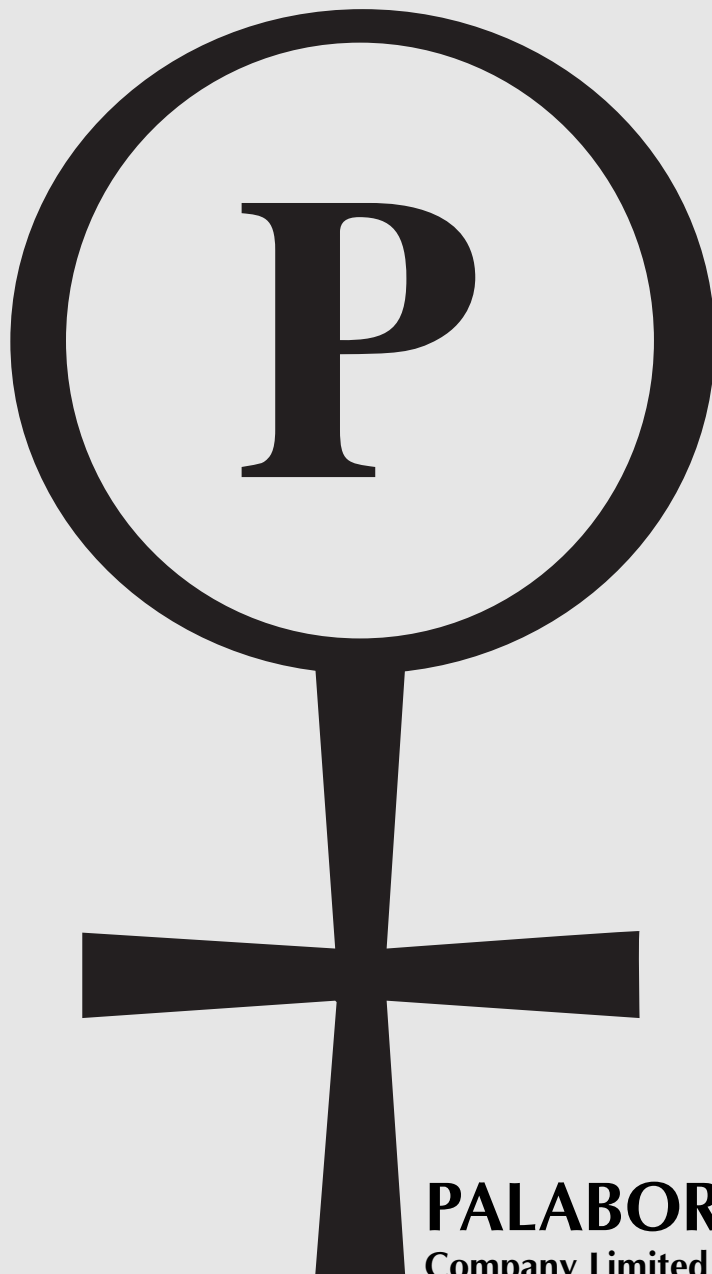


REVIEWED PRELIMINARY RESULTS

FOR THE YEAR ENDED 31 DECEMBER 2005



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

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

Directors:

M R Maruma (*Chairman*), K Marshall* (*Managing Director*), T Albanese#, S M Din*, C J Latcham†
G M Negota, J C Posthumus (*Alt: P A Henry*), W R J Ransont, R M Whyte* (*Alt: F B Weldon*)
C N Zungu *British †Australian #American

Company Secretary

K N Mathole

Transfer Secretaries:

Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street
Johannesburg 2001

Postal Address:
PO Box 61051
Marshalltown 2107

Registered Office:

1 Copper Road
Phalaborwa
1389

Postal Address:
PO Box 65
Phalaborwa 1390

COMMENTARY

Overview

Palabora, situated in the Ba-Phalaborwa area of Limpopo, operates South Africa's largest copper mine. After 40 years of mining from a large, open-pit operation, the ore is now extracted in an underground operation located immediately below the open pit. Overall copper production is supplemented by imported copper concentrates from Zambia.

The Company has benefited from the buoyant commodities cycle during a period where the management focus has been to improve long term production performance at acceptable cost levels. A major achievement in the year was the conclusion of a debt restructuring programme that now allows the operation more flexibility to make strategic improvements as opposed to short term decisions in a cash constrained environment. The latter part of the year was hampered by unofficial industrial action and the root cause of this issue has been identified and eradicated.

In 2005, safety deteriorated as 22 Lost Time Injuries (2004: 14) were recorded. This increase in lost time injuries is unacceptable and Palabora management are committed to improving the safety performance.

The Company has continued to make good progress in consolidating the underground production performance. In the year, 10,034 thousand tonnes were hoisted at an average rate of 27,489 tonnes per day (2004: 23,608) representing a 16% year-on-year improvement. The copper grade averaged 0.72% (2004: 0.74%) and the reduction was a direct result of draw sequencing necessitating the extraction of low grade material from the western side of the cave. New monthly and daily records of 992,162 and 42,495 tonnes respectively, were achieved in the second quarter of 2005.

Downstream from the mine, concentrator recoveries from underground ore fell slightly to 87.2% (2004: 87.6%), due to higher tonnages milled through conventional single stage flotation sections. Smelter and refinery performance improved in the year, mainly due to increased copper units available from the underground mine and improved concentrate grades, as well as improved operating practices. However, smelter performance was constrained by the condition of the reverberatory furnace during the last quarter of 2005. Total copper production for the year was 80.3 thousand tonnes compared to the prior year production of 67.5 thousand tonnes. Sources of copper were 50.3 thousand tonnes (2004: 43.2) from underground operations and 30 thousand tonnes (2004: 24.3) from imported concentrates.

