Unaudited Interim Report

for the six months ended 30 June 2007

Palabora Mining

Company Limited and its Subsidiaries

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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:
G M Negota (*Chairman*), K Marshall* (*Managing Director*), C A Asubonten *** (*Finance Director*),
C J Latcham**, J C Posthumus (Alt: F B Weldon), S Thomas, J S Yuen-Goh**, C N Zungu

*British **Australian ***American

Company secretary:
K N Mathole

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COMMENTARY

Overview

Commenting on the first half results, Keith Marshall, the Group's Managing Director stated: "We are pleased to report another set of strong financial results. Palabora's underground operational performance continues to exceed design capacity. Our other products; vermiculite and magnetite showed steady improvements, logistical constraints notwithstanding.

"The underground operation achieved a record production during this period, with an average daily tonnage of ore hoisted at 33 054 tonnes exceeding design capacity of 30 000 tonnes per day (tpd).

"As stated previously, we shall continue to execute our growth strategy by operating in a responsible and safe manner to take advantage of the current resources boom as we supplement the underground production with surface stockpile materials in the copper business to optimally benefit from the favourable commodity prices."

The safety performance was on par with the comparable period of the first half of 2006. Safety remains a high priority for both management and employees. Various programs are in place to improve and enhance the safety performance of the business.

Group financial results

For the period ended	**30 June 2007**	30 June 2006	31 December 2006
Net profit for the period	**R382 million**	R258 million	R467 million
Basic earnings per share	**791 cents**	869 cents	1 291 cents
Profit from continuing operations before interest and tax (EBIT)	**R691 million**	R574 million	R1 172 million

Net profit

The net profit for the six months ended 30 June 2007 increased from R258 million in the comparable period in 2006 to R382 million, or 791 cents per diluted share compared with a profit of R258 million, or 565 cents per share for the comparable period in 2006. The basic earnings per share reduced from earnings of 869 cents per share to earnings of 791 cents per share. The number of issued shares increased substantially due to the debentures that were converted into shares during 2006.

Sales of products increased by R1 078 million (53%) to R3 113 million largely as a result of the following:

- Higher realised prices of copper of R225 million, higher realised prices for magnetite and vermiculite (+R16 million and +R12 million respectively), and a weakening US$/Rand exchange rate of 7.17 in 2007 compared with 6.27 for the comparable period in 2006 (+R319 million).
- Higher sales revenues were explained by higher volumes of copper sales (excluding revert and concentrate sales); 45 784 tonnes compared with 39 057 tonnes for the first six months in 2006 (+R311 million) and higher volumes of magnetite sales; 586 thousand tonnes compared with 465 thousand tonnes (+R31 million) in 2006.

The Group achieved an average realised selling price (post hedge) for copper rod and cathode of R39 182 (2006: R37 218) and R35 585 (2006: R31 771) respectively. In the period under review, a total of 45 784 tonnes finished copper metal was sold, compared with 39 057 tonnes in the first six months of 2006. Reverts and concentrate sales contributed an additional 11 750 tonnes of contained copper (2006: 12 527 tonnes).

The increase in revenue was partially offset by realised hedging losses resulting from the swap settlement of 22 thousand (2006: 22 thousand) tonnes of copper ((-R592 million) 2006: (-R305 million)).

Total Group cost of sales increased by R528 million, from R994 million in the first six months of 2006 to R1 522 million for the comparable period under review, representing an increase of 53 % from the previous period. However, as a percentage of sales the ratio of cost of sales to revenue remained constant at 49% compared with the first half of year 2006. This cost of sales included R252 million from revaluation of stockpiles in 2006. The increase in cost of sales was as follows:

- The LME copper price impact on purchased concentrate of R66 million higher than the comparable period under review in 2006. Copper concentrate purchases increased from 11.6 thousand tonnes in 2006 to 14.1 thousand tonnes in 2007 (R92 million);
- Concentrator costs increased by R28 million mainly due to the processing of Palabora marginal ore during the first half of 2007;
- Underground costs were higher by R12 million (excluding labour costs) than the comparable period due to costs associated with the reclamation of Palabora marginal ore stockpiles for re-processing;
- Mine-wide payroll costs of R62 million due to an increase in employees, the annual salary increase, and bonus payments compared with the first half of 2006;
- Costs of major consumables increased during the first half of 2007 by R20 million;
- An increase in the professional services cost during the first half of 2007 of R14 million;
- The effect of the revaluation of revert stock in the prior period (R252 million) had an impact when some of the stock was sold during the current period.

