

***UNAUDITED  
INTERIM REPORT***

*for the six months ended 30 June 2008*

**Palabora Mining**  
Company Limited and its Subsidiaries



# Palabora Mining

## Company Limited and its Subsidiaries

(Incorporated in the Republic of South Africa)

(Reg. No. 1956/002134/06)

JSE Code: PAM ISIN: ZAE000005245

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

### **Directors:**

G M Negota (*Chairman*), M D Gili<sup>1</sup> (*Managing Director*), C A Asubonten<sup>1</sup> (*Finance Director*),  
C J Latcham<sup>2</sup>, J C Posthumus, S Thomas, P J Robinson<sup>2</sup>, C N Zungu

<sup>1</sup>American <sup>2</sup>Australian

### **Company secretary:**

K N Mathole

### **Transfer Secretaries:**

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

Postal Address:

PO Box 61051

Marshalltown, 2107

### **Registered Office:**

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Phalaborwa, 1389

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# COMMENTARY

## Overview

Matt Gili, the new Managing Director who took over from Keith Marshall in March this year, commented on the strong half year results as follows:

"I am pleased to report that Palabora has delivered another set of stellar results in a safe operating environment. Palabora is maximising the operating value of the asset through its operational excellence programme."

During this period under review, we witnessed national power supply shortages which led to a marginal decline in our overall copper production. However, since then we have also seen a record production as we achieved a daily record of 40 344 tonnes hoisted during this period.

It is no secret that there are ever increasing cost pressures in today's market place. With the focus on quality and speed, we continue to improve our processes and find optimal means of production in order to eliminate waste; and therefore, contain cost pressures or reduce costs.

## Group financial results

For the period ended	30 June 2008	30 June 2007	31 December 2007
Net profit for the period	<b>R464 million</b>	R382 million	R1 861 million
Basic earnings per share	<b>961 cents</b>	791 cents	3 850 cents
Profit from continuing operations before interest, tax depreciation and amortisation (EBITDA)	<b>R852 million</b>	R829 million	R3 179 million
Headline earnings	<b>R466 million</b>	R382 million	R721 million
Headline earnings per share	<b>965 cents</b>	790 cents	1 491 cents
Excess cash/(net debt) (excluding hedge)	<b>R381 million</b>	(R283) million	R433 million
Dividends per share	–	–	R3,10

## Net profit

The net profit for the six months ended 30 June 2008 increased from R382 million in the comparable period in 2007 to R464 million. The basic earnings per share increased from earnings of 791 cents per share to earnings of 961 cents per share.

Sales of products increased by R144 million (5%) to R3 257 million largely as a result of the following:

- Higher realised prices of copper of R550 million, higher realised prices for slimes, magnetite and vermiculite (+R30 million, +R16 million and +R14 million respectively), and a weakening US\$/Rand exchange rate of 7,65 in 2008 compared with 7,17 for the comparable period in 2007 (+R208 million);
- The higher price effect was slightly offset by lower volumes of copper sales (excluding revert and concentrate sales); 39 627 tonnes compared with 45 784 tonnes for the first six months in 2007 (-R447 million);
- Reverts and low grade concentrate sales contributed an additional 5 040 tonnes of contained copper (2007: 11 750 tonnes). The lower volumes sold resulted in a decrease in the sales of products of R274 million;
- Higher volumes of magnetite sales; 793 thousand tonnes compared with 586 thousand tonnes (+R62 million) in 2007.

The Group achieved an average realised selling price (post hedge) for copper rod and cathode of R41 363 (2007: R39 182) and R40 522 (2007: R35 585) respectively.

The increase in revenue was partially offset by realised hedging losses resulting from the swap settlement of 23 thousand (2007: 22 thousand) tonnes of copper ((-R886 million) 2007: (-R592 million)).

Total Group cost of sales decreased by R196 million, from R1 522 million in the first six months of 2007 to R1 326 million for the comparable period under review, representing a decrease of 13% from the previous period. The ratio of cost of sales to revenue reduced to 41% from 49% in the first half of 2007. The decrease in cost of sales was as follows:

- Copper concentrate purchases decreased from 13,1 thousand tonnes in 2007 to 5,8 thousand tonnes in 2008 (-R274 million), offset by the LME copper price impact on purchased concentrate of R65 million higher than the comparable period under review in 2007;
- The effect of the revaluation of revert stock in 2007 which had an impact when the stock was sold (-R252 million) had no effect in the current period under review. The particular revert stock were all sold in the prior year.

The decrease was offset by the following increases:

- Transportation costs were higher by R56 million than the comparable period due to the reclamation of Palabora marginal ore stockpiles for re-processing in 2008;
- Mobile fleet maintenance and higher steel prices increased the maintenance expense by R23 million;
- Costs of major consumables increased during the first half of 2008 by R36 million;
- Mine-wide payroll costs (excluding administration) increased by R23 million due to an increase in employees and the annual salary increase compared with the first half of 2007;
- Additional depreciation of R108 million as a result of the impairment reversal at 31 December 2007.

We shall remain disciplined and focused in order to optimise our profitability and cashflow. We are aware that the commodity boom can lead to structural cost increases and we seek to minimise or avoid any such costs.

The Group achieved a gross profit from continuing operations for the first half of 2008 of R1 044 million, from a gross profit of R999 million for the comparable period in 2007.