The mine copper reserves have been reduced by waste material introduced into the bottom of the pit by the cave induced surface subsidence. Managing Director, Keith Marshall, said "The lost reserves will affect the latter stages of the mine life. Of course the economic parameters used to exclude material from the reserves may well have changed by this time".

The Group operates a Vermiculite mining operation that has seen year-on-year increases in production of 8.7% from 193 thousand tonnes in 2004 to 210 thousand tonnes in 2005. Overall production was 2% above plan although large, medium and fine grades were below target for the year. The production of these coarser grades has improved marginally in quarter four following a change to mine sequencing than sales. The improved recoveries were achieved across the plant following initiatives implemented during 2004 and modifications to the final product conveying system in 2005. Even though we've been short of sales for some grades, profitability has been in line with expectations.

Shareholders are advised that, although the reported headline loss for the year is lower than that of the previous year, this is impacted by the recognition in 2004 of exceptional gains relating to the employer's share of the pension fund surplus and book credits arising from an actuarial valuation of post retirement medical benefits that were recognised in headline earnings (Note 7). The exclusion of these exceptional gains in 2004 highlights the marked operational improvement in 2005 with a headline loss per share of 339 cents compared to a comparative number of 1,013 cents per share in 2004.

Improved operational performance is further demonstrated by the year-on-year movement in operating cash flow being a generation of R17.6 million in 2005 (2004: usage R119 million).

Group financial results

Group operating profit from continuing operations (before taxation and net finance costs) for the year is R274 million compared to a prior year loss (including an impairment adjustment of R2,342 million) of R2,346 million.

Total revenue increased by R430 million (22%) to R2,365 million mainly from the copper and magnetite business, R316 million and R70 million respectively.

The increase in copper revenue is due mainly to higher realised copper prices (+R473 million); with offsets from a stronger average US\$/Rand exchange rate (2005: 6.37; 2004: 6.46) (-R21 million), lower volumes of copper sales (-R89 million) and realised hedging losses (-R47 million).

Total Group cost of sales decreased by 11% to R1,721 million (R1,932 million 2004) despite higher maintenance charges (+R24 million), insurance cost increases (+R25 million) and employee related cost (+R76 million due to a book credit of R66 million recognised in 2004 relative to an actuarial valuation on post retirement medical benefit obligations). Conversely, the reductions in the cost of sales are from:

- an increase in product inventories of R200 million – anode build up, to reduce the effect on sales during a major smelter refurbishment scheduled for February 2006;
- no cathode purchases in 2005 representing a decrease of R223 million;
- a decrease of R48 million in depreciation following the impairment of the copper business in December 2004.

The net cash cost of copper, excluding the impact of purchased concentrate and net finance costs decreased to R14,367 per tonne in 2005 from R16,458 per tonne in 2004 reflecting the improvement in underground production volumes.

The purchase of copper concentrates to supplement underground ore amounted to copper equivalent of 32.7 thousand tonnes (2004: 31.1). The purchase of copper concentrates increased by R75 million. Cost of purchased cathode decreased by R223 million as the purchase of copper cathode was not repeated.

Operating profit before taxation and net finance costs, adjusted for the impairment recognised last year, improved by R278 million compared to 2004. This is largely attributed to higher revenues of R430 million and lower cost of sales of R211 million offset by prior years exceptional gains of R332 million (pension fund surplus and actuarial valuation of post retirement medical benefit).

Other factors that contributed to the decrease in the net loss after taxation from continuing operations to R87 million (2004: R1,626 million) are:

This decrease is mainly attributable to:

- Impairment (after taxation) of R2,342 million recognised in 2004;
- unrealised exchange loss on current loans of R102 million (2004: R122 million exchange gain) due to a 12 % depreciation of the Rand in 2005 compared to a 15 % appreciation in the previous comparative period;
- higher interest paid of R242 million (2004: R185 million) due to a net increase in borrowings and costs associated with refinancing the Group's debt of R2,420 million.

Market demand for copper in both rod and cathode form continues to be high at record prices. The Group achieved an average selling price for copper of R24,120 (R23,594 after hedging effect) per tonne or USc/lb 172 (USc/lb 168 after hedging effect) for the year, compared to R18,586 per tonne or USc/lb 131 in 2004. In the period under review, a total of 78,654 tonnes of copper were sold, compared to 82,200 tonnes in 2004, of which 11,800 tonnes related to sales of purchased cathode.

Refinancing

On 21 September 2005, the Group concluded its debt restructuring program. Existing debt was replaced by a senior loan of R1,280 million from South African and international banks and certain shareholder debt was subordinated. The resultant debt profile for the Group was re-established on a more sustainable repayment basis. The senior loan is 50% in Rand and 50% in US dollar over a term of 8 years.

As part of the refinancing agreement, the Group entered into a hedge agreement to minimize fluctuations in Rand sales revenue caused by movements in (i) US\$ copper prices, and (ii) the US\$/Rand exchange rate movements. The Group has hedged the first 62.5% of its planned copper sales from underground production between October 2005 and September 2008, and the first 30% of its planned sales from underground production between October 2008 and September 2013. Refer to Note12 for the mark-to-market impact of these hedge contracts at year-end.

