

UNAUDITED INTERIM REPORT

FOR THE SIX MONTHS ENDED 30 JUNE 2006



Palabora Mining
Company Limited and its Subsidiaries

Palabora Mining

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(Incorporated in the Republic of South Africa) (Reg. No. 1956/002134/06)

JSE Code: PAM ISIN: ZAE000005245

("Group" or "Palabora" or "the Company")

Directors:

C N Zungu (*Acting Chairman*), K Marshall* (*Managing Director*), T Albanese**, C J Latcham***, M R Maruma, G M Negota, J C Posthumus (*Alt: P A Henry*), R M Whyte* (*Alt: F B Weldon*), J S Yuen-Goh***

*British **American ***Australian

Company secretary:

Keith Mathole

Transfer Secretaries:

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COMMENTARY

Overview

Keith Marshall, the Group's Managing Director commented on the results for the first half of 2006, stating "We made good progress during the first half of 2006. The underground production has improved and we regularly exceeded the design capacity of 30,000 tonnes per day (tpd). Average production for the period was 29,930tpd which included 4 maintenance days and 9 days lost due to shaft issues. The grade continued at 0.71% copper which was slightly disappointing, but it is now showing signs of improvement. The smelter shutdown and reverberatory furnace impacted production by 40 days, which made the overall copper output remarkable."

"We are in the grip of the biggest resource boom for 25 years. We have been focussing our attention on our internal copper inventories (concentrate and reverb furnace reverts) as well as the low grade surface stockpiles, which were generated during the open pit days. The viability of these resources has changed dramatically with the increase in the copper price. We are taking the opportunity to supplement our underground copper production with material from these stockpiles."

There were six lost time injuries during the first half of the year, a 40% improvement on the same period last year. Safety remains a high priority for both Management and employees. Various programs are in place to further improve the safety performance of the business.

Group financial results

The net income for the six months ended 30 June 2006 was R257 million, or 565 cents per diluted share compared to a loss of R211 million, or 746 cents per share for the comparable period of 2005. The basic earnings per share improved from a loss of 746 cents per share to a profit of 869 cents per share.

The Group profit from continuing operations before tax improved by R490 million from a loss of R203 million in the first half of 2005 to a profit of R287 million in the first half of 2006.

The Group achieved a gross profit from continuing operations for the first half of 2006 of R736 million, from a gross profit of R259 million for the comparable period in 2005.

- Operating Revenues increased by R687 million (66%) to R1,730 million largely as a result of higher realised copper prices (+R724 million), higher realised prices for anode slimes and magnetite (R28 million and R53 million respectively), the sales of reverts and GSP concentrate (+R120 million), higher sales volumes (+R54 million) and a weakening US\$/Rand exchange rate of 6.27 in 2006 compared to 6.21 for the comparable period under review in 2005 (+R11 million). Higher sales volumes were mainly explained by higher volumes of copper sales; 39 thousand tonnes compared to 38 thousand tonnes for the first six months in 2005 (+R27 million) and higher volumes of magnetite sales; 465 thousand tonnes compared to 375 thousand tonnes (+R17 million).

The increase in revenue was partially offset by realised hedging losses resulting from the swap settlement of 22 thousand tonnes of copper (-R305 million).

- Total Group cost of sales increased by R210 million, from R783 million in the first six months of 2005 to R993 million for the comparative period under review, representing an increase of 27 % from the previous period primarily resulting from the following:
 - The LME copper price impact on purchased concentrate of R196 million higher than the comparable period under review in 2005. However this was offset by a decrease in copper concentrate purchases from 14.6 thousand tonnes in 2005 to 11.6 thousand tonnes in 2006 (R49 million);
 - An increase in smelter maintenance cost of R31 million mainly due to the smelter shutdown during the first half of 2006;

- Underground costs were higher by R40 million than the comparable period mainly resulting from an increase in mobile equipment damages, tyre costs (increase in tyre prices and quality issues) and mobile maintenance (high numbers of break downs);
- Overall depreciation for the first half of 2006 was R45 million higher than the comparable period of 2005 due to a lower mine life span and higher production levels;
- An increase in payroll costs of R19 million due to an increase in permanent employees and an increase in production bonus payments of R7 million compared to the first half of 2005;
- An increase in the costs of major consumables during the first half of 2006 of R11 million.

These have been partially offset by an increase in the positive stock variation from R18 million in 2005 to R134 million in 2006 mainly resulting from the revaluation of the smelter revert stockpile from a net realisable value of 2 thousand ZAR/t to a historical cost of 12 thousand ZAR/t (+ R169 million).

Other factors that contributed to the net profit before taxation of R287 million include;

- Insurance proceeds received with regard to the claim on the ground subsidence that occurred in 2004 of R35 million;
- An adjustment for the exclusion of severance costs from the provision for closure costs of R54 million;
- Increase of R12 million in net finance costs. Unrealised exchange losses on current loans of R157 million (2005: R172 million exchange loss) due to a 6% depreciation of the Rand in 2006 compared with a 12% depreciation in the previous comparative period. This is offset by an increase in interest paid of R4 million (2006: R124 million; 2005: R120 million);
- An increase of R62 million in the selling and distribution costs and R23 million in administration expenses. The increase in the selling and distribution costs from R55 million in 2005 to R117 million for 2006 is mainly attributable to the cost incurred for the export of magnetite sales.