Earnings before interest, tax, depreciation and amortisation (EBITDA) were R852 million compared with R829 million for the comparable period in 2007. Palabora's management now believes that EBITDA provide a more meaningful comparison of the Company's earnings from ongoing operations due to the additional depreciation recognised in 2008 as a result of the impairment reversal at 31 December 2007.

Selling and distribution costs increased by R71 million and administration costs by R39 million. The increase in the selling and distribution costs from R162 million in 2007 to R233 million for 2008 is mainly attributable to the cost incurred for the export of vermiculite due to increased freight costs and magnetite railage costs due to increased volumes sold. The Group's profit from continuing operations before interest and tax (EBIT) was R623 million compared with R691 million in the first half of 2007, a decrease of R68 million.

The decrease in finance costs of R47 million was due to reduced foreign exchange losses on loans and lower interest cost following loan repayments made during the second half of 2007 and first half of 2008. Finance revenue increased by R32 million to R67 million (2007: R35 million) as a result of interest earned and foreign exchange gains on debtors. The decrease of R71 million in tax expenses from R218 million in 2007 to R147 million in 2008 is a result of a R266 million decrease in taxable temporary differences (from a deferred tax liability to a deferred tax asset) offset by R195 million increase in current tax due to higher taxable profits. (See notes 6 & 10.)

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## **Cash flow**

Cash and cash equivalents at 30 June 2008 were R550 million compared with R1 006 million at 30 June 2007.

For the six months ended 30 June 2008, the Group recorded a net cash outflow of R291 million compared with a net cash inflow of R335 million for the comparable period in 2007.

Cash from operations of R735 million (2007: R812 million) was generated mainly as a result of a significant increase in realised (pre-hedge) copper rod and cathode prices (2008: 361,8; 2007: 308,8 US\$/lb) and the sale of surface stockpile material of 5 040 tonnes of copper (2007: 11 750 tonnes) and improved efficiencies.

The Group invested R117 million in the business. Capital investment of R127 million was primarily spent on the underground mine (R66 million), concentrator (R27 million) and refinery (R6 million). The expenditure related mainly to purchase of new underground mobile equipment to enhance throughput, upgrading the SCADA mine-wide system to enhance efficiencies, head rope replacements for the service shaft, the South Paddock tailings dam construction, the magnetite pipeline feasibility study and the ASARCO shaft furnace replacement. The net cash outflow was offset by other investing activities of R10 million.

The R274 million used in financing activities was for the repayment of the principal and mandatory prepayments of the term facility agreement of R218 million and the full settlement of the Rio Tinto secured loan of R56 million.

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## **Net cash/(debt)**

Net debt decreased from R283 million (negative balance) in June 2007 to a net cash balance of R381 million (positive balance) in 2008.

Total borrowings decreased by R1 119 million from R1 288 million at 30 June 2007 to R169 million in 2008.

Total borrowings decreased by R239 million from 31 December 2007. This was as a result of:

- repayment of the Tranche A and B of the Term Facility for a total amount of R218 million;
- settlement of the Rio Tinto secured loan in the amount of R56 million;
- offset by a foreign exchange loss of R35 million in the rand value of US\$ denominated debt due to the weakening of the Rand.

Cash balances decreased by R456 million to R550 million.

Payments in addition to loan repayments during the six month period that decreased the cash balances included:

- dividend payment in March 2008 of R150 million;
- provisional income tax payments of R263 million;
- settlement of outstanding interest on the Rio Tinto Finance loan of R169 million;
- settlement of outstanding interest on debentures that were held by Rio Tinto of R48 million.

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### **Magnetite**

The Company is in the process of validating the feasibility study performed in the last decade to determine the optimal means of enhancing its revenue stream by utilising its magnetite stockpiles. Palabora is estimated to possess 240 million tonnes of magnetite. The work on evaluating the optimal level of beneficiation continues.

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### **Western extension**

Development on the Western Extension, an addition of three production crosscuts to the western area of current crosscut 20, commenced during the period under review. The development of this area has the potential to add two to three years to the life of mine.

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### **Nickel plant**

PMC entered into an agreement with Metals Finance Africa (previously Muva Metals) for the evaluation and development of a new nickel plant. The project is drawing to a close and hot commissioning of the plant is expected in 2008. The agreement provides for the utilisation of the funds generated from the nickel sulphate produced from this plant to pay for the capital, and afterwards for a 60:40 split of the cash generated to Metals Finance Africa: Palabora. The agreement is for a fixed period of five years from the date the plant delivers an 85% recovery rate (limited to an eight month period).

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### **Black Economic Empowerment (BEE)**

Palabora is committed to BEE and towards that end, anticipates completing a BEE transaction as required by law. The Company has been engaging with all the affected parties to ensure that it delivers a broad-based empowerment scheme.

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### **Pension fund surplus**

The Company is still waiting a response from the Registrar of the Financial Services Board (FSB) regarding the approval of the pension fund distribution. While the Company is aware of an appeal to block this distribution, it is unclear what the status of the process is. The Company has engaged legal counsel to follow up with regards to the FSB adjudication process. Only after the Registrar's approval has been obtained, can the Liquidator release the employer's share of the surplus in the Fund. This is estimated at approximately R204 million before tax and including accrued interest.