The senior loan is secured by a first charge over all immovable property and equipment via a sequence of notarial bonds.

Copper ore reserves

The progressive cave induced surface subsidence has introduced a considerable amount of waste material into the bottom of the open pit. This waste material has in all likelihood, sterilized some ore reserves located in the side walls of the open pit which were scheduled to be extracted during the latter stages of the mine life. This is not expected to impact mine production in the near term but may reduce the life of the mine. It is envisaged that 75.9 million tonnes of undiluted reserve have been sterilized. The total proven and probable ore reserve remaining as of 31 December 2005 were 142 millions tonnes at an average grade of 0.70 % copper (2004: 185 million tonnes).

Magnetite

Shareholders are referred to a press announcement made on 21 December 2004, wherein the Group reported its intention to sell its magnetite stock piles. After several months of a tender process and negotiations, the bidders for the stock pile were unable to meet all the conditions of the tender and accordingly the Board has decided to terminate the tender process. Palabora will continue to build the magnetite business using "current arisings" and is evaluating several options for the longer term.

Convertible Debentures

On 21 September 2005, the Group announced on SENS that debenture holders may convert their debentures into ordinary shares in Palabora, provided the relevant notice period of not less than 42 calendar days and not more than 60 calendar days was given and that a conversion was at least 15 days prior to the final maturity date (i.e. 18 September 2006). As at 31 December 2005, 37,395 debentures had been converted resulting in the issue of 1,246,500 new ordinary shares. As a result, Palabora's issued ordinary shares of R1 each have increased to 29,562,000.

Pension Fund Surplus

On 1 July 2005, the Financial Services Board (FSB) approved the appointment of a liquidator to the Palabora Mining Pension Fund ("the Fund"). The external auditors are currently finalising 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. The liquidator estimates that the surplus portion could be released in the second quarter of 2006.

Corporate Governance

On 21 April 2005, the Chairman of the Board declared his interest in participating as Palabora's Black Economic Empowerment (BEE) partner. His participation on the Board was sterilized on the basis of potential conflict of interest and he temporarily stepped down as Chairman. Mrs D Farnaby was appointed Deputy Chairman during the second half of the year. With effect from 1 August 2005, Mr. J Rickus resigned from the Board and was replaced by Mr. C Latcham. Mr. J Sachikonye and Mrs. D Farnaby resigned from

the Board effective 18 November 2005. Both Mr Rickus and Mr Sachikonye were directors nominated by the major shareholder, Rio Tinto. Mr. C Zungu has been appointed as acting Chairman with effect from 1 February 2006.

Cash flow

The summarised consolidated cash flow statement illustrates that there was a positive net increase in cash and cash equivalents for the year ended 31 December 2005 of R555 million (2004: +R19 million).

Operating activities

Cash generated from operations was derived from the loss before taxation of R87 million as set out in the income statement, adjusted for changes in working capital and non-cash items. The most significant non-cash items are depreciation of mining assets and unrealized exchange gains and losses on outstanding loans. Cash generated from operations of R256 million was reduced by net interest paid of R228 million and mining and normal taxes of R10 million.

Net cash inflow from operating activities was R18 million in 2005 compared to a net outflow of R119 million in 2004. The increase was mainly the result of the reduction of the volumes of cathode purchases in 2005 (-R223 million) compensated by the improvement of the underground production.

Investing activities

This increase in the cash flows from operating activities has been added to by a decrease in the amount of cash used for investing activities of R115 million (2004: R219 million) and is mainly attributable to a lower investment in capital projects of R108 million of which R66 million relates to underground operations.

Financing activities

The net cash inflow from financing activities increased to R653 million compared to an inflow of R357 million in 2004:

- Proceeds from borrowings during 2005 amounted to R927 million, which included R877 million raised through a term facility entered into by the Group on 21 September 2005 (see note 14) and additional borrowings of R51 million on a Rio Tinto Loan secured on the magnetite business.
- Repayment of borrowings including the settlement of the previous Medium Term Facility and the unsecured loan from Daiichi Kigenso Kagaku Kogyo, amounted to R298 million.

For and on behalf of the Company

C Zungu
(Acting Chairman)

K Marshall
(Managing Director)

