Paladin Resources plc
Interim Results 2004

Highlights

Record interim results

- Turnover increased to £134.1 million (1H 2003: £121.8 million)
- Pre-tax profit increased to £47.3 million (1H 2003: £44.7 million)
- Profit after tax increased to £15.9 million (1H 2003: £15.3 million)
- Earnings per share increased to 4.93 pence (1H 2003: 4.83 pence)
- Interim dividend increased by 6.67% to 0.56 pence per share (1H 2003: 0.525 pence per share)

Operational highlights

- Average production increased by 8.6% to 41,633 boepd (1H 2003: 38,339 boepd)
- Significant extension to the Montrose Field proved up, with infill and step-out drilling from the Montrose platform to start in late 2004
- Satellite oil discovery adjacent to the Arkwright Field
- Third exploration success in Tunisia, on production within three weeks of discovery

Corporate activity

- Completion of the US$10 million acquisition of Shell's operated interests in the Blane and Enoch oil discoveries and of a realignment of interests in acreage adjacent to the MonArb Fields
- Award of five operated blocks in Norway, offering exploration and field redevelopment potential
- Farm-in to prospective exploration acreage, offshore southern Gabon
- New US$600 million credit facility to finance capital investment programme, with headroom to fund further acquisitions

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Introduction

I am pleased to report that the growth trend in the Company's performance established over the past few years has continued with another strong set of operating and financial results for the first half of 2004. These results have been complemented by oil discoveries in the UK and Tunisia, the proving up of a significant extension to the Montrose Field and good progress on a capital investment programme from which the Company will benefit in the coming years.

Results

In the six months to 30 June 2004, turnover increased by 10.1 per cent to £134.1 million, compared to £121.8 million for the first six months of 2003. Operating profit for the period was £51.0 million (1H 2003: £46.8 million). Net interest paid was £3.7 million (1H 2003: £2.1 million), resulting in a pre-tax profit of £47.3 million, as compared to £44.7 million for the same period last year. The profit after taxation for the period was £15.9 million, compared to £14.5 million for the first half of 2003 on a like-for-like basis; 1H 2003 reported earnings of £15.3 million included a prior year credit of £0.8 million following changes to Norwegian tax legislation in June 2003. First half earnings per share were 4.93 pence, compared to 4.83 pence per share as reported for the first six months of 2003.

Dividend

In line with its stated dividend policy, the Board has decided that an interim dividend of 0.56 pence per share (1H 2003: 0.525 pence per share) will be paid on 22 October 2004 to those shareholders on the register on 1 October 2004.

Operations

Net production for the half year was 7.2 million barrels of oil and NGLs, and 2.2 billion standard cubic feet of gas, an average of 41,633 boepd, and an increase of 8.6 per cent from 38,339 boepd over the same period in 2003.

United Kingdom

Overall, our UK interests contributed 13,857 boepd (33 per cent) to total Group production in the first half of the year (1H 2003: 7,893 boepd).

Operated interests in the Montrose, Arbroath and Arkwright Fields (Paladin 58.97 per cent), which were acquired in May 2003, have now been fully integrated into the Group's portfolio and the results of the capital investment programme to date have been very encouraging. Net production for the first half averaged 9,483 boepd, which included the impact of a three week planned maintenance shutdown in April; current daily net production is in excess of 14,000 boepd.

In May, the Company announced that its first operated well in the UK had proved up a significant extension to the Montrose Field. The existing reservoir models are being updated using the detailed well results to determine the optimum way of developing this extension. In the meantime, a modular hydraulic drilling unit is being commissioned on the Montrose platform, and a multi-well programme of infill and step-out drilling will begin in 4Q 2004.

On the Arbroath Field, a six month rig programme of two wells and two well workovers to boost production from the field started in May. To date, one well and one workover have been successfully completed, and drilling on the second well is in progress.

Pre-project studies on the Wood gas/condensate discovery continue, with a view to approving a development scheme in early 2005 and achieving first gas production in late 2006; in order to meet this challenging timetable, certain long-lead items have already been ordered.

Further positive news for the MonArb area in June was the Brechin oil discovery, 3.5 kilometres to the east of the Arkwright Field. Work is progressing on a fast-track development of this discovery as a subsea satellite to the Arkwright Field and we are targeting approval of a field development plan in 4Q 2004 and first oil production in mid-2005. An analogous exploration prospect, Farnell, some 2.5 kilometres to the south of the Brechin discovery, will be drilled in late 2004.

