



ILUKA RESOURCES LIMITED

FINANCIAL REPORT 2002



Contents

Directors' Report	2	Note 17. Interest bearing liabilities	28
Statements of Financial Performance of the Consolidated Entity	7	Note 18. Current tax liabilities	29
Statements of Financial Position of the Consolidated Entity	8	Note 19. Provisions	29
Statements of Cash Flows of the Consolidated Entity	9	Note 20. Deferred tax liabilities	29
Statements of Financial Performance of the Parent Entity	10	Note 21. Contributed equity	30
Statements of Financial Position of the Parent Entity	11	Note 22. Reserves	31
Statements of Cash Flows of the Parent Entity	12	Note 23. Retained profits	31
Notes to the Financial Statements	13	Note 24. Dividends	32
Note 1. Statement of significant accounting policies	13	Note 25. Earnings per share	32
Note 2. Revenue from ordinary activities	18	Note 26. Outside equity interests in controlled entities	33
Note 3. Expenses from ordinary activities	18	Note 27. Equity	33
Note 4. Income tax	19	Note 28. Joint venture interests	34
Note 5. Cash assets	20	Note 29. Remuneration of directors	35
Note 6. Receivables	20	Note 30. Remuneration of executives	36
Note 7. Current tax assets	20	Note 31. Remuneration of auditors	38
Note 8. Other financial assets	21	Note 32. Employee entitlements	38
Note 9. Inventories	21	Note 33. Financial instruments	42
Note 10. Other assets	21	Note 34. Commitments	47
Note 11. Property, plant and equipment	22	Note 35. Lease commitments	47
Note 12. Deferred tax assets	23	Note 36. Contingent liabilities	47
Note 13. Intangible assets	23	Note 37. Segmental analysis	48
Note 14. Controlled entities	24	Note 38. Related party transactions	50
Note 15. Discontinuing operations	26	Note 39. Statements of cash flows	52
Note 16. Payables	28	Note 40. Deed of cross guarantee	53
		Directors' Declaration	55
		Independent Audit Report	56

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Directors' Report

The Directors present their report on the consolidated entity consisting of Iluka Resources Limited and the entities it controlled at the end of, or during the year ended 31 December 2002.

DIRECTORS

The following individuals were Directors of Iluka Resources Limited during the whole of the financial year and up to the date of this report.

Ian Colin Robert Mackenzie (Chairman)
William Henry John Barr
Grahame David Campbell
Valerie Anne Davies
John Robert de Laeter
Richard August Tastula

On 1 May 2002 K M Folwell was appointed Managing Director and Chief Executive Officer. R A Tastula resigned as Interim Managing Director on 1 May 2002 and continued as a Director.

Donald Marshall Morley was appointed a Director on 4 December 2002 and continues in office at the date of this report.

Kenneth Walter Court was a Director from the beginning of the financial year until his resignation on 9 April 2002.

PRINCIPAL ACTIVITIES

The activities of the consolidated entity consist of the exploration, mining, concentration and separation of mineral sands, production of ilmenite, rutile, synthetic rutile and other titaniferous concentrates, zircon and coal and sales of these products throughout the world.

REVIEW OF OPERATIONS AND RESULTS

Revenue from ordinary activities for continuing operations for the year ended 31 December 2002 was \$872.3 million (2001: \$792.9 million).

Profit from ordinary activities before income tax expense for continuing operations for the year ended 31 December 2002 was \$103.5 million (2001: \$123.3 million), and profit attributable to the members of Iluka Resources Limited for continuing operations for the year was \$109.5 million (2001: \$107.8 million).

Loss attributable to the members of Iluka Resources Limited for discontinuing operations for the year ended 31 December 2002 was \$0.5 million (2001: \$44.1 million).

Overall profit attributable to the members of Iluka Resources Limited for the consolidated entity for the year ended 31 December 2002 was \$109.0 million (2001: \$63.7 million). The basic earnings per share of the consolidated entity for the year was 48.6 cents (2001: 29.3 cents).

DIVIDENDS

The Directors have declared a final dividend of 12 cents per share unfranked which, with the interim dividend of 10 cents per share franked to 2 cents paid on 11 October 2002, makes a total dividend for the year of 22 cents franked to 2 cents (2001: 22 cents franked to 2 cents).

CHANGES IN THE STATE OF AFFAIRS

Sale of PT Koba Tin

On 1 November 2001 the Company announced the sale of its 75% stake in PT Koba Tin to Malaysia Smelting Corporation Berhad. The sale was completed on 9 April 2002. Sale proceeds consist of US\$13.7 million in cash and a deferred component, (contingent on London Metal Exchange tin prices) which at settlement was capped at US\$6.0 million over three years, since reduced to US\$ 4.0 million over the next two years. The deferred sales proceeds component has not been recognised in the accounts.

As at 31 December 2001, the carrying value of PT Koba Tin's assets were written down by \$37.5 million to align their value with expected sale proceeds. After income tax expense and outside equity interests, this represents a loss attributable to the members of Iluka Resources Limited in 2001 of \$26.8 million. In deriving this write down no allowance was made for the deferred sales proceeds component as this represents a contingent asset.

Increased ownership of Consolidated Rutile Limited

The Company via its wholly owned subsidiary Iluka Corporation Limited increased its interest in Consolidated Rutile Limited to 50.1% in March 2002 via on-market purchases.

Write Off of Iron Oxide Residue Conversion Technology

During the year the Company completed a review of recoverable assets in accordance with Australian Accounting Standards AASB1010 and subsequently chose to write off \$6.6 million of assets associated with a project to develop iron oxide residue conversion technology. While Iluka intends to continue to fund this project the decision to write-down the asset was made in recognition of the uncertainty associated with the timing and successful application of the technology.

Basin Minerals Limited ("Basin Minerals") Acquisition

On 29 May 2002, the Company made a joint announcement for the takeover of Basin Minerals. As part of the acquisition, Basin Minerals' shareholders were offered an option of accepting cash or shares in the parent entity, or any combination of the two. As a result of this offer the parent entity issued 15.5 million shares amounting to \$76.4m (refer Note 14), and paid cash of \$61.5m (2001: \$1.2m). On 1 November 2002, the Company announced that it had acquired 100% of Basin Minerals' shares.

Unbooked Future Income Tax Benefits

During the year the Company reviewed its practice of recognising unbooked future income tax benefits attributable to tax losses and timing differences. As a result, additional unbooked tax losses of \$9.9 million have been recognised compared with the previous practice.

EVENTS SUBSEQUENT TO BALANCE DATE

The Directors have not become aware of any other matter or circumstance not otherwise dealt with in the Directors' report or the financial report that has or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the economic entity in subsequent financial years.

Directors' Report

(continued)

LIKELY DEVELOPMENTS

Information on likely developments in the operations of the consolidated entity and the expected results of operations have not been included in this report because the Directors believe it would result in unreasonable prejudice to the consolidated entity.

DIRECTORS' PROFILES

Ian Mackenzie, BSc, BCom, MBA, FAICD (Chairman)

Mr Mackenzie (60) was appointed to the Board on 1 July 1999. He is chairman of the Bank of Western Australia Limited (Bankwest) and a Director of MG Kallias Holdings Limited. His former business roles include Managing Director of Bunnings Ltd, Romatex Ltd (South Africa) and Chairman of Westl Limited. He is a past president of the Institute of Company Directors (WA Division). Mr Mackenzie is a member of both the Audit and Remuneration and Nomination Committees of the Board.

Mike Folwell, BBus, MAICD (Managing Director and Chief Executive Officer)

Mr Folwell (48) was appointed as Managing Director and Chief Executive Officer in May 2002. He is Chairman of Consolidated Rutile Limited. Previously he was Managing Director of Pivot Limited, a business which under his leadership emerged from difficult trading conditions to become a profitable and productive leading Australian fertiliser Company. Before joining Pivot, Mr Folwell held senior management positions with Shell, BOC and Pioneer International where he held the position of Executive General Manager Australia/Asia - the largest division within Pioneer before its takeover by the UK-Based Hanson Group.

