	-	-	(300,000)	-	-
17-Jul-06	17-Jul-12	\$3.89	(i)	100,000	-	-	-	-	100,000	100,000
17-Jul-06	17-Jul-13	\$4.32	(i)	100,000	-	-	-	-	100,000	100,000
26-Nov-08	30-Sep-11	\$0.58	(i)	2,050,000	-	-	-	(2,050,000)	-	-
26-Nov-08	30-Sep-12	\$0.73	(i)	2,050,000	-	-	-	-	2,050,000	2,050,000
04-Jun-10	31-Mar-14	\$0.87	(i)	2,589,721	-	-	-	-	2,589,721	-
01-Jun-11	31-Mar-15	\$0.89	(i)	-	2,997,456	-	-	-	2,997,456	-
Total				7,189,721	2,997,456	-	-	(2,350,000)	7,837,177	2,250,000
Weighted average exercise price				\$0.96	\$0.89	-	-	\$0.95	\$0.92	\$1.03

Notes: (i) Issued under the Perilya Limited Employee Share Option Plan 2003 (as re-ratified in November 2006 and November 2009)

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 41. SHARE-BASED PAYMENTS (CONTINUED)

## (a) Employee options plans (approved by shareholders in November 2006 and November 2009) (continued)

There were no options exercised during the year ended 31 December 2012 and 31 December 2011.

The weighted average remaining contractual life of share options outstanding at the end of the year was 1.76 years (31 December 2011: 2.21 years).

*Fair value of options granted*

There were no options granted during the year ended 31 December 2012 (31 December 2011: 2,997,456 options with an exercise price of \$0.89).

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in section 4(a) of the remuneration report on pages 35 to 37.

## (b) Employee Share Acquisition Plan

The Perilya Limited Employee Share Acquisition Plan ("ESAP") was implemented in August 2006 to acquire shares on-market for the benefit of employees. However, on 21 August 2008 the ESAP was suspended in response to the rapidly deteriorating economic environment due to the Global Financial Crisis and the high cost of administering the ESAP.

On 20 December 2011, after taking into account the best interests of shareholders, ESAP participants and the Company in general, the Company's Board resolved to wind up the ESAP, including temporarily reactivating the ESAP for the sole purpose of:

1. distributing vested shares under the ESAP to all relevant participating employees; and
2. varying the ESAP Deed to allow for unallocated or unvested shares ("Residual Shares") to be utilised for the purposes of a one off equity incentive retention bonus for certain non-related party employees under the ESAP (including two of the Company's key management personnel), subject to time based vesting hurdles.

During the period under review:

1. the Company's management instructed the plan's Trustee, CPU Share Plans Pty Ltd to distribute all vested shares to eligible employees under the ESAP in accordance with their respective entitlements; and
2. as part of the one off equity retention bonus described above, on 31 December 2012, 370,176 Residual Shares (allocated on 29 March 2012 to the three non-related party employees in equal portions as "Tranche 1 Shares"), vested in favour of those employees.

The Tranche 1 Shares which vested on 31 December 2012 amount to approximately half of the total balance of Residual Shares (i.e. 740,335). Subject to maintaining employment with the Company, on 31 December 2013 the remaining portion of the Residual Shares (ie "Tranche 2 Shares" being 370,159 Residual Shares) will vest in equal portions (to the greatest extent possible) in favour of each of the same three non-related party employees. These Residual Shares which as at the date of this report have not yet vested are shown as treasury shares in the consolidated financial statement (see note 24(d)).

The fair value of the Residual Shares allocated, is the closing share price for Perilya's shares (PEM) on the ASX on the allocation date. Expense of these shares is recognised over the vesting period and expense for the reporting period is included in the 'Employee benefits expense' in the income statement (see note (d) below).

It is the Board's intention that upon vesting of all Residual Shares under the amended ESAP, the Company will wind up the ESAP.



## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 41. SHARE-BASED PAYMENTS (CONTINUED)

## (c) Performance rights - Perilya Long Term Incentive Share Plan (LTIP)

At the company's Annual General Meeting on 10 May 2012, shareholders approved an amended version of the Perilya Long Term Incentive Share Plan ("LTIP") which has previously been suspended due to the impact of the Global Financial Crisis in 2008. This revised and reactivated incentive plan is the current long term incentive plan used to remunerate senior executives of the Group, including key management personnel identified elsewhere in this report.