Early in the year, the Company completed an innovative deal with our partner in the Montrose, Arbroath and Arkwright Fields, which resulted in the alignment of equity interests in the acreage adjacent to these fields. This has already simplified discussions on the MonArb area capital investment programme by removing potential conflicts of interest.

Elsewhere in the Company's UK business, the Bittern Field (Paladin 2.42 per cent) averaged net production of 1,488 boepd in the first half and reservoir performance has continued to exceed expectations.

The Blake Field (Paladin 2.4 per cent) and Ross Field (Paladin 30.82 per cent), which are both produced through the Bleo Holm FPSO, contributed net production of 741 boepd and 2,145 boepd respectively. Whilst reservoir performance and well deliverability of the Blake Field are at the upper end of expectations, actual production in the first half was slightly lower than anticipated due to instability of the processing plant caused by slugging of Blake Field wells. This operational issue has been resolved during a planned summer shutdown. An exploration well on the Skate prospect (Paladin 10 per cent), to the east of the Ross Field, was unsuccessful.

The Goldeneye Field (Paladin 7.5 per cent) is expected to come on-stream in the near future, following completion of outstanding work on the onshore processing module at St. Fergus. Production wells have been pre-drilled and we anticipate that plateau production rates of 300 MMscfd will be reached during 4Q 2004 (approximately 4,000 boepd net to Paladin, including associated liquids).

Following the US$10 million acquisition in March of Shell's operated interests in the Blane and Enoch oil discoveries (Paladin 30.49 per cent and 30 per cent respectively), which lie adjacent to the UK/Norwegian median line, the Company has been addressing cross-border regulatory issues and progressing development options for both, with a view to projects being approved in the first half of 2005.

Norway

Overall, our Norwegian interests contributed 18,931 boepd (45 per cent) to total Group production in the first half of the year (1H 2003: 19,402 boepd).

Net production from the Brage Field (Paladin 20 per cent) and the Veslefrikk Field (Paladin 27 per cent) was broadly in line with expectations, averaging 6,181 boepd and 7,772 boepd respectively. Production was impacted only by an earlier than scheduled planned maintenance shutdown in the case of the former and by lower than anticipated process uptime in the case of the latter. In both fields, an active programme of well work is continuing to counter natural production decline from the existing wells.

In the Njord Field (Paladin 15 per cent), production was improved by a combination of high process uptime and a series of successful well workovers, with net production averaging 4,620 bopd in comparison with 4,198 bopd for the same period in 2003. Good progress has been made in securing the agreements required to produce and export gas from the Njord Field from 2007 onwards and we are working towards approval of a plan of development by year-end.

The award in June of a 50 per cent interest and operatorship of four blocks and one part block in the relatively under-explored Egersund Basin, offshore Norway, is a significant addition to our Norwegian exploration portfolio. The presence of commercially exploitable hydrocarbons in the area has already been proven, and in the coming months the Company will be actively evaluating not only the exploration prospects in the area but also the possibility of redeveloping the abandoned Yme Field, which lies within the awarded acreage.

Early in the year, the Company participated in an unsuccessful exploration well on the high risk Beluga stratigraphic prospect (Paladin 10 per cent).

Denmark

Overall, our Danish interests contributed 3,341 bopd (8 per cent) to total Group production in the first half of the year (1H 2003: 5,492 bopd).

Reservoir performance in the Siri, Stine-1 and Stine-2 Fields was in line with expectations, although reported production was slightly lower than anticipated due to gas handling capacity constraints on the Siri platform and a delay in the start-up of production from Stine-1. A new gas compressor has recently been installed and commissioned to remove capacity constraints.

Two wells are scheduled to be drilled by the end of the year, an appraisal well on the 2003 Sofie discovery to confirm its economic viability, and an exploration well on the nearby Sissel prospect.

Indonesia

The Group's assets in Indonesia have performed broadly in line with expectations. Net entitlement production averaged 4,925 boepd (1H 2003: 5,503 boepd), 12 per cent of total Group production. The decrease from the same period last year was due to a combination of natural production decline and higher oil prices, which reduce the level of entitlement barrels reported.

Tunisia

Net production from the Adam Concession Area (Paladin 7 per cent) in southern Tunisia averaged 579 bopd in the first half (1H 2003: 49 bopd) and is set to rise further. The original discovery, Adam, continues to produce in line with expectations; the second discovery, Hawa, was brought into production in March, and a second well on that field has recently been completed. A third discovery, Dalia, was made in mid-year. Current net production from the concession area is approximately 725-750 bopd. Negotiations continue with STEG, the Tunisian state electricity and gas company, regarding gas sales from the concession area.