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### **Declaration of dividend**

A dividend that relates to the year ended 31 December 2007 and amounts to R150 million was paid in March 2008. No dividend was proposed to shareholders for the first half of 2008, as it will be assessed along with the year-end results.

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### **Corporate Governance**

On 29 February 2008, Mr Keith Marshall, resigned as the Managing Director at Palabora after four successful and productive years, to head up Ivanhoe Mining Company as the Managing Director. Mr Marshall was seconded by Rio Tinto to the Oyu Toigoï project in Mongolia, one of the largest undeveloped copper projects in the world.

Mr Matt Gili was appointed to the role of Managing Director at Palabora. Mr Gili was the general manager of operations, responsible for the underground and concentrator operations. Mr Gili has been a key member of the Palabora team for the last three years and contributed significantly to the greatly improved operational and safety performance.

On 31 March 2008, Mrs Jo-Ann Goh resigned as non-executive director at Palabora. Mrs Goh was appointed to the role of general manager Commercial within the Rio Tinto Copper projects team effective 1 February 2008. She was replaced by Mr Philip Robinson as non-executive director appointed on 1 April 2008. Mr Robinson is Australian and is based in Rio Tinto's London office. Mr Robinson has had previous Finance, Accounting and Marketing roles with Rio Tinto Coal, Comalco Aluminium and Rio Tinto Marketing Centre (all Rio Tinto businesses). He is a chartered accountant and holds an MBA from the Australian Graduate School of Management, together with a Bachelor of Business degree from Southern Cross University.

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### **Appreciation**

We thank all stakeholders of the Company for their continued support.

**GM Negota**  
*Chairman*

**MD Gili**  
*Managing Director*

**CA Asubnten**  
*Finance Director*

5 August 2008

# UNAUDITED GROUP RESULTS

## Income statement

for the six months ended 30 June 2008

		Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
	Note			
<b>Continuing operations</b>				
Sale of products		3 256 786	3 113 074	6 177 954
Hedged loss realised		(886 444)	(592 047)	(1 319 825)
<b>Revenue</b>		<b>2 370 342</b>	<b>2 521 027</b>	<b>4 858 129</b>
Cost of sales		(1 325 975)	(1 521 656)	(2 993 587)
<b>Gross profit</b>		<b>1 044 367</b>	<b>999 371</b>	<b>1 864 542</b>
Other income	2	19 340	14 278	21 290
Impairment (loss)/reversal	3	(2 767)	–	1 690 156
Exploration cost	4	(3 269)	(155)	(3 257)
Selling and distribution costs		(233 203)	(162 311)	(356 493)
Administration expenses		(199 855)	(160 559)	(322 358)
Other expenses		(2 101)	(106)	(1 634)
<b>Profit from continuing operations before tax and net finance costs</b>	5	<b>622 512</b>	<b>690 518</b>	<b>2 892 246</b>
Finance cost		(77 952)	(125 274)	(172 028)
Finance income		66 810	34 719	69 097
<b>Profit before tax</b>		<b>611 370</b>	<b>599 963</b>	<b>2 789 315</b>
Income tax expense and lease consideration	6	(146 907)	(217 617)	(928 402)
<b>Net profit for the period</b>		<b>464 463</b>	<b>382 346</b>	<b>1 860 913</b>
<i>Allocated as follows:</i>				
<b>Equity holders of parent</b>		<b>464 463</b>	<b>382 346</b>	<b>1 860 913</b>
<b>Earnings per share (cents):</b>				
– Basic earnings per share (cents)	7	961	791	3 850
– Diluted earnings per share (cents)	7	961	791	3 850

# Balance sheet

as at 30 June 2008

	Note	As at 30 June 2008 R'000	As at 30 June 2007 R'000	As at 31 December 2007 R'000
<b>Assets</b>				
<b>Non-current assets</b>				
		5 413 898	3 100 252	5 059 788
Property, plant and equipment		3 471 412	1 888 256	3 576 481
Available-for-sale financial assets		306 898	304 908	312 052
Deferred tax asset	10	1 635 588	907 088	1 171 255
<b>Current assets</b>				
		2 139 513	2 500 273	2 112 651
Stores		95 410	68 030	80 576
Product inventories		672 428	652 029	573 524
Trade and other receivables		821 807	774 685	627 441
Cash and cash equivalents		549 868	1 005 529	841 110
<b>Total assets</b>				
		7 553 411	5 600 525	7 182 439
<b>Shareholders' equity and liabilities</b>				
<b>Capital and reserves</b>				
		39 396	(57 838)	849 097
Share capital and premium	11	629 551	629 551	629 551
Other reserves	11	(3 335 531)	(1 639 581)	(2 211 213)
Retained earnings	11	2 745 376	952 192	2 430 759
<b>Total shareholders' equity</b>				
		39 396	(57 838)	849 097
<b>Non-current liabilities</b>				
		5 311 437	3 311 825	4 321 770
Long-term borrowings	12	3 051	1 030 043	193 818
Derivative financial instrument	13	3 770 558	1 368 305	2 564 762
Provisions:				
– Close-down and restoration costs		376 394	318 064	362 873
– Post retirement medical benefits		149 695	125 645	145 681
Deferred tax liabilities	10	1 011 739	469 768	1 054 636
<b>Current liabilities</b>				
		2 202 578	2 346 538	2 011 572
Trade and other payables		479 245	621 515	555 777
Derivative financial instrument	13	1 411 090	1 421 696	1 039 561
Current portion of long-term borrowings	12	165 553	258 323	214 082
Current tax liabilities		58 810	457	119 737
Group companies – related parties		87 880	44 547	82 415
<b>Total liabilities</b>				
		7 514 015	5 658 363	6 333 342
<b>Total equity and liabilities</b>				
		7 553 411	5 600 525	7 182 439

