PALABORA MINING

COMPANY LIMITED

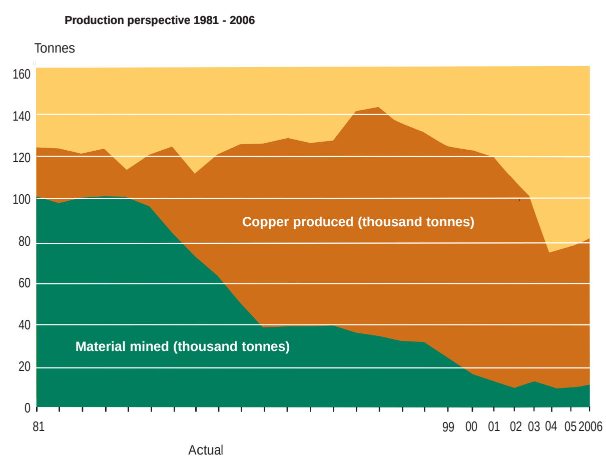
ANNUAL REPORT 2006

moving forward

Mission statement

Palabora Mining Company Limited extracts and beneficiates copper and vermiculite from its mines in the Limpopo Province, South Africa.

It is the primary aim of the Company, a member of the world-wide Rio Tinto Group, to achieve excellence in all aspects of its activities and to develop the Company's resources and assets in a socially and environmentally responsible way for the maximum benefit of its shareholders, employees, customers and the community in which it operates.



It is the Company's firm belief that efficient and profitable operations go hand-in-hand with high-quality products, comprehensive and effective safety, health and environmental protection programmes.

Group operations in brief

Palabora Mining Company is South Africa's only producer of refined copper.

Products

The primary product of the Company is copper rod.

By-products include magnetite, nickel sulphate, anode slimes and sulphuric acid. The Industrial Minerals division produces and markets vermiculite.

Operations

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

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

Highlights

	2006	2005
	R'millions	R'millions
Financial		
Sale of products	**5 014**	2 411
EBIT	**1 172**	275
Cash flow from operations	**946**	4
Net profit / (loss)	**467**	(93)
Headline earnings / (losses)	**481**	(97)
Shareholders' equity	**(248)**	(515)
Capital expenditure	**144**	136
Share performance (cents per share)		
Headline earnings / (loss) – (note 11)	**1 329**	(339)
Dividends	**—**	—
Market price :		
– High	**5 750**	4 800
– Low	**2 665**	3 050
Production metric tonnes	**'000**	**'000**
Material mined	**11 020**	10 034
Ore milled	**10 730**	9 536
Concentrate produced (copper content)	**66**	66
Cathode produced	**81**	80
Sales metric tonnes	**'000**	**'000**
Cathode sold	**81**	78
Employees at 31 December (permanent employees)	**1 903**	1 786

All tonnes referred to in this report are metric tonnes

Palabora Mining Company Limited
Registered in the Republic of South Africa
Reg No. 1956/002134/06

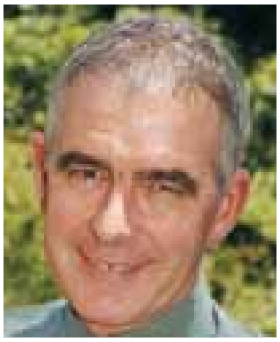
51st Annual Report 2006

Contents

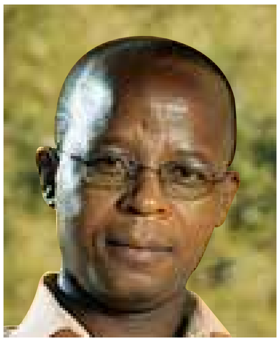
Definitions

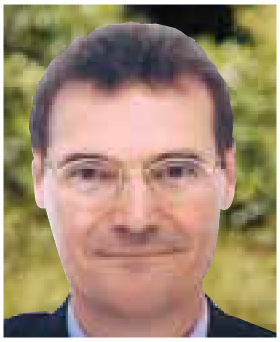
ABET	Adult Basic Education and Training
AIDS	Acquired Immune Deficiency Syndrome
AIFR	Average Injury Frequency Rate
BAC	Board Audit Committee
BEE	Black Economic Empowerment
CCMA	Council for Conciliation, Mediation and Arbitration
CSDP	Central Securities Depositary Participant
EBIT	Earnings before interest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

Directorate and management

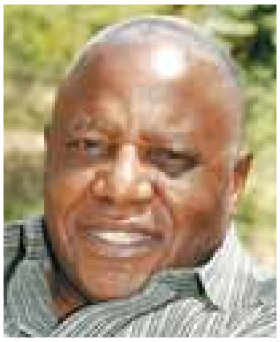

1 Keith Marshall

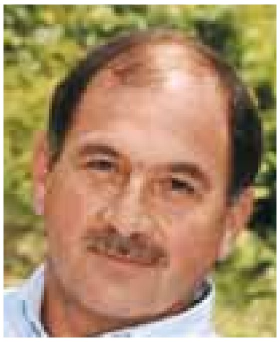

2 Charles Asubonten


3 Clifford Zungu

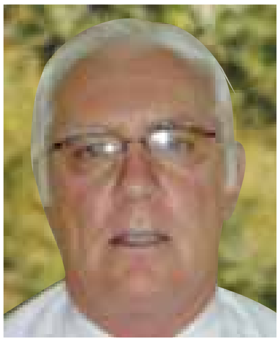

4 Clive Latcham


5 Makgabo Maruma


6 George Negota


7 Johan Posthumus


8 Jo-Ann Yuen-Goh


9 Francis Weldon

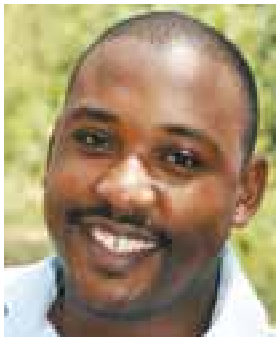

10 Matthew Gili


11 Bill Scheding


12 Dennis Brazier


13 Phil Monare


14 Johan van Dyk


15 Keith Mathole

Directors

Acting independent non-executive chairman

3 C N Zungu (51) appointed 24 April 2002.

Executive

Managing Director

1 K Marshall (48) (British) appointed 23 February 2004.

Chief Financial Officer

2 C A Asubonten (44) (American) appointed 27 July 2006.

Non-executive

4 C J Latcham (55) (Australian) appointed August 2005.

5 M R Maruma (48) appointed April 1999 and resigned 1 February 2007.

6 G M Negota (55) appointed 20 May 1998 and chairman on 1 February 2007.

7 J C Posthumus (51) appointed 27 January 2004.

8 Jo-Ann Yuen-Goh (36) (Australian) appointed 1 March 2006.

Alternate director

9 F B Weldon (59) appointed 8 August 2002.

Management

General Manager – Underground operations

10 M D Gili (38) appointed 3 January 2005.

General Manager – Concentrator

11 B Scheding (47) appointed August 2004.

General Manager – Copper processing

12 D Brazier (40) appointed August 2004.

General Manager – Human resources

13 P Monare (38) appointed 1 February 2005.

Principal Advisor – Safety, health, environment and quality (SHEQ)

14 J van Dyk (47) appointed November 2005.

Company secretary

15 K N Mathole (31) appointed August 2004.

Executive directors

1 Keith Marshall (48)

Became a non-executive director in November 2003 and was appointed managing director on 23 February 2004.

Mr Marshall is a mining engineer. He joined Rio Tinto in 1991 and has since held a series of management positions, including general manager of the Kennecott Greens Creek Mine in Alaska, before taking up the role of Mining Executive of the Gold and Other Minerals group of Rio Tinto based in London. Mr Marshall graduated from the Royal School of Mines with a BSc (Eng) (Hons). He is a Chartered Engineer and a Member of the Institute of Mining and Metallurgy and an Associate of the Royal School of Mines.

2 Charles A Asubonten (44)

Appointed chief financial officer and executive director on 27 July 2006.

Mr Asubonten, formerly a finance executive at DTE Energy in Detroit, USA, joined Rio Tinto in 2006 with more than 15 years of increasing accounting and financial leadership experience from Fortune 500 companies including Ford Motor Company and The Dow Chemical Company. He started his professional career as an auditor with KPMG. Mr Asubonten earned an MBA in Finance and Corporate Strategy from the University of Michigan and a BBA in Accounting from North Carolina Central University. Having served on numerous civic and community boards in the Detroit area, Mr Asubonten is currently a member of the audit committee of Rössing Uranium Limited. He also sits on the Palabora Foundation board and is the Principal Officer for the Palabora Pension Fund. Mr Asubonten is a Certified Public Accountant (USA) and a Chartered Financial Analyst charterholder.

Executive directors

3 Clifford N Zungu (51)

Appointed independent non-executive director in April 2002.

His career to date has been in marketing and service-driven corporations. He has held various positions with BP Southern Africa, CG Smith Sugar, Engen Petroleum and Avis Rent a Car. He is currently executive director – People Management for South African Eagle Insurance in Johannesburg. Mr Zungu has a BCom degree from the University of Zululand and attended the Graduate Advancement Programme at Wits Business School in 1982, the Industrial Relations Development Programme at the Stellenbosch School of Business Leadership in 1991 and the Advanced Executive Programme at the Unisa School of Business Leadership in 1997.

4 Clive J Latcham (55)

Appointed a non-executive director in July 2005.

He is a chemical engineer with a Masters degree in Mineral Economics. He has worked in a variety of mining and chemical processing industries in Zambia, USA and Australia. He joined Rio Tinto in 1999 with Hamersley Iron before moving to Robe as managing director in 2000. He then moved to a London based role as part of a global improvement programme before joining the Copper group in June 2005.

5 Makgabo R Maruma (48)

Appointed independent non-executive director since April 1999, and was appointed non-executive chairman on 29 July 2003. He resigned as director on 1 February 2007.

Mr Maruma is a leading environmental and waste management expert and has reviewed environmental programmes for leading utilities and industries in over 46 countries. He is the chairman and a director of a number of companies, including Enviroserv Holdings, Stewart Scott International, Bohlweki Environmental, Amafaun Faun, Pan African Shop Fitters, Group Five Limited, Geo Scott and Bakwena Concession Company. He was chairman of the task team that drew up a National Environmental Policy for South Africa (CONNEP) and also serves on a number of committees, including the Conservation Advisory Committee of South Africa. Mr Maruma holds an MSc degree in Environmental Science from the University of Aberdeen.

6 George M Negota (55)

Appointed independent non-executive director in May 1998 and chairman on 1 February 2007.

He is a practising attorney. Mr Negota established a legal firm, Negota Incorporated Attorneys in June 1998. He has conducted a number of commissions of enquiry on behalf of government. He has led a team that restructured Eskom and has also conducted a study on the rationalisation of state assets in Mpumalanga. He is currently involved in a project in preparation for the Gauteng express train. He is the former chairman of the Cross Border Transport Agency and he is the current chairman of the Gauteng Operating Licence Board and Kuthele Projects (Pty) Limited. He is a director of the N3 Consortium, ORT Step South Africa, READ Education Trust, the National Institute for Community Education and BKS Group Holdings (Pty) Limited. Mr Negota is also a member of the Income Tax Appeal Court. He has BA (Hons) and MCom degrees from Rand Afrikaans University, and LLB and BCom (Hons) degrees from Unisa. In addition, Mr Negota holds a Higher Diploma in Tax Law and a Higher Diploma in Company Law from Witwatersrand University and a Certificate in Tax Law from Unisa.

7 Johan C Posthumus (51)

Appointed a non-executive director on 27 January 2004.

He has worked for the Anglo American Group for more than 25 years in a number of financial and marketing positions. He is based in Johannesburg, where he is responsible for co-ordinating the base metals marketing function and certain administrative and financial functions. Mr Posthumus is a member of various management committees and boards of certain of Anglo American's southern African operations. He holds a BCom degree from the University of the Free State and completed an advanced management programme at a business school in France.

8 Jo-Ann Yuen-Goh (36)

Appointed a non-executive director on 1 March 2006.

Mrs Yuen-Goh is a finance executive at Rio Tinto for the copper group and has had previous finance, accounting and business improvement roles within Rio Tinto Minerals in the Borox and salt businesses. Prior to her current appointment, Mrs Yuen-Goh was in the controllers department of Rio Tinto London attached to the diamonds group and later the copper group. She is a Chartered Accountant and holds MBA from the University of Western Australia and a diploma in applied finance from the Financial Services Institute of Australasia.

Alternate director

9 Francis (Frank) B Weldon (59)

Appointed alternate director to Mr R M Whyte in August 2002 and Mr Posthumus in July 2006.

He is a mining engineer and has an MSc Engineering degree from the Witwatersrand University. He has served Anglo American for the past 25 years in the Coal and Base Metal divisions, in mining management and Group technical positions. He is currently a member of the management committees of Black Mountain, Namakwa Sands, Lisheen (Ireland), HBMS (Canada) and Skorpion (Namibia). Prior to Anglo American, Mr Weldon spent four years in Wits type gold mining and 12 years with base metal mining operations in Namibia.

Management

The Company is managed by an executive committee comprising the managing director, Mr K Marshall, the chief financial officer, Mr C Asubonten, four general managers and the principal advisor, Safety, health, environment and quality.

10 Matthew D Gili (38)

Appointed General Manager — Underground operations in January 2005.

Mr Gili has been with Rio Tinto for seven years, most recently as mine manager at Kennecott Greens Creek Mine. Prior to joining Rio Tinto, Mr Gili worked in various North American operations for Hecla Mining Company. He holds a BSc degree in Mine Engineering and is a registered Professional Engineer (USA).

11 Bill Scheding (47)

Appointed General Manager — Concentrator in August 2004.

Mr Scheding has been with the Rio Tinto Group for 14 years, most recently as concentrator manager for the Greens Creek polymetallic operation in Alaska, and previously as principal consultant for process development and design of the Century lead-zinc project in Australia. Prior positions were held in metallurgical development roles in copper, lead, zinc and tin concentrators in Canada (Kidd Creek, Cyprus Anvil) and the UK. Mr Scheding holds a BSc(Hons) degree in Mineral Process Engineering from Camborne School of Mines.

12 Dennis Brazier (40)

Appointed General Manager — Copper processing in August 2004.

Mr Brazier has been with Palabora Mining Company for nine years. He worked in various technical and operational roles in the smelter before being appointed Copper marketing manager in 2003. Mr Brazier also previously worked for MIM as a production manager at Britannia Zinc Limited. He has a Higher Diploma in Metallurgical Engineering and a MDP from the Unisa School of Business Leadership.

13 Phil M Monare (38)

Appointed General Manager — Human resources in February 2005.

He joined Palabora Mining Company from Richards Bay Minerals where he held the position of manager —Organisational Development for two years. Phil previously worked at Anglogold for nine years and was the human resources manager for three years before he joined Richards Bay Minerals. He holds a Bachelor of Social Sciences degree from the University of Cape Town.

14 Johan van Dyk (47)

Appointed Principal advisor — Safety, health, environment and quality (SHEQ) in November 2005.

Johan has been with the Rio Tinto Group for seven years, most recently as manager Safety, health, environment and external relations at Northparkes Mines in New South Wales, Australia. Johan joined Palabora Mining Company in 1999 as safety manager and was later appointed as manager Vermiculite operations. Johan previously worked for Sasol Coal and was Group Safety Manager when he joined Palabora Mining Company. Johan holds Government Competency Certificates in Mining.

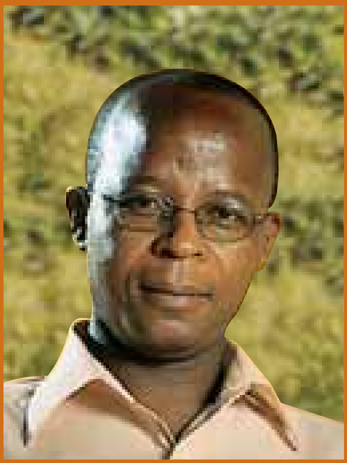
Company secretary

15 Keith N Mathole (31)

Appointed Company secretary in August 2004.

Having previously filled the role of assistant company secretary at the State Information Technology Agency from 2002 to 2004, Keith was senior consultant, Corporate Actions at Georgeson Shareholder Communications from 2000 to 2002. He is a Chartered Secretary and an Associate of the Institute of Chartered Secretaries and Administrators (ACIS) and a Fellow of the Chartered Institute of Business Management (FCIBM).

Chairman's statement



C N Zungu

Dear stakeholder

It is my pleasure to report the following key achievements by Palabora in 2006:

- An increase in sales of products by 108 per cent from 2 411 million rand to 5 014 million rand;
- A net profit for the year of 467 million rand compared with a loss of 93 million rand in the prior year;
- Basic earnings / (loss) per share increase from a loss of (328) cents to earnings of 1 291 cents;
- Profit from continuing operations before interest and tax increased by 326 per cent from 275 million rand to 1 172 million rand;
- Underground stabilised at design capacity of 30 000 tonnes per day for the first time;
- A settlement on the wages and conditions of employment for 2007 reached during 2006 with the majority of unions, namely NUM and Solidarity for the second year running;
- Entered in a ground-breaking multi-year wage agreement with Solidarity in November 2006;
- Palabora and the Palabora Foundation won two of the major corporate awards in South Africa for their corporate social investment programmes in communities.

The boom in the natural resource industry has created both opportunities and challenges for Palabora. The opportunities have manifested in the impressive financial results achieved in 2006. The challenge to continue and even improve is upon us.

In response to government's call to transform the South African economy through BEE programmes in terms of HDSA equity ownership, we have been working with our major shareholder – Rio Tinto – to put in place a BEE programme that would be transformational and also provide strategic opportunities for Palabora. We continue to make strides in finding HDSA candidates to meet the employment requirements of the BEE programme.

Sustainable development

Palabora is committed to the principles and operating practices of sustainable development and has adopted the triple bottom-line approach to managing its operation. Palabora and the Palabora Foundation (Foundation) have a long-term commitment to develop and maintain sound relationships with neighbouring communities based on transparency and trust, mutual respect and active partnerships. The year under review was a historic milestone for Palabora and the Foundation, as the Foundation programmes again made a significant impact in the community. Palabora and the Foundation received national recognition in 2006 for their work in local communities by winning two of the major corporate awards in South Africa for their corporate social investment programmes in communities, namely the Sowetan/Old Mutual/SABC Community Builder of the Year and Nedbank Green Capital Mining Award.

The Foundation has a number of important partners including the EU, various departments in the Limpopo Provincial Government, NGOs, industrial and commercial corporations, Ba-Phalaborwa Municipality and private individuals. Partnerships are emerging as the most efficient way for the Foundation to become involved in social development programmes and projects in the area. Palabora, Foskor Limited and Sasol Nitro are the major funders of PROTEC. These three companies also fund the Phelang HIV and AIDS Community Programme in partnership with JOHAP/Oxfam, the Department of Health and Social Development, the National Development Agency and the National Lottery.

Over the years the Foundation has become a partner with provincial and local government, other local companies, NGOs and communities in its efforts to improve the education and skills base, fight the high rate of unemployment in the region, reduce the impact of HIV and AIDS and stimulate local economic development.

Consultation takes place on a regular basis in the community and the Foundation represents Palabora at many different structures within the community. The Ba-Phalaborwa Municipality is a partner with the Foundation on many programmes and regular consultative meetings, both formal and informal, are held with local and provincial government officials, including the municipal manager, his staff and ward councillors.

In the past few years we have issued and circulated the annual and sustainable development reports together. The sustainable development report has been improved and is more comprehensive than in the past and as a result will be circulated separately towards the end of April 2007.

Board developments and risk management

Palabora is totally committed to the values of good corporate governance and to complying with the principles of the King II report and the listings requirements of the JSE Limited. The Company ensures that its business is conducted with openness, integrity, discipline, and accountability. A comprehensive Board charter, together with a trading policy, conflict of interest policy, and the directors' induction framework were formally adopted during the year to ensure that the aforementioned principles are upheld.

During the year under review, the Board reviewed its composition, size, and mix of skills. The size of the Board was reduced from 12 to 9 directors. The number of directors representing Rio Tinto was therefore reduced from three to two non executives and Anglo American from two to one. The Board now consists of three independent non-executive directors, three non-executive directors and two executive directors. The Board is currently in the process of recruiting an independent non-executive director and an announcement will be made in due course.

In the year, we saw the departure of Warrick Ranson, Rod Whyte, Paul Henry (alternate) and Tom Albanese. We also saw the departure of Steven Din who was an executive director and chief financial officer. I would like to thank all outgoing directors for their many and varied contributions during their tenure.

It has been my pleasure to welcome Jo-Ann Yuen-Goh and Charles Asubonten to the Board as non-executive and executive directors respectively. I thank them both for their contributions thus far.

The Board is responsible for the total risk management process within the Group. The executive committee is accountable to the Board and has put in place a group-wide system of internal control to manage significant Group risks. All the significant risks are presented to the Board for approval annually.

Looking ahead

Palabora is committed to executing its operational excellence strategy to sustain the level of productivity achieved in the copper business in recent times. Efforts are being made to expand the magnetite and vermiculite businesses. We anticipate completing the BEE transaction in the coming year. Our strategy of operational excellence will ensure optimal shareholder value creation regardless of the prevailing market conditions.

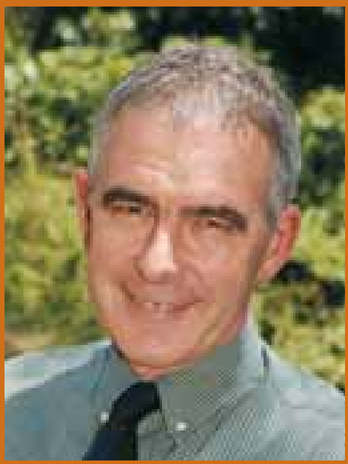
Appreciation

Palabora's turnaround over the last few years has only been possible by the outstanding commitment and dedication of all the management team and staff. I extend my gratitude to Keith Marshall and his team who have steered Palabora to this remarkable performance.

On behalf of the Board, I would like to extend our sincere thanks and appreciation to Palabora's employees and contractors for their continued dedication during this astonishing year. We also thank our shareholders, customers, business partners, and all other stakeholders for their continued support.

C N Zungu
Acting Chairman
16 March 2007

Review by the managing director



Keith Marshall

2006 was one of the most profitable years ever seen by Palabora Mining Company

2006 – A year of opportunity

2006 was one of the most profitable years ever seen by Palabora Mining Company. The good performance was the result of several strong factors all playing together; the underground operation finally achieved, and surpassed, design capacity on a regular basis, demonstrating a consistency of production hitherto unseen; the surface operations reacted quickly to an exceptional copper price enabling us to sell 16 011 tonnes of copper in the form of smelter reverts or low grade concentrate copper over and above our normal copper production; finally the price exceeded all expectations. If we had experienced any one of these factors on its own we would a have had a good year; to experience all three is exceptional.

I was especially pleased that the operation was able to react quickly enough to take advantage of the opportunity offered by the high copper price. As I said in my 2005 review, “I believe that the Palabora Mining Company has invested its time and efforts wisely and is well positioned to reap the combined benefits of a solid underground operation, ample concentrator capacity and a reborn copper processing division.” I have not changed that belief; if anything 2006 has strengthened my belief and I am very excited about the prospect of another year of solid production coupled with continuing high copper prices.

Our safety performance improved in 2006. It still was not as good as we would have liked, but the trend is in the right direction and the accidents we have suffered have, in general, been less severe. We did suffer one fatal accident during the year when one of our paramedics, who was responding to a domestic accident off site, was involved in a road traffic accident. On site there were 18 lost time incidents compared to 22 in 2005 and the LTIFR dropped from 0.8 to 0.6. Safety improvement will continue to be a major management focus for 2007. ISO 14001 and 9001 accreditations were maintained in 2006.

The underground production increased by 12 per cent from 26 900 tonnes per day to 30 193 tonnes per day year on year. This is the first year that production has exceeded design capacity (30 000 tonnes per day). This achievement was even more remarkable as during the second half of the year major maintenance work was undertaken sequentially on all four of the underground crushers resulting in an average crusher availability of 75 per cent. Interestingly, during 2006, it became apparent that the cave (the mining activity which had been plagued in recent years by poor fragmentation and equipment availability) was no longer the production bottleneck, it was the hoisting facility. This resulted in a considerable amount of production pressure being placed upon the shaft, resulting eventually in a significant maintenance issue in April, which reduced shaft capacity expectations from an average daily hoist of 36 000 tonnes per day to 34 000 tonnes per day. The operational performance of the underground during 2006 exceeded expectations and the prospects for 2007, with all the infrastructure maintenance up to date, look very good.