Gabon

The Company recently announced that it had entered into a participation agreement with a wholly-owned subsidiary of Forest Oil Corporation to earn a 20 per cent working interest in the Gryphon Marin Exploration and Production Sharing Contract, offshore southern Gabon. This acreage lies in shallow water in a prospective part of the Gabon Coastal Basin, a proven hydrocarbon province, close to a number of existing oilfields and recent discoveries. Advances in 3D geophysical reprocessing techniques should allow the partnership to identify drillable prospects within the contract area with a high degree of confidence and the first exploration well is planned for the second half of 2005.

Product Prices/Hedging

Realised prices in the first half of 2004 averaged US$33.08 per boe before any impact from oil price swaps, compared to US$28.02 per boe over the same period in 2003. The positive impact on the Company's financial performance of higher commodity prices in dollar terms was somewhat diminished by a significantly weaker dollar/sterling exchange rate in the first half of 2004, US$1.81/£1.00 as compared to US$1.61/£1.00 for the first half of 2003, resulting in an average realised sterling oil price before any impact from oil price swaps of £18.24 per boe for the period (1H 2003: £17.40 per boe).

During 2002 and 2003, the Company entered into a number of oil price swaps based on dated Brent for the first half of 2004 as part of its overall risk management programme. 1,800,000 barrels were swapped at an average price of US$23.34 per bbl.

Further oil price swaps have been entered into for the period between July 2004 and December 2006 as detailed below:

Period	bbl	Average price US$ per bbl
2004, second half	1,950,000	23.07
2005	3,000,000	25.26
2006	2,100,000	28.06

Finance

Cash flow from operating activities, before working capital, increased by 11 per cent to £78.2 million for the first half, compared to £70.6 million for the first half of 2003. After capital expenditure of £36.3 million (1H 2003: £36.4 million), cash taxes of £26.2 million (1H 2003: £19.2 million), payment for acquisitions of £5.5 million (1H 2003: £105.6 million), net interest payments of £1.2 million (1H 2003: £0.8 million) and dividend payments of £3.4 million (1H 2003: £3.0 million), net debt at 30 June 2004 was £97.1 million, compared with £110.0 million at 31 December 2003.

New Corporate Credit Facility

In July, the Company announced that it had entered into a new US$600 million credit facility with a syndicate of sixteen international energy lending banks led by J.P. Morgan plc. This new facility puts the Company in excellent shape to fund the capital investment programme on its existing portfolio over the coming years, as well as providing headroom to finance further acquisitions.

Business Development

The discipline in the evaluation and pricing of potential acquisitions that has served shareholders well to date remains a keystone in the application of the Company's strategy. Exploration also remains an important element of the Company's strategy and further opportunities to broaden the existing portfolio are under active review.

In 2003 the Company set new targets for continued growth, namely to increase production and reserves to 100,000 boepd and 250 MMboe respectively by 2008. The Company's capital investment plans for the next two to three years should result in a significant contribution to those production and reserves targets coming from organic growth, with the balance being derived from acquisitions and/or further exploration success.

Notwithstanding the impact that current high and volatile commodity prices may have on near-term asset trading, we remain confident that there will be future opportunities within the relevant time frame to acquire assets on terms which are in line with the Company's investment criteria and which will contribute to the achievement of the above targets.

International Financial Reporting Standards

A project team was set up during the first half of 2004 to manage the Group's conversion from UK GAAP to IFRS. Identification of the changes required to the Group's accounts as a result of the conversion are well advanced and details of those changes and the proposed timetable for conversion will be included in the year-end report and accounts.

Outlook

Current and planned developments should provide a major boost to the Company's production over the next two to three years and make a significant contribution to achieving the 2008 production and reserves targets referred to above. In the UK, first production from the Goldeneye Field is imminent, an infill and step-out drilling programme on the Montrose Field will begin in 4Q 2004 and first production from the Brechin discovery is planned for mid-2005. In addition, we are working towards the approval of plans of development for the Blane, Enoch and Wood discoveries by mid-2005. In Norway, the approval of a development scheme for gas from the Njord Field is anticipated by year-end and this will make a material contribution towards Group production from 2007 onwards.

In the nearer term, annualised net production for the full year is likely to lie in the range 43,000 to 46,000 boepd, depending on the rate at which Goldeneye production builds up to plateau, the specific timing and performance of new wells and workovers, and the oil prices applied for the balance of the year in the calculation of Indonesian entitlement barrels.

Given short-term commodity prices and this positive production outlook, the Company is set for a very strong second half financial performance to supplement the first half results.