## Statement of recognised income and expenditure

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
	Note		
Available-for-sale investments:			
– Valuation (loss/gain taken to equity)	(5 878)	29 349	36 480
Exchange differences on translation of foreign operations	8 368	4 174	(5 701)
Cash flow hedges:			
– Losses taken to equity	(2 474 584)	(928 848)	(2 470 676)
– Over hedged ineffectiveness	9 411	–	–
– Transferred to profit or loss for the period	886 444	592 047	1 319 825
Actuarial losses on defined benefit plans	–	–	(18 821)
Unclaimed dividends and other	149	–	(184)
Tax on items taken directly to or transferred from equity	10 451 772	110 648	374 815
Net income recognised directly in equity	(1 124 318)	(192 630)	(764 262)
Net profit for the period	464 463	382 346	1 860 913
<b>Total recognised income and expenses for the period</b>	<b>(659 855)</b>	<b>189 716</b>	<b>1 096 651</b>
Attributable to:			
Equity holders of the parent	(659 855)	189 716	1 096 651



## Summarised cash flow statement

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Cash flows from operating activities</b>	<b>99 903</b>	800 978	1 604 265
Cash generated from operations	734 731	812 133	1 733 032
Interest paid	(234 339)	(33 051)	(172 028)
Interest received	12 501	26 890	54 891
Dividend paid	(149 698)	–	–
Income tax paid	(263 292)	(4 994)	(11 630)
<b>Cash flows from investing activities</b>	<b>(116 732)</b>	(56 055)	(166 991)
Purchases of property, plant and equipment	(127 294)	(64 320)	(182 407)
Proceeds on disposal of property, plant and equipment	239	436	1 210
Other investing activities	10 323	7 829	14 206
<b>Cash flows from financing activities</b>	<b>(274 413)</b>	(409 730)	(1 266 500)
Payment of finance lease liability	–	(12 145)	(12 145)
Long-term loans repaid	(274 413)	(397 585)	(1 254 355)
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(291 242)</b>	335 193	170 774
<b>At beginning of period</b>	<b>841 110</b>	670 336	670 336
<b>At end of period</b>	<b>549 868</b>	1 005 529	841 110

## CORPORATE INFORMATION

The consolidated financial statements of Palabora for the six months ended 30 June 2008 were authorised for issue in accordance with a resolution of the Board of Directors passed on 5 August 2008.

The Group is incorporated and domiciled in South Africa. The Group has its primary listing on the JSE Limited. The principal activities of the Group are described in Note 9.

### 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

#### Basis of preparation

The interim financial report for the six months ended 30 June 2008 has been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Reporting). The report has not been audited or reviewed by the Company's auditors.

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 2007.

#### Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the group:

- IFRIC 11: IFRS 2 – Group and treasury share transactions;
- IFRIC 12: Service concession arrangements;
- IFRIC 14: IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction.

#### Presentational changes

Exploration cost, which was presented as part of cost of sales in prior periods, is shown separately on the income statement. The comparative figures of R155 thousand for the six months ended 30 June 2007 and R3 257 thousand for the year ended 31 December 2007 have similarly been separately disclosed on the face of the income statement.

### 2. OTHER INCOME

The following items of an unusual nature have been included in other income for the interim period:

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
Profit on sale of property, plant and equipment	238	447	1 205
Palabora Foundation donation provision reversal *	–	6 555	6 555
Hedge realisation of day 1 profit *	10 815	–	–

\* 2008: Derivative financial instrument (hedge) – the fair value of the instrument is determined using valuation models for which not all inputs are market observable. The financial instrument was initially recognised at the transaction price, which is the best indicator of fair value, although the value from the relevant valuation model may differ. This difference is referred to as a "day-1 profit/loss". The day-1 profit is not allowed to be recognised immediately in the income statement. Such gains and losses should be recognised subsequently only to the extent that it arises from a change in a factor (including time) that market participants would consider in setting a price. Consequently, the profit will emerge over the life of the instrument.

\* 2007: Per an executive decision, the previous decision of 2002 was rescinded, resulting in a reversal of the provision for the donation to the Palabora Foundation. These funds will be rechannelled towards a community related project.

### 3. IMPAIRMENT (LOSS)/REVERSAL

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
Impairment (loss)/reversal	(2 767)	–	1 690 156

\* 2008: The project for the construction of a high angle conveyor from the auto mills to the no.3 ore stockpile was discontinued as a result of a change in the operating strategy that now requires the stockpile to be available for Foskor and PMC marginal ores. A write off of unrecoverable costs accumulated up to date on the project was recognised.

\* 2007: In 2004 financial year, the Company recognised an impairment loss of R2 342 million before tax. A review of long-term assets is carried out at each reporting date where there is an indication that an impairment loss may no longer exist or may have decreased. Following this review, management believes that the carrying value of the Company's assets is not aligned with its recoverable value. As a result, the maximum allowable impairment reversal of R1 690 million was recognised.