Consistent with our earlier comment in the 2006 annual report about investing prudently to ensure value creation, we remain diligent in managing our costs.

The Group achieved a gross profit from continuing operations for the first half of 2007 of R999 million, from a gross profit of R736 million for the comparable period in 2006.

The Group's profit from continuing operations before interest and tax (EBIT) was R691 million, an improvement of R117 million, compared with R574 million in the first half of 2006.

- Finance revenue increased by R25 million to R35 million (2006: R9 million) as a result of the interest earned.
- The decrease in finance costs of R171 million was due to lower foreign exchange losses on the loans of R133 million, and lower interest cost primarily as a result of the debentures that were all either converted or redeemed in the previous financial year.
- An increase of R45 million in the selling and distribution costs and R20 million in administration expenses. The increase in the selling and distribution costs from R117 million in 2006 to R162 million for 2007 is mainly attributable to the cost incurred for the export of copper and magnetite.
- Tax expenses for the six months ended 30 June 2007 totalled R218 million compared with R5 million for the same period in 2006. The half year on half year increase of R213 million results from a R211 million in deferred tax representing an increase in taxable temporary differences (deferred tax liability) and R2 million increase in current tax due to higher taxable profits in the subsidiaries (see notes 4 and 8).

Cash flow

Cash and cash equivalents at 30 June 2007 were R1 006 million compared with R401 million at 30 June 2006.

For the six months ended 30 June 2007, the Group generated a net cash inflow of R335 million compared with a net cash inflow of R199 million for the comparable period in 2006.

Cash from operations of R801 million (2006: R341 million) was generated mainly as a result of a significant increase in realised (pre-hedge) copper rod and cathode prices (2007: 308.8; 2006: 273 Usc/lb) and the sale of surface stockpile material of 11 750 tonnes of copper (2006: 12 527).

The Group spent R56 million on investing activities. Capital investment of R64 million was primarily spent underground (R28 million) and concentrator (R24 million). The expenditure relates mainly to new underground mobile equipment, the refurbishing of the grinding circuit, and the South Paddock tailings dam. The net cash outflow was offset by other investing activities of R8 million.

The cash outflow from financing activities increased from R59 million to R410 million as a result of the repayment of the principal and mandatory prepayment of the term facility agreement of R134 million, the principal repayment on the Rio Tinto unsecured loan of R263 million, and the full settlement of the finance leases of R12 million.

Loan covenants

As part of the refinancing agreement, the Company is required to meet certain covenants. On 31 May 2007, the Company issued a Loan Compliance Certificate to the Lenders of the Senior Term Facility Agreement showing no defaults.

Net Debt

Net debt decreased from R2 096 million in June 2006 to R283 million in 2007.

Total borrowings decreased by R1 209 million from R2 497 million at 30 June 2006 to R1 288 million in 2007.

Total borrowings decreased by R386 million from 31 December 2006. This was as a result of:

– repayment and amortisation of the Tranche A and B of the Term Facility for a total amount of R135 million;
– principal repayment of the Rio Tinto unsecured loan in the amount of R263 million;
– settlement of the finance lease liability of R12 million;
– offset by a foreign exchange loss of R24 million in the rand value of US$ denominated debt due to the weakening of the Rand by 12 cents (from 6.98 to 7.10).

Cash balances increased by R605 million to R1 006 million.

Hedging

The hedge book as at 30 June 2007 was 168,246 tonnes of copper for a total amount of R2 967 million spread over 6.25 years. The mark-to-market loss of the hedge position decreased by R1 467 million (from R4 257 million at 30 June 2006 to R2 790 million at 30 June 2007). The settlement of 22,321 tonnes of copper commodity swap for the first half of 2007 resulted in a hedging loss of R592 million.

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. Management decided to use market estimates (refer to significant estimates in the basis of preparation and accounting policy section) as proxies for valuation instead of bank models for the latter part of the hedge book. The 2006 half year reported combined hedge book would have been significantly lower had the same valuation estimates been applied.

Magnetite

Palabora has entered into an agreement with Minmetals for the supply of magnetite. This was part of management's decision to build the business using "current production." Subsequently, magnetite production has been in line with the increase in sales volumes for both coal washery and export grades. However, rail logistics to both ports of Richards Bay and Maputo have to be monitored closely to ensure exporting the requisite tonnes of magnetite.

BEE (Black Economic Empowerment)

The work on the BEE front continues. Palabora is commited to BEE and towards that end it anticipates completing the BEE transaction as required by law.