The mine head grade averaged 0.71 per cent copper, versus a planned head grade of 0.72 per cent copper. The drawpoint sampling programme that was put in place in 2005, has resulted in a better understanding of the grade distribution and is now indicating improved grades in the west as the lower grade wedge of material is removed.

It was another busy year for the concentrator: maintaining recoveries with increased underground production was balanced with increased activity on the marginal ore and further complicated by extended campaigns to treat smelter secondaries (revert and bottom material) and automill tapoff.

Palabora mined copper (as opposed to purchased copper) increased by 22 per cent to 74 901 tonnes but overall copper production from the smelter dropped by three per cent to 82 018 tonnes as a result of the major smelter rebuild (40 days) which started in early February 2006. The smelter rebuild (undertaken every five to seven years) was completed on time, but the build up to full production was slower than planned. Although the last few months of 2006 were an improvement, with first pass recoveries averaging over 90 per cent, the overall first pass recovery for 2006 dropped to 86.1 per cent and resulted in a build up of copper in internal inventories.

Copper metal sales were affected by the smelter rebuild and only grew 1.5 per cent year on year to 80 095 tonnes, but overall copper revenue was supplemented by 15 600 tonnes of copper sold as either concentrate or revert material. The purchased concentrate, used to supplement underground production, was reduced by 48 per cent from 24 700 tonnes in 2005 to 16 625 in 2007, and made up 18.2 per cent of copper through the smelter.

Cathode production from the refinery was in line with anode feed from the smelter and increased by around one per cent over 2005 to 81 163 tonnes but this was 14 per cent below plan. The rod plant continues to work well below the design capacity of 110 000 tonnes by limiting rod production to only five days per week.

The 2006 wage settlement was agreed with the respective unions during December 2006, only the second time in the history of Palabora that settlement has been reached in the year preceding the settlement date.

The proven and probable ore reserve statement issued on the 31st December 2006 was 118 million tonnes at an average grade of 0.64 per cent. This was an increase of 17 million tonnes since the previous reserve statement and extends the life of lift one (current underground mine) by almost eighteen months. The increase in reserves came from a combination of a better understanding of the mechanics of the caving ore and more knowledge of how the computer scheduling software, used to calculate the reserves, interprets the input and output parameters.

Operationally the vermiculite operations had a good year, but the usual logistical and marketing challenges were encountered. Moving forward, the vermiculite operations have plans to expand production over the next few years and will be establishing a more centralised marketing approach.

The magnetite operations had a very interesting year. Although the tender process was closed late 2005, two

Review by the managing director continued

companies were interested in entering into straight offtake agreements. Discussions with both parties continued until late in the second quarter when Minmetals, a trading arm of the Chinese Government, was chosen as the preferred partner. Since the signing of the three year offtake agreement, exports of magnetite have increased by 30 per cent and we are expecting this to continue to increase during 2007. Research and development work was also carried out during 2006, in conjunction with MINTEC, the Maputo Port Authority and Mozambique Government, to establish the appetite for a combined magnetite pipeline, Maputo harbour expansion and port based steel plant. This huge project is currently in pre-feasibility stage.

There was one change to the senior management team, with Charles Asubonten replacing Steven Din as chief financial officer. Charles brings with him a wealth of financial experience from various senior posts in America. There was a re-assuring solidarity in the remainder of the senior management team which helped the operation to have such a successful year.

I would like to thank everyone involved with Palabora Mining Company, from the Chairman to the operators, for their help and support during 2006. Together, we have demonstrated that Palabora Mining Company can be a safe, successful and profitable operation.

Keith Marshall
Managing director
16 March 2007

C A Asubonten

Our focus to grow the breadth and depth of the magnetite and vermiculite businesses will continue

Letter from the chief financial officer

In 2006, we achieved EBIT of 1 172 million rand (2005: 275 million rand). Cashflow from operations was also strong at 946 million rand (2005: 4 million rand). Looking at these robust results, I believe that Palabora has turned the corner.

In addition to opportunistically selling our surface stockpile minerals while the markets remain buoyant, we shall continue to execute our copper strategy of operational excellence. Our focus to grow the breadth and depth of the magnetite and vermiculite businesses will continue. In all, we shall be disciplined in our approach.

We remain diligent in managing our costs. While the current market conditions call for some spending to manage the growth, we shall "invest" prudently to ensure value creation and cash conservation.

We are working hard to ensure that we spend our surge of cash wisely. We anticipate paying down our debts in the coming year to bring gearing to supportable levels. As we continue to deliver value for our shareholders, we will pay dividends when appropriate. Achieving a healthy balance sheet is my goal.

I pledge to communicate openly with you regarding our finances. Lastly, I commit to achieving our financial objectives.

Thanks for your continued support.

Charles A Asubonten
Executive director and chief financial officer
16 March 2007

Group financial analysis

For the year ended 31 December	2006	2005
Profit / (loss) for the year	**R467 million**	(R93 million)
Basic earnings / (loss) per share	**1 291 cents**	(328) cents
Profit / (loss) from continuing operations before interest and tax	**R1 172 million**	R275 million

Sales of products increased by 2 603 million rand (108 per cent) to 5 014 million rand largely as a result of the following:

- Higher realised prices of copper and by-product of 1 460 million rand and 131 million rand respectively; a weakening average US$/rand exchange rate from 6.37 in 2005 compared with 6.77 in 2006 (+147 million rand); partially offset by a lower realised price of vermiculite sales (-31 million rand);
- Copper sales volumes increased by 18 thousand tonnes (including 15 thousand tonnes of surface stockpile) to 97 thousand tonnes in 2006 (+811 million rand) mainly as a result of the sales of surface stockpiles (+707 million rand). Other sales volumes increased by 85 million rand mainly owing to the higher volumes of magnetite (+225 thousand tonnes) and vermiculite sales (+10 thousand tonnes) respectively of +56 million rand and +16 million rand.

The Group achieved an average realised selling price (post hedge) for local copper rod and cathode of 34 469 rand per tonne (2005: 23 558 rand per tonne) and 29 721 rand per tonne (2005: 23 508 rand per tonne) respectively. In the year under review, a total of 80 986 tonnes of copper was sold, compared with 78 654 tonnes during 2005. Reverts and copper concentrate throughput contributed an additional 16 011 tonnes copper.

The increase in sales of products was partially offset by the realised hedging losses (1 032 million rand) resulting from the swap settlement of 44 thousand tonnes of copper (-986 million rand movement from 2005 to 2006).

Total Group cost of sales increased by 622 million rand, from 1 740 million rand in 2005 to 2 362 million rand in 2006. This increase resulted from the following:

- The increase in the cost of product purchases (+356 million rand) is attributable to the LME copper price impact on purchased concentrate of +528 million rand higher than 2005 product purchases; offset by a decrease of four thousand tonnes in copper concentrate purchases from 29 thousand tonnes in 2005 to 25 thousand tonnes in 2006 (184 million rand) and other sales of +12 million rand;
- Production costs increased by +170 million rand mainly as a result of:
  - The underground rework completed on the North-Inner haulage road and the rebuild completion on the four underground crushers, tyre costs and mobile maintenance;
  - The furnace shutdown at the smelter during the first half of 2006 and material transportation cost;
  - Major consumables, utilities, and personnel cost.

- Overall depreciation for 2006 was +48 million rand higher than 2005 due to higher production levels and a lower reserve declaration at the end of 2005 following the open pit subsidence;
- A decrease in stock variation (+48 million rand) from 185 million rand in 2005 to 137 million rand in 2006 mainly resulted from the build up of stock in 2005 in preparation of the smelter shutdown; the increase in the stock levels during 2006 is mainly attributable to the revaluation of the revert stock from two thousand rand per tonne to 17 thousand rand per tonne (+172 million rand).

The Group achieved a gross profit from continuing operations during 2006 of 1 620 million rand, versus a gross profit of 624 million rand in 2005.

Other factors that contributed to the profit from continuing operations before interest and tax EBIT of 1 172 million rand include:

- Insurance proceeds received during 2006 for the claim on the ground subsidence of the open pit (+35 million rand);
- The impact of the exclusion of severance costs from the provision for closure costs: (+54 million rand);
- Offset by a negative 111 million rand in selling and distribution costs mainly attributable to the cost incurred for

the export of magnetite sales, and 66 million rand in administration expenses.

Profit from continuing operations before interest and tax improved by 897 million rand from a profit of 275 million rand in 2005 to a profit of 1 172 million rand in 2006.

Net finance cost increased by 54 million rand mainly as a result of:

- Unrealised exchange losses on current loans of 127 million rand (2005: 102 million rand exchange loss) due to a 10 per cent depreciation of the rand in 2006 compared with a 12 per cent depreciation in 2005;
- Higher interest paid due to the rising interest rate (+10 million rand);
- Offset by the decrease in the cost of the new loan compared with the overdraft and medium term facilities repaid in late 2005 (-88 million rand).

Deferred tax expenses in 2006 of 260 million rand (2005: nil rand) were recorded in the income statement. Deferred tax assets of 796 million rand (2005: nil rand) related to the mark-to-market entries on the hedge book were recognised directly in equity. At 31 December 2006, the group had unredeemed capital expenditure of 851 million rand (2005: 1 766 million rand).

The net loss associated with the discontinued operations represents a write-off of 24 million rand (pre tax) of the ZBS plant initially recognised as a non-current asset held for sale following the decision to close the plant.

The net profit for the year was 467 million rand compared with a loss of 93 million rand in 2005. The basic earnings per share improved from a loss of 328 cents per share to a profit of 1 291 cents per share.

Cash flow

Cash and cash equivalents at 31 December 2006 were 670 million rand compared with 202 million rand in 2005.

Cash from operating activities of 946 million rand (2005: four million rand) was generated mainly as a result of a significant increase in realised (pre-hedge) copper rod and cathode prices (2006: 316Us c/lb; 2005: 169Us c/lb) and the sale of low grade concentrate and reverts of 16 011 tonnes of copper (2005: nil) as part of the focus on our internal copper inventories as well as the low grade surface stockpiles.

A net cash outflow of 128 million rand for investing activities (2005: 101 million rand) related to capital projects of 144 million rand, of which 32 and 45 million rand went for underground and smelter development respectively. The net cash outflow was offset by the proceeds received from the sale of property, plant and equipment and other investing activities to the amount of 16 million rand.

The cash outflow from financing activities of 350 million rand (2005: 653 million rand inflow) was due to the repayments of the first two principals of the term facility agreement and the redemption of outstanding debentures during the second half of 2006.

Convertible Debentures

The redeemable convertible debentures expired on 18 September 2006. A total of 600 660 debentures were converted resulting in the issue of 20 021 997 ordinary shares. The total issued share capital of the Company is now 48 337 497 shares of which 57.7 per cent are held by Rio Tinto, 16.8 per cent by Anglo American and 25.5 per cent by the public.

Accordingly, the debentures were redeemed at their principal amount (i.e. 1 000 per rand debenture). A final interest payment in respect of the unconverted debentures was calculated from 20 March 2006 to 17 September 2006.

Net Debt

Total borrowings decreased by 746 million rand mainly as a result of:

- The conversion and redemption of debentures of +812 million rand;
- The capital repayments and amortisation of the Tranche A and B of the Term Facility and the finance lease instalments for a total amount of +73 million rand;
- New finance lease agreement -12 million rand;
- An increase in US$ denominated debt of -127 million rand due to the weakening of the rand by 65 basis points (from 6.979 to 6.334).

Seventy five percent of the Group's borrowings are denominated in US dollar for a total amount of US dollar 185 million.

Hedging

The combined hedge book amounted to 190 567 tonnes of copper at 31 December 2006 for a total hedged amount of 3 413 million rand spread over seven years. The mark-to-market loss of the hedge position increased by 1 633 million rand from 820 million rand at 31 December 2005 to 2 453 million rand at 31 December 2006. The settlement of 44 025 tonnes of copper commodity swap for the 2006 year resulted in a hedging loss of 1 032 million rand reducing the benefit of the higher market prices.

Mark-to-market entries on the hedge, together with the related deferred tax asset were recognised directly in equity. The realised hedge losses are offset against revenue in the income statement. For valuation purposes, management decided to use market estimates (refer to significant estimates in the basis of preparation and accounting policy section) as proxies instead of bank models for the latter part of the hedge book.

Magnetite

As part of the decision to build the magnetite business using "current production", Palabora has entered into a supply contract for the magnetite concentrate with Minmetals, for the supply of up to two million tonnes per annum from October 2006.

Ore reserves

The total Proven Ore Reserves remaining as at 31 December 2006 were 118 million tonnes (2005: 112 million tonnes) at a grade of 0.64 per cent (2005: 0.67 per cent) copper. The increase in tonnage is the result of a reassessment of the anticipated dilutive tonnes from the overlying open pit and a review of the block cave model.

Pension Fund Surplus

Financial statements for Palabora Mining Pension Fund have been finalised and audited and will be submitted to the liquidator for review, and thereafter to the FSB for approval. This process is expected to be completed in the first half of 2007 and distribution to be commenced thereafter.

Only after the FSB approval has been obtained can the liquidator release the employer's share of the surplus in the Fund, approximately 177 million rand, before tax and including accrued interest.

Ore production increased in 2006 to record levels

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Underground

Safety continues to be our top priority and, while we were able to maintain our number of Lost Time Injuries (LTI) to the same level as in 2005, we were not satisfied with our performance in this area. A total of eight LTIs occurred in four incidents within a period of six weeks, from late August through September. Focus will remain concentrated on reinforcing good behaviours and personal accountability with less effort towards new policies and procedures. Significant progress has been made in the utilisation of health and safety representatives. These individuals are selected by their peers and are proving to offer excellence. They have helped to reduce our safety risk in several key areas.

We are pleased to announce that in October the Underground division received its ISO 14001 certification. Key environmental control efforts are concentrated in the areas of dust control and refuse segregation for recycling and sound disposal. The application of dust controlling compounds to the underground roadways has significantly reduced the dust loading in the workshop. The refuse segregation efforts are well underway with dedicated colour-coded disposal bins for each class of material.

Ore production rates continued to increase in 2006 to record levels. A total of 10 800 000 tonnes were hoisted, an eight per cent increase over the 2005 volumes. The copper grade has remained constant at 0.71 per cent copper. Also in 2006, the underground took over control of the Marginal Mining operations, where 7 230 000 tonnes of low grade stockpile material was reclaimed and hauled to the surface crushing facilities for reprocessing.

On the operations side, the increased volumes can be partially attributed to additional findings of the material in the cave, thereby allowing for easier haulage and less material blockage. The average amount of material hauled from the cave before a blockage occurs has increased by 68 per cent, from 298 tonnes per blockage in 2005 to 491 tonnes in 2006. In addition, the entire North Inner roadway was rebuilt on schedule and budget without any safety incidents. The improved roadway and increased yield have contributed to a marked increase in loader productivity.

Maintenance of the underground fixed plant improved during the year. During the rebuilding of the North Inner roadway all four crusher installations were taken down sequentially for major mechanical repairs to the crushers as well as civil repair work to the structure. The conveying system has seen a marked improvement in performance with Conveyor 5 having now been changed out in its entirety. In addition, both loading system weigh-scales have been upgraded to allow for more accurate and consistent loading of the skips. Conveyor 15's belt, motor, gearbox and switchgear were also upgraded for higher tonnage rates.

Despite suffering the setback of two major shaft incidents during the year, the winders performed well. All of the production winder head ropes and the attachments have now been replaced. The skips have been modified to allow an extra two tonnes of material to be hoisted with each trip. The refrigeration plant underwent its bi-annual shutdown and is now ready for another 24 months of operations.

Mobile maintenance has improved dramatically over the past 30 months both in terms of availability and reliability. This has largely been the result of a maintenance system strongly focused on root cause analysis and the elimination of defects. In addition, the strategic plan to reduce LHD average fleet age from over 13 000 hours to about 10 000 hours has been successful.

Surface subsidence continues to be monitored in the open pit area but no major movement or damage to the infrastructure occurred during the year. The seismic network has also captured a marked decrease in the energy release in the cave with no significant seismic damage occurring in 2006. A total of 21 drawpoint sets were installed during the year, resulting in 53 per cent total footprint coverage. The entire secondary breaking fleet, now equipped with the Dispatch System plus the leaky feeder upgrade (communication backbone) scheduled for 2007, will improve data integrity and lead to better ore reserve management.

Concentrator

The Concentrator department suffered three LTIs and two MTCs in 2006, a deterioration from the standard of two LTI/one MTC set by 2005 performance. In all three LTI cases, relatively minor actions within the bounds of standard procedures led to disproportionately severe outcomes, due to unrecognised peripheral conditions. There has been a large effort directed towards improving the rigour of the HIRA process, but further practical training in hazard identification in the field is also required.

Delivery of Palabora underground copper in concentrate to the smelter decreased to 59 712 tonnes in 2006 from 61 151 tonnes in 2005, due to build up of 5 000 tonnes of contained copper in low grade concentrate stockpiles. 10.73 megatonnes of underground ore were processed at a headgrade of 0.71 per cent, compared to 9.54 megatonnes at a headgrade of 0.72 per cent in 2005. Autogenous milling rates increased to 588 tonnes per mill hour in 2006 from 543 tonnes per hour in 2005. Autogenous mill running time increased from 83.5 per cent to 87.4 per cent, due to increased utilisation, which was due to improved underground ore availability. Mechanical availability increased from 84 per cent in 2005 to 94 per cent in 2006. "Tapping-off" of some of the critical size, high dolerite pebbles from the autogenous milling circuits took place at an increased rate of 4.5 weight percent of fresh feed in 2006, partly to demonstrate the leverage of tapoff rate on automill capacity and the viability of a tapoff transfer conveyor project designed to feed the conventional circuits in a more efficient manner. To take advantage of high copper prices, 0.4 megatonnes of previously stockpiled tapoff containing 0.37 per cent copper was reprocessed via the conventional circuit at 80 per cent recovery to 27 per cent concentrate grade.

Sixteen percent of all fresh underground ore was treated through conventional circuits, compared with 17 per cent in 2005. Underground ore recovery was 86.3 per cent from the main automill secondary milling plant / primary floatation plant / secondary floatation plant stream (taking tapoff as a loss) and 84.5 per cent from the material processed conventionally through Sections 5 and 6, for an overall "first pass" recovery of 86.1 per cent. Overall, recovery and concentrate grade from underground ore, including tapoff reprocessing, increased from 87.2 per cent at 30.6 per cent copper in 2005 to 87.6 per cent at 30 per cent copper in 2006, due to tapoff reprocessing yielding a 1.5 per cent recovery credit.

Excluded from Palabora underground copper in concentrate above, smelter secondaries were also processed in conjunction with either tapoff or underground ore. Reverts material with 5 025 tonnes of contained copper was milled at a recovery of 85 per cent to a 39 per cent concentrate grade. Reverberatory furnace bottoms material with 537 tonnes of contained copper was also milled at a recovery of 82 per cent to a 30 per cent concentrate grade.

On behalf of Foskor, 7.23 megatonnes of marginal ore at 0.20 per cent copper were processed on a toll milling basis, with price participation provisions to Palabora's account. Marginal ore recovery increased to 64 per cent in 2006 from 63 per cent in 2005. Conventional milling capacity was enhanced by refurbishment of the Section 4 milling circuit, which was nearing completion in December. An extension of the toll-milling agreement was also under negotiation at year end, with a key provision being a 12 month suspension from April 2007 to allow Palabora to process its own stockpiles to take advantage of higher copper prices.

Combined 2006 production of domestic coal washery magnetite and export magnetite increased to 1 127 kilotonnes per year from 888 kilotonnes per year in 2005. A three year off take contract for up to two millon tonnes per year of export magnetite was signed with Minmetals in October, with improved terms. No significant quality issues were raised on either the domestic or export markets. Previous investigations of large scale commercialisation of the previously stockpiled magnetite via pipelining to Maputo were updated, and desktop studies were completed regarding value addition to currently arising magnetite by pelletising and/or production of direct reduced iron.

Projects progressed in 2006 were as follows:

- Completion of the South Paddock tailings expansion;
- Preliminary design for an East Paddock tailings expansion phased over 2007-2009;
- Preparatory installations for in-stream analysis of the two final tailings streams from the automill lines;
- Placement of orders for a high angle tapoff transfer conveyor;
- Preliminary designs for re-use of the redundant ZBS Lasta filter for copper concentrate fines dewatering duty.

Copper processing

Safety and environment

The copper processing division sustained seven LTIs and seven MTC for 2006. The LTIFR and AIFR improved in 2006 to 0.58 and 1.15 respectively. The smelter shutdown was executed during quarter one.This was the largest and most complex smelter shutdown in Palabora's history, with approximately 700 contractors on site. Two LTIs and three MTCs were sustained during this period, a testament to good safety management by the shutdown team.

Environmental performance in 2006 remained unchanged from 2005. This was encouraging as smelter intensity increased to levels last seen in 2002. Sulphur dioxide ground level concentration levels were well below the statutory limits, averaging 11 and nine parts per billion at stations two and six. Daily exceedences decreased by one to ten for the year. Sulphur capture from the smelter improved after the shutdown, averaging 79.37 per cent. This was mainly attributed to the installation of the last modified converter primary hood.

Smelter production

Smelter production for 2006 was impacted by the 40 day outage to rebuild the reverberatory furnace. The shutdown was the largest undertaken in the smelter's 40 year history. Approximately 1 000 tonnes of refractory and 300 tonnes of steel were replaced during the furnace rebuild. Other tasks included the acid plant shutdown, converter and anode furnace refractory relines, converter primary hood replacement and crane refurbishments.

Production of new anode copper totalled 78 580 tonnes, a decrease of 7.5 per cent from the prior year. Although output decreased for the year, performance of the smelter after the shutdown increased to an annualised production rate of 89 000 tonnes of new anode. First pass recoveries were poor for the first half of the year, impacted by the shutdown and recovery of the smelter after the shutdown. However, during the second half of the year, first pass recoveries improved as more revert material was smelted in the reverberatory furnace and a renewed technical focus on the smelting and converting processes was initiated.

Palabora concentrate feed was supplemented by 67 479 tonnes of purchased copper concentrate. The concentrates were purchased from Chambishi and Foskor (concentrate produced from marginal ore processing).

Sulphuric acid production increased by six per cent to 145 584 tonnes over 2005, mainly due to improved sulphur capture.

Refinery production

Cathode production of 81 163 tonnes was 844 tonnes higher than the previous year. Anode stocks ahead of the refinery were increased during the latter half of 2005 to ensure steady tank house operations through smelter shutdown.

Focus during the year continued to be based around cell condition and maintenance. One section was refurbished with polymer concrete cells, while a second section was demolished, being replaced at year end. Existing lead lined cells were maintained and maintenance activities around these cells increased.

Rod production from Palabora copper for 2006 was 72 466 tonnes, an increase of 4 per cent over 2005. A further 4 070 tonnes of cathode was toll treated for a local customer. During December extensive refractory maintenance was undertaken on the shaft furnace to enable the furnace to operate through to the end of 2007. The original plan to shut the furnace down during February 2007 was postponed due to the long lead items for the furnace replacement with the updated Southwire design.

Anode slimes production increased to 112 tonnes for 2006, an increase of 23 per cent over 2005. Slimes recovery increased due to improved effluent control and slimes recovery during the cell washing process.

Nickel sulphate production reduced by 33 per cent to 120 tonnes. Production was below plan mainly due to ongoing equipment failures at the mono plant. Approval for a new plant design was granted by the board during 2006, with commissioning of the plant due at the end of 2007. The new plant is based on ion exchange technology which will improve recoveries significantly.

Engineering services

Availability of the vermiculite heavy vehicle fleet deteriorated during the year as a result of the age of the equipment. Failures of key components featured prominently, resulting in long outages of equipment. Maintenance strategies were reviewed to improve the turnaround of vehicles. As part of the improvement strategy, the heavy vehicle workshop was handed over to the mining maintenance teams. The light vehicle workshops were in-sourced and all forklifts and crane maintenance for the site was assumed by this workshop.