W H John Barr, AM

Mr Barr (65) was appointed to the Board in July 1994. He has had a long involvement with the Australian minerals and metals industry having been Managing Director of Metallgesellschaft's Australian subsidiary. He is also a Director of Oxiana Resources NL, Bulong Nickel Pty Ltd, Bulong Operations Pty Ltd and is Chairman of Utilities of Australia Pty Ltd. Mr Barr is a member of the Audit Committee.

Donald Morley BSc, MBA, FAusIMM

Mr Morley (63) was appointed to the board in December 2002. He was formerly the Chief Financial Officer and a Director of WMC Limited from which he retired in October 2002. He is Chairman of Alumina Limited and a Director of the Centre for Independent Studies. Mr Morley is a member of the Audit Committee.

Grahame Campbell, BE, MEng Sc, HON FIE Aust, FAICD, CP Eng

Mr Campbell (59) was appointed to the Board in 1998. He has wide experience in business with particular reference to the mining industry and is a past president of the Association of Consulting Engineers (Australia) and the Australian Pipeline Industry Association. He is a Director of the Macro Engineering Council Limited, the State Rail Authority of New South Wales and Worley Group Limited. Mr Campbell is a member of the Remuneration and Nomination Committee.

Valerie Davies, MAICD

Ms Davies (51) was appointed to the Board in July 1997 and has extensive experience in the communication industry, actively consulting to business and industry on strategic initiatives. A Director of Integrated Group Limited and Gold Corporation, Ms Davies is a past recipient of the WA Telstra "Business Woman of the Year" Award. Ms Davies is Chairman of the Remuneration and Nomination Committee.

John de Laeter, AO, BSc (Hons), PhD, DSc (West Aust), Hon D Tech (Curtin), FTSE, Hon FAIP

Professor de Laeter (69) was appointed to the Board in March 1994. He is Emeritus Professor of Physics at Curtin University of Technology. Until recently, he was a member of the Prime Minister's Science and Engineering Council and of the Australian Science, Technology and Engineering Council (ASTEC). He is Patron of the Western Australian Foundation for the Museum of Contemporary Science and Technology (SciTech) and Chairman of the Perth Hockey Stadium Council and the Gravity Discovery Centre Foundation. Professor de Laeter is Chairman of the Audit Committee.

Richard Tastula, AWASM, FAusIMM, FAICD

Mr Tastula (59) was appointed to the Board in February 1996 and has extensive experience in the mining industry. He was previously Managing Director of Homestake Gold of Australia Limited and a Vice President of Homestake Mining Company. He is Chairman of Titan Resources NL and Acting Chancellor of Curtin University of Technology. Mr Tastula is a member of the Audit Committee and the Remuneration and Nomination Committee.

DIRECTORS' AND EXECUTIVES' EMOLUMENTS

The Remuneration and Nomination Committee, consisting of four non-executive Directors, advises the Board of remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive Directors, other senior executives and non-executive Directors.

Executive remuneration and other terms of employment are reviewed annually by the committee having regard to performance against goals set out at the start of the year, relevant comparative information and independent expert advice. In addition to a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits. Executives are also eligible to participate in the Iluka Resources Limited Share Plans.

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration and other terms of employment for the Managing Director and senior executives are formalised in agreements.

Remuneration of non-executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time. Non-executive Directors are eligible to participate in the Iluka Resources Limited Directors, Executives and Employees Share Acquisition Plan and are also entitled to superannuation benefits as approved by shareholders at the 1999 annual general meeting.

The Board undertakes an annual review of its performance and the performance of the Board committees against goals set at the start of the year. Performance related incentives are available to executives. Incentives are not payable to non-executive Directors.

Details of the nature and amount of each element of the emoluments of each Director of the parent entity and each of the five officers of the parent entity and the consolidated entity receiving the highest emoluments are set out in the following tables.

Directors' Report

(continued)

NON EXECUTIVE DIRECTORS OF ILUKA RESOURCES LIMITED

Name	Directors' base fee \$	Committee fees \$	Super-annuation \$	Other benefits \$	Total \$
I C R Mackenzie, Chairman	118,750	—	25,000	6,250	150,000
W H J Barr	55,000	—	10,800	—	65,800
G D Campbell	29,000	—	10,800	26,000	65,800
K W Court ⁽¹⁾	16,062	—	3,906	3,467	23,435
V A Davies	35,800	13,000	13,333	19,200	81,333
J R de Laeter	55,000	13,000	13,333	—	81,333
R A Tastula ⁽²⁾	296,289	—	30,231	—	326,520
D M Morley ⁽³⁾	3,125	—	625	—	3,750

(1) Retired 8 May 2002

(2) Interim Managing Director until 1 May 2002

(3) Appointed 3 December 2002

EXECUTIVE DIRECTORS OF ILUKA RESOURCES LIMITED

Name	Base salary \$	Motor vehicle \$	Incentive \$	Super-annuation \$	Other benefits \$	Total \$
K M Folwell Managing Director ^	458,207	—	—	6,727	156,847	621,781
M H Macpherson Managing Director ^^	—	—	168,000	—	—	168,000

^ Appointed as Managing Director on 1 May 2002.

^^ Resigned as Managing Director on 7 December 2001.

The other benefits disclosure for K M Folwell includes the granting of 33,478 ordinary shares with a market value of \$155,114 pursuant to his contract of employment. These shares have been granted under the Directors, Executives and Employees Share Acquisition Plan.

The incentive disclosure for M H Macpherson relates to 2001 short term incentives paid in May 2002.

EXECUTIVES OF ILUKA RESOURCES LIMITED AND THE CONSOLIDATED ENTITY

Name	Base salary \$	Motor vehicle \$	Incentive \$	Super-annuation \$	Other benefits \$	Sub Total \$	Options* \$	Total \$
H Bohannon ⁽¹⁾ EGM – Australian Operations	269,177	19,856	68,904	65,440	376,704	800,081	—	800,081
S Ward President USA / EGM – Marketing	333,192	12,344	45,161	28,670	162,602	581,969	179,160	761,129
M Hughes Chief Financial Officer	298,040	26,760	54,099	41,907	3,294	424,100	179,160	603,260
G Weaver ^{(1) & (2)} EGM – Human Resources	168,130	13,216	10,000	23,705	205,030	420,081	—	420,081
M Bourke ⁽¹⁾ EGM – Technical Services	196,762	22,104	15,000	27,728	2,160	263,754	—	263,754

(1) Appointed Executive General Manager (EGM) 26 July 2002

(2) Resigned 22 November 2002

* During the financial year options were granted to executive officers of the consolidated entity. The amounts disclosed for remuneration of executive officers in this report include the assessed fair values at the date the options were granted. Fair values have been assessed using the Black-Scholes option pricing model. Factors taken into account by this model include the exercise price, the term of the option, the current price and expected price volatility of the underlying share, and the risk-free interest rate for the term of the option. Refer Note 30 Remuneration of Executives.

All incentives for executives relate to short term incentive payments made during 2002 for the year ended 31 December 2001.

Directors' Report

(continued)

DIRECTORS' SHARE HOLDINGS (AS AT 26 MARCH 2003)

Name	Iluka Shares
I C R Mackenzie	34,575
K M Folwell	33,478
W H J Barr	20,000
D M Morley	10,000
G D Campbell	49,654
V A Davies	19,961
J R de Laeter	29,058
R A Tastaia	12,142

EMPLOYEE INCENTIVE OPTION SCHEME

No options were issued to Directors during the year (2001: Nil)

During the year nil (2001: 852,700) shares were issued pursuant to the Company Employee Incentive Option Scheme. The options were exercised at various dates between 12 January 2001 and 26 June 2001. The issue price of \$3.97 reflects the weighted average issue price in respect of the exercised options.

During the year 300,000 options were granted to executives, 100,000 of these options were subsequently cancelled. The number of unissued ordinary shares in the Company under option at year end was 200,000 (2001: nil). Refer to Note 30 Remuneration of Executives.