The net loss associated with the discontinued operations represents a write-off of R24 million of the ZBS plant initially recognised as a non-current asset held for sale following the Board resolution to close the plant.

When the profit for the period of R257 million (2005: loss of R211 million) is adjusted for (i) the sale of low grade concentrate of R57 million, (ii) the sale of GSP of R55 million, (iii) the revaluation of the revert stockpile of R169 million, (iv) the insurance claim received of R35 million, (v) the revised closure cost effect of R54 million, (vi) the impairment of the ZBS plant of R24 million and the exchange losses on loans of R157 million (2005: R157 million), the adjusted profit for the period amounts to R68 million compared to loss of R39 million for the previous period.

The net cash cost of copper excluding the impact of purchased concentrates and net finance cost increased from R16,363 per tonne to R17,526 per tonne mainly due to increased production cost and lower cathode and rod production compared to the first half of 2005.

The Group achieved an average realised selling price (post hedge) for copper rod and cathode of R37,218 (2005: R21,357) and R31,771 (2005: R16,960) per tonne, respectively. In the period under review, a total of 39,057 tonnes copper was sold, compared to 38,443 tonnes in the first six months of last year. Reverts throughput contributed to an additional 3,039 tonnes of copper in the final concentrate produced.

Cash flow

For the six months ended 30 June 2006, the Group generated a net cash inflow of R199 million compared to a net cash inflow of R50 million for the comparable period in 2005.

Cash from operations totaling an inflow of R341 million (2005: R71 million) was generated mainly as a result of a significant increase in realised (pre-hedge) copper rod and cathode prices (2006: 273 USc/lb, 2005: 150 USc/lb) and the sale of low grade concentrate and reverts of 12,527 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 R84 million was used by the Group for investing activities (2005: R70 million) mainly attributable to investment in capital projects of R97 million of which R32 million relates to underground and R45 million to the smelter. The net cash outflow was offset by the proceeds received from the sale of property, plant and equipment and other investing activities in the amount of R13 million.

The cash flow from financing activities decreased by R59 million as a result of the repayment of the first principal of the term facility agreement.

Convertible debentures

On 13 July 2006, the Company announced on SENS that debenture holders had until Friday, 21 July 2006 to issue a conversion notice to convert their debentures into ordinary shares in the Company. Up until that date, 53,018 debentures had been converted resulting in the issue of 1,767,267 ordinary shares and a further 89,798 and 458,394 debentures will be converted during August and September 2006, respectively.

In total, 601,210 debentures will be converted resulting in the issue of 20,040,337 ordinary shares. The total issued share capital of the Company will be 48,355,837 shares of which 57% will be held by Rio Tinto, 17% by Anglo American and 26% by the public. In compliance with the Terms and Conditions of the Debentures, Palabora is required to redeem the remaining debentures on the Final Maturity Date, i.e. 18 September 2006 for a total amount of R248 million.

Accordingly, the debentures will be redeemed at their principal amount (i.e. ZAR1 000 per debenture) plus interest. A final interest payment in respect of the remaining debentures will be calculated from 20 March 2006 to but excluding 18 September 2006.

Refinancing

As reported in the 2005 annual report, the Group concluded its debt restructuring program on 21 September 2005. Existing debt was replaced by a senior loan of R1,280 million from South African and international banks and certain shareholder debt were subordinated. The resultant debt profile for the Group was re-established on a more sustainable repayment basis.

As part of the refinancing agreement, the Company is required to meet certain covenants. On 30 June 2006, the Company issued a Loan Compliance Certificate to the Lenders of the Senior Term Facility Agreement showing no defaults. Further to the reserve statement issued on SENS on 18 January, an independent consultant was requested by the lenders to review the new ore reserve estimates. Discussions are underway with lenders on economic assumptions regarding the calculation of the reserve tail ratio which remains an outstanding issue with regard to covenants.

Net debt

Total borrowings increased by R76 million mainly as a result of an increase in US\$ denominated debt due to the weakening of the Rand by 80 bps (from 6.334 to 7.125). The effect resulted in an unrealised exchange loss of R150 million compensated by (i) the repayment of the Tranche A and B of the Term Facility for a total amount of R59 million and (ii) the conversion of 14,910 debentures (at a principal amount of R1 000 per debenture).

Fifty five percent of the Group's total borrowings are denominated in US\$ for a total amount of US\$ 193 million.

Cash balances increased by R199 million compared to 31 December 2005 resulting in a total decrease in net debt of R122 million.

Hedging

The combined hedge book as at 30 June 2006 amounts to 212,716 tonnes of copper for a total amount of R3,901 million spread over 7.5 years. The mark-to-market loss of the hedge position increased by R3,436 million (from R820 million to R4,256 million). The settlement of 21,722 tonnes of copper commodity Swap for the first half of 2006 resulted in a hedging loss of R305 million reducing the benefit of the higher market prices.

Magnetite

Following up from the 2005 preliminary report, Palabora is continuing to build the magnetite business using "current arisings" and is evaluating several options for the longer term.