Pension Fund Surplus

Preliminary financial statements were finalised and submitted to the Financial Services Board (FSB) on 5 April 2007 for approval. The liquidator has also submitted his Schedule K summary on the said financials to the FSB. This process is expected to be completed in 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 R186 million, before tax and including accrued interest.

Declaration of Dividend

No dividend was proposed to the shareholder for the first half of 2007 as the Company continues to improve the balance sheet through degearing.

Corporate Governance

On 1 February 2007 Mr. M.R. Maruma resigned as director and Mr. G.M. Negota was elected as chairman of the Board. With effect from 7 May 2007, Ms. Shelley Thomas was elected as an independent non-executive director. We thank Mr. Maruma for his valuable contributions to Palabora.

Appreciation

We would like to congratulate the employees of Palabora for their outstanding contributions to the viability of the Company. We thank all stakeholders for their continued support.

G M Negota
Chairman

K Marshall
Managing Director

30 July 2007

UNAUDITED GROUP RESULTS

Abridged income statement

	Note	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Continuing operations				
Sales of products		**3 113 074**	2 034 761	5 014 200
Hedged loss realised		**(592 047)**	(304 814)	(1 032 321)
Revenue		**2 521 027**	1 729 947	3 981 879
Cost of sales		**(1 521 811)**	(993 852)	(2 362 149)
Gross Profit		**999 216**	736 095	1 619 730
Other income	3	**14 278**	96 750	101 582
Selling and distribution costs		**(162 311)**	(117 029)	(267 526)
Administration expenses		**(160 559)**	(140 641)	(279 033)
Other expenses		**(106)**	(1 340)	(3 025)
Profit from continuing operations before tax and net finance costs		**690 518**	573 835	1 171 728
Finance revenue		**34 719**	9 466	30 591
Finance costs		**(125 274)**	(295 938)	(440 761)
Profit before tax		**599 963**	287 363	761 558
Income tax expense	4	**(217 617)**	(5 424)	(278 054)
Profit from continuing operations		**382 346**	281 939	483 504
Discontinued operation				
Net loss associated with discontinued operation		**–**	(23 969)	(16 158)
Net profit for the period		**382 346**	257 970	467 346
Allocated as follows:				
Equity holders of parent		**382 346**	257 970	467 346
Earnings/(Loss) per share (cents):				
– **Basic earnings/(loss) per share, total operations**	5	**791c**	869c	1 291c
– **Basic earnings/(loss) per share, continuing operations**	5	**791c**	950c	1 336c
– **Basic earnings/(loss) per share, discontinued operations**	5	**–**	(80)c	(45)c
– **Diluted earnings/(loss) per share, total operations**	5	**791c**	565c	1 291c
– **Diluted earnings/(loss)per share, continuing operations**	5	**791c**	610c	1 336c
– **Diluted earnings/(loss) per share, discontinued operations**	5	**–**	(44)c	(45)c
– **Headline earnings/(loss) per share**	6	**790c**	938c	1 329c

Balance sheet

	Note	**Six months ended 30 June 2007 R'000**	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Assets				
Non-current assets				
Property, plant and equipment		**1 888 256**	2 018 269	1 970 944
Intangible assets		**–**	5 024	325
Available-for-sale financial asset		**304 908**	228 926	275 571
Deferred tax asset	8	**907 088**	487	796 440
		3 100 252	2 252 706	3 043 280
Current assets				
Stores		**68 030**	52 787	65 433
Product inventories		**652 029**	760 601	768 753
Trade and other receivables		**774 685**	550 582	615 242
Current income tax asset		**–**	875	4 498
Cash and cash equivalents		**1 005 529**	400 795	670 336
		2 500 273	1 765 640	2 124 262
Total assets		**5 600 525**	4 018 346	5 167 542
Shareholders' equity and Liabilities				
Capital and reserves				
Share capital and premium	9	**629 551**	81 196	629 551
Other reserves		**(1 639 581)**	(4 080 779)	(1 446 951)
Retained earnings		**952 192**	360 470	569 846
Total shareholders' equity		**(57 838)**	(3 639 113)	(247 554)
Non-current liabilities				
Long-term borrowings	10	**1 030 043**	1 870 362	1 489 470
Derivative financial instrument	11	**1 368 305**	2 954 753	1 410 363
Provisions:				
– Close-down and restoration costs		**318 064**	269 573	314 408
– Post retirement medical benefits		**125 645**	106 978	121 772
Deferred tax liabilities	8	**469 768**	–	259 293
		3 311 825	5 201 666	3 595 306
Current liabilities				
Trade and other payables		**587 508**	469 987	496 331
Derivative financial instrument	11	**1 421 696**	1 302 556	1 042 969
Provisions		**34 007**	34 780	37 364
Current portion of long-term borrowings	10	**258 323**	626 766	185 254
Current tax liabilities		**457**	–	2 807
Group companies – related parties		**44 547**	21 704	55 065
		2 346 538	2 455 793	1 819 790
Total liabilities		**5 658 363**	7 657 459	5 415 096
Total equity and liabilities		**5 600 525**	4 018 346	5 167 542