The reliability of the electrical infrastructure improved during 2006. However, copper cable theft, especially bare earthing cable became a problem during the year.

Auxiliary services

Several projects commenced and were completed during the year. Two main projects that were executed were the extension of the tailings complex and the reverberatory furnace shutdown.

Logistics

During 2006, total products moved from site were 1,4 million tonnes, while 936 389 tonnes was shipped from port. The breakdown of the tonnages is:

- 172 471 tonnes of vermiculite was dispatched to local customers and to port and 167 724 tonnes shipped from port;
- 1 150 303 tonnes of magnetite was dispatched to local customers and port and 768 665 tonnes was shipped to China.

During 2006, numerous constraints were experienced in the use of the Richards Bay port due to ongoing maintenance on the bulk terminal and availability of rolling stock to service this port.

Marketing and sales

Copper prices rose sharply during the year averaging US309 c/lb, as compared with US167 c/lb in 2005. The rand depreciated by 8 per cent during the year. Rand copper prices increased mainly due to the higher copper prices. The higher copper prices presented many opportunities during 2006 in selling of low grade materials that could not be treated in the smelter, and for which there was no economic benefit in selling previously because of low copper prices.

During 2006, low grade concentrates, gas scrubbing plant concentrates and reverts were sold to take advantage of the higher copper prices. A total of 20 700 tonnes of low grade concentrate, 37 905 tonnes of gas scrubbing concentrate and 14 625 tonnes of reverts was sold.

Sale of copper rod increased by 4 per cent to 72 591 tonnes. This is despite the fact that demand for rod had been impacted by two major customers, Aberdare Cables and African Cables, installing their own rod plants. Export rod increased by 137 per cent to 679 tonnes during 2006 to counter the decrease in the local market demand. Strategies are in place to continue to grow the export market.

Sale of copper cathode was 7 464 tonnes, of which 77 per cent was sold into the local market.

For 2006, total local sales of finished copper products amounted to 97 per cent of total sales volumes.

Revenue from anode slimes improved due to improved gold and silver prices as well as volume. Nickel sulphate revenue was negatively impacted by low volumes; however, improved nickel prices offset some of the loss in revenue.

Magnetite sales increased by 17 per cent to 1 021 780 tonnes during 2006. Demand from the South African coal washing industry increased by 13 per cent on the back of strong export coal sales and gaining of market share from Idwala. Magnetite destined for the iron and steel industry in China increased by 44 per cent to 768 694 tonnes.

Vermiculite business

Safety

The safety performance of the vermiculite team was excellent during 2006. No lost time injuries were reported during the year. The implementation of a comprehensive site specific training and induction programme at vermiculite operations contributed to the safety results of 2006.

Palabora's geographical location from the markets and its attendant costs of sea freight allowed the Chinese vermiculite producers to continue to deliver their products at lower prices to the American and European markets. Vermiculite sales revenue was 1.4 per cent above plan and sales tonnes were six per cent below plan for the year. Europe sales volume was six per cent above plan and the respective below plan segmental sales volume for the year were as follows:

- America 23 per cent;
- Asia 17 per cent;
- South Africa 32 per cent.

The lower than plan sales and stock variation had a negative impact on net profit before tax, so that 23.7 million rand was realised by the vermiculite operations compared with 70.9 million rand in 2005.

Stringent price increases were successfully executed for all American and Canadian customers in 2006. Asian and South African customers continued to receive their annual price increase for 2006. Price increases for the European and United Kingdom customers were implemented during 2006.

Following the improvement initiatives, the overall plant recovery remains at 68 per cent for 2006. Overall production remained ahead of plan with large, medium and fine grades above target for the year due to ramp scavenging in the existing PP&V pit. The ore body and the coarseness of the feed material primarily influenced the bias to the finer grades. The strong demand for coarser grade vermiculite continued to exceed production capacity and placed immense strain on supply chain stocks in meeting customer demands.

Production of 197 765 saleable tonnes were 6.8 per cent above plan and 5.7 per cent lower than 2005. Production costs were 3.9 per cent above plan, while unit costs were 2.9 per cent below plan for 2006.

Palabora maintains a strict fibre management programme to ensure that no fibrous minerals are mined and delivered to the processing plant in the event that such mineral maybe present in the mining area. All final product shipments are also sampled and inspected for fibrous minerals, according to internationally recognised methods, before leaving the mine. In the improbable event of fibre being present in a shipment, the entire shipment will be rejected. Palabora vermiculite undergoes stringent internal testing to ensure that it is free from any harmful materials. Independent third party sampling and testing of Palabora vermiculite is also conducted on a regular basis.

Human resources

Major indicators

Palabora employed 1 802 permanent and 149 fixed term employees (calculated on an average monthly basis) during 2006. Employees that were represented by recognised trade unions and covered by collective bargaining processes totalled 79 per cent.

The average length of service of our employees at the end of 2006 was 10.5 years, with labour turnover being 1.22 per cent. As at the end of 2006, 36.15 per cent of employees in the professional levels and above were designated as EE individuals, while women constituted seven per cent of our total workforce. The Company's Skills and Development Forum and Employment Equity committee continued to function, with meetings held monthly and quarterly respectively. The forums address training and development initiatives within the Company, meeting of targets, and submission of information as per legislation requirements. Issues emanating from these forums are reported monthly to executive committee and on a quarterly basis to the board.

Nearly 6.3 million rand was spent on all of our training and development programmes including technical, behavioural, and ABET. During 2006, 49 per cent of our employees had educational qualifications at grade 12 and higher, and 28 per cent had educational qualifications of grade 10 and 11. Employees with ABET level qualifications were at 23 per cent. The ABET qualifications are spread from level 1 to level 4. The different levels are equivalent to grades 3, 5, 7 and 9 respectively.

Key achievements

- Further strides were made in addressing HIV and AIDS in the workplace and within the community through the Company's Foundation. Awareness programmes proved to be working well, with a significant increase of 49.5 per cent (150 people more than 2005) that underwent voluntary counselling and testing. We also had an additional 17 employees volunteering to work as peer group educators, thus making a total of 53, up from 36 in 2005;
- A drama titled "Khomanani – Caring Together" was presented as a precursor to World AIDS Day and was very successful, with an estimated 300 people in attendance;
- World AIDS Day was observed across the Company with great success as large numbers of employees attended sessions to listen to messages by two credible speakers from the community;
- In December 2006, another record settlement on the wages and conditions of employment was reached for 2007/8 in the case of NUM and 2007-2009 with Solidarity union. This was a significant achievement as it was reached for the second year in succession;
- The quality of our occupational health system was acknowledged through increased usage of our clinic as service provider for external clients for employment related medical examinations;
- We completed compliance training from executive level down to first line supervisory and specialists' levels as well as employees at the Palabora Foundation. Additional modules included Antitrust, Human rights and Business Integrity for all general managers and managers at

Palabora. Incorporated modules The way we work, Sexual harassment and Communication in the induction process for all new employees;
- Enhanced graduate development programmes, by means of greater group and learning institution collaboration, as well as refinement of internal development programmes;
- Implementation of adult literacy learning programmes was successfully accomplished with significant numbers of adult learners entering the system and subsequently passing national examinations with a 97 per cent pass rate. Audit of adult education systems of Palabora by the MQA revealed that Palabora was fully compliant and the success of Palabora implementation was quoted as “exemplary” by the authorities;
- Implementation of the career progression system to enable career path and development planning in the Level 1 bands;
- Following the accreditation of Palabora as a Siemens training provider, a considerable number of Palabora and other employees from neighbouring companies were able to complete training locally which led to savings in travel costs, accommodation and course fees.

Employee relations

A further improvement in the labour relations climate was achieved in 2006. This happened despite the recognition of a new union namely, Solidarity. This followed the demise of UASA when it lost a significant number of members thus leading it to fail in meeting the minimum recognition criteria of 50 per cent plus one as stipulated in the Labour Relations Act. The transition to granting the new union organisational bargaining rights has been remarkably smooth without setbacks.

Our continued efforts in building capacity and fostering positive relations with all recognised trade unions seem to have borne positive results. This has been evidenced in achieving a record settlement (three months before the implementation date of the wage increases’ agreement) for the second successive year in the history of conducting wages and conditions of employment negotiations at Palabora. Furthermore, organised labour continued to take an active interest in participating in the various established forums such as EE and Skills Development and in assisting with the resolution of a number of long standing disputes.

Training and development

Palabora continued to actively participate and collaborate in the industry’s MQA, through the education and setting of training standards and qualifications design. The inclusion of massive ore body mining, with associated engineering and minerals processing practices in education and training curricula, is a specific objective of the collaborative process. Implementation of the career progression system required a comprehensive skills audit of the business. Acquired data enabled a detailed skills requirement matrix to be developed which was subsequently aligned with national training standards. This assures that as far as possible, training provided at Palabora results in national recognition.

A total of 261 employees completed e-learning behavioural training programmes as part of the personal development process. A further 119 completed the situational leadership training programme aimed at enhancing leadership skills for supervisory staff.

As part of the development of our senior management team, we continued to expose them to the group-wide senior leadership development programme offered through Duke University called Business Leadership Development Programme. Following the formalisation of career and personal development programmes, a total of eight of our management team members attended the Operational Leadership Development Programme. The programme exposes employees to modules focusing on leadership of self and team as well as business and finance.

We have funded a total of 12 bursars of which 67 per cent are HDSA. The scheme provides us with a pool of high level professionals and future potential leaders in the Company. The candidates that are given the funding are those that pursue careers in mining, metallurgy, engineering, finance and human resources. Candidates who successfully complete their studies are offered employment for in-service training. Prior to placement in substantive roles, the graduates are placed on formal training and development programmes in line with their qualifications in order to be equipped with the skills and knowledge necessary for career development and growth. We also conducted human resources reviews aimed at identifying and developing high potential and performing individuals that are considered future leadership material for the Company and the Group. As part of the objectives of the review, succession planning and identification of development opportunities both within the Company and the Group are addressed.

Mining Charter

With the promulgation of the new MPRDA, Palabora has to meet specific requirements in this new Act and its associated regulations in order for Palabora to have its 'old' order mineral rights (mining authorisations) converted to 'new' order mineral rights.

The government's intent relating to the broader participation of HDSAs in the mining industry is contained in the Mining Charter whilst the requirements to be met are taken up in the scorecard.

The most important issues facing Palabora for the conversion of its old order rights are:

- Achieving 15 per cent HDSA shareholding by 2009 and 26 per cent by 2014;
- Development of a plan to achieve 40 percent HDSA participation in management by 2009;
- Development of a plan together with Foskor for the joint extraction of minerals.

The proposed scorecard gives effect to the provisions contained in the Broad Based Socio-Economic Empowerment Charter for the Mining and Minerals Industry. The scorecard is designed to facilitate the application of the charter in terms of the MPRDA requirements for the conversion of all the old order rights into new rights within a five year conversion window, but recognising the full ten year period. The scorecard is intended to reflect the spirit of the Broad-based Socio-Economic Empowerment Charter for the mining industry.

To date Palabora has submitted all of the documents required for conversion of mining rights. However the Department of Minerals and Energy is refusing to accept any submissions that do not have an associated and completed BEE deal. Palabora worked on a BEE deal during 2006 with the aim of completing it in 2007. In the mean time a rigorous effort will be made in attracting and retaining employees identified with talent and potential as well as female employees, particularly in professional roles, to comply with the employment equity requirements. Recruitment practice will be aimed at increasing the proportion of both HDSA employees to 40 per cent in the professional levels and above and ten per cent female employees in the Company as stipulated in the Mining Charter by 2009.

Employment Equity, attraction and retention of talent

The challenges of skills shortages, ability to attract and retain talent continued in 2006. From the total strength of 1 802 employees, 263 left the Company. Notably, of those that left the Company, 16 were in the category of 'professionals and above' of which six (37.5 per cent) were EE individuals.

The Company strives to place itself as an employer of choice and, as such, continued various measures to remain competitive with its remuneration practices. This was done through continued benchmark and market surveys to ensure that its employees are meaningfully remunerated.

Directors' statement

The board is responsible for the preparation, integrity and fair presentation of the financial statements of Palabora Mining Company Limited and its subsidiaries. The financial statements, presented on pages 33 to 74, have been prepared in accordance with International Financial Reporting Standards, and include amounts based on judgements and estimates made by management.

The board also reviewed the other information included in the annual report and is responsible for both its accuracy and its consistency with the financial statements. The going concern basis has been adopted in preparing the financial statements. The board has no reason to believe that the Company or the Group will not be a going concern in the foreseeable future based on forecasts, available cash resources and the continued financial support of the holding company, Rio Tinto. The viability of the Company and the Group are supported by the financial statements.

The financial statements have been audited by the independent accounting firm, PricewaterhouseCoopers Inc, which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the board of directors and committees of the board. The board believes that all representations made to the independent auditors during their audit were valid and appropriate. PricewaterhouseCoopers Inc's audit report is presented on page 32.

The financial statements were approved by the board of directors on 16 March 2007 and are signed on its behalf by:

C N Zungu
Acting chairman

K Marshall
Managing director

Statement by the company secretary

I, the undersigned, in my capacity as company secretary, do hereby confirm that for the financial year ended 31 December 2006, Palabora Mining Company Limited has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Companies Act, 61 of 1973, as amended, and that to the best of my knowledge all such returns are true, correct and up to date.

K N Mathole
Company secretary
16 March 2007

Corporate governance statement

Our commitment

Palabora Mining Company, its subsidiaries and its joint venture ("the Group") are committed to the principles of openness, integrity and accountability advocated in the King II. Accordingly, the board has taken careful note of the recommendations contained in the King II report, as a minimum standard. A great deal of the Group's practices continue to be aligned with these requirements. The board has identified three areas where strict compliance with King II would add little or no value and where alternative workable systems existed:

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

By supporting the King II recommendations, the board has demonstrated its commitment to conduct the affairs of the Group with integrity and in accordance with generally accepted corporate practices. The board places strong emphasis on achieving the highest level of financial management, accounting and reporting. The financial statements are prepared in accordance with International Financial Reporting Standards.

Application

Although the King II recommendations are generally applied to all entities in the Group, it is specifically adopted by Palabora Mining Company Limited, the Company, as the subsidiaries are not material in size. Specifically, the directors report on the matters that follow:

Board of directors

The Company has a unitary board structure. The board meets on a quarterly basis, retains effective control over the Company and monitors executive management. During the year under review, it reviewed its composition, size and mix of skills. The size of the board was reduced from 12 to nine directors. The number of directors representing Rio Tinto was therefore reduced from three to two non-executives and Anglo American from two to one.

On 28 February 2006, Warrick Ranson resigned from the board as a non-executive director and was replaced by Mrs Jo-Ann Goh. With effect from 30 June 2006, Steven Din resigned as an executive director and chief financial officer and was replaced by Charles Asubonten.

During the year, we saw the departure of Tom Albanese and Rod Whyte as non-executive directors. Paul Henry also resigned as an alternate director to Rod Whyte.

Full details regarding changes in the Company's directorate and emoluments paid to directors are disclosed in the directors' report on pages 33 to 35. Details of directors and alternate directors presently constituting the board appear on pages 4 to 7. There are no contracts of service between any directors and the Company or any of its subsidiaries that are terminable at periods of notice exceeding one year and requiring payment of compensation. No director holds any shares beneficially or non-beneficially, directly or indirectly in the Company and there are no share option schemes.

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

In the past year we have:

- Updated our risk management matrix
- Adopted the board charter
- Adopted the directors' induction framework
- Adopted the conflict of interest policy
- Adopted the trading policy.

Details of attendance by directors at board meetings during the financial year ended 31 December 2006 are set out on page 28.

All directors have access to the advice and services of the company secretary, who is responsible to the board for ensuring that board procedures are followed and for ensuring compliance with procedures and regulations of a statutory nature. Directors are entitled to seek independent professional advice concerning the affairs of the Group at the Group's expense, should they believe that course of action would be in the best interest of the Group. Non-executive directors' remuneration is recommended by either the company secretary or chief financial officer, after consultation with independent advisors on fees prevailing in comparable local companies. The directors decided not to increase director's fees in the 2004 and 2005 financial years. The company secretary is reviewing the remuneration of non-executive directors and will develop a remuneration strategy to help in attracting, retaining and motivating non-executive directors. The remuneration strategy will also ensure that the remuneration arrangement for non-executive directors is competitive and appropriate. An evaluation process for the board will also be developed.

Executive committee

The board delegates the day-to-day management of the business of the Group to the managing director assisted by the executive committee. The committee meets weekly to review operations and performance, develop strategy and policy proposals for consideration by the board and to implement its directive. Members of the executive committee at present comprise: the managing director, the chief financial officer, four general managers and principal advisor safety health, environmental and quality.

Board Audit Committee

The BAC has been in place since 1995 and its members are appointed by the board. The BAC consists of at least three directors appointed by the board, the majority of whom are non-executive directors, and, where possible, independent. A quorum for any meeting is two members present and voting on the matter for decision, of whom at least one shall be an independent non-executive director. The chairman of the board is not a member of the committee.

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

The primary mandate of the Group's internal auditors is to examine, review and evaluate the effectiveness of the applicable operating activities, the attendant business risks and the systems of internal operation and financial control, so as to bring material deficiencies, instances of non-compliance, high-risk exposure and development work needs to the attention of management for resolution. They report on an administrative basis to the chief financial officer, who is an executive director, and functionally to the BAC. Members of the BAC as at 31 December 2006 comprised the following:

Mr G N Negota ** (*chairman*)
Mr R Hoveka *
Mr J C Posthumus *
Mr C N Zungu **
Mrs J S Yuen-Goh*
K N Mathole (*secretary*)

* Non-executive

** Independent non-executive

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

The purpose of the BAC is assist the board in fulfilling its overview responsibilities that relate to the safeguarding of assets, the operation of adequate systems, control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements and accounting standards. The BAC reviews the financial reporting process, the system of internal control and management of business risks, the audit process, and the company's process of monitoring compliance with laws

Name of director	10 February 2006	20 April 2006	27 July 2006	16 November 2006
G M Negota	A	P	P	A
R M Whyte	P	P	P	NAD
J C Posthumus	P	P	P	P
M R Maruma	A	A	A	A
C N Zungu	P	A	P	P
K Marshall	P	P	P	P
C A Asubonten	NAD	NAD	P (by invitation)	P
S M Din	P	P	P (by invitation)	NAD
T Albanese	P	P	A	NAD
J S Yuen-Goh	NAD	P	P	P
W R J Ranson	P	NAD	NAD	NAD
C J Latcham	A	P	P	P
F B Weldon (alt)				
P A Henry (alt)a				

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

and regulations and its own code of business conduct. In performing its duties, the BAC maintains effective working relationships with the board, management, and the internal and external auditors.

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

The BAC terms of reference include *inter alia:*

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements
- Consider with the internal audit department and the external auditors any fraud, illegal acts, deficiencies in internal control or other similar issues
- Review and approve, subject to board ratification, preliminary announcements, interim financial information and the annual financial statements and determine whether they are complete and consistent with the information known to committee members; assess whether the financial statements reflect appropriate accounting policies.
- Review judgements and evaluations, for example those involving valuation of assets and liabilities; warranty, product or environmental liability, litigation reserves and other commitments and contingencies
- Pre-approve any non-audit services provided by external auditors for which pre-approvals are required by applicable regulations, and ensure disclosure of such approval is made in the Company's public filings in accordance with applicable regulations; and ensure that external auditors are not providing any services prohibited by applicable regulations
- Evaluate the independence and effectiveness of the external auditors and consider any non-audit services rendered by such auditors as to whether this materially impairs their independence
- Evaluate the performance of the external auditors
- Consider and make recommendations on the appointment and retention of the external auditors, and any questions of resignation or dismissal of the auditors.

The chairman of the BAC reports to the board at each meeting on matters discussed and recommendations made by the committee.

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

Details of attendance by members of the BAC during the financial year ended 31 December 2006 are set out below:

Name of BAC member	**25 Jan 2006**	**19 April 2006**	**26 July 2006**	**15 Nov 2006**
G N Negota	P	A	P	A
R Hoveka	P	A	P	A
J S Yuen-Goh	NAM	P	P	P
W R J Ranson	P	NAM	NAM	NAM
C N Zungu	P	A	P	P
J C Posthumus	P	P	P	P

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

Internal control

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

The Group assessed its internal audit control system as at 31 December 2006 in relation to the criteria for effective internal control over financial reporting and other control areas as set out in the Rio Tinto internal control questionnaire. Based on its assessment, the Group believes that, as at 31 December 2006 and at the date of this report, its system of internal control over financial reporting and over safeguarding of assets against unauthorised acquisitions, use or disposition, met those criteria.

Risk management

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

The management of risk encompasses all significant risks, including operational risk, which could undermine the achievement of business objectives. The board has approved the level of acceptable risk and requires that operations manage and report in terms thereof. Issues and circumstances which could give rise to material adverse reputational considerations are also considered to be unacceptable risks. Management has outlined the risks below.

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

- **Labour skills**
  There is an acute shortage of skilled labour in South africa, exacerbated by an exodus of skilled labour.

- **Environmental risks**
  South Africa regulators are increasingly paying more attention to air and water quality issues. While Palabora is currently in full compliance with all environmental regulations, the potential for the introduction of more stringent air quality regulations may pose a challenge for the smelter.

- **Land claims**
  Although currently unconfirmed, it appears that four different tribal authorities have placed land claims over the land upon which Palabora Mining Company operates. As most of this land is leased from the Government, it is unclear as to what extent the claims will affect the operation. Clarification of the claimants, the claims, and any potential settlement are being pursued through legal channels.

- **HIV/Aids**
  HIV/Aids continues to be a real issue with death in service rising during 2006. Palabora acknowledges HIV/Aids as a workplace issue and that it is impacting significantly the Ba-Phalaborwa Municipality in which Palabora Mining Company operates. Palabora believes that a healthy workforce and good management of community relationships are vital for business success. Palabora, in conjunction with the Palabora Foundation, operates a combined workplace and community HIV/Aids strategy that demonstrates Palabora's commitment to the good health of employees and contractors, and the communities in which it operates. Palabora will continue to maintain the HIV/Aids and Health training programme as well as the voluntary counselling and testing programme and the free condom distribution programme. The full time HIV/Aids and health educator will continue to play a pivotal part in this programme.

- **BEE**
  While Palabora embraces the Mining Charter and is working diligently to convert its mining rights as required by the Charter, the final outcome cannot be guaranteed

Business continuity plan

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

Insider trading

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

Worker participation and affirmative action

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

Shareholders' diary

Code of ethics

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

As well as being dealt with under the disciplinary code, all cases of fraud or theft could be reported to the South African Police Service for further action.

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

January
Announcement of the preliminary results
March
Publication of annual report
April
Annual general meeting
July
Publication of half-yearly interim report
December
End of financial year
Board meetings
January, April, July and November

Addresses

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

Postal address
PO Box 65, Phalaborwa 1390

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

Transfer secretaries
Computershare Investor Services 2004 (Pty) Limited
70 Marshall Street, Johannesburg 2001
Postal address
PO Box 61051, Marshalltown 2107

Company secretary
Keith Mathole
email: keith.mathole@palabora.co.za
1 Copper Road, Phalaborwa 1389

Report of the independent auditors

Report of the Independent Auditors to the members of Palabora Mining Company Limited

We have audited the annual financial statements and Group annual financial statements of Palabora Mining Company Limited, which comprise the directors' report, the balance sheet and the consolidation balance sheet as at 31 December 2006, the income statement and the consolidated income statement, the statement of recognised income and expenditure and the consolidated statement of recognised income and expenditure, the cash flow statement and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 33 to 74.

Director's responsibility for the financial statements

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company and the Group as of 31 December 2006, and of the their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act of South Africa.

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
Director JFM Kotzé
Registered Auditor
Johannesburg
16 March 2007

Directors' report

for the year ended 31 December 2006

The directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company and the Group for the year ended 31 December 2006.

Nature of business

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

Group results

The Group profit after taxation for the year amounted to 467 million rand compared to a loss of 93 million rand in 2005. Additional details on the results and financial position of the Company and Group are set out in the income statement, balance sheet, cash flow statement and notes to the financial statements. The performance of the Group and the nature of the various operations are dealt with in the statement by the chairman and review by the managing director.