Pension fund surplus

The external auditors are in the final stages of the audit of the financial statements of the Fund for the financial periods ended 28 February and 1 July 2005 respectively. Thereafter the liquidator will submit the liquidation accounts to the FSB for approval.

Only after the FSB approval has been obtained can the liquidator release the employer's share of the surplus in the Fund, estimated at approximately R165 million, before tax and excluding accrued interest.

Corporate governance

On 28 February 2006, Mr Warrick R.J. Ranson resigned from the Board as a non-executive director and was replaced by Mrs Jo-Ann Goh.

With effect from 30 June 2006, Mr Steven M. Din resigned as an executive director and Chief Financial Officer and was replaced by Mr Charles A. Asubonten. Mr Din will be taking on responsibilities as Senior Vice President Finance for Rio Tinto Iron and Titanium based in London. Mr. Asubonten, formerly a finance executive at DTE Energy in Detroit, USA, joins the Company 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; preceded by big 4 public accounting/auditing experience in the USA. He earned an MBA in finance and corporate strategy from the University of Michigan and a BBA in accounting from North Carolina Central University. He is a Certified Public Accountant and a Chartered Financial Analyst charter holder.

C N Zungu
Acting Chairman

K Marshall
Managing Director

1 August 2006

UNAUDITED GROUP RESULTS

Abridged income statement

	Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Note			
Continuing operations			
Revenue			
Sales of products	1 729 947	1 043 010	2 364 608
Cost of sales	(993 852)	(783 562)	(1 740 171)
Gross Profit	736 095	259 448	624 437
Other income	3 96 750	14 802	23 135
Selling and distribution costs	4 (117 029)	(55 081)	(156 518)
Administration expenses	5 (140 641)	(118 006)	(213 471)
Other expenses	(1 340)	(5 060)	(2 585)
Finance revenue	9 466	6 830	15 809
Finance costs	(295 938)	(306 202)	(371 526)
Profit/(loss) before tax	287 363	(203 269)	(80 719)
Income tax expense	6 (5 424)	(3 930)	(6 693)
Profit/(loss) from continuing operations	281 939	(207 199)	(87 412)
Discontinued operation			
Net loss associated with discontinued operation	7 (23 969)	(4 110)	(5 818)
Profit/(loss) for the period	257 970	(211 309)	(93 230)
Allocated as follows:			
Equity holders of parent	257 970	(211 309)	(93 230)
Earnings/(Loss) per share (cents):			
– Basic earnings/(loss) per share, total operations	8 869c	(746)c	(328)c
– Basic earnings/(loss) per share, continuing operations	8 950c	(732)c	(307)c
– Basic earnings/(loss) per share, discontinued operations	8 (80)c	(15)c	(20)c
– Diluted earnings/(loss) per share, total operations	8 565c	(746)c	(328)c
– Diluted earnings/(loss) per share, continuing operations	8 610c	(732)c	(307)c
– Diluted earnings/(loss) per share, discontinued operations	8 (44)c	(15)c	(20)c
– Headline earnings/(loss) per share	8 938c	(737)c	(339)c

Balance sheet

	Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Note			
Assets			
Non-current assets			
Property, plant and equipment	2 018 269	2 073 521	2 012 469
Intangible assets	5 024	14 236	9 722
Available for sale financial asset	228 926	169 020	210 499
Deferred taxation asset	487	2 793	3 446
	2 252 706	2 259 570	2 236 136
Current assets			
Stores	52 787	51 339	51 769
Product inventories	760 601	418 016	594 983
Trade and other receivables	550 582	397 689	362 413
Current income tax asset	875	1 400	492
Cash and cash equivalents	400 795	16 433	202 279
	1 765 640	884 877	1 211 936
Non-current assets held for sale	–	25 078	24 860
	1 765 640	909 955	1 236 796
	4 018 346	3 169 525	3 472 932
Total assets			
Shareholders' equity and liabilities			
Capital and reserves			
Share capital and premium	81 196	28 891	66 286
Other reserves	(4 080 779)	108 638	(683 715)
Retained earnings	360 470	(15 579)	102 500
	(3 639 113)	121 950	(514 929)
Non-current liabilities			
Long term loans	1 870 362	12 122	1 640 786
Derivative financial instrument	2 954 753	–	537 549
Provisions:			
– Close-down and restoration costs	269 573	250 557	264 636
– Post retirement medical benefits	106 978	101 486	103 899
	5 201 666	364 165	2 546 870
Current liabilities			
Trade and other payables	469 987	311 719	320 826
Derivative financial instrument	1 302 556	–	283 209
Provisions	34 780	36 952	32 246
Current portion of long-term loans	626 766	2 000 874	779 660
Taxation	–	2 979	–
Group companies – related parties	21 704	10 720	25 050
Bank overdraft	–	320 166	–
	2 455 793	2 683 410	1 440 991
	7 657 459	3 047 575	3 987 861
	4 018 346	3 169 525	3 472 932
Total liabilities			
Total equity and liabilities			