Statement of recognised income and expenditure

for the six months ended 30 June 2007	**Six months ended 30 June 2007 R'000**	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Available-for-sale investments:			
– Valuation gains taken to equity	**29 349**	18 486	62 871
Exchange differences on translation of foreign operations	**4 174**	20 999	22 928
Cash flow hedges:			
– Losses taken to equity	**(928 848)**	(3 741 363)	(2 664 895)
– Transferred to profit or loss for the period	**592 047**	304 814	1 032 321
Actuarial losses on defined benefit plans	**–**	–	(12 901)
Tax on items taken directly to or transferred from equity	**110 648**	–	796 440
Net income recognised directly in equity	**(192 630)**	(3 397 064)	(763 236)
Net profit for the period	**382 346**	257 970	467 346
Total recognised income and expenses for the period	**189 716**	(3 139 094)	(295 890)
Attributable to:			
Equity holders of the parent:	**189 716**	(3 139 094)	(295 890)

Summarised cash flow statement

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Cash flows from operating activities	**800 978**	341 332	946 060
Cash generated from operations	**812 133**	396 081	1 192 212
Interest paid	**(33 051)**	(51 901)	(251 607)
Interest received	**26 890**	–	14 158
Income tax paid	**(4 994)**	(2 848)	(8 703)
Cash flows from investing activities	**(56 055)**	(83 551)	(127 576)
Purchases of property, plant and equipment	**(64 320)**	(96 887)	(144 160)
Proceeds on disposal of property, plant and equipment	**436**	3 756	5 257
Amounts invested in Rehabilitation Fund	**–**	–	(2 259)
Other investing activities	**7 829**	9 580	13 586
Cash flows from financing activities	**(409 730)**	(59 265)	(350 427)
Payment of finance lease liability	**(12 145)**	–	(1 202)
Long term loans repaid	**(397 585)**	(59 265)	(349 225)
Increase in cash and cash equivalents	**335 193**	198 516	468 057
At beginning of period	**670 336**	202 279	202 279
At end of period	**1 005 529**	400 795	670 336

1. **CORPORATE INFORMATION**

The consolidated financial statements of Palabora for the six months ended 30 June 2007 were authorised for issue in accordance with a resolution of the Board of Directors passed on 26 July 2007.

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 7.

2. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**

Basis of preparation

The interim financial report for the six months ended 30 June 2007 has 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 2006.

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 2006, except for the adoption of the following amendments mandatory for annual periods beginning on or after 1 January 2007:

- ***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, and the disclosures will effectively be seen in the annual report of the financial year ended 31 December 2007.

Presentational changes

The format of the statement of changes in equity has been changed to a statement of recognised income and expenditure, as mentioned in the annual report of 31 December 2006.

Changes in estimates

- *Mark-to-market valuation of the hedge book*

  In the annual report for the year ended 31 December 2006 it was reported that a review of the mark-to-market method was applied to valuing the hedge that resulted in a change of estimate. The change originated primarily as a result of quoted LME prices not exceeding 27 months. Management used market estimates as proxies for valuation beyond 27 months, rather than bank models as was previously the practice. This valuation method was applied in the period ended 30 June 2007 and for the year ended 31 December 2006, but was not followed for the period ended 30 June 2006.

- *Provision for Close-down and Restoration cost*

  Changes in the measurement of the close-down and restoration cost liability that result 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 IFRIC1. The provision for close-down and restoration costs was impacted by the following movements during the six months ended 30 June 2007:

– Decrease of R9 million due to an expected later start of the closure program as a result of the revised life-of-mine;

– Finance charges through the income statement resulted in an increase of R13 million in the provision.

- *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 the end of each financial year and adjusts depreciation charges accordingly. The re-assessment of the life-of-mine finalised at the start of the 2007 year impacted the useful lives of assets being depreciated under the life-of-mine method and the effects of changes in estimated life were applied prospectively over the remaining life of the asset.