#### 4. EXPLORATION COST

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Exploration cost</b>	<b>(3 269)</b>	<b>(155)</b>	<b>(3 257)</b>

The exploration costs refer to expenditure incurred on the Lift II pre-feasibility drilling. The area known as Lift II is the copper mineralisation area below the current footprint. This area is very large and requires considerable diamond drilling to confirm its tonnage and grade. The Lift II area has the potential to add at least ten years to the life of mine.

#### 5. PROFIT FROM CONTINUING OPERATIONS BEFORE TAX AND NET FINANCE COSTS

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<i>Included are:</i>			
<b>Depreciation of property, plant and equipment</b>	<b>(229 018)</b>	<b>(138 060)</b>	<b>(286 698)</b>
<b>Amortisation of intangible assets</b>	<b>-</b>	<b>(325)</b>	<b>(325)</b>

#### 6. TAXATION

The effective tax rate decreased from 36,27% at 30 June 2007 to 24,03% at 30 June 2008.

Deferred tax movements not recognised through the income statement, but through equity totalled R452 million for the six months ended 30 June 2008 (2007: R111 million). This is related to the mark-to-market entries on the hedge book that is recognised directly in equity.

The major components of income tax expense in the consolidated income statement are:

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<i>Current income tax</i>			
- South African			
- Mining tax	<b>(185 648)</b>	-	(116 771)
- Non-mining tax	<b>(3 371)</b>	(2 344)	(5 342)
- Foreign			
- Current	<b>(13 235)</b>	(4 790)	(10 719)
<i>Deferred income tax</i>			
Relating to origination and reversal of temporary differences:			
- South African	<b>55 347</b>	(210 483)	(795 570)
- Foreign	-	-	-
Income tax expense reported in the consolidated income statement	<b>(146 907)</b>	<b>(217 617)</b>	<b>(928 402)</b>

#### Tax rate reconciliation:

	%	%	%
Current standard statutory rate	<b>28,00</b>	29,00	29,00
<i>Adjusted for:</i>			
- Estimated state share (after tax) rate	<b>3,60</b>	4,92	3,60
- Disallowable expenditure (permanent difference)/deductible temporary differences for which no deferred income tax asset was recognised	<b>(1,43)</b>	0,26	0,2
- Tax rate differential of foreign subsidiaries	<b>(0,34)</b>	(0,33)	-
- Movement in capital	<b>(0,63)</b>	0,85	(0,1)
- Actuarial loss amortisation	-	0,01	-
- Adjustment to the basis for provision from cost to market value	<b>0,01</b>	1,43	-
- Balance sheet movement on rehabilitation investment	<b>(0,18)</b>	-	0,4
- Statutory rate change	<b>(5,25)</b>	-	-
- Actual state share and state share deduction on mining tax	<b>1,30</b>	-	-
- Prior year under provision	<b>0,12</b>	-	0,4
- Other	<b>(1,17)</b>	0,13	(0,2)
<b>Effective tax rate</b>	<b>24,03</b>	<b>36,27</b>	<b>33,3</b>

## 7. EARNINGS PER SHARE

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Reconciliation of net profit for earnings per share</b>			
Net profit attributable to equity holders from continuing operations	464 463	382 346	1 860 913
<b>Net profit attributable to ordinary shareholders from basic and diluted earnings per share</b>	<b>464 463</b>	<b>382 346</b>	<b>1 860 913</b>
<b>Reconciliation of weighted average number of ordinary shares</b>			
<b>Weighted average number of ordinary shares</b>	<b>48 337</b>	<b>48 337</b>	<b>48 337</b>

## 8. RECONCILIATION OF HEADLINE EARNINGS PER SHARE

	Profit before tax R'000	Taxation and lease consideration R'000	Profit after tax R'000
<b>Six months ended 30 June 2008</b>			
Profit per income statement	611 370	(146 907)	464 463
Profit on disposal of fixed assets	(238)	57	(181)
Impairment loss	2 767	(665)	2 102
<b>Headline profit for six months ended 30 June 2008</b>	<b>613 899</b>	<b>(147 515)</b>	<b>466 384</b>
<b>Six months ended 30 June 2007</b>			
Profit per income statement	599 963	(217 617)	382 346
Profit on disposal of fixed assets	(447)	146	(301)
<b>Headline profit for six months ended 30 June 2007</b>	<b>599 516</b>	<b>(217 471)</b>	<b>382 045</b>
<b>Year ended 31 December 2007</b>			
Profit per income statement	2 789 315	(928 402)	1 860 913
Profit on disposal of fixed assets	(1 205)	401	(804)
Impairment reversal	(1 690 156)	550 896	(1 139 260)
<b>Headline profit for year ended 31 December 2007</b>	<b>1 097 954</b>	<b>(377 105)</b>	<b>720 849</b>
	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Headline earnings per share (cents)</b>	<b>965</b>	<b>790</b>	<b>1 491</b>

## 9. SEGMENT REPORTING

The Group's primary reporting segment is its business segments 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, industrial minerals, and by-products. 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 2008 and 2007 respectively. The primary product of the Group is copper, which is mined and beneficiated in Phalaborwa. The Industrial Minerals division produces and markets vermiculite. By-products include magnetite, nickel products, anode slimes and sulphuric acid.