Palaborwa
1 February 2006

INCOME STATEMENT

for the year ended 31 December 2005

	Note	Group		Company	
		Reviewed 2005 R'000	2004 R'000	Reviewed 2005 R'000	2004 R'000
Continuing operations					
Sales of products		2 364 608	1 935 223	2 285 281	1 797 101
Revenue		2 364 608	1 935 223	2 285 281	1 797 101
Cost of Sales		(1 721 050)	(1 932 178)	(1 682 862)	(1 856 577)
Gross profit/(loss)		643 558	3 045	602 419	(59 476)
Other Income		12 842	269 837	19 891	306 411
Selling and distribution costs		(156 518)	(101 342)	(130 128)	(77 358)
Administration expenses		(222 299)	(157 530)	(223 776)	(157 530)
Impairment of copper stream assets		–	(2 341 752)	–	(2 341 752)
Other expenses		(3 270)	(17 925)	(2 393)	(19 183)
Profit/(Loss) from continuing operations before tax and net finance costs					
		274 313	(2 345 667)	266 013	(2 348 888)
Finance cost – Net		(355 032)	(69 509)	(356 240)	(67 719)
Finance costs		(370 841)	(197 804)	(370 841)	(197 783)
Finance income		15 809	128 295	14 601	130 064
Loss before tax					
		(80 719)	(2 415 176)	(90 227)	(2 416 607)
Income tax expense		(6 693)	788 977	(1 581)	801 552
Loss for the period from continued operations					
		(87 412)	(1 626 199)	(91 808)	(1 615 055)
Discontinued operation					
Loss from discontinued operation	9	(5 818)	(105 917)	(5 818)	(105 917)
Loss for the period					
		(93 230)	(1 732 116)	(97 626)	(1 720 972)
Loss per share (cents)					
– Basic, for total operations	6	(328)c	(6,117)c		
– Basic, for continuing operations	6	(307)c	(5,743)c		
– Basic, for discontinued operations	6	(21)c	(374)c		
– Diluted, for total operations	6	(328)c	(6,117)c		
– Diluted, for continuing operations	6	(307)c	(5,743)c		
– Diluted, for discontinued operations	6	(21)c	(374)c		
Total number of shares in issue ('000)		29,562	28,316		
Weighted average issued shares ('000)		28,450	28,316		

BALANCE SHEET

as at 31 December 2005

	Note	Group		Company	
		Reviewed 2005 R'000	2004 R'000	Reviewed 2005 R'000	2004 R'000
Assets					
Non-current assets					
Property, plant and equipment		2 012 469	2 088 485	2 012 319	2 088 326
Intangible assets		9 722	18 756	9 722	18 756
Subsidiaries and joint venture Investments		–	–	24 467	11 317
Deferred taxation asset		210 499	174 568	210 499	174 568
		3 446	2 741	–	–
		2 236 136	2 284 550	2 257 007	2 292 967
Current assets					
Stores		51 769	58 625	51 769	58 625
Product inventories		594 983	395 298	542 184	373 024
Trade and other receivables		362 413	359 040	313 497	307 356
Taxation		492	1 400	1 430	1 400
Cash and cash equivalents		202 279	16 580	188 658	–
		1 211 936	830 943	1 097 538	740 405
Non-current assets classified as held for sale	9	24 860	–	24 860	–
		1 236 796	830 943	1 122 398	740 405
Total assets		3 472 932	3 115 493	3 379 405	3 033 372
Shareholders' equity and Liabilities					
Capital and reserves					
Share capital and premium		66 286	28 891	66 286	28 891
Other reserves		(683 715)	79 046	(677 150)	88 563
Retained (loss)/earnings		102 500	195 730	14 644	112 270
Total shareholders' equity		(514 929)	303 667	(596 220)	229 724
Non-current liabilities					
Long term loans		1 640 786	11 280	1 640 786	11 280
Derivative financial instrument		537 549	–	537 549	–
Provisions:					
– Close-down and restoration costs		264 636	219 548	264 636	219 548
– Post retirement medical benefits		103 899	99 072	103 899	99 072
Deferred taxation liability		–	–	–	–
		2 546 870	329 900	2 546 870	329 900
Current liabilities					
Trade and other payables		320 826	273 078	308 811	266 614
Derivative financial instrument		283 209	–	283 209	–
Provisions		32 246	31 300	32 121	31 300
Current portion of long-term loans		779 660	1 793 885	779 660	1 793 885
Taxation		–	4 137	–	–
Group companies – related parties		25 050	9 881	24 954	9 746
Bank overdraft		–	369 645	–	372 203
		1 440 991	2 481 926	1 428 755	2 473 748
Total liabilities		3 987 861	2 811 826	3 975 625	2 803 648
Total equity and liabilities		3 472 932	3 115 493	3 379 405	3 033 372

SUMMARISED CASH FLOW

for the year ended 31 December 2005

	Group		Company	
	Reviewed 2005 R'000	2004 R'000	Reviewed 2005 R'000	2004 R'000
Cash generated from/(utilised in) operating activities	17,596	(119,180)	29,012	(150,273)
Loss before taxation	(86,537)	(2,521,093)	(96,045)	(2,522,524)
Adjustments for non-cash items	262,448	2,594,443	259,267	2,604,239
Increase in working capital	(147,688)	(177,855)	(125,499)	(195,575)
Taxation paid	(10,627)	(14,677)	(1,611)	–
Other operating activities	–	2	7,100	36,413
Cash utilised in investing activities	(114,928)	(219,073)	(120,827)	(190,516)
Replacement of mining assets	(108,038)	(141,110)	(107,888)	(141,110)
Development expenditure	–	(104,613)	–	(104,613)
Other investing activities	(6,890)	26,650	(12,940)	55,207
Cash flow from financing activities	652,676	357,246	652,676	357,246
Long and short-term loans raised	927,189	681,187	927,189	681,187
Long and short-term loans repaid	(274,513)	(323,941)	(274,513)	(323,941)
Net increase in cash and cash equivalents	555,344	18,993	560,861	16,457
Cash and cash equivalents at beginning of year	(353,065)	(372,058)	(372,203)	(388,660)
Cash and cash equivalents at end of year	202,279	(353,065)	188,658	(372,203)

STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Group					
	Share capital R'000	Share premium R'000	Distributable reserves R'000	Currency translation reserves R'000	Other reserves R'000	Total R'000
Balance at 1 January 2004						
– as previously reported	28,316	575	1,811,361	116,485	60,980	2,017,717
Effect of adopting IFRS1 (4.2.1)	–	–	116,485	(116,485)	–	–
Balance at 1 January 2004 (Restated)	28,316	575	1,927,846	–	60,980	2,017,717
Revaluation of investments	–	–	–	–	27,583	27,583
Currency translation differences	–	–	–	(9,517)	–	(9,517)
Net loss for the year	–	–	(1,732,116)	–	–	(1,732,116)
Balance at 31 December 2004	28,316	575	195,730	(9,517)	88,563	303,667
Balance at 1 January 2005						
– as previously reported	28,316	575	195,730	(9,517)	88,563	303,667
Revaluation of investments	–	–	–	–	55,043	55,043
Currency translation differences	–	–	–	2,953	–	2,953
Conversion of debentures	1,246	36,149	–	–	–	37,395
Fair value adjustment on financial liability	–	–	–	–	(820,757)	(820,757)
Net loss for the year	–	–	(93,230)	–	–	(93,230)
Balance at 31 December 2005	29,562	36,724	102,500	(6,564)	(677,151)	(514,929)
	Company					
	Share capital R'000	Share premium R'000	Distributable reserves R'000	Currency translation reserves R'000	Other reserves R'000	Total R'000
Balance at 1 January 2004						
– as previously reported	28,316	575	1,833,242	–	60,980	1,923,113
Revaluation of investments	–	–	–	–	27,583	27,583
Other movements	–	–	–	–	–	–
Net loss for the year	–	–	(1,720,972)	–	–	(1,720,972)
Balance at 31 December 2004	28,316	575	112,270	–	–	–
Balance at 1 January 2005						
– as previously reported	28,316	575	112,270	–	88,563	229,724
Revaluation of investments	–	–	–	–	55,044	55,044
Conversion of Debentures	1,246	36,149	–	–	–	–
Net loss on cash flow hedge	–	–	–	–	–	37,395
Other movements	–	–	–	–	(820,757)	(820,757)
Net loss for the year	–	–	(97,626)	–	–	(97,626)
Balance at 31 December 2005	29,562	36,724	14,644	–	(677,150)	(596,220)

NOTES TO THE FINANCIAL STATEMENTS

1. INTRODUCTION

For the year ended 31 December 2004, the Group prepared its financial statements under South African Statements of Generally Accepted Accounting Practice ("SA GAAP") as effective at that date. In accordance with the JSE Listing Requirements the Group is required to prepare consolidated financial statements for accounting periods beginning on or after 1 January 2005 in accordance with the Standards and Interpretations included within International Financial Reporting Standards (IFRS). Palabora has prepared consolidated financial statements for the year ended 31 December 2005 on the basis of the Standards and Interpretations within IFRS.

It is noted that IFRS is currently being applied in a large number of countries for the first time. Due to the number of new and revised Standards included within IFRS, there is not yet a significant body of established practice on which to draw in forming opinions regarding interpretation and application. Accordingly, practice is continuing to evolve.

2. CORPORATE INFORMATION

The Group is a limited liability company incorporated and domiciled in South Africa. The address of its registered office is 1 Copper Road, Phalaborwa, 1389.

The preliminary consolidated financial statements of the Group for the year ended 31 December 2005 were authorised for issue in accordance with the approval of the Board of Directors on 31 January 2006.

The principal activities of the Group are described in note 8 (Segment Reporting).

3. SELECTED SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been applied to all the years presented, unless otherwise stated.

3.1 Audit Review

The year end financial results have been reviewed in terms of paragraph 3.18 (c) of the Listings Requirements of the JSE by the Group's auditor, PricewaterhouseCoopers Inc. The unqualified review opinion is available on request from the Company Secretary.

3.2 Basis of preparation

This preliminary report complies with IAS34. Except as described below, the financial statements for the year ended 31 December 2005 have been prepared on the basis of all IFRS Standards and Interpretations effective at 31 December 2005 and in certain instances where statements were early adopted.

The 2004 comparative financial information has also been prepared on this basis, with the exception of certain standards, details of which are given below, for which comparative information has not been restated.

The accounting policies applied in the presentation of consolidated financial statements are consistent with those applied for the year ended 31 December 2004 except for the accounting treatment under IFRS5 – Non-current Assets Held for Sale and Discontinued Operations and as described below with the adoption of IFRS.

IFRS 1, First-time Adoption on International Financial Reporting Standards, has been applied in preparing these financial statements. The consolidated financial statements as at 31 December 2005 have been prepared in accordance with International Accounting Standard (IAS) 34 (Interim Reporting).

3.3 Transitional Arrangements

The Group's transition date to IFRS is 1 January 2004. The rules for first-time adoption of IFRS are set out in IFRS1 – First-time adoption of International Financial Reporting Standards. In preparing the 31 December 2005 IFRS financial information, these transition rules have been applied to the amounts reported previously under the generally accepted accounting principles in South Africa (SA GAAP).

IFRS 1 generally requires full retrospective applications of the standards and interpretations in force at the reporting date. However, IFRS 1 allows certain exemptions in the application of particular standards to prior periods in order to assist companies with the transition process. The Group has adopted the following transitional arrangements:

- The Group has deemed cumulative translation differences for foreign operations to be zero at the date of transition. Any gains and losses on subsequent disposals of foreign operations will not therefore include translation differences arising prior to the transition date;
- The Group has elected to adopt IAS 32 'Financial Instruments: Disclosure and Presentation' and IAS 39 'Financial Instruments: Recognition and Measurement' with effect from 1 January 2005, with no restatement of comparative information for 2004;
- The Group has elected to adopt IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' with effect from 1 January 2005.