The LTIP is a performance rights plan and vesting is dependent upon executives to whom performance rights are issued satisfying both time and performance hurdles determined by the Board, on advice from the Remuneration and Nominations Committee. Rights over Perilya Limited shares under the LTIP are issued for no consideration.

The LTIP's purpose is to provide Perilya with a mechanism for driving superior long term performance for shareholders and retention of executives. The key performance hurdles for the vesting of the performance rights are linked to the retention of key executives and shareholder value creation. The performance hurdles are based on three separate criteria, being, time based, total shareholder return ("TSR") based and earnings per Share ("EPS") based.

During the reporting period 2,774,834 of performance right were granted (31 December 2011: nil).

*Fair value and conditions attaching to grants of performance rights*

The tables below show details on fair values of performance rights granted as at 31 December 2012 along with other keys terms and conditions.

Grant date	Allocation date for grant	Fair value per right at grant date <sup>(1)</sup>	Vesting date	Performance condition for vesting to occur <sup>2</sup>	Vesting	Application of retesting	Expiry date
10 May 2012	10 Sep 2012	\$0.422	31 Dec 2013 – 31 Dec 2015	See tables below	See tables below	Initial testing occurs after 3 years with retesting at the 4 <sup>th</sup> year	31 Dec 2015

(1) Fair value was calculated using an analytic approach and Monte-Carlo simulation, at the time of grant, using a 55% volatility rate and an interest rate of 3.7%

## Key terms over performance rights as at 31 December 2012 – Time based component

Vesting component	Description	Duration of employment	Proportion of Time Based Performance Rights that vest
Time based	40% of the performance rights granted will be tested by reference to the length of time the relevant executive remains employed by Perilya	31 December of the year following the year of grant	25% of the rights subject to time condition
		31 December of the 2 <sup>nd</sup> year following the year of grant	37.5% of the rights subject to time condition
		31 December of the 3 <sup>rd</sup> year following the year of grant	37.5% of the rights subject to time condition

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 41. SHARE-BASED PAYMENTS (CONTINUED)

## (c) Performance rights - Perilya Long Term Incentive Share Plan (LTIP) (continued)

Key terms over performance rights as at 31 December 2012 – TSR based component

Vesting component	Description	Relative TSR Performance against the Comparator Group	Proportion of TSR Based Performance Rights that vest
TSR based	30% of the performance rights granted will be tested based on TSR compared to the comparator group	Less than 50 <sup>th</sup> percentile	0%
		50 <sup>th</sup> percentile	50% of the rights subject to the TSR condition
		Between 50 <sup>th</sup> percentile and 75 <sup>th</sup> percentile	50% of the rights subject to the TSR condition plus an additional 2% of this award for each additional percentile ranking above the 50 <sup>th</sup> percentile
		At or above the 75 <sup>th</sup> percentile	100% of the rights subject to the TSR condition

## Comparator Group for the purposes of testing the relative TSR performance of the vesting period

The TSR Comparator Group is the group of companies derived from the official ASX 300 metals and mining index, excluding BHP, Rio Tinto, Newcrest Mining, Fortescue Metals and metal/steel manufacturers.

Notes:

- A company whose market capitalisation changes to the extent that it no longer qualifies for inclusion in the ASX 300 metals & mining index remains in the comparator group.
- Companies included in the comparator group whose securities are suspended at the end of the Performance Period will remain in the comparator group at the end of the Performance Period. Companies in the comparative group that have been delisted from the official list of the ASX at the end of the Performance Period for reasons other than for financial failure, for example because of mergers and acquisitions, will be removed from the comparative group.
- Where a comparative group company becomes suspended or delisted because of financial failure, the company will remain included in the comparative group at the end of the Performance Period and will be placed in the last percentile ranking.
- Where a comparative group company merges with another company within the comparator group, the resultant entity remains in the comparator group and the acquired company is removed. If a company in the comparator group spins off another company, the subject company remains in the comparator group and the spun off company is not included.