9. SEGMENT REPORTING (continued)

Period ended 30 June 2008

	Copper R'000	Industrial minerals R'000	By-products R'000	Total R'000
<b>Revenue</b>				
Sales to external customers – continuing operations	1 801 165	208 333	360 844	2 370 342
<b>Segment revenue</b>	<b>1 801 165</b>	<b>208 333</b>	<b>360 844</b>	<b>2 370 342</b>
<b>Results</b>				
Segment results – continuing operations	414 816	30 227	184 866	629 909
Impairment loss	(2 767)	–	–	(2 767)
Unallocated expenditure	–	–	–	(4 630)
Profit from operations before tax and finance costs				622 512
Net finance costs				(11 142)
Profit before income tax				611 370
Income tax expense				(146 907)
<b>Profit for the period</b>				<b>464 463</b>

Period ended 30 June 2007

	Copper R'000	Industrial minerals R'000	By-products R'000	Total R'000
<b>Revenue</b>				
Sales to external customers – continuing operations	2 083 508	149 972	287 547	2 521 027
<b>Segment revenue</b>	<b>2 083 508</b>	<b>149 972</b>	<b>287 547</b>	<b>2 521 027</b>
<b>Results</b>				
Segment results – continuing operations	535 831	36 767	123 431	696 029
Unallocated expenditure				(5 511)
Profit from operations before tax and finance costs				690 518
Net finance costs				(90 555)
Profit before income tax				599 963
Income tax expense				(217 617)
<b>Profit for the period</b>				<b>382 346</b>

## 10. DEFERRED TAX

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
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. The offset amounts are as follows:			
Deferred tax assets:			
– Deferred tax asset to be recovered after more than 12 months	1 076 301	399 719	781 375
– Deferred tax asset to be recovered within 12 months	559 287	507 369	389 880
	<b>1 635 588</b>	907 088	1 171 255
Deferred tax liabilities:			
– Deferred tax liability to be recovered after more than 12 months	(968 810)	(453 067)	(1 086 224)
– Deferred tax liability to be recovered within 12 months	(42 929)	(16 701)	31 588
	<b>(1 011 739)</b>	(469 768)	(1 054 636)
<b>Net deferred tax asset</b>	<b>623 849</b>	437 320	116 619
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:			
Beginning of period	116 619	537 147	537 147
Exchange adjustment on translation of foreign subsidiaries	111	8	–
Tax charged to equity	451 772	110 648	374 815
Income statement charge	55 347	(210 483)	(795 343)
<b>Net deferred tax asset at the end of the period</b>	<b>623 849</b>	437 320	116 619
Deferred taxation relating to temporary differences is made up as follows:			
Assets			
Provisions	82 192	56 008	75 822
Derivatives	1 635 587	907 088	1 171 254
Other	(5 291)	15 734	8 673
	<b>1 712 488</b>	978 830	1 255 749
Liabilities			
Property, plant and equipment	(1 088 639)	(541 510)	(1 139 130)
	<b>(1 088 639)</b>	(541 510)	(1 139 130)
<b>Net deferred tax asset</b>	<b>623 849</b>	437 320	116 619
Included in the balance sheet as follows:			
Deferred tax asset	1 635 588	907 088	1 171 255
Deferred tax liability	(1 011 739)	(469 768)	(1 054 636)
<b>Net deferred tax asset</b>	<b>623 849</b>	437 320	116 619

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 2008 the Company had no unredeemed capital (2007: R146 million).

## 11. SHARE CAPITAL, SHARE PREMIUM AND RESERVES

	Share capital R'000	Share premium R'000	Retained earnings R'000	Other reserves R'000	Total R'000
<b>Balance at 1 January 2007</b>	48 337	581 214	569 846	(1 446 951)	(247 554)
Fair value on available for sale investments	–	–	–	29 349	29 349
Currency translation differences	–	–	–	4 174	4 174
Net loss on cash flow hedges	–	–	–	(928 848)	(928 848)
Hedge loss recycled to profit and loss	–	–	–	592 047	592 047
Tax on items directly taken to equity	–	–	–	110 648	110 648
Net profit for the period	–	–	382 346	–	382 346
<b>Balance at 30 June 2007</b>	48 337	581 214	952 192	(1 639 581)	(57 838)
Fair value on available for sale investments	–	–	–	7 131	7 131
Currency translation differences	–	–	–	(9 875)	(9 875)
Unclaimed dividends and other	–	–	–	(184)	(184)
Net loss on cash flow hedges	–	–	–	(1 541 828)	(1 541 828)
Hedge loss recycled to profit and loss	–	–	–	727 778	727 778
Tax on items directly taken to equity	–	–	–	264 167	264 167
Actuarial loss on defined benefit plans	–	–	–	(18 821)	(18 821)
Net profit for the period	–	–	1 478 567	–	1 478 567
<b>Balance at 31 December 2007</b>	48 337	581 214	2 430 759	(2 211 213)	849 097
Fair value on available for sale investments	–	–	–	(5 878)	(5 878)
Currency translation differences	–	–	–	8 368	8 368
Unclaimed dividends and other	–	–	–	149	149
Net loss on cash flow hedges	–	–	–	(2 474 584)	(2 474 584)
Over hedged ineffectiveness	–	–	–	9 411	9 411
Hedge loss recycled to profit and loss	–	–	–	886 444	886 444
Tax on items directly taken to equity	–	–	–	451 772	451 772
Dividends paid	–	–	(149 846)	–	(149 846)
Net profit for the period	–	–	464 463	–	464 463
<b>Balance at 30 June 2008</b>	48 337	581 214	2 745 376	(3 335 531)	39 396