3.4 Presentational Changes

The formats of the balance sheet, income statement, statement of changes in equity and cash flow statement have been modified. The format of the income statement has been changed from classification of expense by nature to classification by function as management believe that this classification provides more useful information to the users of the financial statements. An exception to this format is the separate disclosure of the impairment, which is by nature rather than function. Management believe that the significance of this amount requires it to be separately disclosed. In addition, the Group previously disclosed computer software and licenses within Mining Assets. Management believes that their inclusion in intangible assets is a fairer representation of the Group's consolidated balance sheet.

3.5 Derivative financial instruments and hedge accounting

The Group uses commodity swap contracts under which it receives a fixed price in Rand in relation to a monthly notional quantity of copper, and pays a floating price based on the US\$ LME Cash Settlement Price. The net receipt/payment is converted to Rand at the average US\$/Rand.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at the fair value. The fair value of the swap contracts is calculated by reference to current forward exchange rates and the forward market rate (NPV) method for contracts with similar maturity profiles and instruments. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

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

4. RECONCILIATIONS BETWEEN SA GAAP AND IFRS REPORTED FIGURES

Due to the harmonization program adopted by the SA Institute of Chartered Accountants (SAICA) in recent years, SA GAAP has been based on the International Accounting Standards (IAS) and in many respects is similar to those accounting standards. However because SA GAAP has been based on IAS rather than being exact replicas of such accounting standards, the Group having applied SA GAAP is deemed by IFRS 1 not to have complied with IFRS. The conversion of the Group's SA GAAP consolidated financial statements to IFRS did not result in substantial changes to the Group accounting policy.

4.1 Reconciliation of profit or loss

The adoption of IFRS did not result in significant changes to the Group's accounting policies commencing from transition date (1 January 2004) to the current preliminary report date (31 December 2005). A reconciliation of profit and loss under SA GAAP to IFRS is therefore not deemed necessary.

4.2 Reconciliation of changes in shareholders equity

	Share capital R'000	Share premium R'000	Retained earnings R'000	Foreign currency translation reserve R'000	Other reserves R'000	Total R'000
Balance at 1 January 2004						
– as previously reported	28 316	575	1 811 361	116 485	60 980	2 017 717
Effect of adopting IFRS1 (4.2.1)	–	–	116 485	(116 485)	–	–
Balance at 1 January 2004 (Restated)	28 316	575	1 927 846	–	60 980	2 017 717
Balance at 31 December 2004	28 316	575	195 730	(9 517)	88 563	303 667
Balance at 31 December (Restated)	28 316	575	195 730	(9 517)	88 563	303 667

4.2.1 Cumulative Foreign Currency Translation Reserve Adjustment

The Group's accounting policy under SA GAAP is consistent with IFRS. However, management has elected to use the exemption of setting the previously accumulated translation adjustment to zero at transition date, 1 January 2004. This exemption has been applied to all subsidiaries, as IFRS 1 requires.

5. CHANGES IN ESTIMATES

5.1 Property, Plant and Equipment and depreciation

The Group complies with the 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 useful lives of certain components of the underground mining assets resulted in an additional depreciation charge of R78 million in the income statement for the current period.

5.2 Inventory

Product inventory has been valued at the lower of cost and net realizable value. The cost of product inventory includes direct costs, and an allocation of indirect costs of production. The Group's annual review of the production overheads allocation basis resulted in a credit to the income statement of R12 million.

5.3 Intangible assets separately classified

Separate computer software and related licenses for a net book value of R8 million previously classified in tangible assets have been reclassified a part of intangible assets. There is no effect on the income statements.

6. LOSS PER SHARE

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

Basic loss per share of the Group for the year is based on the net loss of R 93 million (2004: net loss of 1,732 million) divided by the total number of weighted average shares in issue during the period of 28,450,400 (2004: 28,315,500). The following reflects the income and share data used in the basic earnings per share computations:

	Group	
	2005 R'000	2004 R'000
Reconciliation of net loss for earnings per Share		
Net loss attributable to equity holders from continuing operations	(87,412)	(1,626,199)
Loss attributable to equity holders from discontinued operations	(5,818)	(105,917)
Net loss attributable to equity holders of parent	(93,230)	(1,732,116)
Reconciliation of weighted average number of ordinary shares		
Weighted average number of ordinary shares for basic earnings per share	28,450	28,316
Adjusted weighted average number of ordinary shares	28,450	28,316
Basic loss per share(cents), for total operations	(328)	(6,117)
Basic loss per share(cents), for continuing operations	(307)	(5,743)
Basic loss per share(cents), for discontinued operations	(21)	(374)
Diluted loss per share (cents), for total operations	(328)	(6,117)
Diluted loss per share (cents), for continuing operations	(307)	(5,743)
Diluted loss per share (cents), for discontinued operations	(21)	(374)
Headline loss per share (cents)	(339)	(231)
Headline loss per share (cents), taking into account the commentary to note 7.	(339)	(1,013)

The impact of the Group's convertible debentures on earnings per share is anti-dilutive.