Capital

Authorised capital

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

Issued capital

During the year 18 775 530 (2005: 1 246 467) new ordinary shares were issued as a result of the conversion of redeemable convertible debentures. Following these allotments, the issued capital of the company increased to 48 337 497 (2005: 29 561 967) ordinary shares of one rand each.

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

Dividends

No dividends for the year ended 31 December 2006 were declared to shareholders (2005: nil).

Holding company and related parties

The immediate holding company is Palabora Holdings Limited and the ultimate holding company is Rio Tinto plc, which is incorporated in the UK. Rio Tinto plc's beneficial interest is 57.69 per cent (2005: 47.17 per cent). The Group is a Rio Tinto managed operation supplying managerial, administration and consulting services.

Administration

The secretary of the Company is Mr K N Mathole.

The RTZ (South African) Environmental Rehabilitation Fund

An accumulated fund value of 70 million rand (2005: 67 million rand) has been placed with the RTZ (South Africa) Environmental Rehabilitation Fund at 31 December 2006.

The intention is to accumulate funds to be used on the restoration of mining property when the mine closes. The market value of this fund amounted to 276 million rand as at 31 December 2006 (2005: 210 million rand).

Foreign subsidiaries

Foreign subsidiaries, which are all unlisted, are mainly concerned with the marketing of vermiculite. The after-tax profits of subsidiaries for the year ended 31 December 2006 amounted to 12 million rand (2005: 13 million rand) and the net assets at 31 December 2006 amounted to 109 million rand (2005: 91 million rand).

Directorate and secretaries

The names of the directors and of the company secretary as at 31 December 2006 appear on page 5. The addresses and names of the transfer secretaries appear on page 31.

Borrowings

In terms of the Company's Articles of Association, the Company's borrowing powers are unlimited.

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

Mr W R J Ranson resigned on 28 February 2006
Mrs J S Yuen-Goh was appointed on 1 March 2006
Mr S M Din resigned on 30 June 2006
Mr C A Asubonten was appointed on 27 July 2006
Mr R M Whyte resigned on 27 July 2006
Mr T Albanese resigned on 27 July 2006
Mr M R Maruma resigned on 1 February 2007
Mr G M Negota was appointed chairman on 1 February 2007

In terms of the articles of association, Messrs C N Zungu, G M Negota and C A Asubonten retire at the forthcoming annual general meeting but are all eligible and offer themselves for re-election.

None of the directors and alternate directors held any shares in the Company.

Board Audit Committee

The members of the Board Audit Committee as at 31 December 2006 were as follows:

Mr G N Negota** (*chairman*)
Mr R Hoveka*
Mr J C Posthumus*
Mr C N Zungu**
Mrs J S Yuen-Goh*
Mr K N Mathole (*secretary*)

* Non-executive
** Independent non-executive

Auditors

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

Subsidiaries and joint ventures

		Issued share capital	Effective Group interest		Amounts receivable/(payable)	
		2006	**2006**	2005	**2006**	2005
		R'000	**%**	%	**R'000**	R'000
Palfos Aviation (Pty) Limited	**	**50**	**50**	50	**—**	—
Palabora Singapore Pty Limited	***	**127**	**100**	100	**—**	—
Zirlite Holdings Limited (incorporated in Cyprus)		**11**	**100**	100	**—**	—
Zirconia Sales Limited (incorporated in UK)	*	**—**	**100**	100	**—**	(227)
Palabora Europe Limited (incorporated in UK)		**754**	**100**	100	**810**	9 697
Mandoval Coatings Limited (incorporated in UK)		**1**	**100**	100	**—**	(8 063)
Mandoval Vermiculite Products Inc (incorporated in USA)		**3 061**	**100**	100	**—**	—
American Vermiculite Corporation (incorporated in USA)		**107**	**100**	100	**16 669**	22 940
Zirconia Sales Inc (incorporated in USA)	*	**—**	**100**	100	**—**	—
Palabora Asia Pty Limited		**2**	**100**	100	**—**	—
Total					**17 479**	24 347

* Share capital less than 500 rand ** Sold major asset during 2004, company in process of being deregistered. (Joint Venture) *** In liquidation.

for the year ended 31 December 2006

Directors' emoluments

All amounts in R'000	Resigned	Appointed	Board fees	Attendance fees-board	Board audit committee fees	Salary	Bonuses and performance related payments	Pension scheme contributions	Other benefits	Total 2006	Total 2005
Executive directors											
K Marshall	N/A	23 Feb 04	—	—	—	1 753	412	135	642	**2 942**	1 803
(*Managing director*)											
S M Din	30 June 06	22 Apr 04	—	—	—	622	—	—	423	**1 045**	1 265
(*Chief financial officer*)											
C A Asubonten	N/A	27 July 06	—	—	—	691	—	—	364	**1 055**	—
(*Chief financial officer*)											
Subtotal			—	—	—	3 066	412	135	1 429	**5 042**	3 068
Non-executive directors											
C J Latcham	N/A	01 Aug 05	7	—	—	—	—	—	—	**7**	7
G M Negota	N/A	01 April 99	33	10	10	—	—	—	—	**53**	55
M R Maruma	N/A	29 July 03	33	—	—	—	—	—	—	**33**	71
R M Whyte	27 July 06	01 Sep 00	23	—	—	—	—	—	—	**23**	30
C N Zungu											
(*Acting chairman*)	N/A	01 Apr 02	61	15	15	—	—	—	—	**91**	60
J C Posthumus	N/A	27 Jan 04	30	—	—	—	—	—	—	**30**	30
W R J Ranson	28 Feb 06	28 July 04	5	—	—	—	—	—	—	**5**	30
T Albanese	27 July 06	01 Sep 04	15	—	—	—	—	—	—	**15**	30
J S Yuen-Goh	N/A	1 March 06	25	—	—	—	—	—	—	**25**	—
Subtotal			232	25	25	—	—	—	—	**282**	313
Alternate directors											
F B Weldon	N/A	08 Aug 02	—	—	—	—	—	—	—	—	—
P A Henry	27 July 06	01 Aug 04	—	—	—	—	—	—	—	—	—
Total			—	—	—	—	—	—	—	—	—

K Marshall, SM Din and CA Asubonten are remunerated by the Rio Tinto Group and charged to Palabora, their full salaries are shown above. K Marshall and SM Din's salaries are paid in British pounds and CA Asubonten's salary is paid in US dollars. These amounts have been translated into rand using the average exchange rate of 12 months in 2006. Allowances for K Marshall, SM Din and CA Asubonten are included in other benefits. None of the directors have any interest in the Company's share capital.

Palabora Mining Company Limited and its subsidiaries

Consolidated income statement

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R'000**	R'000	**R'000**	R'000
Continuing operations					
Sale of products		**5 014 200**	2 411 369	**4 876 932**	2 332 042
Hedged loss realised		**(1 032 321)**	(46 761)	**(1 032 321)**	(46 761)
Revenue	33	**3 981 879**	2 364 608	**3 844 611**	2 285 281
Cost of sales	6	**(2 362 149)**	(1 740 171)	**(2 292 976)**	(1 701 980)
Gross profit		**1 619 730**	624 437	**1 551 635**	583 301
Other income	3	**101 582**	23 135	**102 285**	30 180
Selling and distribution costs	6	**(267 526)**	(156 518)	**(238 685)**	(130 128)
Administration expenses	6	**(279 033)**	(213 471)	**(259 178)**	(214 947)
Other expenses	4	**(3 025)**	(2 585)	**(3 112)**	(1 708)
Profit from continuing operations before tax and net finance costs	5	**1 171 728**	274 998	**1 152 945**	266 698
Finance cost – net		**(410 170)**	(355 717)	**(409 534)**	(356 925)
Finance costs	7	**(440 761)**	(371 526)	**(439 136)**	(371 526)
Finance income	8	**30 591**	15 809	**29 602**	14 601
Profit / (loss) before tax		**761 558**	(80 719)	**743 411**	(90 227)
Income tax expense	9	**(278 054)**	(6 693)	**(271 753)**	(1 581)
Profit / (loss) for the year from continuing operations		**483 504**	(87 412)	**471 658**	(91 808)
Discontinued operations					
Loss from discontinued operations	10	**(16 158)**	(5 818)	**(16 158)**	(5 818)
Profit / (loss) for the year		**467 346**	(93 230)	**455 500**	(97 626)

Allocated as follows:

Equity holders of parent		**467 346**	(93 230)
Profit / (loss) per share (cents):			
– Basic and diluted, for total operations	11	**1 291 c**	(328) c
– Basic and diluted, for continuing operations	11	**1 336 c**	(307) c
– Basic and diluted, for discontinued operations	11	**(45) c**	(20) c

Palabora Mining Company Limited and its subsidiaries

Consolidated balance sheet

as at 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R'000**	R'000	**R'000**	R'000
Assets					
Non-current assets		**3 043 280**	2 236 136	**3 060 855**	2 257 007
Property, plant and equipment	13	**1 970 944**	2 012 469	**1 970 919**	2 012 319
Intangible assets	14	**325**	9 722	**325**	9 722
Investment in subsidiaries and joint venture	15	**—**	—	**17 600**	24 467
Available-for-sale financial assets	16	**275 571**	210 499	**275 571**	210 499
Deferred tax asset	17	**796 440**	3 446	**796 440**	—
Current assets		**2 124 262**	1 211 936	**1 976 952**	1 097 538
Stores	18	**65 433**	51 769	**65 433**	51 769
Product inventories	19	**768 753**	594 983	**712 727**	542 184
Trade and other receivables	20	**615 242**	362 413	**542 010**	313 497
Current tax asset		**4 498**	492	**4 498**	1 430
Cash and cash equivalents	21	**670 336**	202 279	**652 284**	188 658
Non-current assets held for sale	10	**—**	24 860	**—**	24 860
		2 124 262	1 236 796	**1 976 952**	1 122 398
Total assets		**5 167 542**	3 472 932	**5 037 807**	3 379 405
Shareholders' equity and liabilities					
Capital and reserves					
Share capital and premium	22	**629 551**	66 286	**629 551**	66 286
Other reserves	23	**(1 446 951)**	(683 715)	**(1 463 314)**	(677 150)
Retained earnings	23	**569 846**	102 500	**470 144**	14 644
Total shareholders' equity		**(247 554)**	(514 929)	**(363 619)**	(596 220)
Non-current liabilities		**3 595 306**	2 546 870	**3 595 789**	2 546 870
Long-term borrowings	24	**1 489 470**	1 640 786	**1 489 470**	1 640 786
Derivative financial instrument	25	**1 410 363**	537 549	**1 410 363**	537 549
Provisions :					
– Close-down and restoration costs	26	**314 408**	264 636	**314 408**	264 636
– Post-retirement medical benefits	27	**121 772**	103 899	**121 772**	103 899
Deferred tax liabilities	17	**259 293**	—	**259 776**	—
Current liabilities		**1 819 790**	1 440 991	**1 805 637**	1 428 755
Trade and other payables	28	**496 331**	320 826	**485 525**	308 811
Derivative financial instrument	25	**1 042 969**	283 209	**1 042 969**	283 209
Provisions	29	**37 364**	32 246	**37 003**	32 121
Current portion of long-term borrowings	24	**185 254**	779 660	**185 254**	779 660
Current tax liabilities		**2 807**	—	**—**	—
Group companies - related parties	30	**55 065**	25 050	**54 886**	24 954
Total liabilities		**5 415 096**	3 987 861	**5 401 426**	3 975 625
Total equity and liabilities		**5 167 542**	3 472 932	**5 037 807**	3 379 405

Palabora Mining Company Limited and its subsidiaries

Consolidated statement of recognised income and expenditure

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R'000**	R'000	**R'000**	R'000
Available-for-sale investments:					
– Valuation gains taken to equity		**62 871**	55 043	**62 871**	55 043
Exchange differences on translation of foreign operations		**22 928**	2 953	**—**	—
Cash flow hedges:					
– Losses taken to equity		**(2 664 895)**	(867 518)	**(2 664 895)**	(867 518)
– Transferred to profit or loss for the year		**1 032 321**	46 761	**1 032 321**	46 761
Actuarial losses on defined benefit plans	27	**(12 901)**	—	**(12 901)**	—
Tax on items taken directly to or transferred from equity	17	**796 440**	—	**796 440**	—
Net income recognised directly in equity		**(763 236)**	(762 761)	**(786 164)**	(765 714)
Profit / (loss) for the year		**467 346**	(93 230)	**455 500**	(97 626)
Total recognised income and expenses for the year		**(295 890)**	(855 991)	**(330 664)**	(863 340)
Allocated as follows:					
Equity holders of parent		**(295 890)**	(855 991)		

Consolidated cash flow statement

for the year ended 31 December 2006

		Group		Company	
		2006	2005	**2006**	2005
	Notes	**R'000**	R'000	**R'000**	R'000
Cash flows from operating activities					
Cash generated from operations	31	**1 192 212**	255 843	**1 178 866**	258 532
Interest paid		**(251 607)**	(241 685)	**(251 607)**	(241 686)
Interest received		**14 157**	—	**13 905**	—
Income tax paid	32	**(8 703)**	(10 627)	**(7 234)**	(1 611)
Net cash generated from operating activities		**946 060**	3 531	**933 930**	15 235
Cash flows from investing activities					
Replacement of property, plant and equipment		**(144 160)**	(108 038)	**(143 937)**	(107 888)
Proceeds on disposal of plant and equipment		**5 257**	3 184	**4 954**	3 184
Amounts invested in Rehabilitation Fund		**(2 259)**	(4 449)	**(2 259)**	(4 449)
Amounts invested in long-term receivable		**—**	(5 625)	**—**	(5 625)
Decrease in loans to subsidiary companies		**—**	—	**6 867**	(13 150)
Interest received		**13 586**	14 065	**13 586**	13 777
Dividends received		**—**	—	**912**	7 101
Net cash used in investing activities		**(127 576)**	(100 863)	**(119 877)**	(107 050)
Cash flows from financing activities					
Payment of finance lease liabilities		**(1 202)**	—	**(1 202)**	—
Long-term borrowings raised		**—**	927 189	**—**	927 189
Long-term borrowings repaid		**(349 225)**	(274 513)	**(349 225)**	(274 513)
Net cash (used in) / generated from financing activities		**(350 427)**	652 676	**(350 427)**	652 676
Increase in cash and cash equivalents		**468 057**	555 344	**463 626**	560 861
At beginning of year		**202 279**	(353 065)	**188 658**	(372 203)
At end of year	21	**670 336**	202 279	**652 284**	188 658

1.1 Corporate information

The Group is a limited liability company incorporated and domiciled in South Africa. The address of its registered office is 1 Copper Road, Phalaborwa, 1389. The consolidated financial statements of the Group for the year ended 31 December 2006 were authorised for issue in accordance with the approval of the board of directors on 16 March 2007. The principal activities of the Group are described in note 33 (Segment reporting).

1.2 Basis of preparation

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

The financial statements for the year ended 31 December 2006 have been prepared in accordance with IFRS and Interpretations effective at 31 December 2006 and in certain instances where standards were adopted early.

The accounting policies adopted are consistent with those of the previous financial year, except for the following amendments and interpretations that were adopted from the annual period beginning 1 January 2006:

- ***IAS 19 (Amendment), Employee Benefits*** – This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. The Group adopted this change in policy to recognise actuarial gains and losses outside of the income statement and is thereby required to present a statement of recognised income and expenditure which excludes transactions with the owner in their capacity as such. Under this approach, a reconciliation of opening and closing balances of share capital, reserves and retained earnings will be given in the notes. The Group adopted this amendment from annual periods beginning 1 January 2006.
- ***IAS 21 (Amendment), Net investment in a Foreign Operation*** – This amendment clarifies that when a monetary item forms part of a reporting entity's net investment in a foreign operation and is denominated in the functional currency of the reporting entity, an exchange difference arises in the foreign operation's individual financial statements in accordance with IAS 21. If such an item is denominated in the functional currency of the foreign operation, an exchange difference arises in the reporting entity's separate financial statements. If such an item is denominated in a currency other than the functional currency of either the reporting entity or the foreign operation, an exchange difference arises in the reporting entity's and foreign operation's individual financial statements. Such exchange differences are reclassified to the separate component of equity in the financial statements that include the foreign operation and the reporting entity. The change in accounting policy has not had a significant impact on the Group.
- ***IAS 39 (Amendment), The Fair Value Option*** – This amendment changes the definition of financial instruments classified at fair value through profit and loss and restricts the ability to designate financial instruments as part of the category. This amendment did not have a significant impact on the classification of financial instruments.
- ***IFRIC 4, Determining Whether an Arrangement Contains a Lease*** – This interpretation requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. The change in accounting policy has not had a significant impact on the Group.
- ***AC 503, Accounting for Black Economic Empowerment transactions*** – Currently AC 503 is not relevant to the Group's operations but will be applied when relevant.

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- ***IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions***
- ***IAS 39 and IFRS4 (Amendment), Financial Guarantee Contracts***
- ***IFRIC 6, Liabilities Arising from Participating in a Specific Market: Waste Electrical and Electronic Equipment.***

The following interpretations have been published that are mandatory for annual periods beginning 1 March 2006 or later but which the Group has not yet adopted:

- ***IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*** – IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces IAS 30, Disclosures in the Financial Statements of Banks and Similar Financial Institutions, and disclosure requirements in IAS 32, Financial Instruments: Disclosure and Presentation. It is applicable to all entities that report under IFRS. The amendment to IAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of IFRS 7 and the amendment to IAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of IAS 1. The Group will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- ***IFRIC 7, Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006)*** – IFRIC 7 provides guidance on how to apply the requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when the economy was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Group's operations.
- ***IFRIC 8, Scope of IFRS 2 (effective from 1 May 2006)*** – IFRIC 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of IFRS 2. This interpretation is considered to have no impact on current accounts.
- ***IFRS 8, Operating Segments (effective from 1 January 2009)*** – IFRS 8 sets out requirements for disclosure of information about an equity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The IFRS replaces IAS 14 *Segments Reporting* . The Group will apply IFRS 8 from annual period beginning 1 January 2009.
- ***IFRIC 9, Reassessment of Embedded Derivatives (effective from 1 June 2006)*** – IFRIC 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This interpretation is considered to have no impact on current accounts.
- ***IFRIC 10, Interim Financial Reporting and Impairment (effective from 1 November 2006)*** – IFRIC 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. Management is currently assessing the impact of IFRIC 10 on the Group's operations.
- ***IFRIC 11, IFRS 2 – Group and Treasury Share Transactions (effective from 1 March 2007)*** – IFRIC 11 addresses how to apply IFRS 2 – Share-based Payment, to share-based payment arrangements involving an entity's own equity intruments or equity intruments of another entity in the same group (e.g. equity instruments of its parent). IFRIC 11 is not relevant to the Group's operations.
- ***IFRIC 12, Service Concession Arrangements (effective from 1 January 2008)*** – IFRIC 12 gives guidance on the accounting by operators for public-to-private service concession arrangements – IFRIC 12 is not relevant to the Group's operations.

1.3 Presentational changes

The format of the statement of changes in equity has been changed to a statement of recognised income and expenditure. In terms of the amendments to *IAS 19 – Employee Benefits*, entities may elect to recognise all actuarial gains and losses outside of the income statement. Entities that take up this option, to recognise all actuarial gains and losses outside of the income statement, are required to present a statement of recognised income and expenditure which excludes transactions with the owner in their capacity as such. This is in line with the group's accounting policies and that of the ultimate holding company, Rio Tinto. Under this approach, a reconciliation of opening and closing balances of share capital, reserves and retained earnings will be given in the notes.

1.4 Critical accounting estimates and assumptions

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

Many of the amounts included in the financial statements involve the use of judgement and/or estimation. These judgements and estimates are based on management's best knowledge of the relevant facts and circumstances, having regard to prior experience, but actual results may differ from the amounts included in the financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determination of ore reserves

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

Impairment of assets

The Group tests whether assets have suffered any impairment in accordance with the accounting policy in note 1.5.7. The recoverable amounts of cash-generating units have been derived from value-in-use calculations. These calculations require the use of estimates of future commodity prices and exchange rates. Estimates are based on management's interpretation of market forecasts. In line with market practice, fair value was estimated using a discounted cash flow anaylsis. The price assumption for copper was based on prevailing market prices for the first two years and long term forecast prices thereafter. The rand exchange rate was forecast principally based on an historical average. The cash flow forecasts were discounted at a pre-tax rate of 8.5 per cent.

Provisions

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

The net present value of current rehabilitation estimates is based on the assumption of a long-term real risk free interest rate of 2.40 per cent (2005: 2.90 per cent) and an inflation rate of 6.30 per cent (2005: 6.30 per cent).

Derivative financial instrument

Management uses quoted LME prices for the first 27 months (as used in the bank models) and thereafter market estimates as proxies instead of bank models for the fair valuing of the derivative financial instrument.

Recoverability of potential deferred tax assets

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

1.4.2 Changes in estimates

1.4.2.1 Mark-to-market valuation of the hedge book

A review of the mark-to-market method applied to fair valuing the hedge resulted in a change of estimate being applied during the current year. The change originated primarily as a result of quoted LME prices not exceeding 27 months. Management used market estimates as proxies to value the period beyond 27 months, rather than bank models as was previously done.

1.4.2.2 Product inventory

During the year certain product inventory items which had previously been carried at net realisable value, were revalued to cost, as a result of changes in economic circumstances.

1.4.2.3 Provision for close-down and restoration cost

The provision for close-down and restoration costs was impacted by the following changes in estimates during the year ended 31 December 2006:

– A 91 million rand increase due to a revised present closure obligation and an expected earlier start of the closure programme as a result of the revised life-of-mine.
– A decrease in the discount rate from 2.9 per cent to 2.4 per cent resulted in a 13 million rand increase in the provision.
– A change in the estimate of closure costs whereby provision is no longer made for severance costs associated with mine closure, resulted in a 85 million rand decrease of the provision.

1.5 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies are in accordance with IFRS and requirements of the South African Companies Act. These policies have been applied to all the years presented, unless otherwise stated.

1.5.1 Primary functional currency

The financial statements are presented in South African rands, as it is the primary functional currency in which the transactions are undertaken.

1.5.2 Consolidation

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

(a) Subsidiaries

A Company in which the Group holds directly or indirectly, through other subsidiary undertakings, a controlling interest is classified as a subsidiary undertaking. Control is presumed to exist where the Group owns more than one half of the voting rights (which does not always equate to percentage ownership) unless in exceptional circumstances, it can be demonstrated that ownership does not constitute control. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. For foreign operations, assets and liabilities are translated using the closing rates, and income statements are translated at average rates. Differences arising on translation are taken directly to the foreign currency translation reserve. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred.

(b) Joint ventures

The Group's interest in a jointly controlled entity is accounted for by proportionate consolidation. Under this method the Group includes its share of the joint ventures' individual income and expenses, assets and liabilities in the relevant components of the financial statements.

1.5.3 Foreign currencies

Foreign currency transactions are accounted for at the rates of exchange ruling at the date of the transaction.

Monetary assets and liabilities are translated at the exchange rate ruling at the balance sheet date. Gains and losses arising on settlement of such transactions and from the translation of monetary assets and liabilities are recognised in the income statement in the period to which they relate.

1.5.4 Stores and product inventories

1.5.4.1 Stores

Stores consist of consumable and maintenance stores and are valued at the lower of cost and the net realisable value. Cost is determined using the average cost basis.

1.5.4.2 Product inventories

Product inventories are valued at the lower of cost and net realisable value.The cost of inventories is determined principally on the average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

The cost of product inventories comprises the direct cost of production which includes mining and production overheads, depreciation and amortisation, but excludes transport costs to port. No value is attributed to material before it reaches the concentrator or to inventories of anode slimes.

1.5.5 Exploration and development expenditure

Property acquisition costs and entry premiums paid to gain access to areas of interest are carried forward at cost where considered recoverable from resale or development. During the initial exploration stage of projects, full provision is made in respect of such costs by a charge against profits of the year. Development costs relating to major projects at the mines are capitalised. Development costs consist primarily of expenditure to expand the capacity of the mine. Mine development costs in the ordinary course to maintain production are expensed as incurred. Initial development and pre-production costs are capitalised, until the asset is brought into production, at which time the costs are depreciated as set out in 1.5.6 below. Interest and foreign exchange differences arising on funds borrowed for specific development are capitalised until commercial levels of production are achieved.