J. Malcolm Gourlay
Chairman
8 September 2004

Group Profit and Loss Account

	Note	**Six months ended 30 June 2004 £000**	Six months ended 30 June 2003 £000	Year ended 31 December 2003 £000
Turnover	2	**134,077**	121,820	268,173
Cost of sales				
Production costs		**(53,836)**	(49,443)	(111,049)
Depletion and depreciation		**(27,248)**	(23,798)	(59,222)
Exploration expenditure written off		**–**	–	(1,958)
Gross profit		**52,993**	48,579	95,944
Administrative expenses		**(2,019)**	(1,760)	(4,100)
Operating profit	2	**50,974**	46,819	91,844
Interest		**(3,659)**	(2,099)	(7,092)
Profit before taxation		**47,315**	44,720	84,752
Taxation	3	**(31,416)**	(29,427)	(56,306)
Profit after taxation		**15,899**	15,293	28,446
Dividend	4	**(1,812)**	(1,673)	(5,033)
Retained profit for the period		**14,087**	13,620	23,413
Earnings per share		**4.93p**	4.83p	8.92p
Dividend per ordinary share	4	**0.56p**	0.52p	1.57p
Weighted average number of shares (thousands)		**322,594**	316,449	318,773

Group Statement of Total Recognised Gains and Losses

	Note	**Six months ended 30 June 2004 £000**	Six months ended 30 June 2003 £000	Year ended 31 December 2003 £000
Profit for the period		**15,899**	15,293	28,446
Foreign exchange differences	5	**(2,465)**	(5,622)	(23,498)
Total recognised gains for the period		**13,434**	9,671	4,948

Group Summarised Balance Sheet

	Note	**At 30 June 2004 £000**	At 30 June 2003 £000	At 31 December 2003 £000
Fixed assets		**355,326**	371,938	341,565
Current assets				
Stock		**6,386**	6,565	6,564
Debtors		**30,849**	26,732	41,641
Cash at bank and in hand		**2,436**	1,456	1,270
		39,671	34,753	49,475
Creditors: amounts falling due within one year				
Trade creditors		**(28,769)**	(14,705)	(24,693)
Overseas taxes		**(29,169)**	(32,530)	(28,252)
Other creditors		**(3,351)**	(9,057)	(10,401)
Obligations under finance leases		**(747)**	(1,023)	(755)
		(62,036)	(57,315)	(64,101)
Net current liabilities		**(22,365)**	(22,562)	(14,626)
Total assets less current liabilities		**332,961**	349,376	326,939
Creditors: amounts falling due after one year				
Long term debt		**(93,931)**	(109,364)	(105,271)
Obligations under finance leases		**(4,812)**	(6,648)	(5,285)
		(98,743)	(116,012)	(110,556)
Provisions for liabilities and charges		**(73,929)**	(77,813)	(68,735)
Net assets		**160,289**	155,551	147,648
Capital and reserves				
Called up share capital		**32,365**	32,113	32,196
Share premium		**79,867**	79,231	79,328
Profit and loss account		**47,746**	44,207	36,124
Other reserves	6	**311**	–	–
Equity shareholders' funds		**160,289**	155,551	147,648

	Six months ended 30 June 2004 £000	Six months ended 30 June 2003 £000	Year ended 31 December 2003 £000
Operating profit	**50,974**	46,819	91,844
Depletion and depreciation charge	**27,248**	23,798	59,222
Decrease/(increase) in working capital	**6,357**	(7,482)	(10,389)
Exploration expenditure written off	**–**	–	1,958
(Decrease)/increase in provisions	**(306)**	798	457
Net cash flow from operating activities	**84,273**	63,933	143,092
Returns on investments and servicing of finance	**(1,244)**	(837)	(3,576)
Taxation	**(26,187)**	(19,186)	(52,896)
Capital expenditure and financial investments			
Ongoing capital expenditure (excludes capitalised interest)	**(36,254)**	(36,364)	(69,776)
Proceeds from sale of oil and gas interests and rights	**–**	3,168	3,168
Acquisition of oil and gas fixed assets	**(5,491)**	(105,582)	(113,121)
Investment in own shares	**(250)**	(396)	(1,164)
Total capital expenditure and financial investments	**(41,995)**	(139,174)	(180,893)
Equity dividend paid	**(3,380)**	(3,048)	(4,823)
Net cash flow before financing	**11,467**	(98,312)	(99,096)
Financing			
(Decrease)/increase in borrowings	**(10,437)**	57,567	58,861
Finance lease payments	**(466)**	(525)	(1,301)
Issue of shares	**708**	41,562	41,742
Total financing	**(10,195)**	98,604	99,302
Increase in cash in the period	**1,272**	292	206
Reconciliation of net cash flow to movement in net debt			
Increase in cash in the period	**1,272**	292	206
Decrease/(increase) in borrowings	**10,437**	(57,567)	(58,861)
Finance lease payments	**466**	525	1,301
Change in net debt resulting from cash flows	**12,175**	(56,750)	(57,354)
Exchange differences	**812**	2,790	8,932
Movement in net debt in the period	**12,987**	(53,960)	(48,422)
Net debt at the start of the period	**(110,041)**	(61,619)	(61,619)
Net debt at the end of the period	**(97,054)**	(115,579)	(110,041)