DIRECTORS' MEETINGS

The number of Directors' meetings and meetings of committees held in the period each Director held office during the financial year, and the number of meetings attended by each Director are:

	Board of Directors' meetings		Audit Committee Meetings		Remuneration and Nomination Committee meetings	
	Number attended	Number held	Number attended	Number held	Number attended	Number held
I C R Mackenzie	14	14	6	6	3	3
K M Folwell	11	11	—	—	—	—
W H J Barr	12	14	6	6	—	—
G D Campbell	13	14	—	—	3	3
K W Court	4	4	3	3	—	—
V A Davies	14	14	—	—	3	3
J R de Laeter	12	14	5	6	—	—
R A Tastaia	14	14	6	6	3	3
D M Morley	2	2	—	—	—	—

INDEMNIFICATION AND INSURANCE OF OFFICERS

The Company has a policy approved by shareholders to indemnify all Directors of the Company named in this report and current and former executive officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as Director or executive officer unless the liability relates to conduct involving bad faith. The Company also has a policy to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

During the year the Company has paid a premium in respect of Directors and executive officers insurance. The contract contains a prohibition on disclosure of the amount of the premium and the nature of the liabilities under the policy.

Directors' Report

(continued)

ENVIRONMENTAL REGULATIONS

Iluka Resources Limited is committed to operating at best practice environmental standards. The Company was not subject to any stop work orders under environmental laws and regulations during 2002 or 2001.

Environmental incidents are required to be reported to the Board of Directors on the basis of their impact on the environment using the Company's internal severity rating scale (tiered 1 to 5 in order of increasing severity). A severity rating of 3 relates to an incident of local significance which may result in medium environmental disturbance. The severity ratings of 4 and 5 relate to incidents which may result in significant damage to the environment and widespread chronic damage respectively. The following tables detail the number of incidents rated at severity 3 or greater, reported to the Board of Directors during 2002 and 2001.

2002 Incidents Severity Rating	3	4	5
Western Australia Operations	29	1	—
United States Operations	4	—	—
Consolidated Rutile Operations	4	—	—
	37	1	—

2001 Incidents Severity Rating	3	4	5
Western Australia Operations	81	—	—
United States Operations	13	—	—
Consolidated Rutile Operations	5	—	—
PT Koba Tin	4	—	—
	103	—	—

The only level four environmental incident for 2002 occurred on 16 November 2002, at Yoganup mine site at the Company's south west operations. The wall of a clay fines solar drying dam was breached, resulting in the release of clay fines and water into adjacent vegetation on the Company's property and the discharge of turbid water into a local creek. It was concluded that the breach was due to inadequate dam wall construction and poor operating procedures. The material was non-toxic, however the incident is expected to cause some localised impact on the vegetation community, which is expected to recover following clean-up activities. The action following the incident included an immediate inspection of all dam walls to ensure they meet minimum standards. A Company standard for solar drying dam wall construction is being developed and all future dams are to be inspected before use.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 96/0100 issued by the Australian Securities and Investments Commission, relating to the rounding off of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded off to the nearest hundred thousand dollars in accordance with that Class Order.

This report is made in accordance with a resolution of the Directors.



I C R Mackenzie
Chairman



K M Folwell
Managing Director and Chief Executive Officer

Perth
26 March 2003

Statements of Financial Performance of the Consolidated Entity

For the Year Ended 31 December 2002

	Notes	Continuing Operations 2002 \$m	Discontinuing Operations 2002 \$m	Total 2002 \$m	Continuing Operations 2001 \$m	Discontinuing Operations 2001 \$m	Total 2001 \$m
Revenue from operating activities		836.8	57.7	894.5	772.7	128.1	900.8
Revenue from outside operating activities		35.5	0.2	35.7	20.2	4.2	24.4
Revenue from ordinary activities	2	872.3	57.9	930.2	792.9	132.3	925.2
Cost of goods sold		626.4	54.2	680.6	542.3	141.8	684.1
Other expenses from ordinary activities		114.9	5.1	120.0	100.4	50.8	151.2
Borrowing costs expense		27.5	–	27.5	26.9	–	26.9
Expenses from ordinary activities	3	768.8	59.3	828.1	669.6	192.6	862.2
Profit/(loss) from ordinary activities before income tax expense		103.5	(1.4)	102.1	123.3	(60.3)	63.0
Income tax benefit/(expense)	4	7.4	0.7	8.1	(8.1)	2.8	(5.3)
Net profit/(loss)		110.9	(0.7)	110.2	115.2	(57.5)	57.7
Net (profit)/loss attributable to outside equity interest		(1.4)	0.2	(1.2)	(7.4)	13.4	6.0
Net profit/(loss) attributable to the members of Iluka Resources Limited	23	109.5	(0.5)	109.0	107.8	(44.1)	63.7
Net increase/(decrease) in foreign currency translation reserve	22	–	–	–	(3.6)	3.9	0.3
Total revenues, expenses and valuation adjustments attributable to members of Iluka Resources Limited recognised directly in equity		–	–	–	(3.6)	3.9	0.3
Total change in equity other than those resulting from transactions with owners as owners		109.5	(0.5)	109.0	104.2	(40.2)	64.0
				Cents			
Basic earnings per share	25			48.6			29.3
Diluted earnings per share	25			48.6			29.3

The above statements of financial performance should be read in conjunction with the accompanying notes

Statements of Financial Position of the Consolidated Entity

As at 31 December 2002

	Notes	Continuing Operations 2002 \$m	Discontinuing Operations 2002 \$m	Total 2002 \$m	Continuing Operations 2001 \$m	Discontinuing Operations 2001 \$m	Total 2001 \$m
Current assets							
Cash assets	5	21.3	–	21.3	22.5	5.7	28.2
Receivable	6	238.5	–	238.5	171.9	7.8	179.7
Current tax assets	7	0.3	–	0.3	0.4	1.3	1.7
Inventories	9	129.9	–	129.9	174.9	25.4	200.3
Other assets	10	28.1	–	28.1	47.6	–	47.6
Total current assets		418.1	–	418.1	417.3	40.2	457.5
Non-current assets							
Receivables	6	15.3	–	15.3	14.2	0.5	14.7
Other financial assets	8	–	–	–	1.2	–	1.2
Inventories	9	2.0	–	2.0	0.9	0.2	1.1
Property, plant and equipment	11	1,196.6	–	1,196.6	1,041.7	14.0	1,055.7
Deferred tax assets	12	32.6	–	32.6	7.8	–	7.8
Intangible assets	13	17.6	–	17.6	–	–	–
Other assets	10	39.2	–	39.2	27.7	–	27.7
Total non-current assets		1,303.3	–	1,303.3	1,093.5	14.7	1,108.2
Total assets		1,721.4	–	1,721.4	1,510.8	54.9	1,565.7
Current liabilities							
Payables	16	94.9	–	94.9	71.8	7.1	78.9
Interest bearing liabilities	17	76.2	–	76.2	0.1	–	0.1
Current tax liabilities	18	3.1	–	3.1	6.0	–	6.0
Provisions	19	83.1	–	83.1	135.2	0.6	135.8
Total current liabilities		257.3	–	257.3	213.1	7.7	220.8
Non-current liabilities							
Interest bearing liabilities	17	393.3	–	393.3	388.9	–	388.9
Provisions	19	165.4	–	165.4	170.7	11.2	181.9
Deferred tax liabilities	20	26.4	–	26.4	14.7	2.2	16.9
Total non-current liabilities		585.1	–	585.1	574.3	13.4	587.7
Total liabilities		842.4	–	842.4	787.4	21.1	808.5
Net assets		879.0	–	879.0	723.4	33.8	757.2
Equity							
Contributed equity	21			610.4			534.0
Reserves	22			27.8			27.8
Retained profits	23			187.3			129.4
Shareholders' equity attributable to members of Iluka Resources Ltd				825.5			691.2
Outside equity interest in controlled entities	26			53.5			66.0
Total equity	27			879.0			757.2

The above statements of financial position should be read in conjunction with the accompanying notes.