Key terms over performance rights as at 31 December 2012 – EPS based component

Vesting component	Description	Annual Average Compound EPS Growth Rate	Proportion of EPS Based Performance Rights that vest
EPS based	30% of the performance rights granted will be tested based on EPS performance over the testing period	Less than 10% p.a.	0%
		At 10% p.a.	50% of the rights subject to the EPS condition
		More than 10% but less than 20% p.a.	Pro-rated vesting of between 51% and 99% of the rights subject to the EPS condition
		At or above 20% p.a.	100% of the rights subject to the EPS condition

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)

**41. SHARE-BASED PAYMENTS (CONTINUED)****(d) Expenses arising from share-based payment transactions**

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	31 December 2012 \$000	31 December 2011 \$000
Employee share acquisition plan expense	233	-
Options issued under employee options plan	540	444
Performance rights issued under employee share incentive plan	202	-
	975	444

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



## 42. PARENT ENTITY FINANCIAL INFORMATION

## (a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	PARENT ENTITY	
	31 December 2012 \$000	31 December 2011 \$000
<b>Statement of Financial Position</b>		
Current assets	16,150	15,922
Total assets	342,630	391,015
Current liabilities	83,645	55,493
Total liabilities	83,645	131,520
<i>Shareholders' equity</i>		
Contributed equity	311,505	311,455
Reserves		
Available-for-sale financial assets fair value reserve (net of tax)	(22)	(20)
Share-based payments reserve	3,306	2,330
Other reserve (net of tax)	(3,904)	(3,904)
Accumulated losses	(51,900)	(50,366)
	258,985	259,495
<b>Profit/(loss) for the year</b>	(1,534)	(3,525)
<b>Total comprehensive income</b>	(1,536)	(165)

## (b) Guarantees entered into by the parent entity

	PARENT ENTITY	
	31 December 2012 \$000	31 December 2011 \$000
Carrying amount included in current liabilities	-	-

While the parent entity goes guarantor over finance leases entered into by subsidiaries in Australia, these lease liabilities are effectively secured by the asset financed as the rights to the leased assets recognised in the financial statements revert to the lessor or financier in the event of default. At the end of the reporting period the assets securing lease liabilities have a carrying value of \$9,174,000 (31 December 2011: \$10,536,000).

Perilya Limited has an unsecured guarantee of payment, given to an unrelated party, with respect to wholly owned Australian subsidiary dealings in relation to derivative contracts for the sale, purchase, swap and lease of metals on spot and forward transactions and for foreign exchange option transactions. As at 31 December 2012 the extent of this guarantee amounts to \$1,368,000 (31 December 2011: \$9,600,000). This guarantee may give rise to liabilities in the parent entity if the subsidiary does not meet their obligations under the terms of the guarantee.

## NOTES TO THE FINANCIAL STATEMENTS

31 DECEMBER 2012 (CONTINUED)



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### 42. PARENT ENTITY FINANCIAL INFORMATION (CONTINUED)

#### (c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 31 December 2012 or 31 December 2011. For information about guarantees given by the parent entity, please see above.

#### (d) Contractual commitments for the acquisition of property, plant and equipment

The parent entity did not have any contractual commitments for acquisition of property, plant and equipment as at 31 December 2012 or 31 December 2011.

## DIRECTORS' DECLARATION

31 DECEMBER 2012

In the directors' opinion:

- (a) the financial statements and notes set out on pages 47 to 120 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the reporting period ended on that date; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 35 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35.

Note 1(a) to the financial statements confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



**Zhang Shuijian**  
Chairman

Perth, Western Australia  
27 February 2013





## **Independent auditor's report to the members of Perilya Limited**

### ***Report on the financial report***

We have audited the accompanying financial report of Perilya Limited (the company), which comprises the balance sheet as at 31 December 2012, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Perilya Limited group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

### ***Directors' responsibility for the financial report***

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### ***Auditor's responsibility***

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, 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 report 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 the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

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

### ***Independence***

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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Liability limited by a scheme approved under Professional Standards Legislation.



## **Independent auditor's report to the members of Perilya Limited (cont'd)**

### *Auditor's opinion*

In our opinion:

- (a) the financial report of Perilya Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1

### ***Report on the Remuneration Report***

We have audited the remuneration report included in pages 27 to 43 of the directors' report for the year ended 31 December 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

### *Auditor's opinion*

In our opinion, the remuneration report of Perilya Limited for the year ended 31 December 2012, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Nick Henry'.