Statement of changes in equity

for the six months ended 30 June 2006	Share capital R'000	Share premium R'000	Retained earnings/ (loss) R'000	Foreign currency translation reserve R'000	Other R'000	Total R'000
Balance at 1 January 2005	28 316	575	195 730	(9 517)	88 563	303 667
Fair value on available for sale investments	–	–	–	–	18 042	18 042
Currency translation differences	–	–	–	11 550	–	11 550
Net loss for the period	–	–	(211 309)	–	–	(211 309)
Balance at 30 June 2005	28 316	575	(15 579)	2 033	106 605	121 950
Fair value on available for sale investments	–	–	–	–	37 001	37 001
Currency translation differences	–	–	–	(8 597)	–	(8 597)
Conversion of debentures	1 246	36 149	–	–	–	37 395
Net loss on cash flow hedges	–	–	–	–	(867 518)	(867 518)
Hedge loss recycled to profit and loss	–	–	–	–	46 761	46 761
Net profit for the period	–	–	118 079	–	–	118 079
Balance at 31 December 2005	29 562	36 724	102 500	(6 564)	(677 151)	(514 929)
Fair value on available for sale investments	–	–	–	–	18 486	18 486
Currency translation differences	–	–	–	20 999	–	20 999
Conversion of debentures	497	14 413	–	–	–	14 910
Net loss on cash flow hedges	–	–	–	–	(3 741 363)	(3 741 363)
Hedge loss recycled to profit and loss	–	–	–	–	304 814	304 814
Net profit for the period	–	–	257 970	–	–	257 970
Balance at 30 June 2006	30 059	51 137	360 470	14 435	(4 095 214)	(3 639 113)

Summarised cash flow statement

	Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Cash flows from operating activities	341 332	70 972	17 596
Cash generated from operations	396 081	200 519	269 908
Interest paid	(51 901)	(124 407)	(241 685)
Income tax paid	(2 848)	(5 140)	(10 627)
Cash flows from investing activities	(83 551)	(69 465)	(114 928)
Purchases of property, plant and equipment	(96 887)	(48 055)	(108 038)
Proceeds on disposal of property, plant & equipment	3 756	111	3 184
Amounts invested in Rehabilitation Fund	–	–	(4 449)
Other investing activities	9 580	(21 521)	(5 625)
Cash flows from financing activities	(59 265)	47 825	652 676
Long term loans raised	–	48 420	927 189
Long term loans repaid	(59 265)	(595)	(274 513)
Increase in cash and cash equivalents	198 516	49 332	555 344
At beginning of period	202 279	(353 065)	(353 065)
At end of period	400 795	(303 733)	202 279

1. CORPORATE INFORMATION

The consolidated financial statements of Palabora for the six months ended 30 June 2006 were authorised for issue in accordance with a resolution of the Board of Directors passed on 27 July 2006.

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 Group has its primary listing on the JSE Limited. The principal activities of the Group are described in Note 10.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim financial report for the six months ended 30 June 2006 have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Reporting).

The interim financial report does not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2005.

Significant accounting policies

The accounting policies applied in the presentation of the interim report are consistent with those applied for the year ended 31 December 2005, except for a change to the detail of the basis of accounting for closure costs, as a result of which provision is no longer made for severance costs associated with mine closure. In addition the following have been adopted:

- The adoption of IFRIC 4 'Determining whether an arrangement contains a lease'.
- A change to the Group's policy on accounting for exploration and evaluation expenditure. Previously, the Group capitalised exploration expenditure on the acquisition of a beneficial interest or option in mineral rights. Full provision was made for impairment unless there was a high degree of confidence in the project's viability and hence it was considered probable that future economic benefits would flow to the Group. Under the Group's revised policy, exploration is not capitalised until the point is reached at which there is a high degree of confidence in the project's viability and it is considered probable that future economic benefits will flow to the Group.
- A clarification to IAS 21 relating to the treatment of exchange gains and losses on loan balances between fellow subsidiary companies was issued in December 2005. The clarification allows in certain circumstances, to include such loans as part of the reporting entity's net investment in foreign operations.

The effect of the above adjustments is not material to Group earnings or to shareholders' funds. As a consequence prior year information has not been restated.

Presentational changes

The format of the income statement has been changed from classification of expenses by nature to classification by function, as mentioned in the annual report of 31 December 2005.

Changes in estimates

- *Depreciation of assets by units-of-production method*

The Group complies with revised IAS 16 which requires that every business performs an assessment of the useful lives of its assets at least at the end of each financial year and adjusts depreciation charges accordingly. The re-assessment of the life-of-mine impacted the useful lives of assets being depreciated under the life-of-mine method and resulted in an additional depreciation charge of R12 million in the cost of sales line on the income statement for the current period.

- *Product Inventory – Smelter process products ("Reverts")*

Due to changes in economic circumstances, the net realisable value of reverts increased in the period. These stock items were previously carried at net realisable value of R2,084 per tonne. In accordance with IAS 2, a new assessment of net realisable value is made in each subsequent period.

The amount of the previous write-down below cost is reversed, limited to the amount of the original write down. The closing stock of revert was consequently revalued to a unit cost of R12,352 per tonne. This resulted in a decrease in the cost of sales line on the income statement of R169 million.