1.5.6 Mining Assets

Mining assets are carried at cost less accumulated depreciation and accumulated impairment.

Mining assets include mine properties, development costs, mine plant facilities as well as certain essential plant spares which must be held to minimise delays arising from plant breakdowns. Depreciation is calculated on the straight-line basis to write off mining assets by the end of their economic life or the estimated life of the mine. The underground asset has been capitalised and depreciation calculated using production tonnes of copper units over the estimated life of the mine. Underground mobile equipment is depreciated over their economic life. Estimated economic life of assets has been calculated as follows:

• Buildings	life of mine
• Improvement on leasehold property	10 years
• Plant, machinery and equipment	5 years to life of mine
• Heavy mobile and plant equipment	5 years
• Computer equipment	4 years
• Instrumentation, fixtures, fittings	5 years
• Other vehicles	5 years

Land is not depreciated.

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

1.5.7 Impairment

A review of non-financial assets is carried out annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When there is an indication of impairment, the net carrying value of assets is compared with their recoverable amount. The recoverable amount is the higher of value in use and fair value less cost to sell. The value in use for each separate income generating unit is determined. Estimated future net cashflows are calculated using estimates of ore reserves, estimated future sales prices (considering historical and current prices, price trends and related factors) and operating, capital and restoration costs. Where the recoverable amount is less than the carrying value of the assets, the impairment identified is charged against income to reduce the carrying value to their recoverable amounts. The revised carrying amounts are depreciated over the remaining useful lives.

1.5.8 Intangible assets

Computer software

Acquired computer software licences are capitalised on the basis of the cost incurred to acquire and bring to use the specific software. Computer software has an estimated useful life of three to five years and is carried at cost less amortisation less accumulated impairment losses. Amortisation is recognised as part of cost of sales in the income statement.

1.5.9 Financial instruments

Financial instruments recognised on the balance sheet include investments, bank overdrafts, cash and cash equivalents, trade and other receivables, trade and other payables, long-term loans and derivative financial instruments. Financial instruments are initially measured at fair value when the group becomes a party to their contractual arrangements. Transaction costs are included in the initial measurement of financial instruments, except financial instruments classified as at fair value through profit and loss. The subsequent measurement of financial instruments is dealt with below. A financial asset is derecognised when the right to receive cash flows from the asset has expired or the Group has transferred its rights to receive cash and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the assets. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. On derecognition of a financial asset, the difference between the proceeds received or receivable and the carrying amount of the asset is included in income. On derecognition of a financial liability, the difference between the carrying amount of the liability extinguished or transferred to another party and the amount paid for is included in income. Regular way purchases and sales of all financial assets and liabilities are accounted for at trade date.

1.5.9.1 Investments

Investments, other than investments in subsidiaries and joint ventures are classified as available-for-sale financial assets. Available-for-sale financial assets 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 balance sheet date. Available-for-sale financial assets are subsequently measured at fair value, and are calculated by reference to the current quoted bid prices at the close of business on the balance sheet date. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

Changes in fair value are recognised in equity in the period in which they arise. These amounts are removed from equity and reported in income when the asset is derecognised or when there is evidence that the asset is impaired. Investments in subsidiaries, joint ventures and associates are carried at cost less any accumulated impairments in the company's separate financial statements.

1.5.9.2 Cash and cash equivalents

Cash and cash equivalents include all highly liquid investments with a maturity of three months or less at the date of purchase. The carrying amount of the bank overdrafts and cash and cash equivalents is stated at cost, which approximates fair value.

1.5.9.3 Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less accumulated impairment. Impairment of trade and other receivables is established when there is objective evidence as a result of a loss event that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the impairment 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. The impairment is recognised in the income statement.

1.5.9.4 Trade and other payables

Financial liabilities, other than derivatives, are subsequently measured at amortised cost, using the effective interest rate method.

1.5.9.5 Long-term borrowings

Borrowings are recognised initially at fair value, net of transaction cost incurred. Borrowings are subsequently stated at amortised cost. Any difference between the proceeds and redemption value is recognised in the income statement over the period of the borrowing using the effective interest method.

1.5.9.6 Derivative financial instruments and hedge accounting

The Group uses commodity swap contracts under which it receives a fixed price in rand in relation to a monthly notional quantity of copper, and pays a floating price based on the US$ London Metal Exchange Cash Settlement Price. The net receipt/payment is converted to rand at the average US$/rand rate. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at the fair value. The fair value of the swap contracts is calculated by reference to current forward exchange rates and the forward market rate (NPV) method for contracts with similar maturity profiles and instruments. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group documents at the inception of the 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, whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Group designates its commodity swap contracts as hedges of highly probable forecast transactions (cash flow hedges). The effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement. Amounts accumulated in equity are recycled in the income statement in revenue in the periods when the hedged item will affect profit or loss (for instance, when the forecast sale that is being hedged takes place). Derivatives that do not qualify for hedge accounting are marked to market at the balance sheet date giving rise to charges or credits to the income statement. Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to their host contracts.

1.5.10 Finance leases

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group substantially carries all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other short-term and other long-term payables. The interest element of 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 is depreciated over the shorter of the useful life of the asset and the lease term.

1.5.11 Provisions

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

1.5.11.1 Close-down and restoration costs

The provision in the accounts reflects the net present value of the estimated cost of restoring the environmental disturbance that has occurred up to the balance sheet date. The costs so provided are capitalised as part of mining assets and are depreciated accordingly. The estimated costs of rehabilitation are reviewed regularly and adjusted as appropriate for changes in legislation, technology or other circumstances. Annual contributions are made to the environmental rehabilitation fund to fund the estimated cost of rehabilitation during and at the end of the life of the relevant mine. Annual increases in the provision are split between finance cost relating to the change in the net present value of the provision, inflationary increases in the provision estimate and restoration costs relating to additional environmental disturbances that have occurred. Other movements in the provision for close down and restoration costs, including those resulting from new disturbances, updated cost estimates, changes to lives of operations and revisions to discount rates are capitalised within property, plant and equipment.

These costs are then depreciated over the lives of the assets to which they relate. Discount rates are determined by pre-tax rates that reflect current market assessments of the time value of money, adjusted for risk specific to the liability.

1.5.11.2 Post-retirement medical benefits

The Group provides post-retirement medical benefits for certain retired employees and their spouses by way of contributions to medical aid schemes. The expected costs of these benefits are accrued over the period of employment using a methodology similar to that of defined benefit plans. The liability recognised in the balance sheet is the present value of the obligation at balance sheet date less the fair value of plan assets, together with adjustments for unrecognised past service costs. Actuarial gains and losses arising in the year are taken to the Statement of recognised income and expenditure. For this purpose, actuarial gains and losses comprise both the effects of changes in actuarial assumptions and experience adjustments arising because of differences between the previous actuarial assumptions and what has actually occurred. Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional, in which case the costs are amortised on a straight-line basis over the vesting period. The present value of the obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. Valuations of these obligations are carried out on a periodic basis by professionally qualified independent actuaries, using the projected unit credit method.

1.5.12 Taxes

1.5.12.1 Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Current income tax relating to items recognised directly in equity is recognised in equity and not in the income statement.

1.5.12.2 Deferred income tax

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 nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. This tax rates consists of current statutory rates and an estimate of the rate used to determine the State's share of profit. The State's share of profit is determined by a mining lease registered in 1963, and amended in 1965. The consideration for the rights leased by the Company in terms of the mining lease consists of:

- a share of the annual profits derived from the working of the lease area determined according to the formula $y = 5.7 – 34.2/x$; (x equals the taxable income before capital allowances divided by the sales revenue from the lease area, expressed as a percentage);
- an amount equal to 1.25 per cent of the amount calculated with the above formula; and
- a surface rental.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

1.5.13 Pensions

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

1.5.14 Operating leases

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

1.5.15 Borrowing costs

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

1.5.16 Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. From a business segment point of view, the only significant segments are copper and industrial minerals, mining and production. Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. The Group's geographical segments are determined by the location of the Group's assets and operations.

1.5.17 Revenue recognition

1.5.17.1 Revenue

Revenue comprises sales to third parties at invoiced amounts, with most sales being ex works, free on board or cost and freight/cost, insurance and freight. Amounts billed to customers in respect of shipping and handling are classed as revenue where the Group is responsible for carriage, insurance and freight. All shipping and handling costs incurred by the Group are recognised as operating costs. If the Group is acting solely as an agent, amounts billed to customers are offset against the relevant costs. Mining royalties are presented as an operating cost. By-product sales are included in revenue. A large proportion of Group production is sold under medium to long term contracts, but revenue is only recognised on individual sales when persuasive evidence exists indicating that all of the following criteria are met:

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

These conditions are generally satisfied when title passes to the customer. In most instances revenue is recognised when the product is delivered to the destination specified by the customer, which is typically the vessel on which it will be shipped, the destination port or the customer's premises, dependent on shipping terms. The revenue from sales of many products is subject to adjustment based on an inspection of the product by the customer. In such cases, revenue is initially recognised on a provisional basis using the Group's best estimate of contained metal. Any subsequent adjustments to the initial estimate of metal content are recorded in revenue once they have been determined. Certain products are "provisionally priced", the selling price is subject to final adjustment at the end of a period normally ranging from 30 to 180 days after delivery to the customer, based on the market price at the relevant quotation point stipulated in the contract. Revenue is initially recognised when the conditions set out above have been met, using market prices at that date. At each reporting date the provisionally priced metal is marked to market, with adjustments recorded in revenue, based on the forward selling price for the quotational period stipulated in the contract until the quotational period expires. For this purpose, the selling price can be measured reliably for those products, such as copper, for which there exists an active and freely traded commodity market such as the London Metal Exchange, and the value of product sold by the Group is directly linked to the form in which it is traded on the market.

1.5.17.2 Dividends received

Dividends receivable are recognised when the right to receive payment is established.

1.5.17.3 Interest received

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

2. Financial risk management

The principal financial risks arising from the Group's activities are those related to commodity price risk, currency risk, interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The group uses derivative financial instruments to hedge risk exposures of future copper prices.

The Group's principal financial instruments comprise bank loans, debentures and commodity swap contracts. The Group has various other financial instruments such as trade debtors, trade creditors and cash, which arise directly from its operations.

It is currently, and has been throughout the year, the Group's policy that no trading in financial instruments shall be undertaken.

2.1 Foreign currency risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the UK pound.

As at 31 December 2006, the Group's funding line amounts to 1 675 million rand of which 75 per cent is denominated in US dollars for an equivalent of US$185 million. As a result of the significant US dollar denominated borrowings, the Group's balance sheet can be affected significantly by movements in the US dollar/SA rand exchange rates. The Group has not undertaken a strategy to mitigate the effect of its structural currency exposure by borrowing in US dollars.

The Group also has transactional currency exposures. Such exposure arises mainly from sales by an operating unit in currencies other than the unit's functional currency. Approximately 25 per cent of the Group's sales are denominated in currencies other than the functional currency of the operating unit making the sale, whilst almost 68 per cent of costs are denominated in the Group's reporting currency. The Group does not use derivatives to manage this risk.

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

	Less than 1 year '000	1 - 5 years '000	More than 5 years '000	Total '000
Accounts receivable				
UK pound (GBP)	37 477	—	—	37 477
US dollar (US$)	49 822	—	—	49 822
Accounts payable				
UK pound (GBP)	(4 134)	—	—	(4 134)
US dollar (US$)	(8 188)	—	—	(8 188)
Long term loans				
US dollar (US$)	(13 647)	(28 747)	(143 044)	(185 438)

2.2 Commodity price risk

Copper price risk arises from the risk of an adverse effect on current or future earnings resulting from fluctuations in the price of copper. The copper market is predominately priced in US dollars which exposes the Group to the risk that fluctuations in the SA rand/US dollar exchange rates may also have on current or future earnings. The Group has entered into a commodity swap contract to manage this price risk, as part of the refinancing programme entered into in September 2005.

2.3 Interest rate

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

	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total
2. Financial risk management continued							
Year ended 31 December 2006							

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

	Within 1 year	1 – 2 years	2 – 3 years	3 – 4 years	4 – 5 years	More than 5 years	Total
Floating rates							
Revolving credit facility	99 754	—	—	—	—	—	99 754
Senior term facility	82 070	195 407	78 163	109 428	109 428	91 528	666 024
Finance lease liability	3 430	3 794	4 921	—	—	—	12 145
Convertible debentures	—	—	—	—	—	—	—
Rio Tinto unsecured loan	—	—	—	—	—	732 795	732 795
Rio Tinto secured loan	—	—	—	—	—	164 006	164 006
Year ended 31 December 2005							
Floating rates							
Revolving credit facility	94 925	—	—	—	—	—	94 925
Senior term facility	142 156	126 984	144 560	65 762	78 196	141 874	699 532
Convertible debentures	393 730	—	—	—	—	418 340	812 070
Rio Tinto unsecured loan	—	—	—	—	—	665 070	665 070
Rio Tinto secured loan	148 849	—	—	—	—	—	148 849

2.4 Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

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

2.5 Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and debentures. Due to the dynamic nature of the underlying businesses, Group treasury aims to maintain flexibility in funding by keeping committed credit lines available.

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
3. Other income				
Discount received	**—**	1 456	**—**	1 456
Diesel rebate	**3 400**	2 734	**3 400**	2 734
Salvage yard sales	**4 638**	3 880	**4 638**	3 880
Dividends received	**—**	—	**912**	7 101
Profit on sale of fixed assets	**3 631**	4 014	**3 631**	3 962
Bad debts recovered	**339**	—	**—**	—
Insurance reimbursement	**35 371**	—	**35 371**	—
Severance cost excluded from close-down and restoration costs provision	**53 658**	—	**53 658**	—
Sundry revenue	**545**	11 051	**675**	11 047
	101 582	23 135	**102 285**	30 180

An insurance reimbursement was received for the claim on the ground subsidence of the open pit.

	Group 2006	Group 2005	Company 2006	Company 2005
4. Other Expenses				
Impairment of debtors	**1 008**	2 313	**1 127**	1 436
Sundry expenses	**2 017**	272	**1 985**	272
	3 025	2 585	**3 112**	1 708

5. Profit from continuing operations before tax and net finance cost

Profit from continuing operations before tax and net finance cost is stated after charging

	Group 2006	Group 2005	Company 2006	Company 2005
Auditors' remuneration				
– Fees for audit services	**2 472**	2 194	**1 973**	1 436
– Fees for other services	**283**	160	**283**	160
– Audit expenses	**265**	190	**265**	190
Operating lease rentals				
– Land and buildings	**1 203**	944	**—**	—
Professional fees				
– Managerial, administration and technical services	**22 538**	8 559	**25 585**	10 568
– Consulting fees	**11 748**	15 947	**11 218**	15 256
– Legal fees	**2 327**	1 610	**2 195**	1 454

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
6. Expenses by nature				
Depreciation of property, plant and equipment:				
– Land, mineral rights and rehabilitation assets	**11 617**	3 336	**11 617**	3 336
– Mine development and infrastructure	**257 721**	208 043	**257 679**	207 953
Amortisation of intangible assets	**9 397**	9 397	**9 397**	9 397
Employee benefit expense:				
– Salaries and wages	**431 539**	373 251	**424 951**	365 063
– Pension costs	**26 405**	13 687	**26 336**	13 647
– Post-retirement benefits:				
– Current service costs	**1 271**	1 116	**1 271**	1 116
– Interest costs	**9 590**	8 795	**9 590**	8 795
Changes in inventory of finished goods and work in progress	**(135 638)**	(165 388)	**(148 809)**	(156 134)
Product purchases:				
– Copper	**1 012 831**	668 822	**1 012 831**	668 822
– Other	**64 648**	33 106	**—**	—
Raw materials and consumables used	**188 642**	158 068	**188 642**	158 068
Maintenance and repairs	**644 474**	560 217	**641 569**	557 903
Transportation	**203 552**	126 179	**180 799**	105 424
Storage costs	**59 310**	26 011	**54 308**	21 491
Other selling costs	**4 664**	14 041	**3 578**	12 925
Other operating costs	**118 685**	71 479	**117 080**	69 249
Total cost of goods sold, selling, distribution and administration expenses	**2 908 708**	2 110 160	**2 790 839**	2 047 055

	Group		Company	
	2006	2005	**2006**	2005
7. Finance costs				
Bank loans and overdrafts	**196 418**	135 252	**196 418**	135 252
Convertible redeemable debentures	**68 316**	106 433	**68 316**	106 433
Exchange loss on foreign debt	**126 019**	101 896	**126 019**	101 896
Exchange loss on foreign creditors	**20 152**	—	**18 527**	—
Environmental rehabilitation interest charge	**29 856**	27 945	**29 856**	27 945
	440 761	371 526	**439 136**	371 526

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
8. Finance income				
Pension surplus fund	**13 586**	11 572	**13 586**	11 572
Accounts receivable	**1 030**	184	**777**	184
Banks	**13 128**	2 308	**13 128**	2 021
Exchange gain on debtors	**2 847**	1 745	**2 111**	824
	30 591	15 809	**29 602**	14 601

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
9. Taxation and lease considerations				
The major components of income tax expense are:				
Current income tax	**(18 382)**	(6 693)	**(11 976)**	(1 581)
South African				
– Mining tax	**—**	—	**—**	—
– Non-mining tax	**(11 995)**	(1 581)	**(11 976)**	(1 581)
Foreign				
– Current	**(6 387)**	(5 112)	**—**	—
Deferred income tax	**(259 672)**	—	**(259 777)**	—
– South African	**(259 672)**	—	**(259 777)**	—
– Foreign	**—**	—	**—**	—
Income tax expense reported in the income statement	**(278 054)**	(6 693)	**(271 753)**	(1 581)

The tax rate reconciliation is as follows:	Group		Company	
	2006	2005	**2006**	2005
	%	%	**%**	%
Reconciliation of rate of taxation				
Current standard statutory rate	29.0	29.0	29.0	29.0
Estimated state share (after tax) rate	3.6	3.6	3.6	3.6
	32.6	32.6	32.6	32.6
Adjusted for:				
– Dividend income – (affected foreign dividend income)	—	—	(0.1)	2.4
– Disallowable expenditure / deductible temporary differences for which no deferred income tax asset was recognised	1.4	(28.3)	1.4	(28.3)
– Tax rate differential of foreign subsidiaries	(0.2)	5.9	—	—
– Movement in capital	(4.1)	(5.1)	(4.1)	(5.1)
– Actuarial loss amortisation	(4.7)	—	(4.7)	—
– Adjustment to the basis for provision from cost to market value	12.4	—	12.4	—
– Other	(0.9)	2.6	(0.9)	—
Effective tax rate	36.5	7.7	36.6	1.6

10. Discontinued operations

On 14 February 2006, Palabora Mining Company Limited publicly announced the decision of its Board of Directors to close the Zirconium Basic Sulphate (ZBS) plant, due to the many risks associated with the sale process. The balance of the non-current asset classified as the held-for-sale (ZBS plant), was written off as a result of the resolution.

The results for ZBS for the year are presented below:

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
Debtor related to sale of ZBS plant	**—**	(29 188)	**—**	(29 188)
Carrying value of ZBS plant	**—**	81 331	**—**	81 331
Impairment loss of ZBS plant to fair value	**—**	(52 828)	**—**	(52 828)
	—	(685)	**—**	(685)
Loss recognised on the remeasurement to fair value	**(23 969)**	(5 133)	**(23 969)**	(5 133)
Income tax benefit	**7 811**	—	**7 811**	—
Net loss attributable to discontinued operations	**(16 158)**	(5 818)	**(16 158)**	(5 818)

11. Earnings per share

	Group			
	2006		2005	
	R'000		R'000	
Reconciliation of net profit for earnings per share				
Net profit attributable to equity holders from continuing operations	**483 504**		(87 412)	
Loss attributable to equity holders from discontinued operations	**(16 158)**		(5 818)	
Net profit attributable to equity holders of parent	**467 346**		(93 230)	
Reconciliation of weighted average number of ordinary shares				
Weighted average number of ordinary shares for basic earnings per share	**36 188**		28 450	
Adjusted weighted average number of ordinary shares	**36 188**		28 450	
Basic profit / (loss) per share (cents) for total operations	**1 291**	**c**	(328)	c
Basic profit / (loss) per share (cents) for continuing operations	**1 336**	**c**	(307)	c
Basic loss per share (cents) for discontinued operations	**(45)**	**c**	(20)	c
Diluted profit / (loss) per share (cents) for total operations	**1 291**	**c**	(328)	c
Diluted profit / (loss) per share (cents) for continuing operations	**1 336**	**c**	(307)	c
Diluted loss per share (cents) for discontinued operations	**(45)**	**c**	(20)	c
Headline profit / (loss) per share (cents)	**1 329**	**c**	(339)	c

Dilutive instruments

The Group's convertible redeemable debentures were the only potential dilutive ordinary shares. At the end of the current and prior year, the convertible debentures were not dilutive. All debentures have either been redeemed or converted into ordinary shares during the year.

	Profit / (loss) before tax		Taxation and lease considerations		Profit / (loss) after tax	
	2006	2005	**2006**	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000	**R'000**	R'000
12. Reconciliation of headline loss						
Profit / (loss) per the financial statements	**737 589**	(86 537)	**(270 243)**	(6 693)	**467 346**	(93 230)
Profit on disposal of fixed assets and subsidiaries	**(3 631)**	(4 014)	**1 183**	—	**(2 448)**	(4 014)
Impairment charges - ZBS	**23 969**	—	**(7 811)**	—	**16 158**	—
Profit on ZBS sale (discontinued operations)	**—**	685	**—**	—	**—**	685
Headline profit / (loss)	**757 927**	(89 866)	**(276 871)**	(6 693)	**481 056**	(96 559)
Headline earnings / (loss) per share					**1 329 c**	(339)c

	Mine development and infrastructure R'000	Land, mineral rights and rehabilitation assets R'000	Total R'000
13. Property, plant and equipment			
Group			
Carrying value			
At 1 January 2005	2 070 018	18 154	2 088 172
Cost	5 903 638	48 895	5 952 533
Accumulated depreciation	(3 833 620)	(30 741)	(3 864 361)
Additions	118 541	17 143	135 684
Currency translation adjustment	286	—	286
Disposals	(294)	—	(294)
Depreciation for the year	(208 043)	(3 336)	(211 379)
Carrying value			
At 1 January 2006	**1 980 508**	**31 961**	**2 012 469**
Cost	**6 018 761**	**66 038**	**6 084 799**
Accumulated depreciation	**(4 038 253)**	**(34 077)**	**(4 072 330)**
Additions	**155 673**	**73 575**	**229 248**
Currency translation adjustment	**194**	**—**	**194**
Disposals	**(1 629)**	**—**	**(1 629)**
Depreciation for the year	**(257 721)**	**(11 617)**	**(269 338)**
Carrying value			
At 31 December 2006	**1 877 025**	**93 919**	**1 970 944**
Cost	**6 165 967**	**139 613**	**6 305 580**
Accumulated depreciation	**(4 288 942)**	**(45 694)**	**(4 334 636)**

	Mine development and infrastructure R'000	Land, mineral rights and rehabilitation assets R'000	Total R'000
13. Property, plant and equipment continued			
Company			
Carrying value			
At 1 January 2005	2 069 859	18 154	2 088 013
Cost	5 899 812	48 895	5 948 707
Accumulated depreciation	(3 829 953)	(30 741)	(3 860 694)
Additions	118 478	17 143	135 621
Disposals	(26)	—	(26)
Depreciation for the year	(207 953)	(3 336)	(211 289)
Carrying value			
At 1 January 2006	**1 980 358**	**31 961**	**2 012 319**
Cost	**6 014 796**	**66 038**	**6 080 834**
Accumulated depreciation	**(4 034 438)**	**(34 077)**	**(4 068 515)**
Additions	**155 644**	**73 575**	**229 219**
Disposals	**(1 323)**	**—**	**(1 323)**
Depreciation for the year	**(257 679)**	**(11 617)**	**(269 296)**
Carrying value			
At 31 December 2006	**1 877 000**	**93 919**	**1 970 919**
Cost	**6 161 778**	**139 613**	**6 301 391**
Accumulated depreciation	**(4 284 778)**	**(45 694)**	**(4 330 472)**

The Company's property, plant and equipment have been pledged as security (refer to note 24).