3. **OTHER INCOME**

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

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Insurance pay-out[1]	**–**	35 371	35 371
Severance cost excluded from close-down and restoration costs provision[2]	**–**	53 658	53 658
Profit on sale of property, plant and equipment	**447**	3 584	3 631
Reversal of provision for Donation to Palabora Foundation[3]	**6 555**	–	–

Notes:

1. 2006: R35 million insurance payout as a result of a claim on the ground subsidence of the open pit.
2. 2006: R54 million resulting from a change in the basis of accounting for closure costs as explained in the 2006 annual financial statements.
3. 2007: Per an executive committee 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.

4. **TAX**

The effective tax rate increased from 1.90% at 30 June 2006 to 36.27% at 30 June 2007.

Deferred tax movements not recognised through the income statement, but through equity totalled R110 million for the six months ended 30 June 2007 (2006: R nil). This is related to the mark-to-market entries on the hedge book that is recognised directly in equity. The recognition criteria for this deferred tax asset was only met in the latter part of 2006, therefore the comparative figure for 30 June 2006 is R nil.

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

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Current income tax			
Non-mining income tax charge : South African	**(2 344)**	(2 715)	(11 995)
Current income tax charge : Foreign	**(4 790)**	(2 813)	(6 387)
Deferred income tax			
Relating to origination and reversal of temporary differences :			
– South African	**(210 483)**	–	(259 672)
– Foreign	**–**	104	–
Income tax expense reported in the consolidated income statement	**(217 617)**	(5 424)	(278 054)
Tax rate reconciliation:	%	%	%
Current standard statutory rate	**29.00**	29.00	29.00
Adjusted for:			
– Estimated State share (after tax) rate	**4.92**	3.60	3.60
– Dividend income (affected foreign dividend income)	**–**	(0.07)	–
– Disallowable expenditure (permanent difference)/ deductible temporary differences for which no deferred income tax asset was recognised	**0.26**	(26.27)	1.40
– Tax rate differential of foreign subsidiaries	**(0.33)**	0.80	(0.20)
– Movement in capital	**0.85**	(16.44)	(4.10)
– Actuarial loss amortisation	**0.01**	–	(4.70)
– Adjustment to the basis for provision from cost to market value	**1.43**	–	12.40
– Other	**0.13**	11.28	(0.90)
Effective tax rate	**36.27**	1.90	36.50

5. **EARNINGS PER SHARE**

Basic earnings per share amounts 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 R382 million (June 2006: R258 million) divided by the total number of weighted average shares in issue during the period of 48,337,497 (June 2006: 29,677,112).

The Groups convertible redeemable debentures were all either converted or redeemed in the 2006 financial year and therefore the Group had no dilutive instruments during the current period. For the period ended 30 June 2006 the dilutive earnings per share were based on basic dilutive earnings of R306 million divided by the adjusted number of weighted average shares during the period of 54,178,122.

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Reconciliation of net profit for earnings per share			
Net profit attributable to equity holders from continuing operations	**382 346**	281 939	483 504
Loss attributable to equity holders from discontinued operations	**–**	(23 969)	(16 158)
Net profit attributable to equity holders of parent	**382 346**	257 970	467 346
Interest on convertible redeemable debentures	**–**	48 379	–
Net profit attributable to ordinary shareholders from diluted earnings per share	**382 346**	306 349	467 346
Reconciliation of weighted average number of ordinary shares			
Weighted average number of ordinary shares for basic earnings per share	**48 337**	29 677	36 188
Effect of dilution : Convertible redeemable debentures	**–**	24 501	–
Adjusted weighted average number of ordinary shares	**48 337**	54 178	36 188

6. **RECONCILIATION OF HEADLINE EARNINGS PER SHARE**

	Profit/(Loss) before tax R'000	**Taxation and lease consideration R'000**	**Profit/(Loss) after tax R'000**
Six months ended 30 June 2007			
Profit per income statement	**599 963**	**(217 617)**	**382 346**
Profit on disposal of fixed assets	**(447)**	**146**	**(301)**
Headline profit	**599 516**	**(217 471)**	**382 045**
Six months ended 30 June 2006			
Profit 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
Headline profit	283 779	(5 424)	278 355
Year ended 31 December 2006			
Profit per income statement	737 589	(270 243)	467 346
Profit on disposal of fixed assets	(3 631)	1 183	(2 448)
Impairment charges – ZBS	23 969	(7 811)	16 158
Headline profit	757 927	(276 871)	481 056

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Headline earnings per share (cents)	790	938	1 329

7. **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 2007 and 2006 respectively. The primary product of the Group is copper, which is mined and beneficiated in Phalaborwa. By-products include magnetite, nickel sulphate, anode slimes, and sulphuric acid. The Industrial Minerals division produce and markets vermiculite.