- **Provision for Close-down and Restoration cost**

The provision for close-down and restoration costs was impacted by the following movements during the period ended 30 June 2006:

- A R62 million increase due to a revised present closure obligation and an expected earlier start of the closure program as a result of the shorter life-of-mine ¹.
- A decrease in the discount rate from 2.9% to 2.4% resulted in a R13 million increase in the provision.
- A change in the basis of accounting for closure costs whereby provision is no longer made for severance costs associated with mine closure, resulted in a R85 million decrease of the provision.
- Finance charges (unwind of discount) through the income statement resulted in an increase of R15 million in the provision.

Changes in the measurement of the close-down and restoration costs liability that results from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate are adjusted for in the cost of the related asset in terms of IFRIC 1. This resulted in the capitalisation of the R62 million and R13 million respectively as mentioned above. The adjustment for the exclusion of the severance costs from the calculation of the obligation resulted in a R31 million decrease in the related asset.

3. OTHER INCOME

Included in other income are the following:

	Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Insurance pay-out ²	35 371	–	–
Severance cost excluded from close-down and restoration costs provision ³	53 658	–	–
Profit on sale of property, plant and equipment	3 584	111	4 014
Sundry revenue	4 137	14 691	19 121
	96 750	14 802	23 135

4. SELLING AND DISTRIBUTION COSTS

The increase in the selling and distribution costs is mainly attributable to a 24% increase in exported magnetite volumes from 375,099 tonnes for the comparable prior period to 465,022 tonnes during the current six months ended 30 June 2006.

5. ADMINISTRATION EXPENSES

The increase in the administration expenses from the previous comparable period is mainly explained by:

- (i) R9 million increase in insurance expenses;
- (ii) R2 million increase in information systems related expenses;
- (iii) R3 million increase in performance bonuses; and
- (iv) R8,5 million increase in repair costs, depreciation and stock write-offs.

¹ As was reported in the annual financial statements for the year ended 31 December 2005.

² R35 million insurance payout as a result of a claim on the ground subsidence of the open pit.

³ R54 million resulting from a change in the basis of accounting for the closure costs as explained above.

6. TAXATION

Deferred income tax assets are recognised to the extent that future taxable benefits are generated against which the deferred tax asset can be realised. At 30 June 2006 the Company had an unredeemed capital expenditure balance of R1,5 billion.

7. LOSS FROM DISCONTINUED OPERATION

The loss from discontinued operations represents a write-off of R24 million on the non-current asset held for sale for the Zirconium Basic Sulphate (ZBS) plant as a result of the Board resolution to close the ZBS plant given risks associated with the sale process.

8. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing net profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

Basic profit per share of the Group for the interim period is based on the net profit of R258 million (June 2005: net loss of R 211 million) divided by the total number of weighted average shares in issue during the period of 29,677,112 (June 2005: 28,315,500).

The Groups convertible redeemable debentures are the only dilutive instruments during the current period. Dilutive earnings per share are based on basic dilutive earnings (R306 million) divided by the adjusted total number of weighted average shares in issue during the period (54,178,122). In the previous period the debentures were not dilutive.

	Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Reconciliation of net profit/(loss) for earnings per share			
Net profit/(loss) attributable to equity holders from continuing operations	281 939	(207 199)	(87 412)
Loss attributable to equity holders from discontinued operations	(23 969)	(4 110)	(5 818)
Net profit/(loss) attributable to equity holders of parent	257 970	(211 309)	(93 230)
Interest on convertible redeemable debentures	48 379	54 028	106 433
Net profit/(loss) attributable to ordinary shareholders from diluted earnings per share	306 349	(157 281)	13 203
Reconciliation of weighted average number of ordinary shares			
Weighted average number of ordinary shares for basic earnings per share	29 677	28 316	28 450
Effect of dilution : Convertible redeemable debentures	24 501	28 315	24 998
Adjusted weighted average number of ordinary shares	54 178	56 631	53 448
Basic earnings/(loss) per share (cents), for total operations	869	(746)	(328)
Basic earnings/(loss) per share (cents), for continuing operations	950	(732)	(307)
Basic earnings/(loss) per share (cents), for discontinued operations	(80)	(15)	(20)
Diluted earnings/(loss) per share (cents), for total operations	565	(746)	(328)
Diluted earnings/(loss) per share (cents), for continuing operations	610	(732)	(307)
Diluted earnings/(loss) per share (cents), for discontinued operations	(44)	(15)	(20)
Headline earnings/(loss) per share (cents)	938	(737)	(339)