Statements of Cash Flows of the Consolidated Entity

For the Year Ended 31 December 2002

	Notes	Continuing Operations 2002 \$m	Discontinuing Operations 2002 \$m	Total 2002 \$m	Continuing Operations 2001 \$m	Discontinuing Operations 2001 \$m	Total 2001 \$m
Cash flows from operating activities							
Receipts from customers (inclusive of goods and services tax)		773.1	50.8	823.9	730.6	127.7	858.3
Payments to suppliers and employees (inclusive of goods and services tax)		(639.2)	(52.4)	(691.6)	(577.0)	(127.5)	(704.5)
Interest received		1.2	–	1.2	1.5	0.1	1.6
Interest received from PT Koba Tin		–	–	–	0.4	(0.4)	–
Borrowing costs		(27.5)	–	(27.5)	(26.9)	–	(26.9)
Income taxes paid		(7.6)	(0.1)	(7.7)	(4.1)	(2.0)	(6.1)
GST received		32.9	–	32.9	22.3	–	22.3
Payments for exploration expenditure		(16.6)	–	(16.6)	(19.3)	–	(19.3)
Receipts from other operating activities		7.2	–	7.2	5.4	0.2	5.6
Net cash inflow/(outflow) from operating activities	39	123.5	(1.7)	121.8	132.9	(1.9)	131.0
Cash flows from investing activities							
Payments for property, plant and equipment		(133.4)	(1.4)	(134.8)	(91.4)	(2.0)	(93.4)
Proceeds from sale of property, plant and equipment		6.1	0.2	6.3	1.7	3.2	4.9
Proceeds from sale of Westlme (WA) Limited property, plant and equipment		–	–	–	–	1.3	1.3
Loans to related parties		0.3	(0.3)	–	(1.6)	(1.3)	(2.9)
Proceeds from disposal of group entities		22.7	(2.4)	20.3	0.1	–	0.1
Deposit received on sale of PT Koba Tin		–	–	–	–	1.4	1.4
Payments for controlled entities – Basin Minerals (net of cash acquired)		(56.6)	–	(56.6)	(1.2)	–	(1.2)
Payments for controlled entities – Consolidated Rutile Limited		(2.7)	–	(2.7)	(10.6)	–	(10.6)
Payment for purchase of patents and licences		(17.6)	–	(17.6)	–	–	–
Net cash inflow/(outflow) from investing activities		(181.2)	(3.9)	(185.1)	(103.0)	2.6	(100.4)
Cash flows from financing activities							
Proceeds from borrowings		310.2	–	310.2	102.5	–	102.5
Dividends paid		(49.3)	–	(49.3)	(47.8)	–	(47.8)
Dividends paid to outside equity interests in controlled entities		(4.3)	–	(4.3)	(6.1)	–	(6.1)
Repayment of borrowings		(199.9)	–	(199.9)	(88.0)	–	(88.0)
Proceeds from issue of shares		–	–	–	3.4	–	3.4
Net cash inflow/(outflow) from financing activities		56.7	–	56.7	(36.0)	–	(36.0)
Net increase/(decrease) in cash held		(1.0)	(5.6)	(6.6)	(6.1)	0.7	(5.4)
Cash at the beginning of the financial year		22.5	5.7	28.2	28.2	4.7	32.9
Effects of exchange rate changes on cash		(0.2)	(0.1)	(0.3)	0.4	0.3	0.7
Cash at the end of the financial year	5	21.3	–	21.3	22.5	5.7	28.2

The above statements of cash flows should be read in conjunction with the accompanying notes

Statements of Financial Performance of the Parent Entity

For the Year Ended 31 December 2002

	Notes	2002 \$m	2001 \$m
Revenue from operating activities		251.6	218.9
Revenue from outside operating activities		97.0	146.3
Revenue from ordinary activities	2	348.6	365.2
Costs of goods sold		195.2	148.5
Other expenses from ordinary activities		48.6	70.0
Borrowing costs expense		26.6	31.1
Expenses from ordinary activities	3	270.4	249.6
Profit from ordinary activities before income tax expense		78.2	115.6
Income tax expense	4	(18.9)	(8.3)
Net profit		59.3	107.3

The above statements of financial performance should be read in conjunction with the accompanying notes.

Statements of Financial Position of the Parent Entity

As at 31 December 2002

	Notes	2002 \$m	2001 \$m
Current assets			
Cash assets	5	0.4	–
Receivables	6	96.0	57.0
Inventories	9	34.2	64.8
Other assets	10	8.4	1.1
Total current assets		139.0	122.9
Non-current assets			
Receivables	6	30.8	0.8
Other financial assets	8	847.5	708.4
Property, plant and equipment	11	271.6	267.3
Deferred tax assets	12	0.2	6.3
Other assets	10	11.8	–
Total non-current assets		1,161.9	982.8
Total assets		1,300.9	1,105.7
Current Liabilities			
Payables	16	28.5	20.1
Interest bearing liabilities	17	53.0	1.2
Provisions	19	49.7	37.2
Total current liabilities		131.2	58.5
Non-current liabilities			
Interest bearing liabilities	17	392.9	369.8
Provisions	19	53.0	43.5
Deferred tax liabilities	20	5.3	–
Total non-current liabilities		451.2	413.3
Total liabilities		582.4	471.8
Net assets		718.5	633.9
Equity			
Contributed equity	21	610.4	534.0
Reserves	22	21.9	21.9
Retained profits	23	86.2	78.0
Total equity	27	718.5	633.9

The above statements of financial position should be read in conjunction with the accompanying notes

Statements of Cash Flows of the Parent Entity

For the Year Ended 31 December 2002

	Notes	2002 \$m	2001 \$m
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		213.4	213.9
Payments to suppliers and employees (inclusive of goods and services tax)		(203.9)	(171.9)
Borrowing costs		(26.1)	(25.2)
GST received		13.8	17.5
Dividends received from controlled entities		5.4	5.2
Management fees received from controlled entities		1.5	1.7
Receipts from other operating activities		0.7	1.4
Net cash inflow from operating activities	39	4.8	42.6
Cash flows from investing activities			
Payments for property, plant and equipment		(33.8)	(21.8)
Proceeds from sale of property, plant and equipment		1.3	0.6
Proceeds from sale of property, plant and equipment to controlled entities		—	26.4
Loans to controlled entities		24.7	(14.0)
Payments for investments in controlled entities		(61.5)	—
Net cash outflow from investing activities		(69.3)	(8.8)
Cash flows from financing activities			
Proceeds from borrowings		299.1	97.1
Repayment of borrowings		(183.7)	(88.0)
Dividends paid		(49.3)	(47.8)
Proceeds from issue of shares		—	3.4
Net cash inflow/(outflow) from financing activities		66.1	(35.3)
Net increase/(decrease) in cash held		1.6	(1.5)
Cash at the beginning of the financial year		(1.2)	0.3
Cash at the end of the financial year	5/17	0.4	(1.2)

The above statements of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This general purpose financial report has been prepared in accordance with relevant Australian Accounting Standards, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) and the provisions of the Corporations Act 2001.

It is prepared in accordance with the historical cost convention, except for certain assets which, as noted, are at valuation. Unless otherwise stated, the accounting policies adopted are consistent with those of the previous year.

Set out hereunder are the significant accounting policies adopted for the financial year ended 31 December 2002.

(A) PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Iluka Resources Limited and the results of all entities for the year.

The effects of all transactions between entities in the consolidated entity are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and the statement of financial position.

Where control of any entity is obtained during a financial year, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial year its results are included for that part of the year during which control existed. The consolidated entity's interest in other entities, which are not controlled entities, is reported in the financial statements as other financial assets and dividend income is taken into profits when declared.

(B) RECOVERABLE AMOUNT OF NON-CURRENT ASSETS

The recoverable amount of a non-current asset is the net amount expected to be recovered through the cash inflows and outflows arising from its continued use and subsequent disposal.

Where the carrying amount of a non-current asset is greater than its recoverable amount, the asset is written down to its recoverable amount. The decrement in the carrying amount is recognised as an expense in the net profit or loss in the reporting period in which the recoverable amount write-down occurs.