## 12. NET (CASH)/DEBT

Description of loan	Effective interest rate	Maturity	Six months ended	Six months ended	Year ended
			30 June 2008	30 June 2007	31 December 2007
	%		R'000	R'000	R'000
<b>Non-current</b>					
Senior term facility	Libor+2,3%/jibar+2,65%	31.12.09	3 051	379 236	141 049
Rio Tinto unsecured loan	Libor+5%		–	484 063	–
Rio Tinto secured loan	Libor+5%		–	166 744	52 769
			3 051	1 030 043	193 818
<b>Current</b>					
Senior term facility	Libor+2,3%/jibar+2,65%	31.12.09	59 108	157 696	115 668
Revolving credit facility	Libor+2,3%/jibar+2,65%		106 445	100 627	98 414
			165 553	258 323	214 082
<b>Total borrowings</b>			168 604	1 288 366	407 900
Cash and cash equivalents			(549 868)	(1 005 529)	(841 110)
<b>Net (cash)/debt</b>			(381 264)	282 837	(433 210)
Total equity			39 396	(57 838)	849 097
Total capital employed			(341 868)	224 999	415 887
Gearing			(9,68)	(4,89)	(0,51)

## 12. NET (CASH)/DEBT (continued)

Approximately 64% of the Group's existing borrowings is denominated in US\$ for a total amount of US\$14 million. The terms of repayments are consistent with the information disclosed in the December 2007 annual financial statements, except for the maturity date of the senior term facility that is brought forward due to the mandatory prepayments made during the period under review.

### *Senior term facility agreement*

Total principal repayments of R218 million were made on the senior term facility during the six months ended 30 June 2008. This is made up of R83 million paid in accordance with the repayment schedule plus mandatory pre-payments of R135 million on the term facility outstanding amount applied in inverse order of maturity. The mandatory pre-payments resulted from the restricted payment that was made to Rio Tinto Finance plc (R85 million pre-payment) and the dividend payment made in March 2008 (R50 million pre-payment). Mandatory pre-payments represent 33% of the rand equivalent of the restricted payment as required by the facility agreement.

### *Rio Tinto secured loan*

In January 2008, 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 R56 million (US\$7,8 million) was allocated entirely to the repayment and settlement of the principal under the secured loan agreement, which bears interest at LIBOR plus 5%.

### *Loan covenants*

As part of the refinancing agreement, the Company is required to meet certain covenants. On 20 January 2008 and 23 May 2008, the Company issued Loan Compliance Certificates to the Lenders of the Senior Term Facility Agreement showing no defaults.

## 13. DERIVATIVE FINANCIAL INSTRUMENTS

At 30 June 2008, the Group held a commodity swap contract designated as a hedge of expected future sales under which the Group receives a fixed price in Rand in relation to a monthly notional quantity of copper sales as detailed below and pays a floating price based on the arithmetic average (mean) of the US\$ LME Cash Settlement Price. 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 as set out in the table below.

A hedge is considered to be highly effective if the results of the retrospective and prospective effectiveness tests are within the range of 80% – 125%. Even if the effectiveness calculation falls within the 80% – 125% range, an ineffectiveness portion may arise if the change in the hedging instrument exceeds the change in the hedged item (over-hedge). The ineffective portion of the change in the fair value of the hedging instrument is recognised directly in the income statement. As at 30 June 2008 the cashflow hedges of the expected future sales were assessed to be highly effective and R9 million over-hedged ineffectiveness was recognised in the income statement.

The combined hedged book amounts to 122 437 tonnes of copper for a total amount of R5 182 million as at 30 June 2008 spread over 5,25 years. The mark-to-market revaluation of the hedge book resulted in a R2 392 million increase (from R2 790 million at 30 June 2007 to R5 182 million at 30 June 2008) in the hedge liability. The terms of the contracts are as follows:

### *Derivative financial instrument: table of terms*

<b>Maturity Year</b>	<b>Quantity (t)</b>	<b>Average hedged price ZAR/t</b>	<b>Hedged value R'000</b>	<b>Mark to market loss/(gain) R'000</b>
2008	18 692	19 242	359 664	961 343
2009	22 265	15 739	350 427	1 066 163
2010	22 188	15 739	349 219	982 082
2011	21 825	15 739	343 500	887 635
2012	21 137	15 739	332 668	789 387
2013	16 330	15 739	256 998	495 038
<b>Total</b>	<b>122 437</b>		<b>1 992 476</b>	<b>5 181 648</b>
<b>Less: Non-current portion</b>				<b>3 770 558</b>
<b>Current portion</b>				<b>1 411 090</b>



## 14. RELATED PARTY TRANSACTIONS

	Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
The following transactions were carried out with related parties:			
Recovery of travel and staff costs	3 552	582	6 840
Purchases of goods and services	59 235	36 553	84 483
Loans to related parties	15 641	39 684	43 435
Key management compensation	8 122	6 324	17 091

## 15. COMMITMENTS

Commitments contracted for at balance sheet date were R126 million (30 June 2007: R87 million). Capital expenditure that was approved by the board, but not contracted for at 30 June 2008 amounts to R265 million (30 June 2007: R164 million).