9. RECONCILIATION OF HEADLINE EARNINGS PER SHARE

	Six months ended 30 June 2006		
	Profit/(Loss) before tax	Taxation and lease consideration	Profit/(Loss) after tax
	R'000	R'000	R'000
Profit/(loss) per income statement	263 394	(5 424)	257 970
Profit on disposal of fixed assets	(3 584)	–	(3 584)
Impairment charges – ZBS	23 969	–	23 969
Profit on ZBS sale	–	–	–
Fair value adjustment – ZBS debtor	–	–	–
Headline profit/(loss)	283 779	(5 424)	278 355
	Six months ended 30 June 2005		
	Profit/(Loss) before tax	Taxation and lease consideration	Profit/(Loss) after tax
	R'000	R'000	R'000
Profit/(loss) per income statement	(207 379)	(3 930)	(211 309)
Profit on disposal of fixed assets	(111)	37	(74)
Impairment charges – ZBS	–	–	–
Profit on ZBS sale	(804)	270	(534)
Fair value adjustment – ZBS debtor	4 914	(1 648)	3 266
Headline profit/(loss)	(203 380)	(5 271)	(208 651)
	Year ended 31 December 2005		
	Profit/(Loss) before tax	Taxation and lease consideration	Profit/(Loss) after tax
	R'000	R'000	R'000
Profit/(loss) per income statement	(86 537)	(6 693)	(93 230)
Profit on disposal of fixed assets	(4 014)	–	(4 014)
Impairment charges – ZBS	–	–	–
Profit on ZBS sale	685	–	685
Fair value adjustment – ZBS debtor	–	–	–
Headline profit/(loss)	(89 866)	(6 693)	(96 559)

10. SEGMENT REPORTING

The Group's primary reporting segment is its business segment and secondary format is its 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.

Business segment

The following tables present revenue and profit information regarding the Group's business segments for the periods ended 30 June 2006 and 2005 respectively. The primary product of The Group is copper, together with by-products, which include magnetite, nickel sulphate, anode slimes and sulphuric acid. The Industrial Minerals division produces and markets vermiculite.

Period ended 30 June 2006

	Copper R'000	Industrial Minerals R'000	Copper By- Products R'000	Total R'000
Revenue				
Sales to external customers – continuing operations	1 395 300	166 611	168 036	1 729 947
Inter-segment sales	–	–	–	–
Segment Revenue	1 395 300	166 611	168 036	1 729 947
Results				
Segment Results – continuing operations	409 840	12 589	69 020	491 449
Segment Results – discontinued operations	–	(23 969)	–	(23 969)
Unallocated income				82 386
Profit from operations before tax and finance costs				549 866
Net finance costs				(286 472)
Profit before income tax				263 394
Income tax expense				(5 424)
Profit for the period				257 970

Period ended 30 June 2005

	Copper R'000	Industrial Minerals R'000	Copper By- Products R'000	Total R'000
Revenue				
Sales to external customers – continuing operations	830 911	63 218	56 391	950 520
Inter-segment sales	–	92 490	–	92 490
Segment Revenue	830 911	155 708	56 391	1 043 010
Results				
Segment Results – continuing operations	27 912	26 823	48 624	103 359
Segment Results – discontinued operations	–	(4 110)	–	(4 110)
Unallocated expenses				(7 156)
Loss from operations before tax and finance costs				92 093
Net finance costs				(299 472)
Loss before income tax				(207 379)
Income tax expense				(3 930)
Loss for the period				(211 309)

11. NET DEBT

Description of loan	Effective interest rate %	Maturity	Six months ended	Six months ended	Year ended
			30 June 2006	30 June 2005	31 December 2005
			R'000	R'000	R'000
Non-current					
Senior Term Facility	Libor+2.3%/Jibar+2.65%	30.06.13	536 459	–	557 376
Other Facilities	Libor+2.38%	31.01.14	–	12 122	–
Convertible debentures ⁴	Jibar+5%		418 340	–	418 340
Rio Tinto unsecured loan	Libor+5%		915 563	–	665 070
			1 870 362	12 122	1 640 786
Current					
Medium Term Facility	Libor/Jibar+1.5%	13.09.05	–	294 097	–
Convertible debentures ⁵	Jibar+5%	16.09.06	378 820	849 148	393 730
Proceeds from debentures			378 820	849 465	393 730
Debenture issue fees			–	(317)	–
Senior Term Facility	Libor+2.3%/Jibar+2.65%	30.06.13	147 098	–	142 156
Revolving credit facility	Libor+2.3%/Jibar+2.65%		100 848	–	94 925
Rio Tinto unsecured loan	Libor+5%		–	856 453	–
Rio Tinto secured loan	Libor+5%		–	–	148 849
Other Facilities	Libor+2.38%		–	1 176	–
			626 766	2 000 874	779 660
Total borrowings			2 497 128	2 012 996	2 420 446
Bank overdrafts			–	320 166	–
Cash and cash equivalents			(400 795)	(16 433)	(202 279)
Net debt			2 096 333	2 316 729	2 218 167
Total equity			(3 639 113)	121 950	(514 929)

The terms of repayments are consistent with the information disclosed in the December 2005 annual financial statements.

Principal repayments of R59 million were made on the senior term facility during the six months ended 30 June 2006. For the six months ended 30 June 2006, 14,910 debentures were converted (at a principal amount R1 000 per debenture). All other movements from December 2005 relate to the revaluation of the US\$ denominated debts for a total amount of R150 million due to the weakening of the US\$:Rand exchange rate.