The expected net cashflows included in determining recoverable amounts of non-current assets are discounted to their present values using a market determined, risk-adjusted discount rate. The real discount rates used range from 6-7% (2001: 6-7%) depending on the nature of the assets.

(C) OVERBURDEN COSTS

Expenditure associated with the removal of mine overburden is capitalised and amortised over its useful life.

(D) CASH ASSETS

For purposes of the statements of cash flows, cash includes cash at bank and on hand, and short term deposits at call which are readily convertible to cash on hand and are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts.

(E) INVENTORIES

Finished goods and work in progress inventories have been valued at the lower of cost and estimated net realisable value.

Costs represent weighted average cost and includes direct costs and an appropriate portion of fixed and variable overhead expenditure, including depreciation and amortisation.

Net realisable value is the amount estimated to be obtained from the sale of the item of inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale.

Stores have been valued at weighted average cost. Obsolete or damaged inventories have been valued at net realisable value. A regular and ongoing review is undertaken to establish the extent of surplus items, and a provision is made for any potential loss on their disposal.

(F) INVESTMENTS

(i) Controlled entities

Investments in controlled entities are carried in the parent entity's financial statements at the lower of cost and recoverable amount. Controlled entities are accounted for in the consolidated financial statements as set out in Note 1(a).

A list of material controlled entities appears in Note 14.

(ii) Investments in listed securities

Investments in listed securities are brought to account at cost. At balance date the carrying amount of the investments are compared to market values and any material shortfall in values are provided, reflecting the investments recoverable amounts.

(G) ACCOUNTING FOR ACQUISITIONS

The cost method of accounting is used for all acquisitions of assets regardless of whether shares or other assets are acquired. Cost is determined as the fair value of the assets given up or liabilities undertaken at the date of acquisition plus costs incidental to the acquisition. Where shares are issued in an acquisition, the value of the shares is determined by reference to the market value.

Costs relating to the acquisition of new areas of interest are classified as either exploration and evaluation expenditure, development properties or mine properties depending on the stage of development reached at the date of acquisition.

A liability for restructuring costs is recognised as at the date of acquisition of an entity or part thereof when there is a demonstrable commitment to the restructuring of the acquired entity and a reliable estimate of the amount of the liability can be made.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(H-I) JOINT VENTURES

The consolidated entity has a coal operation and titanium minerals and zircon exploration activities which are conducted through joint ventures with other parties. The consolidated entity's interest in the assets and liabilities of these joint ventures is included in the consolidated entity's statement of financial position under the appropriate headings. Details of the joint ventures are set out in Note 28.

(I) DEPRECIATION AND AMORTISATION OF PROPERTY, PLANT AND EQUIPMENT

(i) Mine buildings, reserves and development, plant machinery and equipment

Depreciation and amortisation of mine buildings, reserves and development, plant machinery and equipment is provided over the life of the relevant mine or asset, whichever is the shorter.

Depreciation and amortisation is determined on a straight line basis.

The expected useful lives are as follows:

Mine buildings – the shorter of applicable mine life and 25 years;

Plant, machinery and equipment – the shorter of applicable mine life or 3 – 25 years depending on the nature of the asset.

Reserves and development – the applicable mine life.

The reserves and life of each mine and the remaining useful life of each class of asset are re-assessed at regular intervals and the depreciation and amortisation rates adjusted accordingly.

Where operations are temporarily suspended and assets are placed on care and maintenance, depreciation and amortisation is not charged provided no deterioration or technical and commercial obsolescence occurs.

(ii) Other assets

Land held for resale is stated at the lower of cost and net realisable value.

Depreciation has been calculated to write off the net cost of each class of asset over its estimated effective working life.

(J) PROJECT EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

Exploration and evaluation expenditure is accumulated separately for each area of interest. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure.

Expenditure is carried forward when incurred in areas where economic mineralisation is indicated, but activities have not yet reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves and active and significant operations in relation to the area are continuing. Each such project is regularly reviewed.

If the project is abandoned or if it is considered unlikely the project will proceed to development, accumulated costs to that point are written off immediately.

Each area of interest is limited to a size related to a known or probable mineral resource capable of supporting a mining operation.

Identifiable exploration assets acquired from another mining company are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 1015: Accounting for the Acquisition of Assets.

Projects are advanced to development status when it is expected that accumulated and future expenditure can be recouped through project development or sale.

Direct costs associated with the commissioning of plant and equipment are capitalised and included in deferred expenditure as mining and processing costs. Pre-commissioning costs in testing the processing plant are also capitalised.

All above expenditure is carried forward up to commencement of operations at which time it is amortised in accordance with the policy stated in Note 1(i).

(K) FINANCE LEASES

Property, plant and equipment subject to finance leases have been capitalised.

The amount of the leased asset and corresponding lease liability is the present value of minimum lease payments at inception. Leased assets are amortised in accordance with the policy stated in Note 1(i). Lease liabilities are reduced by repayments of principal and the interest portion of lease payments is expensed in the statement of financial performance.

(L) TRADE AND OTHER CREDITORS

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

(M) INTEREST BEARING LIABILITIES

Loans are carried at their principal amounts which represent the present value of future cash flows associated with servicing the debt at inception. Interest is accrued over the period it becomes due and is recorded as part of other creditors if unpaid.

Interest costs are recognised as expenses in the period in which they are incurred, except where they are included in the cost of qualifying assets.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(N) EMPLOYEE ENTITLEMENTS

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, annual leave and sick leave are recognised, and are measured as the amount unpaid at the reporting date at current pay rates in respect of employees' services up to that date.

(ii) Long service leave

A liability for long service leave is recognised, and is measured at an amount which approximates the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of services.

(iii) Superannuation

The Company has a Superannuation Plan that exists to provide defined benefit and/or accumulation type benefits to employees and their dependents on retirement, disability or death.

For funding purposes, actuarial valuations are carried out approximately every 3 years for the Company's liability for the defined benefit and accumulation enhancement portions of the Plan. The Company's commitment in respect of accumulation benefits under the Plan is limited to making the specified contributions in accordance with the Rules of the Plan and/or any statutory obligations. The Company's contributions to the Superannuation Plan are expensed in the statements of financial performance as incurred.

(iv) Ownership-based remuneration scheme

Ownership-based remuneration is provided to Directors, executives and employees via various share plans. Information relating to these schemes is set out in Note 32.

No accounting entries are made in relation to these plans until shares/options are exercised, at which time the amounts recoverable from employees are recognised in the statement of financial position as share capital. The amounts disclosed for remuneration of Directors and executives in Notes 29 and 30 include the assessed fair value of options at the date they were granted.

The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as a liability and as part of employee benefit costs when the employees become entitled to the shares. When the shares are issued, their market value is recognised in the statement of financial position as share capital.

(O) REHABILITATION AND MINE CLOSURE COSTS

Rehabilitation and mine closure costs necessitated by exploration and evaluation activities are accrued at the time of those activities and treated as exploration and evaluation expenditure.

Expenditures relating to ongoing rehabilitation and mine closure programs are provided for or charged to costs of production as incurred. Other rehabilitation and mine closure costs are accrued over the life of the mine.

Rehabilitation and mine closure obligations recognised include the costs of reclamation, plant and waste site closure and subsequent monitoring of the environment.

Costs are estimated on the basis of current undiscounted costs, current legal requirements and current technology.

Estimates of future costs are reassessed at least annually. Changes in estimates relating to areas of interest in the exploration and evaluation phase are dealt with retrospectively, with any amounts that would have been written off under the accounting policy for exploration and evaluation immediately written off. Changes in estimates of costs relating to producing areas are dealt with prospectively over the remaining mine life.

(P) FOREIGN CURRENCY

(i) Foreign currency transactions and balances

Amounts payable and receivable in foreign currencies at year end are translated to Australian dollars at exchange rates applicable at year end.

Foreign currency transactions are converted at the approximate rate of exchange applicable at the date of the relevant transaction.

With the exceptions outlined in (ii) to (v) below, all gains and losses are recognised in the statement of financial performance as they occur.