Nick Henry  
Partner

Perth  
27 February 2013



## ASX ADDITIONAL INFORMATION

TO THE MEMBERS OF PERILYA LIMITED



Additional information required by the Australian Stock Exchange Limited listing rules and not disclosed elsewhere in this report is set out below. The information was applicable as at 12 February 2013.

## DISTRIBUTION OF EQUITY SECURITIES

There were 1,488 holders of less than a marketable parcel of ordinary shares. The number of shareholders by size of holding is set out below:

SIZE OF HOLDING (ORDINARY SHARES)	Number of shareholders	Number of unlisted option holders	Number of unlisted performance rights participants
Less than 1,000	995	-	-
1,001 to 5,000	2,206	-	-
5,001 to 10,000	1,017	-	-
10,001 to 100,000	1,504	-	-
More than 100,000	164	8	9
<b>TOTAL</b>	<b>5,886</b>	<b>8</b>	<b>9</b>

## SUBSTANTIAL SHAREHOLDERS

An extract of the company's register of substantial shareholders (who held 5% or more of the issued capital) is set out below:

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE HELD %
Zhongjin Lingnan Mining (HK) Company Limited	410,574,921	53.37
J P Morgan Nominees Australia Limited	85,746,463	11.15
National Nominees Limited	69,236,687	9.00
HSBC Custody Nominees (Australia) Limited	41,490,601	5.39

## TOP 20 SHAREHOLDERS

The top 20 largest shareholders are listed below:

SHAREHOLDER	NUMBER OF SHARES	PERCENTAGE HELD %
Zhongjin Lingnan Mining (HK) Company Limited	410,574,921	53.37
J P Morgan Nominees Australia Limited	85,746,463	11.15
National Nominees Limited	69,236,687	9.00
HSBC Custody Nominees (Australia) Limited	41,490,601	5.39
JP Morgan Nominees Australia Limited <Cash Income A/C>	24,501,683	3.18
Citicorp Nominees Pty Limited	12,119,983	1.58
Citicorp Nominees Pty Limited <Colonial First State Inv A/C>	5,620,863	0.73
HSBC Custody Nominees (Australia) Limited - A/C 3	4,268,576	0.55
Le Grand Pty Ltd	2,515,954	0.33
Mr Honggui Qu	2,510,000	0.33
Yandal Investments Pty Ltd	2,000,000	0.26
HSBC Custody Nominees (Australia) Limited <Nt-Comnwlth Super Corp A/C>	1,824,871	0.24
Mr Eric Arthur Hopgood & Mr Owen William Hopgood	1,821,334	0.24
Miningnut Pty Ltd	1,575,000	0.20
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	1,538,083	0.20
RBC Investor Services Australia Nominees Pty Limited <Piselect A/C>	1,523,192	0.20
CPU Share Plans Pty Limited	1,462,442	0.19
Mr Timothy Ryan & Mrs Pamela Violet Ryan	1,250,000	0.16
Almeranka Superannuation Pty Ltd <Almeranka Super A/C>	1,203,477	0.16
TL & KM Carberry Pty Ltd	1,050,141	0.14
<b>TOTAL</b>	<b>673,834,271</b>	<b>87.59</b>

## ASX ADDITIONAL INFORMATION

TO THE MEMBERS OF PERILYA LIMITED



### VOTING RIGHTS

#### ORDINARY SHARES

For all ordinary shares, voting rights are on a show of hands whereby every member present in person or by proxy shall have one vote and upon a poll, each share shall have one vote.

#### OPTIONS

There are no voting rights attached to options.

#### PERFORMANCE RIGHTS

There are no voting rights attached to performance rights.

### UNLISTED SHARE OPTIONS

The company has 5,687,177 employee options on issue with exercise prices between \$0.87 and \$4.32 per shares, issued in accordance with the Employee Share Option Plan approved by shareholders in November 2006. The number of option holders totals eight.

### UNLISTED PERFORMANCE RIGHTS

The company has 2,774,834 performance rights on issue, issued in accordance with the Long Term Incentive Plan approved by shareholders in October 2007. The number of beneficial holders of performance rights totals nine.

### OTHER INFORMATION

Perilya Limited is incorporated and domiciled in Australia and is a publicly listed company limited by shares.