7. RECONCILIATION OF HEADLINE LOSS

	Group	
	2005 R'000	2004 R'000
Loss after tax per the income statement	(93,230)	(1,732,116)
(Loss)/Profit on disposal of fixed assets	(4,014)	46,567
Profit on ZBS sale	685	-
Impairment charges:		
- Copper stream	-	1,615,324
- ZBS plant	-	4,901
Headline loss	(96,559)	(65,324)

Included in the headline loss for 2004 are a credit of R266 million for the recognition of pension fund surplus and a R67 million credit as a release of excess provisions for post retirement medical benefits. The exclusion of these amounts would have resulted in a headline loss of R287 million for 2004, and a headline loss per share of 1,013 cents.

8. SEGMENT REPORTING

The Group's primary reporting segment is its business segment and its secondary format is by geographical segment. The operating businesses are organized 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.

Business Segment

The following tables present revenue and profit information and certain asset and liability information regarding the Group's business segments for the year ended 31 December 2005.

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.

Year ended 31 December 2005

	Copper	Industrial minerals	Copper by pProducts	Discontinued operation	Total
Revenue					
Sales to external customers	1,855,734	302,574	206,300	–	2,364,608
Inter-segment sales	–	–	–	–	–
Segment Revenue	1,855,734	302,574	206,300	–	2,364,608
Results					
Segment Results	99,881	66,421	72,755	(5,818)	233,239
Unallocated expenses					35,256
Loss from operations before tax and finance costs					268,495
Net finance costs					(355,032)
Loss before income tax					(86,537)
Income tax expense					(6,693)
Net loss for the period					(93,230)

Year ended 31 December 2004

	Copper	Industrial minerals	Copper by pProducts	Discontinued operation	Total
Revenue					
Sales to external customers	1,547,513	315,172	107,946	–	1,970,631
Segment Revenue	1,547,513	315,172	107,946	–	1,970,631
Results					
Segment Results	(120,238)	(290)	57,120	(105,917)	(169,325)
Impairment on copper stream					(2,341,752)
Unallocated expenses and provisions					174,827
Loss from operations before tax and finance costs					(2,336,250)
Net finance costs					(184,843)
Loss before income tax					(2,521,093)
Income tax income					788,977
Net loss for the period					(1,732,116)

9. DISCONTINUED OPERATIONS

As reported in the 31 December 2004 financial statements, the contractual obligations relating to the sale of the ZBS plant had not been met.

As a result of several parties showing interest in the plant, however the executive management of the Group remains committed to a plan to sell the plant. A potential buyer has been identified and a draft agreement is being reviewed. As at 31 December 2005, negotiations for the sale were being undertaken. The fair value of the expected sale amounts to R25 million.

For this reason, as at 31 December 2005 the ZBS plant was classified as a non-current asset held for sale at the lower of its cost price and fair value less disposal costs.

IFRS 5 requires an operation to be classified as discontinued when the criteria to be classified as held for sale have been met or the Group has disposed of the operation. Held for sale is when the carrying amount of an operation will be recovered principally through a sale transaction and not through continuing use.

10. MAGNETITE STOCKPILE

In the 2005 interim financial statements, the Group reported its intention to sell the magnetite stock piles. After several months of the tender process and negotiations taking place, the bidders of the stock pile could not meet all the conditions of the tender and accordingly the Board has decided to terminate the tender process. The Group will continue to build the current arising business and evaluate options for the longer term strategy of the magnetite business.

11. COPPER ORE RESERVES

The progressive cave induced surface subsidence has introduced a considerable amount of waste material into the bottom of the open pit. This waste material has in all likelihood, sterilized some ore reserves located in the side walls of the open pit which were scheduled to be extracted during the latter stages of the mine life. This is not expected to impact mine production in the near term but in all probability will reduce the overall life of the mine. It is envisaged that 75.9 million tonnes of undiluted reserve have been sterilized. The total proven and probable ore reserve remaining as of 31 December 2005 were 142 millions tonnes at an average grade of 0.70 % copper (2004: 185 million tonnes).

12. HEDGING ACTIVITIES

Cash flow hedges

At 31 December 2005, the Group held a commodity swap contract designated as hedges of expected future sales to local customers under which the Group receives a fixed price in Rand in relation to a monthly notional quantity of copper sales as detailed below and pays a floating price based on the arithmetic average (mean) of US\$ 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 31 December 2005 amounts to 234,439 tonnes of copper for a global amount of R4,4 billion spread over 8 years. The terms of the contracts are as follows:

Maturity	Quantity(t)	Average hedged price ZAR/t	Hedged value R'000	Mark to market loss/(gain) R'000
2006	43,875	20,993	995,579	268,134
2007	45,021	20,993	945,116	126,569
2008	41,801	20,521	857,801	62,075
2009	22,265	15,739	350,426	95,323
2010	22,188	15,739	349,217	80,873
2011	21,825	15,739	343,499	72,489
2012	21,137	15,739	332,667	66,297
2013	16,329	15,739	256,997	48,996
Total	234,441		4,431,302	820,756

13. INTEREST RATE RISK

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group's cash flows interest rate risk arises from its long and short-term borrowings subject to Libor or Jibar. 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	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
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 unsecured loan	-	-	-	-	-	665,070	665,070
Rio Tinto Secured loan	148,849	-	-	-	-	-	148,849
Other Facilities	-	-	-	-	-	-	-
Year Ended 31 December 2004							
Floating rates							
Revolving Credit Facility	-	-	-	-	-	-	-
Senior Term Facility	-	-	-	-	-	-	-
Medium Term Facility	263,857	-	-	-	-	-	263,857
Convertible debentures	849,465	-	-	-	-	-	849,465
Rio Tinto unsecured loan	572,186	-	-	-	-	-	572,186
Rio Tinto Secured loan	109,000	-	-	-	-	-	109,000
Other Facilities	11,280	-	-	-	-	-	11,280

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year.