(ii) Translation of overseas financial statements

The financial statements of self-sustaining overseas controlled entities are translated to Australian dollars using the current rate method.

Assets and liabilities are translated into Australian currency at rates of exchange current at balance date, while revenues and expenses are translated at the average rates ruling during the year. Exchange differences arising on translation are taken to the foreign currency translation reserve.

(iii) Foreign currency loans

Loans drawn down by Australian entities which are repayable in foreign currencies are translated to Australian dollars at exchange rates applicable at year end. To the extent that a particular loan is intended to hedge the net investment in a self sustaining foreign operation, exchange differences are, on consolidation, taken to the foreign currency translation reserve.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(P) FOREIGN CURRENCY (CONTINUED)

(iv) Hedging of specific foreign currency transactions

In accordance with changes to AASB 1012: Foreign Currency Transactions, from 1 January 2002 the consolidated entity is required, for transactions intended to hedge specific purchases or sales, to recognise the following in the statement of financial position:

- (i) Costs or gains arising at the time of entering into the transactions; and
- (ii) Exchange differences, to the extent that they arise up to the date of purchase or sale.

Previously such exchange differences, other than those relating to derivatives inherited from RGC Limited, were deferred off the statement of financial position.

The effect of this change resulted in the recognition of an asset and corresponding liability of \$18.3 million (2001: liability and corresponding asset of \$20.1 million being the mark to market loss on foreign exchange derivatives), being mark to market gain on foreign exchange derivatives in the statement of financial position, which has no impact on the statement of financial performance.

Exchange differences, and costs or gains arising in respect of forward exchange contracts and foreign exchange options which hedge anticipated purchase or sale items, are deferred in the statement of financial position until the settlement date at which time they are included in the measurement of the transaction to which they relate.

In those circumstances where a hedging instrument is terminated prior to maturity because the hedged transaction is no longer expected to occur as designated, any deferred gains and losses are recognised in the statement of financial performance at the date of termination. If the hedging instrument is terminated prior to its maturity date but the hedged transaction is still expected to occur as designated, any gains and losses which arose prior to termination are deferred and included in the measurement of the hedged transaction.

If a hedge transaction relating to a purchase or sale item is redesignated as a hedge of another specific commitment and the original transaction is still expected to occur, the gains and losses that arise on the hedge prior to its redesignation are deferred and included in the measurement of the original purchase or sale when it takes place. If the hedge transactions is redesignated as a hedge of another commitment because the original purchase or sale transaction is no longer expected to occur as designated, the gains and losses that arose on the hedge prior to its redesignation are recognised in the statement of financial performance at the date of the redesignation.

(v) Speculative transactions

Exchange differences in respect of foreign exchange options held for speculative purposes are deferred and recognised in the statement of financial performance when realised.

Exchange differences relating to the net written option position of foreign exchange options are classified as speculative and recognised in the statement of financial performance when realised.

If a speculative transaction is redesignated as a hedge of a specific commitment, any deferred gains and losses are recognised in the statement of financial performance at the date of redesignation.

(Q) REVENUE AND RECEIVABLES RECOGNITION

Trade debtors are recognised and sales are taken up as revenue, when risk in a product has passed to the customer, and:

- (i) the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the consolidated entity;
- (ii) the product has been dispatched to the customer and is no longer under the physical control of the consolidated entity (or property in the product has earlier passed to the customer); and
- (iii) the quantity, quality and selling price of the product can be determined with reasonable accuracy.

Gains and losses, including premiums paid or received, in respect of forward sales, options, and other deferred delivery arrangements which hedge anticipated revenues from future production, are deferred and included in sales revenue when the hedged production is delivered.

Collectibility of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful debts is raised where some doubt as to collection exists.

Payments to customers for extended and improved supply contracts are treated as non-current receivables and are to be amortised over the extended contract periods.

(R) INCOME TAX

Tax-effect accounting procedures have been followed whereby the income tax expense is matched with the accounting profit after allowance for permanent differences. Deferred income tax set aside as a result of timing differences has been calculated using the "liability" method. Future income tax benefits relating to tax losses are recognised as assets when realisation of those benefits is virtually certain.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(S) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(T) MAINTENANCE AND REPAIRS

Minor maintenance and repair costs are charged to expenses as incurred. Major maintenance and repair costs on individual assets, defined as costs in excess of \$1.0 million with an economic life greater than one year, are capitalised and expensed over the useful life of the related asset.

(U) BORROWING COSTS

Borrowing costs include interest, amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, exchange differences arising from foreign currency borrowings and finance lease charges.

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the cost of qualifying assets.

Qualifying assets are assets that take more than 12 months to prepare for their intended use or sale.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the consolidated entity's outstanding borrowings during the year.

(V) COMPARATIVE FIGURES

Where necessary, comparative figures have been adjusted to be consistent with changes in presentation in the current year.

(W) ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/0100, issued by the Australian Securities and Investment Commission, relating to the 'rounding off' of amounts in the financial report. Amounts in the financial report have been rounded off in accordance with that class order to the nearest hundred thousand dollars, or in certain cases to the nearest thousand dollars.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 2. REVENUE FROM ORDINARY ACTIVITIES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Revenue from operating activities				
Sale of goods (Note 33 (a)(iv))	894.5	900.8	251.6	218.9
Revenue from outside operating activities				
Interest	1.2	1.5	—	—
Interest – group	—	—	62.3	61.5
Dividends – group	—	—	5.4	65.2
Net foreign exchange gain	—	4.9	27.2	—
Net cash speculative position gain (Note 33 (a)(iv))	—	—	—	17.7
Proceeds on sale of property, plant and equipment	6.3	6.2	1.4	0.6
Other revenue	3.7	5.5	0.7	1.3
	11.2	18.1	97.0	146.3
Individually significant items of revenue from outside operating activities				
Proceeds on sale of Sierra Rutile Holdings Limited	—	6.3	—	—
Proceeds on sale of PT Koba Tin	24.5	—	—	—
	24.5	6.3	—	—
Revenue from outside operating activities	35.7	24.4	97.0	146.3
	930.2	925.2	348.6	365.2
NOTE 3. EXPENSES FROM ORDINARY ACTIVITIES				
Cost of goods sold				
Cost of production	563.4	548.9	167.6	121.4
Rehabilitation and mine closure	19.6	22.0	7.1	8.3
Depreciation and amortisation				
– Property, plant and equipment	60.2	63.7	17.4	16.0
– Mine reserves and development	37.4	49.5	3.1	2.8
	680.6	684.1	195.2	148.5
Other expenses from ordinary activities				
Marketing and selling (including royalties)	41.0	46.9	8.0	8.2
Corporate, finance and administration	31.0	33.5	24.1	45.2
Exploration and evaluation	8.2	10.9	2.9	3.8
Research and development	4.2	2.1	4.2	2.1
Sierra Rutile Holdings Limited project expenditure	—	3.7	—	—
Written down value of property, plant and equipment sold	3.7	5.3	1.0	0.7
	88.1	102.4	40.2	60.0
Individually significant items of expense				
Write down of assets to recoverable amount	8.2	5.0	8.2	5.0
Written down value of PT Koba Tin at sale	23.7	—	—	—
Closure of Westlime operations	—	6.3	—	—
Write down of intercompany loan receivable	—	—	0.2	5.0
Write down of PT Koba Tin assets	—	37.5	—	—
	31.9	48.8	8.4	10.0
Other expenses from ordinary activities	120.0	151.2	48.6	70.0
Borrowing costs expense				
Interest and finance charges	27.5	26.9	26.1	25.2
Interest and finance charges – group	—	—	0.5	5.9
	27.5	26.9	26.6	31.1
	828.1	862.2	270.4	249.6