1 Basis of preparation

The financial information contained herein does not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The unaudited interim financial information has been prepared on the basis of the accounting policies set out in the Group's accounts for the year ended 31 December 2003, other than where changes were necessary to adopt UITF 38. The figures for the year ended 31 December 2003 have been extracted from the accounts. Those accounts have been filed with the Registrar of Companies and contained an unqualified report. The Company's auditors, Ernst & Young LLP, have reviewed the interim financial information for the six months ended 30 June 2004 and their report is set out on page 8.

During the period the Group adopted UITF 38, Accounting for ESOP Trusts, which requires that own shares held through an ESOP trust should no longer be shown as the sponsoring company's assets but should be presented as a deduction from shareholders' funds within a newly created reserve. Own shares are held in connection with the Company's Long Term Incentive Plan and UITF 38 also requires that the cost of the shares associated with this plan be provided for on the basis of the share price ruling when the shares were awarded, rather than at the expected purchase price for the shares.

The prior year adjustment to shareholders' funds arising following the adoption of UITF 38 would be an increase of £39,000. This amount is not material to the Company's accounts and the prior year figures have therefore not been restated.

2 Segmental analysis

	Continuing operations					Total
	UK £000	Scandinavia £000	Indonesia £000	Tunisia £000	Rest of World £000	£000
Six months ended 30 June 2004						
Turnover	**40,557**	**78,327**	**13,321**	**1,872**	**–**	**134,077**
Operating profit	**4,877**	**39,001**	**5,637**	**1,459**	**–**	**50,974**
Six months ended 30 June 2003						
Turnover	24,664	81,647	15,359	150	–	121,820
Operating profit	1,552	38,490	6,740	37	–	46,819
Year ended 31 December 2003						
Turnover	74,043	165,154	27,882	1,094	–	268,173
Operating profit/(loss)	11,637	71,828	9,612	725	(1,958)	91,844

3 Taxation

The provision for taxation is based on the estimated effective tax rate for the full year.

4 Dividend

The Directors have agreed the payment of an interim dividend of 0.56 pence per share (1H 2003: 0.525 pence per share).

5 Foreign exchange differences

The exchange differences arise mainly as a result of the translation of dollar denominated fixed asset balances at the 30 June 2004 rate of US\$1.81/£1.00, compared to the 31 December 2003 rate of US\$1.79/£1.00. The rate at 30 June 2003 was US\$1.65/£1.00, and at 31 December 2002, US\$1.60/£1.00.

6 Other reserves

	Six months ended 30 June 2004 £000
At the start of the period	**–**
Shares acquired at cost	**(250)**
Charge for the period	**561**
At the end of the period	**311**

Independent Review Report to Paladin Resources plc

Introduction

We have been instructed by the Company to review the financial information for the six months ended 30 June 2004 which comprises the Group Profit and Loss Account, the Group Statement of Total Recognised Gains and Losses, the Group Summarised Balance Sheet and the Group Cash Flow Statement. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the Company in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information' issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures should be consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with guidance contained in Bulletin 1999/4 'Review of interim financial information', issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with United Kingdom Auditing Standards and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 June 2004.

Ernst & Young LLP
London
8 September 2004

Glossary

bbl	=	barrel(s) of oil
boe	=	barrel(s) of oil and oil equivalent
boepd	=	barrels of oil and oil equivalent per day
bopd	=	barrels of oil per day
ESOP	=	executive share option plan
FPSO	=	floating production, storage and offloading facility
GAAP	=	generally accepted accounting practice
IFRS	=	International Financial Reporting Standards
MM	=	million
NGLs	=	natural gas liquids
Paladin or the Company or the Group	=	Paladin Resources plc and/or one or more of its direct or indirect subsidiaries, as applicable
scfd	=	standard cubic feet per day
UITF	=	Urgent Issues Task Force

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