Period ended 30 June 2007

	Copper R'000	Industrial Minerals R'000	By-Products R'000	Total R'000
Revenue				
Sales to external customers – continuing operations	2 083 508	149 972	287 547	2 521 027
Inter-segment sales	–	–	–	–
Segment Revenue	2 083 508	149 972	287 547	2 521 027
Results				
Segment Results – continuing operations	535 831	36 767	123 431	696 029
Segment Results – discontinued operations	–	–	–	–
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)
Profit for the period				382 346

Period ended 30 June 2006

	Copper R'000	Industrial Minerals R'000	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

8. **DEFERRED TAX**

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:

	Six months ended 30 June 2007 R'000	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Deferred tax assets:			
– Deferred tax asset to be recovered after more than 12 months	**399 719**	487	419 480
– Deferred tax asset to be recovered within 12 months	**507 369**	–	458 270
	907 088	487	877 750
Deferred tax liabilities:			
– Deferred tax liability to be recovered after more than 12 months	**(453 067)**	–	(232 290)
– Deferred tax liability to be recovered within 12 months	**(16 701)**	–	(108 313)
	(469 768)	–	(340 603)
Net deferred tax asset	**437 320**	487	537 147
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	**537 147**	3 446	3 446
Exchange adjustment on translation of foreign subsidiaries	**8**	–	–
Tax charged to equity	**110 648**	–	796 440
Income statement charge	**(210 483)**	(2 959)	(262 739)
Net deferred tax asset at the end of the period	**437 320**	487	537 147
Deferred taxation relating to temporary differences is made up as follows:			
Assets			
Derivatives	**907 088**	487	796 440
	907 088	487	796 440
Liabilities			
Property, plant and equipment	**(541 510)**	(73 199)	(340 603)
Provisions	**56 008**	109 960	62 075
Other	**15 734**	(424)	19 235
Deductible temporary differences for which no deferred income tax asset was recognized	**–**	(36 337)	–
	(469 768)	–	(259 293)
Net deferred tax asset	**437 320**	487	537 147
Included in the balance sheet as follows:			
Deferred tax asset	**907 088**	487	796 440
Deferred tax liability	**(469 768)**	–	(259 293)
Net deferred tax asset	**437 320**	487	537 147

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 2007 the Company had an unredeemed capital expenditure balance of R146 million. (2006: R1 535 million).

9. SHARE CAPITAL AND PREMIUM

	Share capital R'000	**Share premium R'000**	**Total R'000**
Balance at 1 January 2006	29 562	36 724	66 286
Conversion of debentures	497	14 413	14 910
Balance at 30 June 2006	**30 059**	**51 137**	**81 196**
Balance at 1 July 2006	30 059	51 137	81 196
Conversion of debentures	18 278	530 077	548 355
Balance at 31 December 2006	**48 337**	**581 214**	**629 551**
Balance at 1 January 2007	48 337	581 214	629 551
Conversion of debentures	–	–	–
Balance at 30 June 2007	**48 337**	**581 214**	**629 551**

There were no movements in the capital for the six months ended 30 June 2007. For the six months ended 30 June 2006 the issued share capital increased by R0.5 million and the share premium by R14.4 million due to the conversion of 14,910 debentures of R1 000 each.

10. NET DEBT

Description of loan	Effective interest rate %	Maturity	**Six months ended 30 June 2007 R'000**	Six months ended 30 June 2006 R'000	Year ended 31 December 2006 R'000
Non-current					
Senior Term Facility	Libor+2.3%/ Jibar+2.65%	30.06.13	**379 236**	536 459	583 954
Finance lease liability	Prime -1.85%		**–**	–	8 715
Convertible debentures	Jibar+5%	16.09.06	**–**	418 340	–
Rio Tinto unsecured loan	Libor+5%		**484 063**	748 126	732 795
Rio Tinto secured loan	Libor+5%		**166 744**	167 437	164 006
			1 030 043	1 870 362	1 489 470
Current					
Convertible debentures	Jibar+5%	16.09.06	**–**	378 820	–
Senior Term Facility	Libor+2.3% Jibar+2.65%	30.06.13	**157 696**	147 098	82 070
Revolving credit facility	Libor+2.3% Jibar+2.65%		**100 627**	100 848	99 754
Finance lease liability	Libor+2.38%		**–**	–	3 430
			258 323	626 766	185 254
Total borrowings			**1 288 366**	2 497 128	1 674 724
Cash and cash equivalents			**(1 005 529)**	(400 795)	(670 336)
Net debt			**282 837**	2 096 333	1 004 388
Total equity			**(57 838)**	(3 639 113)	(247 554)

The terms of repayments are consistent with the information disclosed in the December 2006 annual financial statements.