The carrying value of plant and equipment held under finance leases at 31 December 2006 was 10 million rand (2005: nil). Leased assets are pledged as security for the related finance leases.

(See Annexure A for an elaboration on property, plant and equipment categories presented on page 74.)

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
14. Intangible assets				
Computer software licenses				
Carrying value				
At 1 January	**9 722**	19 069	**9 722**	19 069
Cost	**37 570**	37 520	**37 570**	37 520
Accumulated amortisation	**(27 848)**	(18 451)	**(27 848)**	(18 451)
Additions	**—**	50	**—**	50
Amortisation charge	**(9 397)**	(9 397)	**(9 397)**	(9 397)
Carrying value				
At 31 December	**325**	9 722	**325**	9 722
Cost	**37 570**	37 570	**37 570**	37 570
Accumulated amortisation	**(37 245)**	(27 848)	**(37 245)**	(27 848)

15. Subsidiaries and joint venture				
Shares at cost	**—**	—	**120**	120
Amounts receivable	**—**	—	**17 480**	24 347
Interest in subsidiaries and joint venture	**—**	—	**17 600**	24 467

Additional information regarding the Company's subsidiaries and joint venture is set out in the directors' report and note 35.

	Group and Company	
	2006	2005
	R'000	R'000
16. Available-for-sale financial assets		
Amounts contributed to the RTZ (South Africa) Environmental Rehabilitation Trust Fund	**275 571**	210 499
	275 571	210 499

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

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000

17. Deferred taxation

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

Total deferred tax assets of 878 million rand and deferred tax liabilities of 341 million rand existed for the group as at 31 December 2006. In terms of the off-setting rule, the group set deferred tax assets of 81 million rand off the deffered tax liabilities and are disclosing as a result thereof a deferred tax liability of 259 million rand on the Balance sheet. The remainder of the deferred tax assets of 796 million rand which in its entirety relates to the hedge reserve, were disclosed as deferred tax assets under non-current assets on the Balance sheet. The offset amounts are as follows:

	Group 2006 R'000	Group 2005 R'000	Company 2006 R'000	Company 2005 R'000
Deferred tax assets:				
– Deferred tax asset to be recovered after more than 12 months	**419 480**	106 529	**419 480**	106 529
– Deferred tax asset to be recovered within 12 months	**458 270**	287	**458 270**	287
	877 750	106 816	**877 750**	106 816
Deferred tax liabilities:				
– Deferred tax liability to be recovered after more than 12 months	**(232 290)**	(34 287)	**(232 774)**	(37 733)
– Deferred tax liability to be recovered within 12 months	**(108 313)**	(69 083)	**(108 313)**	(69 083)
	(340 603)	(103 370)	**(341 087)**	(106 816)
Net deferred income tax asset	**537 147**	3 446	**536 663**	—

Deferred income taxes are calculated at the tax rates prevailing in the different fiscal authorities where the asset or liability originates.

The gross movement on the deferred income tax account is as follows:

	Group 2006 R'000	Group 2005 R'000	Company 2006 R'000	Company 2005 R'000
Beginning of year	**3 446**	2 741	**—**	—
Tax charged to equity	**796 440**	—	**796 440**	—
Income statement charge	**(262 739)**	705	**(259 777)**	—
Net deferred tax asset at the end of the year	**537 147**	3 446	**536 663**	—

Deferred taxation relating to temporary differences is made up as follows:

	Group 2006 R'000	Group 2005 R'000	Company 2006 R'000	Company 2005 R'000
Liabilities				
– Property, plant and equipment	**(340 603)**	(59 395)	**(341 087)**	(62 841)
– Other	**—**	(43 975)	**—**	(43 975)
	(340 603)	(103 370)	**(341 087)**	(106 816)
Assets				
– Provisions	**62 075**	106 529	**62 075**	106 529
– Derivatives	**796 440**	—	**796 440**	—
– Other	**19 235**	287	**19 235**	287
	877 750	106 816	**877 750**	106 816
Net deferred tax asset	**537 147**	3 446	**536 663**	—
Included in the balance sheet as follows:				
Deferred tax asset	**796 440**	3 446	**796 440**	—
Deferred tax liability	**(259 293)**	—	**(259 777)**	—
Net deferred tax asset	**537 147**	3 446	**536 663**	—

At 31 December 2006, the Company had unredeemed capital expenditure of 851 million rand (2005: 1 766 million rand).

	Group and Company	
	2006	2005
	R'000	R'000
18. Stores		
Consumable stores	**65 433**	51 769
	65 433	51 769

Consumable stores have not been pledged as security. Items written off to net realisable value in the income statement as part of cost of sales were 21 million rand (2005: 52 million rand).

	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
19. Product inventories				
Work in progress	**369 861**	181 064	**369 861**	181 065
Finished goods	**398 892**	413 919	**342 866**	361 119
	768 753	594 983	**712 727**	542 184
Product inventories valued at net realisable value included above	**3 758**	129	**3 758**	129
20. Trade and other receivables				
Trade receivables	**414 878**	153 859	**341 329**	112 605
Provision for impairment of trade receivables	**(6 733)**	(7 544)	**(6 035)**	(5 918)
Provision for pension fund surplus	**177 951**	195 037	**177 951**	195 037
Prepayments	**349**	—	**123**	—
Other	**28 797**	21 061	**28 642**	11 773
	615 242	362 413	**542 010**	313 497

The rights to accounts receivable have been ceded to lenders as security (refer to note 24).

	Group		Company	
21. Cash and cash equivalents				
Cash	670 336	202 279	**652 284**	188 658
	670 336	202 279	**652 284**	188 658

	Group and Company 2006 R'000	2005 R'000
22. Share capital and share premium		
Share capital:		
Authorised		
100 000 000 ordinary shares of one rand each	**100 000**	100 000
Issued		
Balance at 1 January (29 561 967 (2005: 28 315 500) ordinary shares of one rand each)	**29 562**	28 316
Conversion of debentures (18 775 530 (2005: 1 246 467) ordinary shares of one rand each)	**18 775**	1 246
Balance at 31 December	**48 337**	29 562
Share premium:		
Balance at 1 January	**36 724**	575
Conversion of debentures	**544 490**	36 149
Balance at 31 December	**581 214**	36 724
Total share capital and share premium	**629 551**	66 286

The unissued shares may be issued by the directors at their discretion until the next annual general meeting. All issued shares are fully paid.

	Fair value – cash flow hedge R'000	Fair value – available for sale investments R'000	Foreign currency translation reserves R'000	Actuarial loss R'000	Total other reserves R'000	Retained earnings R'000
23. Other Reserves and Retained Earnings						
Balance at 1 January 2005						
Group						
– as previously reported	—	88 563	(9 517)	—	79 046	195 730
Revaluation of available for-sale-investment	—	55 043	—	—	55 043	—
Currency translation differences	—	—	2 953	—	2 953	—
Net loss on cash flow hedges	(867 518)	—	—	—	(867 518)	—
Hedge loss recycled to income statement	46 761	—	—	—	46 761	—
Net loss for the period	—	—	—	—	—	(93 230)
Balance at 31 December 2005	(820 757)	143 606	(6 564)	—	(683 715)	102 500
Balance at 1 January 2006						
– as previously reported	**(820 757)**	**143 606**	**(6 564)**	**—**	**(683 715)**	**102 500**
Revaluation of available for-sale-investment	**—**	**62 871**	**—**	**—**	**62 871**	**—**
Currency translation differences	**—**	**—**	**22 928**	**—**	**22 928**	**—**
Net loss on cash flow hedges	**(2 664 895)**	**—**	**—**	**—**	**(2 664 895)**	**—**
Hedge loss recycled to income statement	**1 032 321**	**—**	**—**	**—**	**1 032 321**	**—**
Tax on items in equity	**796 440**	**—**	**—**		**796 440**	**—**
Actuarial loss on defined benefit plans	**—**	**—**	**—**	**(12 901)**	**(12 901)**	**—**
Net profit for the period	**—**	**—**	**—**	**—**	**—**	**467 346**
Balance at 31 December 2006	**(1 656 891)**	**206 477**	**16 364**	**(12 901)**	**(1 446 951)**	**569 846**

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

	Fair value – cash flow hedge R'000	Fair value – available for sale investments R'000	Foreign currency translation reserves R'000	Actuarial loss R'000	Total other reserves R'000	Retained earnings R'000
23. Other reserves and retained earnings continued						
Company						
Balance at 1 January 2005						
– as previously reported	—	88 563	—	—	88 563	112 270
Revaluation of available for sale investment	—	55 044	—	—	55 044	—
Net loss on cash flow hedges	(867 518)	—	—	—	(867 518)	—
Hedge loss recycled to income statement	46 761	—	—	—	46 761	—
Net loss for the period	—	—	—	—	—	(97 626)
Balance at 31 December 2005	(820 757)	143 607	—	—	(677 150)	14 644
Balance at 1 January 2006						
– as previously reported	**(820 757)**	**143 607**	**—**	**—**	**(677 150)**	**14 644**
Revaluation of available for sale investment	**—**	**62 871**	**—**	**—**	**62 871**	**—**
Net loss on cash flow hedges	**(2 664 895)**	**—**	**—**	**—**	**(2 664 895)**	**—**
Hedge loss recycled to income statement	**1 032 321**	**—**	**—**	**—**	**1 032 321**	**—**
Tax on items in equity	**796 440**	**—**	**—**	**—**	**796 440**	**—**
Actuarial loss on defined benefit plans	**—**	**—**	**—**	**(12 901)**	**(12 901)**	**—**
Net profit for the period	**—**	**—**	**—**	**—**	**—**	**455 500**
Balance at 31 December 2006	**(1 656 891)**	**206 478**	**—**	**(12 901)**	**(1 463 314)**	**470 144**

			Group		Company	
Description of loan	**Effective interest rate %**	**Maturity**	**2006 R'000**	2005 R'000	**2006 R'000**	2005 R'000
24. Long term borrowings and equity						
Non-current						
Senior term facility [1]	Libor + 2.3% / Jibar + 2.65%	30.06.13	**583 954**	557 376	**583 954**	557 376
Finance lease liability [2]	Prime – 1.85%	08.08.09	**8 715**	—	**8 715**	—
Convertible debentures [3,7]	Jibar + 5%	16.09.06	**—**	418 340	**—**	418 340
Rio Tinto unsecured loan [4,7]	Libor + 5%		**732 795**	665 070	**732 795**	665 070
Rio Tinto secured loan [5,7]	Libor + 5%		**164 006**	—	**164 006**	—
			1 489 470	1 640 786	**1 489 470**	1 640 786

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

			Group		Company	
	Effective	**Maturity**	**2006**	2005	**2006**	2005
Description of loan	**interest rate %**		**R'000**	R'000	**R'000**	R'000
24. Long term borrowings and equity continued						
Current						
Convertible debentures [3,7]	Jibar + 5%	16.09.06	**—**	393 730	**—**	393 730
Senior term facility [1]	Libor +2.3% / Jibar +2.65%	30.06.13	**82 070**	142 156	**82 070**	142 156
Finance lease liability [2]	Prime – 1.85%	08.08.09	**3 430**	—	**3 430**	—
Revolving credit facility [6]	Libor + 2.3% / Jibar + 2.65%		**99 754**	94 925	**99 754**	94 925
Rio Tinto secured loan [5,7]	Libor + 5%		**—**	148 849	**—**	148 849
			185 254	779 660	**185 254**	779 660
Total borrowings			**1 674 724**	2 420 446	**1 674 724**	2 420 446
Cash and cash equivalents			**(670 336)**	(202 279)	**(652 284)**	(188 658)
Net debt			**1 004 388**	2 218 167	**1 022 440**	2 231 788
Total equity			**(247 554)**	(514 929)	**(363 619)**	(596 220)
Total capital employed			**756 834**	1 703 238	**658 821**	1 635 568
Gearing			**(4.06)**	(4.31)	**(2.81)**	(3.4)

On 21 September 2005, the Group concluded its debt restructuring programme and entered into a senior project facility with an available commitment of 1 500 million rand. Loans provided by the major shareholder Rio Tinto were subordinated. In 2005 the senior facility was drawn 1 280 million rand after a reduction in the available amount for outstanding, unsubordinated debentures (431 million rand) and a debt reduction amount (220 million rand) to be re-instated on the basis of improved production. Further commitments were provided by Rio Tinto (115 million rand) to maintain working capital requirements and an amount of 105 million rand was sterilised for the first senior loan repayment in June 2006. The net amount drawn in 2005 was 840 million rand that was used in part to repay existing debt. During the 2006 financial year the Group made no further drawdown on the available facilities, however made capital repayments of 101 million rand on the senior term facility and 248 million rand for the redemption of unconverted debentures.

The 1 500 million rand facility entered into is secured by a first charge over all immovable property and equipment and the rights to debtors were ceded in favour of the lenders.

Total borrowings decreased by 746 million rand mainly as a result of the conversion and redemption of debentures of 812 million rand; the capital repayments and amortisation of the tranche A and B of the term facility and the finance lease instalments for a total amount of 74 million rand. New finance lease agreements entered into of 13 million rand and the revaluation of US dollar denominated debt of 127 million rand due to the weakening of the rand by 65 basis points (from 6.979 to 6.334), had an adverse effect on borrowings.

The Group's equity increased from a negative position of 515 million rand to a negative position of 248 million rand. Despite this negative equity situation the cash flow projections demonstrate that the Group can continue to meet its obligations.

Cash balances increased by 468 million rand to a positive balance of 670 million rand at the end of 2006 (2005 : 202 million rand), resulting in an overall decrease in net debt of 1 214 million rand.

As at 31 December 2006, the Group's total borrowings are 1 674 million rand of which 75 per cent is denominated in US dollar for an equivalent of US$185 million.

The senior term loan facility [1]

The STLF consist of a tranche A of 372 million rand, and a tranche B of US$58.6 million. Tranche A is interest bearing at Jibor plus 2.3 per cent and tranche B at Libor plus 2.3 per cent. This loan is measured at amortised cost using the effective interest rate method. Repayments, based on a percentage of the initial drawdown, and a percentage of the term facility reduction amount, commenced on 30 June 2006, with six monthly intervals, and concludes on 30 June 2013. The STLF is secured by a first charge over all immovable property and equipment via a sequence of notarial bonds.

24. Long term borrowings and equity continued

Finance lease liability[2]

The Group entered into two lease agreements with Wesbank, classified as finance leases in tems of IAS 17 – *Accounting for leases*, to acquire two loaders for the undergound operations. The agreements commenced August 2006 and are payable over 36 installments, of which the last installment is payable in August 2009. Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

Reconciliation between the total of minimum lease payments at the balance sheet date, and their present value :

December 2006	Short term (less than 1 year)	Medium term (1 – 5 years)	Long term (more than 5 years)	Total
Total future finance lease payments	4 507	4 507	5 165	14 179
Effect of discounting	(1 077)	(713)	(244)	(2 034)
Present value of minimum lease payments	3 430	3 794	4 921	12 145

December 2005	Short term (less than 1 year)	Medium term (1 – 5 years)	Long term (more than 5 years)	Total
Total future finance lease payments	—	—	—	—
Effect of discounting	—	—	—	—
Present value of minimum lease payments	—	—	—	—

Convertible debentures [3]

Floating rate, partially sub-ordinated, unsecured, redeemable, convertible debentures with a face value of 1 000 rand each. Redeemable in whole (to the extent that conversion has not taken place), but not in part at the option of the Company at any time after the first anniversary (16 September 2006) of issue. Convertible at the option of the holder after the second anniversary (16 September 2005) of issue up to the third anniversary of issue into 33 ordinary shares of each debenture held. The Company shall fully redeem all outstanding convertible debentures on the third anniversary (16 September 2006) of the issue. The debentures held by the Rio Tinto Group were classified as non-current loans due to the debt restructuring programme concluded whereby all loans from Rio Tinto were subordinated.

During the year 563 266 (2005 : 37 394) debentures of the 849 465 (2005 : 849 465) issued debentures were converted into ordinary shares. The remainder of the debentures were all redeemed at their principal amount in September 2006. The balance of the outstanding number of debentures at 31 December 2006 was nil (2005 : 812 071).

Rio Tinto unsecured loan[4]

An unsecured facility of US$105 million provided by the major shareholder, Rio Tinto. This facility is interest bearing at Libor plus 5 per cent, and is sub-ordinated – see footnote 7.

Rio Tinto secured loan[5]

An additional facility of US$25 million provided by Rio Tinto during the 2004 financial year, secured over the magnetite ore stockpiles. This facility is interest bearing at Libor plus 5 per cent, and is sub-ordinated – refer footnote 7.

The revolving credit facility[6]

The revolving credit facility (RCF) consists of a tranche A of 47.5 million rand, and a tranche B of US$7.5 million. Tranche A is interest bearing at Jibor plus 2.3 per cent, and tranche B at Libor plus 2.3 per cent. Each revolving facility loan is repayable on the last day of its interest period.

Sub-ordination agreement[7]

In terms of the sub-ordination agreement dated 21 September 2005, Rio Tinto Finance plc and Rio Tinto Investment Holding BV have sub-ordinated their debt to the right of lenders in terms of the facility agreement dated 21 September 2005.

25. Derivative financial instruments

Cash flow hedges

At 31 December 2006, the Group held a commodity swap contract designated as hedges of expected future sales to local customers under which the Group receives a fixed price in rand in relation to a monthly notional quantity of copper sales as detailed below and pays a floating price based on the arithmetic average (mean) of US$ London Metal Exchange Cash Settlement Price. The net receipt/payment is converted to rand at the average US$/rand exchange rate for the calculation period. The cash flows paid under the terms of the hedging instrument are designed to reduce variability in the rand proceeds of the copper sales set out in the following table.

The cashflow hedges of the expected future sales were assessed to be highly effective and as at 31 December 2006, a net unrealised loss of 2 453 million rand, with a related deferred tax benefit of 0.796 million rand was included in equity in respect of these contracts.

The combined hedged book as at 31 December 2006 amounts to 190 567 tonnes (2005: 234 441 tonnes) of copper for a total amount of 3 413 million rand (2005: 4 431 million rand) spread over seven years (2005: eight years). The terms of the contracts are as follows:

2006 **Maturity year**	**Quantity (tonnes)**	**Average hedged price R/(tonne)**	**Hedged value R'000**	**Mark to market loss R'000**
2007	45 021	20 993	1 024 683	1 042 969
2008	41 801	20 521	784 926	912 094
2009	22 265	15 739	350 351	240 581
2010	22 188	15 739	349 076	65 089
2011	21 825	15 739	343 033	65 308
2012	21 137	15 739	331 653	69 598
	16 330	15 739	229 255	57 693
Total	190 567		3 412 977	2 453 332
Less: non-current portion				1 410 363
Current portion				1 042 969

2005				
2006	43 875	20 993	995 579	283 209
2007	45 021	20 993	945 116	117 822
2008	41 801	20 521	857 801	64 570
2009	22 265	15 739	350 426	93 700
2010	22 188	15 739	349 217	80 061
2011	21 825	15 739	343 499	71 983
2012	21 137	15 739	332 667	65 806
2013	16 329	15 739	256 997	43 607
Total	234 441		4 431 302	820 758
Less: non-current portion				537 549
Current portion				283 209

	Group and Company	
	2006	2005
	R'000	R'000
26. Provision for close down and restoration costs		
Balance at beginning of the year	**264 636**	219 548
Capitalisation of provisions	**19 916**	17 143
– Discount rate adjustment	**13 260**	—
– Revised closure obligation and closure programme adjustment	**6 656**	17 143
Charge for the year	**29 856**	27 945
	314 408	264 636

	Group and Company	
	2006	2005
	R'000	R'000
27. Post-retirement obligations		
Post-retirement medical benefits	**121 772**	103 899
	121 772	103 899
Post-retirement medical benefits obligation		
Present value of the obligation	**121 772**	103 899
Fair value of plan assets	**—**	—
Liability recognised in the balance sheet	**121 772**	103 899
Movement in the liability recognised in the balance sheet:		
Balance at 1 January	**103 899**	99 072
Current service costs (income statement)	**1 271**	1 116
Interest costs (income statement)	**9 590**	8 795
Net actuarial loss recognised (statement of recognised income and expenses)	**12 901**	—
Benefits paid	**(5 889)**	(5 084)
Balance at 31 December	**121 772**	103 899

Pension scheme

The only active pension scheme in the Group is a defined contribution fund known as the Palabora Pension Fund, which was established in September 2002. Membership is compulsory for all permanent employees of Palabora Mining Company and the Palabora Foundation. Members can elect to contribute at a rate of either 6 per cent or 7.5 per cent of their pensionable salaries. The employer contributes at a rate of 12.5 per cent of pensionable salaries, of which 7.5 per cent is paid to members, 4 per cent to the provision of risk benefits and 1 per cent for administrative costs.

Post-retirement medical benefits

The Group's provision for post-retirement medical benefits is based on the assumptions used by the independent actuaries who include appropriate mortality tables, long term estimates of increases in medical costs and appropriate discount rates. The level of claims is based on the Group's experience. The post-retirement medical benefit plan is unfunded. During 2004 the actuarial valuation of fund benefits was updated and during 2006 an actuarial projection was done.

A net unexpected loss of 12 901 million rand arose during 2006 because of a combination of the following factors:

- An unexpected loss of 10 920 million rand arose as a result of a reduction in the real discount rate, the difference between the discount rate and the health care cost inflation assumption, from 2.0 per cent per annum to 1.25 per cent per annum. This change was necessitated by a reduction in real bond yields underlying the discount rate.
- Higher than expected increases in medical aid contributions resulted in an unexpected loss of 1 981 million rand.

	Group and Company	
	2006	2005
	R'000	R'000
Discount rate	**9.0%**	9.5%
Increase in the health care costs	**7.75%**	7.5%
Average retirement age (years)	**58**	58
Pre-retirement mortality rates	**85%**	85%

27. Post-retirement obligations continued

Sensitivity analysis of the accumulated post-retirement benefit obligation

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

	2006		2005	
	Health care cost inflation		Health care cost inflation	
	-1%	**+1%**	-1%	+1%
APBO (R'000)	**106 059**	**135 689**	92 593	117 523
Percentage change	**(12.9)%**	**11.4%**	(10.9)%	13.1%
	Health care cost in next 5 years		Health care cost in next 5 years	
	+5%	**+10%**	+5%	+10%
APBO (R'000)	**141 413**	**161 053**	126 313	152 843
Percentage change	**16.1%**	**32.3%**	21.6%	47.1%
	Average retirement age		Average retirement age	
	1 year younger	**1 year older**	1 year younger	1 year older
APBO (R'000)	**123 372**	**120 076**	105 264	102 452
Percentage change	**1.3%**	**(1.4)%**	1.3%	(1.4)%

	Group		**Company**	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
28. Trade and other payables				
Trade payables	**299 472**	248 322	**294 549**	242 566
Amount due to related parties	**162 331**	31 715	**162 331**	31 715
Payroll accruals	**8 081**	6 518	**8 081**	6 518
Interest accruals	**11 238**	17 038	**11 457**	17 038
Receiver of revenue	**2 598**	1 408	**2 598**	1 246
Other payables	**12 611**	15 825	**6 509**	9 728
	496 331	320 826	**485 525**	308 811
29. Provisions				
Leave pay liability				
At 1 January	**26 041**	25 325	**25 916**	25 325
Utilised during the year	**(1 925)**	(4 887)	**(1 800)**	(4 832)
Additional provision	**6 693**	5 603	**6 332**	5 423
At 31 December	**30 809**	26 041	**30 448**	25 916
Accumulating compensated absences (leave days) are recognised as a liability by including the entire unused entitlement at year-end.				
Donation to Palabora Foundation				
At 1 January	**6 205**	5 975	**6 205**	5 975
Interest accrued	**350**	230	**350**	230
At 31 December	**6 555**	6 205	**6 555**	6 205
Total provisions	**37 364**	32 246	**37 003**	32 121

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	Group		Company	
	2006	2005	**2006**	2005
	R'000	R'000	**R'000**	R'000
30. Group Companies – Related parties				
Rio Tinto Companies	**55 065**	25 050	**54 886**	24 954

The Group Companies – related parties transaction consists of short-term current accounts with some of the Rio Tinto Group companies.