14. REFINANCING

On 21 September 2005, the Group concluded its debt restructuring program and entered into a senior project facility with an available commitment of R1,500 million. Lines provided by the major shareholder Rio Tinto were subordinated. The senior facility was drawn R1,280 million after a reduction in the available amount for outstanding, unsubordinated debentures (R450 million) and a debt reduction amount (R220 million) to be reinstated on the basis of improved production. Further commitments were provided by Rio Tinto (R115 million) to maintain working capital requirements and an amount of R105 million was sterilised for the first senior loan repayment in June 2006. The net amount drawn was R840 million that was used in part to repay existing debt.

The ZAR 1.5 billion facility agreement entered into is secured by a first charge over all immovable property and equipment and the rights to debtors were ceded in favour of the Lenders.

15. NET DEBT

As a result of the refinancing, the total borrowings including overdrafts increased by R 289 million (from R2,175 in 2004), mainly explained by:

- a decrease in convertible debenture of R 37 million due to holders of debentures exercising their option to convert to ordinary shares;
- an additional drawdown of R48 million on the Rio Tinto US\$25 million secured facility;
- an increase in the Rand equivalent of the US\$ denominated debts of R 101 million due to a strengthening of the Rand of 0.68 bps (5.653 to 6.334);
- a net increase in proceeds of borrowings of R140 million.

Net debt to net capital employed increase from 88% in 2004 to 129 % in 2005 as a result of the mark to market loss of the hedging position of R820 million due to continuing increase in copper prices (88% excluding hedging impact). As a consequence of the significant mark-to-market loss, the Group's net equity dropped to a negative net position of R 515 million leading to a factual insolvent situation. This does not impact the position of the Company to continue to operate on a going concern basis.

Cash balances increased by R555 million compared to 2004, resulting in a total increase in net debt of only R103 million.

As at 31 December 2005, the Group's funding line amounts to R2,464 million of which 50% is denominated in US\$ for an equivalent of US\$ 195 million.

Description of loan	Effective interest rate %	Maturity	Year ended	Year ended
			31 December 2005	31 December 2004
			R'000	R'000
Non-current				
Medium Term Facility	Libor/Jibar + 1.5%		-	-
Convertible debentures	Jibar + 5%		-	-
Senior Term Facility	Libor +2.3%/Jibar +2.65%	30.06.13	601 439	-
Other Facilities	Libor + 2.38%	31.01.14	-	11 280
Convertible debentures	Jibar + 5%	16.09.06	418 340	-
Rio Tinto unsecured loan	Libor + 5%		665 070	-
Rio Tinto Secured loan	Libor + 5%		-	-
			1 684 849	11 280
Current				
Medium Term Facility	Libor/Jibar + 1.5%	13.09.05	-	263 857
Convertible debentures	Jibar + 5%	16.09.06	393 730	847 824
Proceeds from debentures			393 730	849 465
Debentures issue fees			-	(1 641)
Senior Term Facility	Libor +2.3%/Jibar +2.65%	30.06.13	142 112	-
Revolving credit facility	Libor +2.3%/Jibar +2.65%		94 925	-
Rio Tinto unsecured loan	Libor + 5%	31.12.05	-	681 186
Rio Tinto Secured loan	Libor + 5%		148 849	-
Other Facilities	Libor + 2.38%	31.01.06	-	1 018
			779 616	1 793 885
Total borrowings			2 464 465	1 805 165
Bank overdrafts		On demand	-	369 645
Cash and cash equivalents			(202 279)	(16 580)
Net debt			2 262 187	2 158 230
Total Equity			(514 928)	303 667
Total capital employed			1 747 258	2 461 897
Gearing			(4)	7.11
Net debt/total capital employed			129%	88%

Group selected statistics

	Year ended 31 Dec 2005 Unaudited	Year ended 31 Dec 2004 Unaudited
Copper		
Ore hoisted (millions of tonnes)	10,0	8,6
Average copper grade (% Cu)	0,716	0,740
Copper in concentrates produced (thousand of tonnes)	61,2	50,9
Cathode produced (thousand of tonnes)	80,3	67,5
Cathode sold (thousand of tonnes)	77,8	82,2
Contained copper sold (thousand of tonnes)	78,7	82,3
Average copper price realised (US\$/lb)	172,2	130,5
Average rand/dollar exchange rate	6,37	6,46
Average copper price realised per tonne (ZAR)	24,188	18,586
Net cash cost per tonne (ZAR) *	14,367	16,458
Vermiculite		
Vermiculite sold (thousand of tonnes)	171	177
Average vermiculite prices realised per tonne (ZAR)	1,398	1,385
Capital expenditure and commitments		
Capital expenditure (R million)	108	267
Approved expenditure at end of each period (R 103 87 million)		
Contracts placed at end of each period (R million)	27	30
<i>Investments</i>		
Fair value of unlisted investments (R million)	210	151
Share capital		
Ordinary shares of R1 each (thousand) – Authorised	100,000	100,000
Ordinary shares of R1 each (thousand) – Issued	29,562	28,316
Net asset value per share (R per Share)	Negative	10,72

**Exclude Concentrate purchases and finance cost*