Senior term facility agreement

Total principal repayments of R134 million were made on the senior term facility during the six months ended 30 June 2007. This is made up of R47 million paid in accordance with the repayment schedule plus a mandatory prepayment of R87 million of the term facility outstanding amount applied in inverse order of maturity. The mandatory pre-payment resulted from the restricted payment that was made to Rio Tinto Finance plc and represented 33% of the rand equivalent of the restricted payment as required by the facility agreement.

Rio Tinto unsecured loan

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 R263 million (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%.

Finance lease liability

The Group settled the total outstanding balances of the two lease agreements with Wesbank that commenced in August 2006 for the acquisition of two loaders for the underground operations. The liability was derecognised in accordance with IAS 39 – *Financial instruments: recognition and measurement's* requirements for the extinguishment of debt.

Other movements from December 2006 include the revaluation of the US$ denominated debts for a total amount of R24 million exchange loss due to the weakening of the US$: Rand exchange rate.

11. **DERIVATIVE FINANCIAL INSTRUMENTS**

At 30 June 2007, 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.

The cashflow hedges of the expected future sales were assessed to be highly effective and as at 30 June 2007 a net unrealised loss of R2 790 million (June 2006: R4 257 million), with a related deferred tax benefit of R907 million (June 2006: nil), was included in equity in respect of these contracts.

The London Metal Exchange (LME) US$ price of copper increased in the period. This resulted in an increase for the six months ended 30 June 2007 of R337 million from the balance at 31 December 2006 of R2 453 million to a balance of R2 790 million on the swap liability included under other reserves.

The combined hedged book amounts to 168,246 tonnes of copper for a total amount of R2 967 million as at 30 June 2007 spread over 6.25 years. The terms of the contracts are as follows:

Derivative financial instrument: table of terms

Maturity Year	Quantity (t)	Average hedged price ZAR/t	Hedged value R'000	Mark to market loss/(gain) R'000
2007	22 700	20 993	476 527	728 677
2008	41 801	20 521	857 801	1 226 972
2009	22 265	15 739	350 426	541 474
2010	22 188	15 739	349 217	77 952
2011	21 825	15 739	343 499	72 156
2012	21 137	15 739	332 667	77 868
2013	16 330	15 739	256 997	64 902
Total	168 246		2 967 134	2 790 001
Less: Non-Current portion				1 368 305
Current portion				1 421 696

12. **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. While the facility agreement with the senior lenders restricts the Group's ability to manage its risks by using other financial instruments, it performs holistic risk assessment to ensure that no new and unprofitable risks are introduced into the system.

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 sterling.

Approximately 77% of the Group's existing debt is denominated in US$ for a total amount of US$139 million. As a result of the significant US$ denominated borrowings, the Group's balance sheet can be affected significantly by movements in the US$/ Rand exchange rates.

The following table sets 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)	2 597	–	–	**2 597**
US Dollar (US$)	33 926	–	–	**33 926**
Accounts payable				
British Pounds (GBP)	(2 180)	–	–	**(2 180)**
US Dollar (US$)	(4 651)	–	–	**(4 651)**
Long term loans				
US Dollar (US$)	(19 221)	(28 070)	(91 721)	**(139 012)**

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.

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 2007							
Floating rates							
Revolving credit facility	100 627	–	–	–	–	–	**100 627**
Senior Term Facility	157 696	78 840	94 614	110 388	95 394	–	**536 932**
Rio Tinto unsecured loan	–	–	–	–	–	484 063	**484 063**
Rio Tinto secured loan	–	–	–	–	–	166 744	**166 744**
Total	**258 323**	**78 840**	**94 614**	**110 388**	**95 394**	**650 807**	**1 288 366**
Year ended 31 December 2006							
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**
Rio Tinto unsecured loan	–	–	–	–	–	732 795	**732 795**
Rio Tinto secured loan	–	–	–	–	–	164 006	**164 006**
Total	**181 824**	**195 407**	**78 163**	**109 428**	**109 428**	**988 329**	**1 662 579**

13. COMMITMENTS

Commitments contracted for at balance sheet date were R87 million (30 June 2006: R37 million). Capital expenditure that were approved by the board, but not contracted for at 30 June 2007 amounts to R164 million (30 June 2006: R95 million).