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 4. INCOME TAX

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
(a) Prima facie income tax expense calculated at 30% (2001: 30%) on the profit from ordinary activities	30.6	18.9	23.5	34.7
Tax effect of permanent differences:				
Depreciation and amortisation – non deductible	10.0	12.9	0.2	–
Write down of PT Koba Tin assets for sale	–	11.3	–	–
Net foreign exchange (gains)/losses	(0.9)	1.5	(0.9)	–
Non deductible expenses	1.0	1.1	0.5	–
Foreign expenditure – non deductible	0.6	1.0	0.1	–
Non assessable recovery on hedging	(9.8)	(8.5)	–	–
Non assessable profit on sale of Sierra Rutile Holdings Limited	–	(2.0)	–	–
United States Operations – depletion allowance	(0.5)	(3.4)	–	–
Effect of different tax rates on overseas income	0.5	(1.2)	–	–
Profit on sale of PT Koba Tin	(0.3)	–	–	–
Rebatable dividends received	–	–	(1.6)	(19.6)
Write down of intercompany loan	–	–	–	1.5
Other permanent differences	(0.8)	0.1	(0.3)	0.8
Income tax expense on operating result	30.4	31.7	21.5	17.4
Income tax (over)/under provided in prior years	(0.1)	0.4	(2.6)	1.0
Tax benefits not previously brought to account *	(38.4)	(26.8)	–	(10.1)
Total income tax (benefit)/expense	(8.1)	5.3	18.9	8.3
Income tax attributable to operating profit:				
Income tax recoverable	–	1.2	–	–
Current taxation provision	6.3	6.1	7.4	9.9
Deferred income tax provision	5.4	(1.3)	8.0	0.1
Future income tax benefit	(19.7)	(1.1)	6.1	(2.7)
(Over)/under provision from prior years	(0.1)	0.4	(2.6)	1.0
Total income tax (benefit)/expense	(8.1)	5.3	18.9	8.3
* During the year the Company reviewed its practice of recognising unbooked future income tax benefits attributable to tax losses and timing differences. As a result, additional unbooked tax losses of \$9.9 million have been recognised compared with the previous practice.				
(b) Potential future income tax benefits attributable to tax losses not brought to account @ 30% (2001: 30%)	–	27.2	–	–
Potential future income tax benefits attributable to timing differences not brought to account @ 30% (2001: 30%)	37.8	67.1	–	1.8

Realisation of these future tax benefits will only occur in the event that:

- (i) the consolidated entity derives future assessable income of a nature and an amount sufficient to enable the benefit from the deductions to be realised;
- (ii) the losses are transferred to an eligible entity in the consolidated entity;
- (iii) the consolidated entity continues to comply with the conditions for deductibility imposed by the law; and
- (iv) no changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions.

- (c) The Company is considering its position in relation to the consolidated tax regime as at 31 December 2002. At this stage no firm decision has been made to the timing and transitory options available under the legislation. It is not expected that there will be any impact on the carried forward tax loss position for the consolidated entity.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 5. CASH ASSETS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Cash at bank and on hand	6.0	16.1	0.4	—
Money at call with banks (a)	15.3	12.1	—	—
	21.3	28.2	0.4	—

(a) The deposits are bearing floating interest rates between 0.75% and 4.6% (2001: 0.75% and 6.1%), on Australian dollars and US dollars.

NOTE 6. RECEIVABLES

Current

Trade debtors	209.5	149.0	86.8	51.8
Loans – RGC employee share plan (a)	3.0	3.0	—	—
Goods and services tax receivable	5.4	7.4	5.3	3.1
Other debtors and prepayments	20.6	20.3	3.9	2.1
	238.5	179.7	96.0	57.0

Non-current

Loans – RGC employee share plan (a)	2.6	5.6	—	—
Other debtors	12.7	9.1	6.4	0.8
Related parties	—	—	24.4	—
	15.3	14.7	30.8	0.8

(a) Loans – RGC employee share plan

Iluka Corporation Limited suspended the operation of its employee share plan during 1998. Under the provisions of the employee share plan, amounts receivable from employees are secured by the shares of Iluka Resources Limited.

The amounts receivable under the employee share plan are reviewed at each reporting date and to the extent the loans exceed the market value of the underlying securities an adjustment is taken to the statement of financial performance.

The face value of loans under the employee share plan to the Directors of controlled entities which were outstanding at year end amounted to \$Nil (2001: \$78,210). In 2001 this amount related to P J Jackson who was a Director of a controlled entity as at 31 December 2001.

For information on the terms and conditions of the share plan loans refer to Note 32.

NOTE 7. CURRENT TAX ASSETS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Income tax recoverable	0.3	1.7	—	—

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 8. OTHER FINANCIAL ASSETS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Non-current				
Unquoted shares in Controlled Entities (Note 14)				
-- at cost (a)	—	—	850.6	711.5
Less: amounts written down	—	—	(3.1)	(3.1)
	—	—	847.5	708.4
Quoted shares in other corporations				
-- at cost (b)	—	1.2	—	—
	—	1.2	847.5	708.4

(a) From 1 January 2001 the consolidated entity has adopted a deemed cost base to comply with Accounting Standard AASB 1041 — Revaluation of Non-Current Assets.

(b) The market value of the quoted shares in other corporations at 31 December 2002 was Nil (2001: \$2.8 million).

NOTE 9. INVENTORIES

Current				
Raw materials and stores -- at cost	17.5	22.1	3.2	3.8
Work in progress -- at cost	47.4	61.1	20.5	33.5
Work in progress -- at net realisable value	2.5	—	—	—
Finished goods -- at cost	58.4	114.8	9.0	25.2
Finished goods -- at net realisable value	4.1	2.3	1.5	2.3
	129.9	200.3	34.2	64.8
Non-current				
Raw materials and stores -- at cost	2.0	1.1	—	—

NOTE 10. OTHER ASSETS

Current				
Deferred overburden removal/deferred mining expenditure	2.2	—	0.6	—
Deferred maintenance costs	9.8	5.7	4.4	1.1
Land held for resale	2.7	—	—	—
Mark to market gain on foreign exchange derivatives (Note 33 (a)(iii))	6.3	—	3.4	—
Deferred losses on foreign exchange derivatives (Note 33 (a)(iii))	7.1	41.9	—	—
	28.1	47.6	8.4	1.1
Non-current				
Royalty entitlement asset	10.0	10.0	—	—
Deferred maintenance costs	5.4	1.8	1.3	—
Mark to market loss on foreign exchange derivatives (Note 33 (a)(iii))	12.0	—	10.5	—
Deferred losses on foreign exchange derivatives (Note 33(a)(iii))	11.8	15.9	—	—
	39.2	27.7	11.8	—

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 11. PROPERTY, PLANT AND EQUIPMENT

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Exploration and evaluation expenditure				
Project exploration and evaluation expenditure (b)				
– at cost	106.7	91.2	–	–
Mine properties				
Freehold land and buildings				
– at cost	72.6	86.1	37.0	39.0
– less: accumulated depreciation	(6.5)	(8.4)	(4.2)	(3.7)
	66.1	77.7	32.8	35.3
Plant machinery and equipment				
– at cost	862.9	771.0	369.2	346.0
– less: accumulated depreciation	(286.9)	(285.9)	(156.9)	(141.5)
	576.0	485.1	212.3	204.5
– under finance lease	0.7	0.8	–	–
– less: accumulated amortisation	(0.1)	(0.1)	–	–
	0.6	0.7	–	–
Mine reserves and development				
– at cost	590.0	425.4	24.7	36.5
– less: accumulated amortisation	(167.2)	(87.5)	(11.1)	(17.4)
	422.8	337.9	13.6	19.1
Project development expenditure				
– at cost	24.4	63.1	12.9	8.4
	1,196.6	1,055.7	271.6	267.3
Net profit on sale of property, plant and equipment	2.6	0.7	0.4	0.1

Reconciliation

Reconciliation of the carrying amount of each class of property, plant and equipment at the beginning and end of the current financial year are set out below.