⁴ Refer to note 15 on the post balance sheet events: after 30 June 2006 Rio Tinto exercised their right to convert all 418 340 debentures held by them into shares;

⁵ Refer to note 15 on the post balance sheet events: after 30 June 130 566 debentures held will be converted into shares;

12. SHARE CAPITAL AND PREMIUM

The issued share capital increased by R0,5 million and the share premium by R14,4 million for the six months ended 30 June 2006. The share issue is due to the conversion of 14,910 debentures of R1 000 each. All outstanding debentures as at 18 September 2006 will be redeemed on that date.

Share capital	Total R'000	Rio Tinto Group R'000	Anglo American Corporation R'000	Public R'000
Original issued share capital	28 316	13 945	8 118	6 253
Debentures converted into shares as at 31 December 2005	1 246	–	–	1 246
Balance at 31 December 2005	29 562	13 945	8 118	7 499
Debentures converted into shares as at 30 June 2006	497	–	–	497
Balance at 30 June 2006	30 059	13 945	8 118	7 996
<i>% Shareholding – 31 December 2005</i>	100%	47.2%	27.5%	25.3%
<i>% Shareholding – 30 June 2006</i>	100%	46.4%	27.0%	26.6%
Share premium				
Original share premium	575	283	164	128
Debentures converted into shares as at 31 December 2005	36 149	–	–	36 149
Balance at 31 December 2005	36 724	283	164	36 277
Debentures converted into shares as at 30 June 2006	14 413	–	–	14 413
Balance at 30 June 2006	51 137	283	164	50 690

13. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2006, the Group held a commodity swap contract designated as a hedge of expected future sales to local customers under which the Group receives a fixed price in Rand in relation to a monthly notional quantity of copper sales as detailed below and pays a floating price based on the arithmetic average (mean) of the US\$ LME Cash Settlement Price.

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 combined hedged book as at 30 June 2006 amounts to 212,716 tonnes of copper for a total amount of R3,9 billion spread over 7.5 years. The terms of the contracts are as follows:

Maturity Year	Quantity (t)	Average hedged price ZAR/t	Hedged value R'000	Mark to market loss/(gain) R'000
2006	22 150	20 993	464 995	678 110
2007	45 021	20 993	945 116	1 188 411
2008	41 801	20 521	857 801	887 291
2009	22 265	15 739	350 426	449 527
2010	22 188	15 739	349 217	365 673
2011	21 825	15 739	343 499	295 807
2012	21 137	15 739	332 667	236 725
2013	16 329	15 739	256 997	155 765
Total	212 716		3 900 718	4 257 309
Less: Non-Current portion				2 954 753
Current portion				1 302 556

The London Metal Exchange (LME) US\$ price of copper increased significantly in the period. This resulted in an increase for the six months ended 30 June 2006 of R3 436 million from the balance at 31 December 2005 of R821 million to a balance of R4 257 million on the swap liability included under other reserves.

14. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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.

There has been no significant change to the Group's financial risk management objectives or policies reported in the annual financial statements for the year ended 31 December 2005.

Foreign currency risk

In the normal course of business, the Group enter into transactions denominated in foreign currencies (primarily with respect to the US dollar and the British pound).

Approximately 55% of the Group's existing debt is denominated in US\$ for a total amount of US\$ 193 million. As a result of the significant US\$ denominated borrowings, the Group's balance sheet can be affected significantly by movements in the US\$/ Rand exchange rates. The Group has not undertaken a strategy to mitigate the effect of its structural currency exposure by borrowings in US\$.

The Group also has transactional currency exposures. Such exposure arises mainly from sales by an operating unit in currencies other than the unit's measurement currency. Approximately 36% of the Group's sales are denominated in currencies other than the reporting currency of the operating unit making the sale, whilst almost 68% of costs are denominated in the unit's reporting currency. The Group does not use derivatives to manage this risk.

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

	< 1 year '000	1 – 5 years '000	> 5 years '000	Total '000
Accounts receivable				
British Pounds (GBP)	2 288	–	–	2 288
US Dollar (US\$)	7 023	–	–	7 023
Accounts payable				
British Pounds (GBP)	(1 451)	–	–	(1 451)
US Dollar (US\$)	(4 143)	–	–	(4 143)
Long term loans				
US Dollar (US\$)	(14 419)	(34 835)	(136 981)	(186 235)

Interest rate

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flow interest rate risk arises from its 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.

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 R'000	1 – 2 Years R'000	2 – 3 Years R'000	3 – 4 Years R'000	4 – 5 Years R'000	More than 5 Years R'000	Total R'000
Period ended							
30 June 2006							
Floating rates							
Revolving credit facility	100 848	–	–	–	–	–	100 848
Senior Term Facility	147 098	162 137	87 879	74 253	78 196	133 994	683 557
Convertible debentures	378 820	–	–	–	–	418 340	797 160
Rio Tinto loans	–	–	–	–	–	915 563	915 563
Total	626 766	162 137	87 879	74 253	78 196	1 467 897	2 497 128
Year ended							
31 December 2005							
Floating rates							
Revolving credit facility	94 925	–	–	–	–	–	94 925
Senior Term Facility	142 112	126 984	144 560	65 762	78 196	185 937	743 551
Convertible debentures	393 730	–	–	–	–	418 340	812 070
Rio Tinto loans	148 849	–	–	–	–	665 070	813 919
Total	779 616	126 984	144 560	65 762	78 196	1 269 347	2 464 465

15. POST BALANCE SHEET EVENTS

Debentures

Subsequent to 30 June 2006 the following notices for the conversion of debentures were received:

- Public debenture holders – 130 566 debentures will be converted into 4 352 200 ordinary shares;
- Rio Tinto debentures – 418 340 debentures will be converted into 13 944 665 ordinary shares.