14. POST BALANCE SHEET EVENTS

Restricted payments

The Group anticipates making a restricted payment in August 2007, as defined in the senior term facility agreement, to Rio Tinto Finance plc. The amount of the payment is currently being determined. An amount equal to 33 per cent of the rand equivalent of the restricted payment will be applied and transferred to a mandatory pre-payment bank account as is required by the senior facility 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 outstanding and in inverse order of maturity. Reduction of debt improves profit performance as it reduces interest cost and exchange rate fluctuations.

15. **GROUP SELECTED STATISTICS**

		Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Revenue				
Copper (net of hedge)	R' million	**2,084**	1,369	3,256
By-products	R' million	**288**	206	370
Vermiculite	R' million	**150**	129	356
Net profit before tax	R' million	**600**	263	738
Copper				
Ore hoisted	millions of tonnes	**5.98**	5.42	10.82
Average copper grade	% Cu	**0.716**	0.710	0.714
Copper in concentrates produced	'000 of tonnes	**34.9**	28.5	59.7
Cathode produced	'000 of tonnes	**43.7**	36.2	81.2
Average copper price realised	USc/lb	**308.8**	273.7	316.5
LME Copper Price	USc/lb	**306.5**	275.6	302.8
Average rand/dollar exchange rate	R/US$	**7.17**	6.27	6.77
Average copper price realised (post hedge)	R/tonne	**39,182**	37,218	47,237
Net cash cost	R/tonne	**16,328**	17,537	16,863
Copper Rod				
Unit selling price pre hedge	USc/lb	**318.4**	269.1	316.2
Unit selling price post hedge	USc/lb	**248.0**	220.8	240.1
Sales	tonnes	**30,749**	34,487	72,590
Cathode				
Unit selling price pre hedge (local)	USc/lb	**292.5**	268.3	312.1
Unit selling price post hedge (local)	USc/lb	**227.8**	220.2	237.0
Sales (local)	tonnes	**7,309**	2,870	6,695
Unit selling price pre hedge (export)	USc/lb	**286.0**	377.0	345.0
Unit selling price post hedge (export)	USc/lb	**222.7**	309.8	261.8
Sales (export)	tonnes	**7,726**	1,700	1,701
Vermiculite				
Vermiculite sold	tonnes	**85,499**	90,768	181,422
Average vermiculite prices realised	R/tonne	**1,754**	1,418	1,547
Operational cash cost	R/tonne	**421.6**	423.6	401.6
Magnetite				
Magnetite sold	tonnes	**585,851**	465,022	1,021,887
Average magnetite prices realised	R/tonne	**256**	193	215
Imported concentrate				
Volumes	Tonnes copper	**10,077**	7,152	16,625
Cost	R' million	**468.7**	283.6	753.6
Unit purchased price	R/tonne of copper	**46,506**	39,657	45,328
Marginal ore concentrate				
Volumes	Tonnes copper	**3,039**	4,411	16,625
Cost	R' million	**97.7**	111.9	753.6
Unit purchased price	R/tonne of copper	**32,141**	25,370	45,328

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

		Six months ended 30 June 2007	Six months ended 30 June 2006	Year ended 31 December 2006
Cash flow				
Cash from operations	R' million	**801.0**	341.3	946.1
Cash in bank	R' million	**1,005.5**	400.8	670.3
Costs				
Production cost (excluding concentrate purchases)	R' million	**812.2**	693.7	1,400.5
Cost of sales	R' million	**1,521.8**	993.9	2,362.1
Capital expenditure and commitments				
Capital expenditure	R' million	**64**	97	144
Approved expenditure at end of each period	R' million	**164**	95	194
Contracts placed at end of each period	R' million	**87**	37	33
Investments				
Fair value of unlisted investments	R' million	**305**	229	276
Share capital				
Authorised ordinary shares of R1 each	R'000	**100,000**	100,000	100,000
Issued ordinary shares of R1 each	R'000	**48,337**	30,059	48,337
Net asset value per share	R/share	**(1.20)**	(121.07)	(5.12)

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

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