31. Cash generated from operations				
Profit / (loss) before taxation	**737 589**	(86 537)	**719 442**	(96 045)
Adjustments for non-cash items	**309 308**	262 448	**287 075**	259 268
Depreciation and amortisation of property, plant equipment and intangible assets	**278 735**	220 776	**278 693**	220 686
Provision and asset for close-down and restoration costs	**(23 802)**	27 945	**(23 802)**	27 945
Profit on disposal of mining assets	**(3 631)**	(4 014)	**(3 631)**	(3 962)
Provision for post-retirement medical benefits	**10 346**	9 655	**10 197**	9 466
Fair value adjustment – discontinued operation	**23 969**	5 133	**23 969**	5 133
Other non-cash item	**763**	—	**1 649**	—
Exchange adjustment on translation of foreign subsidiaries	**22 928**	2 953	**—**	—
Adjustments – other	**380 314**	227 620	**378 766**	220 808
Interest paid	**410 905**	241 685	**409 280**	241 686
Interest received	**(30 591)**	(14 065)	**(29 602)**	(13 777)
Dividends received	**—**	—	**(912)**	(7 101)
Increase in working capital	**(234 999)**	(147 688)	**(206 417)**	(125 499)
Stores	**(13 664)**	(3 785)	**(13 664)**	(3 785)
Product inventories	**(173 770)**	(199 685)	**(170 543)**	(169 160)
Accounts receivable	**(252 829)**	(3 373)	**(228 513)**	(6 141)
Amount owing to group companies	**30 015**	15 169	**29 932**	15 208
Accounts payable and provisions	**180 623**	48 694	**181 596**	43 018
Utilisation of long term provisions	**(5 374)**	(4 708)	**(5 225)**	(4 639)
	1 192 212	255 843	**1 178 866**	258 532

32. Taxation paid				
Tax charge to income statement	**(270 243)**	(6 693)	**(263 942)**	(1 581)
Movement in current tax	**(1 199)**	(3 229)	**(3 068)**	(30)
Movement in deferred tax	**(533 701)**	(705)	**(536 664)**	—
Movement in tax on items in equity	**796 440**	—	**796 440**	—
Payments made	**(8 703)**	(10 627)	**(7 234)**	(1 611)

33. Segment reporting

The Group's primary reporting format is business segments and its secondary format is geographical segments. The operating businesses are organised and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

From a business segment point of view, the only significant segments are copper and industrial minerals mining and production. The segmental split on a geographical basis is based on the country in which the order is received. Total assets are presented per geographical area in which the assets are located.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. The Group's geographical segments are determined by the location of the Group's assets and operations.

Primary reporting format - business segments

The following tables present revenue and profit information as well as certain asset and liability information regarding the Group's business segments for the year ended 31 December 2006.

Year ended 31 December 2006	Copper	Industrial minerals	Copper by-products	Total
Revenue				
Sales to external customers – continuing operations	3 255 727[2]	355 755[1]	370 397	3 981 879
Sales to external customers – discontinuing operations	—	—	—	—
Inter-segment sales	—	—	—	—
Segment revenue	3 255 727	355 755	370 397	3 981 879
Results				
Segment profit before tax and finance cost – continuing operations (directly allocated)	1 221 513	49 431	176 781	1 447 725
Segment loss before tax and finance cost – continuing operations (indirectly allocated)	(204 833)	(21 280)	(12 078)	(238 191)
Segment loss before tax and finance cost – discontinuing operations	—	(23 969)	—	(23 969)
Unallocated loss before tax and finance costs – continuing operations				(37 806)
Profit from operations before tax and finance costs				1 147 759
Net finance costs				(410 170)
Profit before income tax				737 589
Income tax expense				(270 243)
Net profit for the year				467 346
Assets and liabilities				
Segment assets – continuing operations	3 639 323	392 466	144 173	4 175 962
Unallocated assets – continuing operations				991 580
Total assets				5 167 542
Segment liabilities – continuing operations	4 407 140	238 419	54 620	4 700 179
Unallocated liabilities – continuing operations				714 917
Total liabilities				5 415 096

[1] Revenue for the industrial minerals segment, combines the revenue from the vermiculite of 281 million rand, with the revenue from other products of 75 million rand. [2] Amount after hedge loss realised of 1 032 million rand.

	Copper	Industrial minerals	Copper by-products	Total
33. Segment reporting continued				
Other segment information				
Capital expenditure:				
Tangible fixed assets – continuing operations	**221 237**	**3 613**	**—**	**224 850**
Unallocated capital expenditure – continuing operations				**4 591**
				229 441
Depreciation – continuing operations	**230 421**	**5 573**	**7 911**	**243 905**
Unallocated amortisation – continuing operations				**9 397**
Unallocated depreciation – continuing operations				**25 435**
				278 737
Primary reporting format – business segments				
Year ended 31 December 2005				
Revenue				
Sales to external customers – continuing operations	1 855 734	302 574	206 300	2 364 608
Sales to external customers – discontinuing operations	—	—	—	—
Inter-segment sales	—	—	—	—
Segment revenue	1 855 734	302 574	206 300	2 364 608
Result				
Segment profit before tax and finance cost – continuing operations	100 566	66 421	72 755	239 742
Segment loss before tax and finance cost – discontinuing operations	—	(5 818)	—	(5 818)
Unallocated profit before tax and finance costs – continuing operations				35 256
Profit from operations before tax and finance costs				269 180
Net finance costs				(355 717)
Loss before income tax				(86 537)
Income tax expense				(6 693)
Net loss for the year				(93 230)
Assets and liabilities				
Segment assets – continuing operations	2 162 307	212 311	119 938	2 494 556
Segment assets – discontinued operations	—	889	—	889
Unallocated assets – continuing operations				977 487
Total assets				3 472 932
Segment liabilities – continuing operations	720 210	109 349	35 500	865 059
Segment liabilities – discontinued operations	—	52	—	52
Unallocated liabilities – continuing operations				3 122 750
Total liabilities				3 987 861

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

	Copper	Industrial Minerals	Copper By-Products	Total
33. Segment reporting continued				
Other segment information				
Capital expenditure:				
Tangible fixed assets – continuing operations	128 631	2 435	2 663	133 729
Tangible fixed assets – discontinued operations	—	313	—	313
Unallocated capital expenditure – continuing operations				1 629
				135 671
Depreciation – continuing operations	184 664	5 502	7 084	197 250
Depreciation – discontinued operations	—	61	—	61
Unallocated amortisation – continuing operations				9 397
Unallocated depreciation – continuing operations				14 068
				220 776

Secondary reporting format – geographical segments

The following tables present revenue and certain asset information regarding the Group's geographical segments.

Year ended 31 December 2006	South Africa	North America	United Kingdom	Singapore	Total
Revenue					
Sales to external customers	**3 494 898**	**132 553**	**179 571**	—	**3 807 022**
Inter-segment sales	**174 857**	**—**	**—**	—	**174 857**
Segment revenue	**3 669 755**	**132 553**	**179 571**	—	**3 981 879**
Other segment information					
Segment assets	**5 029 776**	**48 157**	**76 805**	**12 804**	**5 167 542**
Segment liabilities	**(5 398 393)**	**(5 664)**	**(4 973)**	**(6 066)**	**(5 415 096)**
Capital expenditure – tangible	**229 218**	**—**	**223**	—	**229 441**
Year ended 31 December 2005					
Revenue					
Sales to external customers	2 096 639	124 231	143 738	—	2 364 608
Inter-segment sales	—	—	—	—	—
Segment Revenue	2 096 639	124 231	143 738	—	2 364 608
Other segment information					
Segment assets	3 388 263	41 325	43 344	—	3 472 932
Segment liabilities	(3 987 861)	—	—	—	(3 987 861)
Capital expenditure – tangible	135 671	—	—	—	135 671

	2006 Carrying amount R'000	2006 Fair value R'000	2005 Carrying amount R'000	2005 Fair value R'000
34. Fair value of financial instruments				
Financial assets				
Cash and equivalents	**670 336**	**670 336**	202 279	202 279
Trade and other receivables	**615 242**	**615 242**	362 413	362 413
Available-for-sale financial assets	**275 571**	**275 571**	210 499	210 499
Financial liabilities				
Trade and other payables and group companies	**551 396**	**551 396**	345 876	345 876
Long-term borrowings	**1 489 470**	**1 489 470**	1 640 786	1 684 849
Current portion of long-term borrowings	**185 254**	**185 254**	779 660	779 660
Derivative financial instrument				
– Current portion	**1 042 969**	**1 042 969**	283 209	283 209
– Non-current portion	**1 410 363**	**1 410 363**	537 549	537 549

	Group and Company 2006 R'000	Group and Company 2005 R'000
35. Interest in joint venture		
Current assets	**330**	314
Total assets	**330**	314
Current liabilities	**113**	113
Total liabilities	**113**	113
Net assets	**217**	201
Sales	**—**	—
Profit before tax	**17**	14
Income tax expense	**—**	—
Profit after tax	**17**	14
Cash from operating activities	**—**	—
Cash from investing activities	**—**	—
Cash from financing activities	**—**	—

36. Borrowing powers

In terms of the Articles of Association, the company's borrowing powers are unlimited. At 31 December 2006, the Group's net borrowings were 1 004 million rand (2005: 2 218 million rand)

37. Contingent assets and liabilities

Various CCMA and labour cases are in progress. The potential exposure is approximately 6 million rand.

Notes to the consolidated financial statements continued

for the year ended 31 December 2006

Company	Nature of relationship	Nature of transactions	Volume of transactions R'000	Amount outstanding R'000
38. Related party transactions				
Debtors				
Rio Tinto Procurement	Rio Tinto Group company	Procurement expenses	3 673	2 502
Rio Tinto London	Rio Tinto Group company	Workshop/travel costs	541	(4)
Rio Tinto Australia	Rio Tinto Group company	Travel expenses	132	52
Rössing Uranium	Rio Tinto Group company	Travel expenses	1	58
Rio Tinto Hong Kong Limited	Rio Tinto Group company	Magnetite concentrate sales	129 344	—
Hamersley Iron (Pty) Limited	Rio Tinto Group company	Shipping expenses	—	1 627
Rio Tinto Shipping	Rio Tinto Group company	Shipping expenses	607	239
Rio Tinto Services	Rio Tinto Group company	E&Y - Sox audit costs	328	—
Rio Tinto Minerals (Borax)	Rio Tinto Group company	Travel expenses	73	—
Rio Tinto Iron and Titanium	Rio Tinto Group company	Travel expenses	95	—
Rio Tinto Technological Services	Rio Tinto Group company	Travel expenses	2	—
Rio Tinto Iron Ore	Rio Tinto Group company	Travel expenses	68	68
Creditors				
Northparkes	Rio Tinto Group company	Recovery of travel costs	197	—
Rio Tinto Shares Services – Utah	Rio Tinto Group company	Secondee salaries	4 732	7 646
Technological Resources (Pty) Limited	Rio Tinto Group company	Rionet and Blackberry charges	3 507	2 665
Rio Tinto London	Rio Tinto Group company	Consulting/travel expenses/ specialised services/salaries for technical assistance	28 172	33 839
Rio Tinto Marketing Services	Rio Tinto Group company	Recharge marketing costs	72	10
Rio Tinto Services (Australia)	Rio Tinto Group company	Consulting/travel expenses/specialised/services/ salaries for technical assistance	841	6 139
Rio Tinto Shipping	Rio Tinto Group company	Consulting/travel expenses/specialised services/ salaries for technical assistance	35 353	70
Rio Tinto Technical Services (Bristol)	Rio Tinto Group company	Consulting/travel expenses/specialised services/ salaries for technical assistance	271	271
Rio Tinto Technical Services Bundoora	Rio Tinto Group company	Consulting/travel expenses/ specialised services/salaries for technical assistance	74	—
Directors	Palabora directors	Directors' fees	317	36
Loans				
Rio Tinto Finance PLC	Rio Tinto Group company	Capital advance US$128.5 million loan	—	896 802
Rio Tinto Finance PLC	Rio Tinto Group company	Interest on intercompany loan US$128.5 million	90 158	111 667
Rio Tinto Management Services	Rio Tinto Group company	Administration	312	—
Rio Tinto South Africa	Rio Tinto Group company	Debenture interest payment	31 952	45 553
Rio Tinto Investment Holdings BV	Rio Tinto Group company	Debenture interest payment	1 919	2 736

39. Commitments

Commitments contracted for at balance sheet date were 33 million rand (2005: 27 million rand). Capital expenditure that were approved by the board, but not contracted for at year end amounts to 160 million rand (2005: 108 million rand).

40. Post balance sheet events

Restricted payments

In February 2007, the Group made restricted payments, as defined in the senior term facility agreement, to Rio Tinto Finance plc. Payment of the sum equal to the US dollar equivalent of 263 million rand (US$ 36.7 million) was allocated entirely to the repayment of the principal under the Unsecured Loan Agreement, which bears interest at LIBOR plus 5 per cent. An amount of 87 million rand, which is equal to 33 per cent of the rand equivalent of the restricted payment was applied and transferred to a mandatory pre-payment bank account as is required by the senior faclity agreement. The lenders are authorised to apply any amount in the mandatory pre-payment bank account on each term facility repayment date in the pre-payment of the term facility outstandings and in inverse order of maturity. Reduction of the unsecured debt improves profit performance as it reduces interest cost and exchange rate fluctuations.

Notes to the consolidated financial statements

for the year ended 31 December 2006

Property, plant and equipment	**2006**			2005		
	Cost R'000	**Accumulated depreciation R'000**	**Carrying value R'000**	Cost R'000	Accumulated depreciation R'000	Carrying value R'000
Annexure A						
Group						
Mine development and infrastructure:						
Buildings and improvement on leasehold property	**1 060 678**	**(816 048)**	**244 630**	1 066 674	(785 379)	281 295
Plant, machinery and equipment	**5 051 412**	**(3 422 738)**	**1 628 674**	4 901 075	(3 204 696)	1 696 379
Computer equipment	**37 090**	**(36 640)**	**450**	36 490	(35 170)	1 320
Other vehicles	**15 262**	**(12 498)**	**2 764**	12 997	(12 295)	702
Instrumentation, furniture and fixtures	**1 525**	**(1 018)**	**507**	1 525	(713)	812
	6 165 967	**(4 288 942)**	**1 877 025**	6 018 761	(4 038 253)	1 980 508
Land, mineral rights and rehabilitation assets:						
Land and claims	**429**	**(354)**	**75**	429	(354)	75
Rehabilitation assets	**139 184**	**(45 340)**	**93 844**	65 609	(33 723)	31 886
	139 613	**(45 694)**	**93 919**	66 038	(34 077)	31 961
Company						
Mine development and infrastructure:						
Buildings and improvement on leasehold property	**1 060 678**	**(816 048)**	**244 630**	1 066 674	(785 379)	281 295
Plant, machinery and equipment	**5 047 223**	**(3 418 574)**	**1 628 649**	4 897 110	(3 200 881)	1 696 229
Computer equipment	**37 090**	**(36 640)**	**450**	36 490	(35 170)	1 320
Other vehicles	**15 262**	**(12 498)**	**2 764**	12 997	(12 295)	702
Instrumentation, furniture and fixtures	**1 525**	**(1 018)**	**507**	1 525	(713)	812
	6 161 778	**(4 284 778)**	**1 877 000**	6 014 796	(4 034 438)	1 980 358
Land, mineral rights and rehabilitation assets:						
Land and claims	**429**	**(354)**	**75**	429	(354)	75
Rehabilitation assets	**139 184**	**(45 340)**	**93 844**	65 609	(33 723)	31 886
	139 613	**(45 694)**	**93 919**	66 038	(34 077)	31 961

Analysis of shareholders

register date 31 December 2006

Issued share capital: 48 337 497 shares				
Shareholders spread	**No. of shareholders**	**%**	**No. of shares**	**%**
1 – 1 000 shares	1 327	67.64	492 709	1.02
1 001 – 10 000 shares	507	25.84	1 720 118	3.56
10 001 – 100 000 shares	103	5.25	3 110 059	6.43
100 001 – 1 000 000 shares	21	1.07	6 565 542	13.58
1 000 001 – shares and over	4	0.20	36 449 069	75.41
	1 962	**100.00**	**48 337 497**	**100.00**
Distribution of shareholders	**No. of shareholders**	**%**	**No. of shares**	**%**
Banks	41	2.09	2 696 590	5.58
Close Corporations	34	1.73	532 423	1.10
Endowment Funds	18	0.92	161 455	0.33
Individuals	1,502	76.55	2 479 889	5.13
Insurance Company	1	0.05	342	0.00
Investment Companies	10	0.51	1 100 880	2.28
Medical Aid Scheme	1	0.05	21 890	0.05
Mutual Funds	21	1.07	2 514 504	5.20
Nominees and Trusts	201	10.25	637 213	1.32
Other Corporations	29	1.48	1 789 048	3.70
Pension Funds	23	1.17	1 322 388	2.74
Private Companies	72	3.67	1 405 409	2.91
Public Companies	9	0.46	33 675 466	69.66
	1, 962	**100.00**	**48 337 497**	**100.00**
Public / non-public shareholders	**No. of shareholdings**	**%**	**No. of shares**	**%**
Non - public shareholders	**3**	**0.25**	**36 037 798**	**74.55**
Strategic holdings*	2	0.20	36 006 855	74.49
Pension Fund	1	0.05	30 943	0.06
Public shareholders	1 959	99.75	12 299 699	25.45
	1962	**100.00**	**48 337 497**	**100.00**
Beneficial shareholders holding one per cent or more			**No. of shares**	**%**
Rio Tinto Group*			35 239 773	72.90
Anglo American Corporation*			8 117 509	16.79
Oasis			2 362 051	4.89
Investec			1 025 385	2.12
Investment Solutions			863 267	1.79

Strategic holders*

Selected data – financial and statistical

	2006	2005	2004	2003	2002
Group					
Financial results (R'000)					
Operating results					
Net profit / (loss) before taxation	**745 400**	(86 537)	(2 521 093)	(83 197)	362 064
Taxation and lease consideration	**(278 054)**	(6 693)	788 977	48 505	(105 211)
Net profit / (loss) for the year	**467 346**	(93 230)	(1 732 116)	(34 692)	256 853
Dividends	**—**	—	—	—	—
Retained profit / (loss) as per income statement	**467 346**	(93 230)	(1 732 116)	(34 692)	256 853
Assets					
Property, plant and equipment	**1 971 269**	2 022 191	2 107 241	4 575 661	4 284 701
Deferred expenditure	**—**	—	—	—	—
Investment	**275 571**	210 499	174 568	118 043	54 971
Current assets	**2 124 262**	1 236 796	830 943	672 989	626 849
Deferred tax asset	**796 440**	3 446	2 741	—	—
Total assets	**5 167 542**	3 472 932	3 115 493	5 366 693	4 966 521
Liabilities and shareholders' equity					
Long-term borrowings	**1 489 470**	1 640 786	11 280	1 153 707	726 881
Derivative financial instruments (non-current)	**1 410 363**	537 549	—	—	—
Provision for close-down and restoration costs	**314 408**	264 636	219 548	196 817	185 147
Provision for post-retirement medical benefits	**121 772**	103 899	99 072	172 209	159 760
Deferred tax	**259 293**	—	—	798 830	865 535
Current liabilities	**1 819 790**	1 440 991	2 481 926	1 027 413	1 020 010
Total liabilities	**5 415 096**	3 987 861	2 811 826	3 348 976	2 957 333
Capital and reserves					
Share capital and premium	**629 551**	66 286	28 891	28 891	28 891
Other reserves	**(1 446 951)**	(683 715)	195 531	177 465	134 244
Retained earnings	**569 846**	102 500	79 245	1 811 361	1 846 053
Total shareholders' equity	**(247 554)**	(514 929)	303 667	2 017 717	2 009 188
Total liabilities and shareholders' equity	**5 167 542**	3 472 932	3 115 493	5 366 693	4 966 521
Cash flow					
Net cash from operating activities	**946 060**	3 531	(241 876)	(4 467)	558 916
Net cash used in investing activities	**(127 576)**	(100 863)	(219 073)	(555 508)	(741 995)
Net cash (used) / generated in financing activities	**(350 427)**	652 676	479 942	540 714	18
Net increase / (decrease) in cash and cash equivalents	**468 057**	555 344	18 993	(19 261)	(183 061)

Selected data – financial and statistical continued

	2006	2005	2004	2003	2002
Group					
Statistics per share					
Shares in issue (thousands)	**48 337**	29 562	28 316	28 316	28 316
Profit / (loss) in cents	**1 291**	(328)	(6 117)	(123)	907
Headline profit / (loss) in cents	**1 329**	(339)	(231)	(221)	839
Dividends in cents	**—**	—	—	—	—
Dividends cover	**—**	—	—	—	—
Market price during year in cents					
– High	**5750**	4800	8700	8001	760
– Low	**2665**	3050	3400	3450	5850
Market price at 31 December in cents	**5750**	4250	4500	8001	6999
Market capitalisation at 31 December (Rm)	**2 779**	1 256	1 274	2 266	1 982
Number of employees at 31 December	**1 903**	1 786	1 766	1 893	1 939
Sales revenue (R'000)					
Copper	**3 255 727**	1 855 734	1 547 513	1 082 735	1 459 146
Industrial minerals	**355 755**	302 574	315 172	356 802	535 249
Other products	**370 397**	206 300	107 946	115 190	126 912
Total revenue	**3 981 879**	2 364 608	1 970 631	1 554 727	2 121 307
Average copper price realised per metric tonne	**47 237**	24 188	18 586	14 084	17 355
Production and sales statistics (metric tonnes)					
Palabora material	**64 538**	54 047	40 299	49 553	64 406
Purchased material	**16 625**	26 272	27 246	23 842	17 214
Total cathode production	**81 163**	80 319	67 545	73 395	81 620
Production cost per metric tonne of copper including depreciation (R'000)	**20 689**	17 523	19 576	15 223	14 476
Sales (metric tonnes)					
– Copper	**80 986**	78 654	82 197	76 604	83 390
– Concentrate (copper content)	**16 011**	—	156	575	952
Anode slimes	**102**	97	89	95	112
Vermiculite	**181 422**	171 097	177 090	176 495	189 948
Zirconia products	**—**	—	622	1 483	1 696
Magnetite	**1 021 887**	759 203	562 569	204 325	176 129
Sulphuric acid	**136 468**	136 343	100 534	111 735	114 301

Selected data – production

Mining and milling

Year	Mining: Material loaded and hauled (Metric tonnes)	Milling – Ore treated: Metric tonnes	Ore treated: % Cu	Copper concentrate produced: Metric tonnes	Copper concentrate: % Cu	Copper concentrate: Tons Cu	Copper concentrate: % Rec	Finished magnetite concentrate produced: Metric tonnes	Magnetite: % Fe	Magnetite: % TiO_2
1964	859 444	—	—	—	—	—	—	—	—	—
1965	13 032 175	35 878	1.08	597	33.30	199	59.54	—	—	—
1966	23 483 559	10 880 635	0.78	205 519	31.62	64 980	78.15	315 161	67.2	0.78
1967	26 365 391	13 257 691	0.71	230 115	33.47	77 106	81.90	872 309	67.0	0.75
1968	33 160 107	14 258 160	0.64	210 698	35.18	74 133	81.61	726 206	66.2	0.83
1969	29 970 399	15 700 128	0.60	247 481	32.22	79 748	84.34	1 032 293	66,1	0.88
1970	41 231 770	18 948 438	0.54	261 154	33.23	86 769	84.39	977 455	66.5	0.94
1971	42 805 300	19 086 776	0.57	270 675	33.83	91 578	83.96	951 531	66.6	0.92
1972	45 192 690	19 298 692	0.56	260 133	35.18	91 524	84.06	946 425	66.6	0.90
1973	47 347 590	19 184 961	0.57	249 828	37.29	93 158	84.89	726 257	66.0	0.96
1974	50 021 150	19 232 245	0.56	259 939	35.19	91 468	84.45	741 864	66.2	1.17
1975	56 716 240	19 527 088	0.56	266 073	35.15	93 527	84.71	587 922	65.7	1.07
1976	79 286 530	19 627 222	0.55	257 244	36.72	94 450	86.81	563 808	65.8	1.10
1977	89 480 040	24 863 927	0.52	307 248	35.64	109 503	84.89	449 798	65.8	1.22
1978	90 029 980	27 473 847	0.51	330 883	35.86	118 641	84.87	96 476	66.2	1.19
1979	86 214 160	27 076 914	0.49	296 295	37.76	111 872	84.84	—	—	—
1980	107 940 469	28 571 069	0.48	322 149	35.95	115 826	84.39	94 667	64.6	1.05
1981	100 741 752	28 748 075	0.51	355 131	35.00	124 311	84.77	119 228	65.1	1.05
1982	98 881 581	29 314 456	0.50	331 299	37.36	123 761	84.04	91 363	64.8	1.25
1983	100 972 849	28 943 773	0.51	322 453	36.50	121 337	82.63	48 737	67.3	0.90
1984	101 660 644	29 199 214	0.50	332 261	38.37	123 668	84.07	156 313	67.1	1.09
1985	100 230 188	27 084 009	0.51	311 245	36.46	113 476	82.04	79 601	67.1	1.24
1986	95 390 673	29 412 163	0.49	338 473	35.70	120 842	83.82	110 000	67.2	1.18
1987	82 605 747	29 425 615	0.50	339 585	36.73	124 730	84.23	70 931	67.1	1.07
1988	71 505 213	29 230 845	0.45	294 429	37.94	111 692	84.12	55 556	64.6	2.05
1989	62 121 824	29 408 436	0.49	323 120	37.43	120 937	83.57	178 204	64.8	2.31
1990	49 102 124	29 293 312	0.51	324 946	38.72	125 829	84.12	50 800	64.7	1.74
1991	37 315 989	28 179 598	0.53	348 800	36.16	126 112	84.01	104 121	65.0	1.77
1992	37 767 664	28 964 423	0.53	366 245	35.17	128 794	83.79	90 311	65.1	1.74
1993	37 811 244	28 544 250	0.53	369 927	34.17	126 401	84.15	150 264	62.3	2.04
1994	38 224 317	28 351 531	0.54	380 352	33.54	127 571	82.82	133 133	63.4	2.15
1995	34 786 613	29 550 629	0.58	418 936	33.83	141 723	83.12	133 428	65.3	2.09
1996	33 193 259	29 153 304	0.59	421 711	34.00	143 365	84.06	118 288	66.9	1.87
1997	30 794 431	28 846 152	0.55	389 280*	35.34*	137 576*	83.73*	183 574	65.5	1.60
1998	30 342 455	28 758 548	0.58	446 786*	33.22*	148 413*	83.93*	217 338	61.7	1.60
1999	25 418 937	28 343 747	0.47	386 099*	34.07*	131 536*	83.78*	190 692	—	—
2000	20 054 094	25 735 830	0.58	388 151*	32.86*	127 548*	77.36*	239 847	—	—
2001	12 002 168	14 522 487	0.65	225 300*	33.94*	76 466*	82.36*	200 995	—	—
2002	9 976 390	9 932 721	0.63	205 484*	31.32*	64 367*	80.27*	171 651	—	—
2003	11 527 633	11 414 895	0.59	172 329*	32.32*	55 695*	78.06*	215 087	—	—
2004	8 500 484	8 548 858	0.75	172 412*	29.53*	50 915*	80.12*	573 808	—	—
2005	10 033 608	9 541 297	0.72	210 586*	31.29*	65 892*	90.33*	888 266	—	—
2006	11 020 497	10 730 099	0.71	221 230*	29 92*	66 202*	87.17*	1 127 426	—	—

*Includes concentrate produced from recycled smelter inventory.