## 16. CONTINGENT LIABILITIES

Various CCMA and labour cases are in progress. The potential exposure is approximately R23 million for the six months ended 30 June 2008.

## 17. POST BALANCE SHEET EVENTS

On 30 July 2008, Palabora received notice from the lenders that the Production completion test in terms of the Facility agreement was approved. As a consequence, the margin on both the senior term loan and revolving credit facility will reduce from 2,3% to 2,0%, with effect from that date.

## 18. GROUP SELECTED STATISTICS

		Six months ended 30 June 2008 R'000	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Revenue</b>				
Copper (net of hedge)	<i>R'million</i>	1 801	2 084	3 921
Industrial minerals	<i>R'million</i>	208	150	314
Other products	<i>R'million</i>	361	288	624
Net profit before tax	<i>R'million</i>	611	600	2 789
<b>Copper</b>				
Ore hoisted	<i>millions of tonnes</i>	5,73	5,98	11,84
Average copper grade	<i>% Cu</i>	0,717	0,716	0,705
Copper in concentrates produced	<i>'000 of tonnes</i>	31,1	34,9	65,7
Cathode produced	<i>'000 of tonnes</i>	39,8	43,7	91,7
Average copper price realised	<i>USc/lb</i>	361,8	308,8	332,6
LME Copper Price	<i>USc/lb</i>	368,3	306,5	322,1
Average rand/dollar exchange rate	<i>R/US\$</i>	7,65	7,17	7,05
Average copper price realised (pre hedge)	<i>R/tonne</i>	61 041	48 793	51 706
Average copper price realised (post hedge)	<i>R/tonne</i>	41 363	40 522	39 829
Net cash cost	<i>R/tonne</i>	20 916	16 328	15 952
<b>Copper Rod</b>				
Unit selling price pre hedge	<i>USc/lb</i>	365,6	318,4	342,5
Unit selling price post hedge	<i>USc/lb</i>	245,9	248,0	256,2
Sales	<i>tonnes</i>	29 550	30 749	64 468
<b>Cathode</b>				
Unit selling price pre hedge (local)	<i>USc/lb</i>	328,0	292,5	319,9
Unit selling price post hedge (local)	<i>USc/lb</i>	220,6	227,8	239,3
Sales (local)	<i>tonnes</i>	9 576	7 309	13 148
Unit selling price pre hedge (export)	<i>USc/lb</i>	388,4	286,0	302
Unit selling price post hedge (export)	<i>USc/lb</i>	261,2	222,7	225,9
Sales (export)	<i>tonnes</i>	501	7 726	15 230
<b>Vermiculite</b>				
Vermiculite sold	<i>tonnes</i>	101 917	85 499	181 254
Average vermiculite prices realised	<i>R/tonne</i>	1 599	1 754	1 732
Operational cash cost	<i>R/tonne</i>	553,2	421,6	469,5

**18. GROUP SELECTED STATISTICS** (continued)

		<b>Six months ended 30 June 2008 R'000</b>	Six months ended 30 June 2007 R'000	Year ended 31 December 2007 R'000
<b>Magnetite</b>				
Magnetite sold	<i>tonnes</i>	<b>793 140</b>	585 851	1 337 007
Average magnetite prices realised	<i>R/tonne</i>	<b>300</b>	256	270
<b>Imported concentrate</b>				
Volumes	<i>tonnes copper</i>	<b>5 803</b>	10 077	19 322
Cost	<i>R'million</i>	<b>357,5</b>	468,7	920
Unit purchased price	<i>R/tonne of copper</i>	<b>61 613</b>	46 506	46 860
<b>Marginal ore concentrate</b>				
Volumes	<i>tonnes copper</i>	–	3 039	3 039
Cost	<i>R'million</i>	–	98	98
Unit purchased price	<i>R/tonne of copper</i>	–	32 141	32 141
<b>Cash flow</b>				
Cash from operating activities	<i>R'million</i>	<b>99,9</b>	801,0	1 604,2
Cash in bank	<i>R'million</i>	<b>549,9</b>	1 005,5	841,1
<b>Costs</b>				
Production cost (excluding concentrate purchases)	<i>R'million</i>	<b>641,5</b>	812,2	1 753,9
Cost of sales	<i>R'million</i>	<b>1 326</b>	1 521,7	2 993,6
<b>Capital expenditure and commitments</b>				
Capital expenditure	<i>R'million</i>	<b>127</b>	64	182
Approved expenditure at end of each period	<i>R'million</i>	<b>265</b>	164	303
Contracts placed at end of each period	<i>R'million</i>	<b>126</b>	87	86
<b>Investments</b>				
Fair value of unlisted investments	<i>R'million</i>	<b>307</b>	305	312
<b>Share capital</b>				
Authorised ordinary shares of R1 each	<i>R'000</i>	<b>100 000</b>	100 000	100 000
Issued ordinary shares of R1 each	<i>R'000</i>	<b>48 337</b>	48 337	48 337
Net asset value per share	<i>R/share</i>	<b>0,82</b>	(1,20)	17,57