This will result in the following changes in shares issued:

	Total R'000	Rio Tinto Group R'000	Anglo American Corporation R'000	Public R'000
Share capital				
Balance at 30 June 2006	30 059	13 945	8 118	7 997
Option exercised to convert debentures into shares as at 21 July 2006 (last day to exercise option to convert)	18 297	13 945	–	4 352
Balance	48 356	27 890	8 118	12 349
<i>% Shareholding after final conversions</i>	<i>100%</i>	<i>57.7 %</i>	<i>16.8%</i>	<i>25.5%</i>

16. GROUP SELECTED STATISTICS

		Six months ended 30 June 2006	Six months ended 30 June 2005	Year ended 31 December 2005
Revenue				
Copper (including hedge)	<i>R' million</i>	1,396	821	1,949
By-products	<i>R' million</i>	206	67	232
Vermiculite	<i>R' million</i>	129	156	277
Net profit/(loss) before tax	<i>R' million</i>	263	(207)	(75)
Copper				
Ore hoisted	<i>millions of tonnes</i>	5,42	5,0	10,03
Average copper grade	<i>% Cu</i>	0.710	0.716	0.715
Copper in concentrates produced	<i>'000 of tonnes</i>	28,5	29,7	61,2
Cathode produced	<i>'000 of tonnes</i>	36,2	37,7	80,3
Average copper price realised	<i>US\$/lb</i>	273.7	156.0	169.5
LME Copper Price	<i>US\$/lb</i>	275.6	151.0	166.9
Average rand/dollar exchange rate	<i>R/US\$</i>	6.27	6.21	6.37
Average copper price realised	<i>R/tonne</i>	37,218	21,357	24,188
Net cash cost	<i>R/tonne</i>	17,537	13,352	14,382
Copper Rod				
Unit selling price pre hedge	<i>US\$/lb</i>	269.1	156.1	172.1
Unit selling price post hedge	<i>US\$/lb</i>	220.8	156.1	167.8
Sales	<i>tonnes</i>	34,487	33,810	69,543

16. GROUP SELECTED STATISTICS (*continued*)

		Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Cathode				
Unit selling price pre hedge (local)	<i>USc/lb</i>	268.3	148.6	168.3
Unit selling price post hedge (local)	<i>USc/lb</i>	220.2	148.6	164.2
Sales (local)	<i>tonnes</i>	2,870	2,142	4,089
Unit selling price pre hedge (export)	<i>USc/lb</i>	377	162	170
Unit selling price post hedge (export)	<i>USc/lb</i>	309.8	148.6	166.3
Sales (export)	<i>tonnes</i>	1,700	2,491	5,021
Vermiculite				
Vermiculite sold	<i>tonnes</i>	90,768	91,519	171,097
Average vermiculite prices realised	<i>R/tonne</i>	1,418	1,375	1,404
Operational cash cost	<i>R/tonne</i>	423.6	310.2	325.9
Magnetite				
Magnetite sold	<i>tonnes</i>	465,022	375,099	759,203
Average magnetite prices realised	<i>R/tonne</i>	193	52	127
Imported concentrate				
Volumes	<i>Tonnes copper</i>	7,152	10,721	24,530
Cost	<i>R' million</i>	283.6	190.1	531.4
Unit purchased price	<i>R/tonne of copper</i>	39,657	17,728	21,664
Marginal ore concentrate				
Volumes	<i>Tonnes copper</i>	4,411	3,865	8,121
Cost	<i>R' million</i>	111.9	58.5	137.1
Unit purchased price	<i>R/tonne of copper</i>	25,370	14,147	21,664

16. GROUP SELECTED STATISTICS (*continued*)

		Six months ended 30 June 2006 R'000	Six months ended 30 June 2005 R'000	Year ended 31 December 2005 R'000
Cash flow				
Cash from operations	<i>R' million</i>	371.3	71.0	17.6
Cash in bank	<i>R' million</i>	400.8	(303.7)	202.3
Costs				
Production cost (excluding concentrate purchases)	<i>R' million</i>	693.7	401.7	874.8
Cost of sales	<i>R' million</i>	993.9	783.6	1,740.2
Capital expenditure and commitments				
Capital expenditure	<i>R' million</i>	97	48	136
Approved expenditure at end of each period	<i>R' million</i>	95	130	108
Contracts placed at end of each period	<i>R' million</i>	37	25	27
Investments				
Fair value of unlisted investments	<i>R' million</i>	229	169	211
Share capital				
Authorised ordinary shares of R1 each	<i>R'000</i>	100,000	100,000	100,000
Issued ordinary shares of R1 each	<i>R'000</i>	30,059	28,316	29,562
Net asset value per share	<i>R/share</i>	(121.07)	4.31	(18.10)

These results are also available on our website at:
www.palabora.co.za