Smelting and heavy minerals

Year	Smelting: Concentrate smelted	Anodes produced: Palabora (Metric tonnes)	Anodes produced: Purchased (Metric tonnes)	Anodes produced: Toll (Metric tonnes)	Anodes produced: Total (Metric tonnes)	% Cu	% Recovery	100% sulphuric acid Metric tonnes	Year	Heavy minerals: U_3O_8 in calcine produced Kilograms	Heavy minerals: ZrO_2 processed to chemicals Metric tonnes
1964	—	—	—	—	—	—	—	—	1964	—	—
1965	—	—	—	—	—	—	—	—	1965	—	—
1966	204 448	61 939	—	—	61 939	99.26	96.65	46 340	1966	—	—
1967	231 500	76 539	—	—	76 539	99.30	98.09	94 813	1967	—	—
1968	227 780	72 060	—	14 121	86 181	99.50	98.29	92 828	1968	—	—
1969	286 913	77 290	1 249	3 064	81 603	99.49	98.20	96 060	1969	—	—
1970	273 659	87 602	4 301	659	92 562	99.50	97.81	82 799	1970	—	—
1971	281 034	90 290	7 664	—	97 954	99.49	98.60	70 327	1971	60 842	—
1972	300 284	90 252	9 635	13 143	113 030	99.52	99.36	81 324	1972	140 275	39
1973	293 687	93 637	2 300	12 834	108 771	99.55	98.29	103 676	1973	131 089	643
1974	312 681	90 364	2 057	19 724	112 145	99.49	97.79	98 379	1974	124 312	3 103
1975	266 315	91 816	2 536	11 193	105 544	99.47	97.47	108 496	1975	125 291	5 196
1976	256 684	93 360	2 304	10 223	105 888	99.44	98.32	114 882	1976	143 277	367
1977	353 638	106 519	2 414	17 104	126 037	99.48	97.96	130 533	1977	88 661	1 506
1978	367 349	114 678	36	15 368	130 082	99.50	97.29	133 653	1978	140 860	3 067
1979	342 606	112 204	—	18 066	130 270	99.52	98.03	122 410	1979	121 252	4 452
1980	357 802	115 826	—	15 178	131 004	99.47	98.94	117 488	1980	170 369	4 359
1981	373 743	120 082	118	7 977	128 177	99.45	97.69	116 855	1981	234 206	4 941
1982	346 254	122 316	118	9 864	132 298	99.47	98.01	128 373	1982	257 879	6 490
1983	369 236	120 679	1 346	12 928	134 953	99.50	98.48	127 855	1983	218 635	5 531
1984	370 913	117 196	7 748	12 900	137 845	99.53	97.43	116 023	1984	159 769	9 158
1985	366 997	112 347	7 310	12 616	132 273	99.47	97.61	135 631	1985	217 828	11 297
1986	366 479	107 553	13 794	10 589	131 936	99.48	97.38	147 067	1986	185 443	12 011
1987	360 817	116 863	12 569	—	129 432	99.43	96.56	150 701	1987	175 944	10 129
1988	325 316	107 927	12 539	—	120 466	99.55	97.53	134 610	1988	87 496	13 017
1989	359 293	111 235	15 111	—	126 345	99.56	97.32	135 661	1989	110 671	12 489
1990	331 669	111 559	8 468	—	120 027	99.57	96.67	97 655	1990	109 170	14 639
1991	333 375	119 359	2 940	—	122 299	99.57	96.55	123 535	1991	130 501	13 104
1992	302 782	100 849	4 602	—	105 451	99.51	96.64	107 942	1992	115 048	12 239
1993	331 243	110 549	1 327	—	111 876	99.49	97.11	120 984	1993	92 570	13 188
1994	364 396	112 498	4 650	—	117 148	99.46	97.55	147 657	1994	162 254	12 163
1995	366 964	111 221	2 794	—	114 014	99.49	96.77	158 895	1995	132 653	13 243
1996	327 687	101 217	4 541	—	105 758	99.44	96.38	142 491	1996	100 168	11 448
1997	371 893*	111 557	7 485	—	119 042	99.48	92.47	121 650	1997	87 070	9 387
1998	319 201*	106 296	—	—	106 296	99.44	94.75	135 148	1998	104 950	7 486
1999	337 861*	101 583	—	—	101 583	99.41	97.84	140 229	1999	96 210	—
2000	311 394*	90 727	—	—	90 727	99.40	95.40	139 491	2000	86 200	—
2001	317 983*	85 517	—	—	85 517	99.44	95.58	139 214	2001	41 585	—
2002	258 556*	82 261	—	—	82 261	99.45	97.13	117 238	2002	—	—
2003	267 633*	77 118	—	—	77 118	99.41	96.69	117 623	2003	—	—
2004	256 187*	40 6513**	26 528***	—	67 179	99.48	95.96	104 259	2004	—	—
2005	304 373*	57 084	27 842	—	84 926	99.48	95.94	136 474	2005	—	—
2006	288 526*	57 015	21 966	—	78 980	99.49	95.61	138 338	2006	—	—

* Includes recycled concentrate smelted

** A tonnage of 46 966 was reported in 2004. This included the Cu in anodes from marginal concentrate produced by Palabora. The tonnage of 40 651 is Cu in anodes from Palabora concentrate, excluding Cu in marginal concentrate smelted, versus Cu in new anodes.

***A tonnage of 20 213 was reported in 2004. This excluded the Cu in anodes from marginal concentrate produced by Palabora. The tonnage of 26 528 is Cu in anodes from purchased concentrate, including Cu in marginal concentrate smelted, versus Cu in new anodes.

Selected data – production continued

Refining

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

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

Vermiculite

Year	Mining: Material loaded and hauled	Processing: Ore treated	Processing: Tailings reclaim	Processing: Vermiculite concentrate produced	% Vermiculite
	Metric tonnes				% Vermiculite
1964	1 489 208	595 748	—	101 836	93.40
1965	1 242 945	587 450	—	115 132	88.00
1966	1 361 948	596 542	—	103 176	90.60
1967	1 602 883	697 902	—	100 552	92.60
1968	1 911 308	697 350	—	110 040	91.70
1969	1 886 049	791 065	—	128 787	91.10
1970	1 783 318	747 840	—	123 500	90.70
1971	1 866 398	702 925	—	132 071	88.40
1972	1 914 326	974 455	—	147 903	88.10
1973	2 061 924	1 126 286	—	155 852	90.60
1974	1 851 145	1 125 364	—	182 613	89.70
1975	1 769 546	1 228 259	—	207 386	90.50
1976	1 984 050	1 218 195	—	222 079	90.00
1977	1 437 834	1 059 713	—	165 420	90.50
1978	1 756 125	1 208 880	—	209 093	90.10
1979	1 968 750	1 317 353	—	193 627	89.80
1980	2 133 833	1 337 355	—	181 794	89.90
1981	2 095 898	1 254 803	—	175 125	89.40
1982	2 066 265	1 190 813	—	180 992	89.30
1983	1 835 190	1 024 088	—	139 292	89.80
1984	1 930 095	1 138 905	—	164 421	89.90
1985	2 073 915	1 142 843	—	177 598	90.00
1986	2 005 155	1 129 972	—	193 973	89.90
1987	2 174 063	1 372 073	280 778	185 838	89.80
1988	2 201 626	1 390 680	414 652	203 101	88.50
1989	2 291 064	1 358 213	397 056	195 525	88.80
1990	2 610 952	1 239 783	445 783	217 738	89.40
1991	3 452 025	1 753 447	91 759	197 768	90.38
1992	2 952 320	1 424 680	236 240	163 894	90.89
1993	2 827 520	1 557 640	112 240	161 501	89.80
1994	3 153 560	1 961 990	299 920	216 196	90.21
1995	2 896 440	1 907 840	197 600	211 965	90.39
1996	2 737 380	2 074 040	117 100	190 364	89.62
1997	3 298 080	1 931 080	188 260	207 070	90.74
1998	3 440 940	1 893 540	280 920	207 337	90.50
1999	2 844 740	1 965 900	86 160	208 603	90.70
2000	2 944 240	2 031 100	44 160	208 422	90.65
2001	2 768 900	1 753 920	242 640	166 078	90.52
2002	3 651 360	2 270 580	—	224 258	90.10
2003	2 902 680	1 768 620	280 920	173 262	90.55
2004	2 520 600	1 783 700	—	193 504	90.55
2005	2 434 260	1 648 260	—	209 799	90.79
2006	2 775 840	1 786 920	—	197 765	92.80

Copper

Reserves

The South African Code for the Reporting of Exploration Results, Mineral Resources and Mineral Reserves (SAMREC Code), which sets out the internationally recognised precedures and standards for reporting of mineral resources and reserves in South Africa. This code was developed by the South African Institute of Mining and Metallurgy and is the recommended guidelines for reserve and resource reporting for companies listed on the JSE Limited. The reserves and resources were calculated in compliance with the aforementioned code.

The major changes to the ore reserve were due to the approach with life of mine LOM calculations and the tonnes mined during the year. A total of 11.02 million tonnes at a grade of 0.71 per cent copper were mined for 2006.

Due to constant poor reconciliation between mine and mill, it was decided to do a revision of the block model. Changes were made to the PCBC parameters to reflect reality and calculate more reliable LOM figures. All of the above and a change in Shut Off grade from 0.55 per cent to 0.50 per cent copper resulted in a Proved Ore Reserve of 117.8 million tonnes at an average copper grade of 0.64 per cent. The copper price used for the Shut Off grade calculations was based on the Rio Tinto price forecast.

Thirty million tonnes at a grade of 0.17 per cent copper has been taken out of the Probable Reserves. These tonnes were included for the previous statement and originated from waste material reporting to the pit bottom. A portion of these tonnes has been included by PCBC in the 117.8 megatonne reserve as dilution. Due to the fact that these tonnes have a grade of 0 per cent copper, the remaining tonnes are treated as external waste and have not been included in the reserve.

Resources

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

Both the reserves and resources were compiled by Dawid Daniel Pretorius. Dawid holds a BSc Honours Degree in Geology from North West University and MSc Degree in Mineral Resource Throughput Management from the University of the Free State. He has 14 years of experience in geological exploration, mine geology and mining. Dawid is a registered member of Geological Society of South Africa and Southern African Institute of Mining and Metallurgy. His address is 10 Sperwer, Phalaborwa 1389.

Proved and probable mineral ore reserves

Location	Category	Tonnes (megatonnes)		Grade (per cent copper)		Recovered metal (tonnes)
		2006	2005	**2006**	2005	**2006**
Copper Open pit	Proved	**0**	0	**0**	0	**0**
	Probable	**0**	0	**0**	0	**0**
	Total	**0**	0	**0**	0	**0**
Copper Underground	Proved	**117,80**	112,03	**0,64**	0,67	**663,466**
	Probable	**0**	30	**0**	0,17	**0**
	Total	**117,80**	142,03	**0,64**	0,56	**663,466**

Mineral resources Location	Category	Tonnes (megatonne)		Grade (per cent copper)		Recovered metal (tonnes)
		2006	2005	**2006**	2005	**2006**
Copper mixed stockpiles	Measured	**0,44**	0,44	**0,50**	0,50	**1,000**
	Indicated	**0**	0	**0**	0	**0**
	Inferred	**0**	0	**0**	0	**0**
	Total	**0,44**	0,44	**0,50**	0,50	**1,000**
Copper oxide stockpiles	Measured	**4,16**	4,16	**0,64**	0,64	**13,312**
	Indicated	**0**	0	**0**	0	**0**
	Inferred	**0**	0	**0**	0	**0**
	Total	**4,16**	4,16	**0,64**	0,64	**13,312**
Copper sulphide stockpiles	Measured	**12**	12	**0,14**	0,14	**11,760**
	Indicated	**0**	0	**0**	0	**0**
	Inferred	**0**	0	**0**	0	**0**
	Total	**12**	12	**0,14**	0,14	**11,760**

Notes:
1. The metal recovery for the ore reserves is assumed to be 88 per cent.
2. The metal recovery for the mineral resources is assumed to be 70 per cent for the sulphide and 50 per cent for the mixed and oxide stockpiles.

Ore reserve and mineral resources overview continued

Vermiculite

The Vermiculite business continued in 2006 with business improvement work to provide predictable ore to the plant and to produce a grade estimation block model for long and short term planning.

Reconciliation continued on the mining blocks. Highlighted potential areas need additional infill drilling work in 2007. Refinement of the models is required before the resources and reserves can be signed off by a Competent Person. The life of mine, five year plan and annual plan were produced from the grade estimation block model. All short and long-term planning is done by Gemcom.

Ramp scavenge was introduced to improve the production of coarser grades and a total amount of 3 600 000 tonnes of vermiculite containing rock will be mined during 2006 and 2007. These tonnages were not included in the resource calculations and will have an effect on the extension of the life of mine of 1.8 years.

No material from VODT, VO mine or Ex. Copper pit was mined during 2006. Vermiculite ore was only mined from the PP&V mine. Total mined was 2 606 460 tonnes, comprising ore 1 780 920 and waste 825 540.

Exploration drilling was completed in the VOD pit on a 200 meter grid and 2 211 metres were drilled at an average depth of 35 metres. The block model will be compiled in 2007.

The preliminary resources and reserves were compiled by Gert Korff who is the mining superintendent responsible for long and short term planning and mining operations. Gert holds Mining and Explosive Diplomas and has 26 years of exeperience in mining, five of which were at the vermiculite operations.

Resources

Category	**Tonnes mined (megatonnes)**			**Grade + (180 micron)**			**Vermiculite (megatonnes)**		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Measured	**29,9**	32,5	34,9	**23,4**	27,68	32,41	**7,88**	9,66	11,31
Indicated	**46,7**	46,7	46,7	**24,41**	24,41	24,41	**11,4**	11,4	11,4
Inferred	**12,9**	12,9	12,9	**21,71**	21,71	21,71	**2,8**	2,8	2,8
Total	**89,5**	92,1	94,5	**23,1**	24,6	26,17	**22,08**	23,86	25,51

Reserves

Category	**Tonnes mined (megatonnes)**			**Grade + (180 micron)**			**Vermiculite (megatonnes)**		
	2006	2005	2004	**2006**	2005	2004	**2006**	2005	2004
Proved	**2,7**	4,46	6,11	**34,6**	47,09	37,64	**1,9**	2,1	2,3
Probable	**36,2**	36,2	36,2	**33,43**	33,43	33,43	**12,1**	12,1	12,1
Total	**38,9**	40,66	42,31	**34,01**	34,92	35,53	**14**	14,2	14,4

Notice to shareholders

Notice is hereby given that the fifty first annual general meeting of the shareholders of Palabora Mining Company Limited will be held in the boardroom, 1 Copper Road, Phalaborwa on 19 April 2007, at 08:00 for the purpose of transacting the following business:

1. To receive and consider the financial statements for the year ended 31 December 2006.
2. To re-elect the following directors of the Company in accordance with the provisions of the Company's articles of association: Mr C N Zungu, Mr G M Negota and Mr C A Asubonten. Biographical details of those directors who are retiring and those who are seeking re-election can be found on pages 4 to 7 of the annual report accompanying this notice to shareholders.
3. To authorise the directors to fix the remuneration of the auditors for the year ended 31 December 2006.
4. To transact such other business as may be transacted at an annual general meeting.

On a show of hands, each shareholder who, being a natural person, is present in person or by proxy or, being a body corporate, is present by representative or proxy, shall have one vote. On a poll, each shareholder, whether present in person or by proxy or by representation, is entitled to one vote for each ordinary share held.

A proxy form is attached for completion by registered, certificated shareholders and dematerialised shareholders with own name registration who are unable to attend the annual general meeting. Proxy forms must be completed and received by the company secretary no later than 08:00 on 18 April 2007. Registered, certificated shareholders and dematerialised shareholders with own name registration who complete and lodge forms of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting to the exclusion of their appointed proxy/ies, should such shareholder wish to do so.

Dematerialised shareholders, other than with own name registration, must inform their CSDP or stockbroker of their intention to attend the annual general meeting and obtain the necessary authorisation from their CSDP or stockbroker to attend the annual general meeting or provide their CSDP or stockbroker with their voting instructions should they not be able to attend the annual general meeting. This must be done in terms of the agreement entered into between the shareholder and the CSDP or stockbroker concerned.

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder of the Company) to attend, speak and to vote in his/her stead.

A shareholder entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and speak and vote in his stead. A proxy need not be a shareholder of the Company. The attention of shareholders is drawn to the fact that completed proxy forms must reach the transfer secretaries of the Company, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street Johannesburg, (P O Box 61051, Marshalltown, 2107) at least 24 hours before the time of the meeting.

By order of the board

K N Mathole

Company secretary

16 March 2007

Proxy form

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

To be completed by certificated shareholders and dematerialised shareholders with own name registration only
For use at the annual general meeting to be held at 08:00 on 19 April 2007.

Shareholders who have dematerialised their shares with a CSDP or broker, other than with own name registrations, must arrange with the CSDP or broker concerned to provide them with the necessary letter of representation to attend the annual general meeting or the shareholders concerned must instruct them as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned.

Proxy forms must be completed and delivered to the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2017) to be received by not later than 08:00 on 18 April 2007.

I/We

of

being a member(s) of the above Company and entitled to ______________________ ordinary shares, appoint

1. or, failing him

2. or, failing him

the chairman of the annual general meeting
as my/our proxy to attend and speak and, on a poll, vote for me/us on my/our behalf at the annual general meeting of the Company held for the purpose of considering, and if deemed fit, passing with or without modification, the resolutions to be proposed there at and at each adjournment or postponement thereof, and to vote for and/or against such resolutions and/or abstain from voting in respect of the shares in the issued share capital of the Company registered in my/our name/s in accordance with the following instructions (see note 3):

	For	Against	Abstain
1. Ordinary resolution number 1 – The adoption of the annual financial statements for the year ended 31 December 2006 2. Re-election of directors:			
Ordinary resolution number 2 (i) – Mr C N Zungu			
Ordinary resolution number 2 (ii) – Mr G M Negota			
Ordinary resolution number 2 (iii) – Mr C A Asubonten			
3. Ordinary resolution number 3 – Auditors' remuneration			

(Please indicate instructions to proxy in the space provided above by the insertion therein of the relevant number of votes exercisable).
A member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend, speak and, on a poll, vote in his stead. A proxy so appointed need not be a member of the Company.

Signed this day of 2007

Signature

Assisted by (if applicable)

Please read the notes on the reverse side of this proxy form

Proxy form

Notes

1. Shareholders who have dematerialised their shares with a CSDP or broker, other than with own name registrations, must arrange with the CSDP or broker concerned to provide them with the necessary letter of representation to attend the annual general meeting or the shareholders concerned must instruct them as to how they wish to vote in this regard. This must be done in terms of the agreement entered into between the shareholder and the CSDP or broker concerned.

2. A deletion of any printed matter and the completion of any blank spaces need not be signed or initialled. Any alteration must be signed, not initialled.

3. A shareholder may insert the name of a proxy or the names of two alternate proxies of the shareholder's choice in the space provided, with or without deleting "the chairman of the annual general meeting". The person whose name stands first on the proxy form and who is present at the annual general meeting will be entitled to act as proxy to the exclusion of those whose names follow.

4. A shareholder's instructions to the proxy must be indicated by the insertion of the relevant number of votes exercisable by that shareholder in the appropriate space provided. Failure to comply with the above will be deemed to authorise the proxy to vote or to abstain from voting at the annual general meeting as he deems fit in respect of all the shareholder's votes exercisable thereat. A shareholder or his proxy is not obliged to use all the votes exercisable by the shareholder or by his proxy, but the total of the votes cast and in respect of which abstention is recorded may not exceed the total of the votes exercisable by the shareholder or his proxy.

5. Where there are joint holders of shares, and if more than one of such joint holders is present or represented, then the person whose name appears first in the register in respect of such shares or his proxy, as the case may be, shall alone be entitled to vote in respect thereof.

6. Documentary evidence establishing the authority of a person signing this proxy form in a representative capacity must be attached to this form, unless previously recorded by the transfer secretaries of the Company or waived by the chairman of the annual general meeting.

7. The completion and lodging of this proxy form will not preclude the signatory from attending the annual general meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof should such signatory wish to do so.

8. The chairman of the annual general meeting may reject or, provided that he is satisfied as to the manner in which a member wishes to vote, accept any proxy from which is completed other than in accordance with these instructions.

9. Proxies will only be valid for the purpose of the annual general meeting if delivered to the Company's transfer secretaries, Computershare Investor Services 2004 (Pty) Limited, 70 Marshall Street, Johannesburg (PO Box 61051, Marshalltown, 2107) by not later than 08:00 on 18 April 2007.

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