	Exploration & Evaluation \$m	Freehold Land & Buildings \$m	Plant, Machinery & Equipment \$m	Leased Plant Machinery & Equipment \$m	Mine Reserves & Development \$m	Project Development \$m	Total \$m
Consolidated							
Carrying Value at 1 January 2002	91.2	77.7	485.1	0.7	337.9	63.1	1,055.7
Additions	18.0	0.9	73.7	–	5.9	54.5	153.0
Disposals	–	(2.1)	(12.9)	–	–	–	(15.0)
Additions through acquisition of entity (see Note 14)	6.7	5.3	0.1	–	127.2	–	139.3
Iron Plant Write down (a)	–	–	(4.7)	–	(1.9)	–	(6.6)
Project development expenditure (a)	–	–	(1.6)	–	–	–	(1.6)
Write off of Exploration Expenditure	(8.2)	–	–	–	–	–	(8.2)
Depreciation and Amortisation Expense	–	(0.4)	(59.7)	(0.1)	(37.4)	–	(97.6)
Foreign Currency Exchange Difference	(1.0)	(1.1)	(10.6)	–	(5.8)	(2.3)	(20.8)
Transfer	–	(14.2)	106.6	–	(3.1)	(90.9)	(1.6)
Carrying Value at 31 December 2002	106.7	66.1	576.0	0.6	422.8	24.4	1,196.6

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 11. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Parent Entity	Freehold Land & Equipment \$m	Plant, Machinery & Equipment \$m	Mine Reserves & Development \$m	Project Development \$m	Total \$m
Carrying Value at 1 January 2002	35.3	204.5	19.1	8.4	267.3
Additions	–	18.3	2.6	12.9	33.8
Disposals	(0.6)	(0.2)	–	–	(0.8)
Iron Plant Write down (a)	–	(4.7)	(1.9)	–	(6.6)
Project development expenditure (a)	–	(1.6)	–	–	(1.6)
Depreciation and Amortisation Expense	(0.6)	(16.6)	(3.1)	–	(20.5)
Transfer	(1.3)	12.8	(3.1)	(6.4)	–
Carrying Value at 31 December 2002	32.8	212.3	13.6	12.9	271.6

(a) During the year, the Company completed a review of recoverable assets in accordance with Australian Accounting Standards and subsequently chose to write off \$6.6 million of assets associated with a project to develop iron oxide residue conversion technology and \$1.6 million for project development expenditure.

(b) Project exploration and evaluation expenditure includes acquired expenditure of \$79.0 million (2001: \$72.3 million). The additional amount of \$6.7 million of acquired project exploration expenditure in 2002 relates to the acquisition of Basin Minerals Limited and its subsidiaries.

Project development, exploration and evaluation expenditure is carried forward in accordance with the accounting policy expressed in Note 1(j). Ultimate recoupment of exploration and evaluation expenditure carried forward is dependent on successful commercial development, or alternatively, sale of the respective areas.

Freehold land and buildings associated with the consolidated entity's mining interests are typically in areas where, in the absence of mining activities, the land and buildings would have little or no value. For this reason the Directors consider the current value of such land and buildings to be equivalent to their carrying value, which is a measure of the value of the respective land and buildings to the consolidated entity as a going concern. In accordance with AASB 1010 information to be disclosed in financial reports, the Directors periodically reassess the carrying value of freehold land and buildings.

(c) During the year Consolidated Rutile Limited transferred capital insurance spares of \$1.1 million from raw materials and stores to plant, machinery and equipment.

At year end, Consolidated Rutile Limited transferred \$2.7 million from land and buildings to current other assets as the land is held for resale.

NOTE 12. DEFERRED TAX ASSETS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Future income tax benefit	32.6	7.8	0.2	6.3

NOTE 13. INTANGIBLE ASSETS

Patents and licences	17.6	–	–	–
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On 31 December 2002, Iluka Resources Limited and Iluka Midwest Limited (a controlled entity of the parent entity) and Rio Tinto & Titanium Inc (Rio Tinto) agreed to end a long standing litigation with respect to the synthetic rutile enhancement process (SREP), Hybrid and Rutile Patents. Under the terms of the agreement, the SREP patent will be jointly owned by the companies and Rio Tinto will receive a payment of US\$15 million from the consolidated entity. The first payment of US\$10 million (A\$17.6 million) for future use of the SREP technology was paid in December 2002 and the second amount of US\$5 million is payable in March 2003, which have been fully accrued for in the statement of financial position as at 31 December 2002.

Of the payment, US\$10 million relates to future patent and licence rights associated with SREP, this amount will be amortised over the balance of the remaining life of the patents.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 14. CONTROLLED ENTITIES

	Place of incorporation	Country outside of Australia where business is carried on	Other notes	Equity holding 2002 %	2001 %
Iluka Resources Limited					
Controlled entities of Iluka Resources Limited:					
Controlled entities of the parent entity					
Iluka Corporation Limited	Australia		(d)	100.0	100.0
Basin Minerals Limited	Australia		(a) & (d)	100.0	—
Controlled entities of Iluka Corporation Limited					
Iluka Midwest Limited	Australia		(d)	100.0	100.0
The Nardelli Colliery Pty Limited	Australia		(d)	100.0	100.0
Consolidated Rutile Limited	Australia			50.1	49.0
Iluka Administration Limited	Australia		(d)	100.0	100.0
Controlled entities of Iluka Midwest Limited					
Iluka Resources Inc	USA	USA	(e)	100.0	100.0
Controlled entities of Iluka Administration Limited					
Iluka Exploration Pty Limited	Australia		(d)	100.0	100.0

These controlled entities have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information see Note 40.

- (a) On 29 May 2002, the parent entity announced a takeover offer for Basin Minerals Limited and its subsidiaries. On 19 August 2002 the Company announced that it had received acceptance of 96.82% of Basin Minerals shares. The operating results of this newly controlled entity have been included in the consolidated statement of financial performance since the date of acquisition. On 1 November 2002, the parent entity announced that it had acquired 100% (effective 22 October 2002) of Basin Minerals shares.
- (b) All material controlled entities are unquoted with the exception of Consolidated Rutile Limited which is quoted on the Australian Stock Exchange.
- (c) Except where indicated all material controlled entities are wholly owned and all investments are in respect of ordinary shares.
- (d) In accordance with an Australian Securities and Investments Commission Class Order, a deed of indemnity has been entered into between the parent entity and certain wholly-owned controlled entities, whereby the parent entity and each controlled entity has effectively undertaken to guarantee the debts of each other. At 31 December 2002 there was one closed group within the consolidated entity for which a class order has been obtained and applied.
- (e) Iluka Resources Inc is not required to prepare financial statements, as it is an entity established in a jurisdiction not requiring audited accounts.
- (f) During 2002 PT Koba Tin and Kajuara Mining Corporation Limited were disposed (see Note 15). The assets of Westlime (WA) Limited were sold during 2001, not the company.

Details of the Basin Minerals acquisition are as follows:

Fair value of identifiable net assets acquired	2002 \$m
Cash	4.9
Receivables	0.2
Property, plant and equipment	139.3
Payables	(3.0)
Bank loans	(2.3)
Cash and equity consideration	139.1
Cash and equity consideration are made up as follows:	
Cash (year ended 31 December 2001)	1.2
Cash (year ended 31 December 2002)	61.5
Shares issued (refer Note 21(e))	76.4
	139.1

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 14. CONTROLLED ENTITIES (CONTINUED)

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Outflow of cash to acquire controlled entity, net of cash acquired				
Cash consideration	61.5	1.2	61.5	—
Less: cash acquired	(4.9)	—	—	—
Outflow of cash	56.6	1.2	61.5	—

The takeover offer was for shares in Iluka Resources Limited or cash. The number of shares accepted was 15,503,111 at issue prices between \$4.36 and \$5.09. Refer Note 21(e).

Sale of controlled entities

	Consolidated	
	2002 \$m	2001 \$m
Gross receipt of cash on disposal	23.1	1.4
Less: Cash balances net of bank overdrafts	(2.4)	—
Cash inflow on disposal	20.7	1.4
Net assets at date of disposal:		
Assets		
Cash	2.4	—
Receivables	13.5	—
Inventories	23.7	—
Property, plant and equipment	49.4	—
	89.0	—
Liabilities		
Accounts payable	(9.3)	—
Provisions	(11.9)	—
	(21.2)	—
Net assets disposed	67.8	—
Less: outside equity interest share of net assets disposed at 25%	(16.9)	—
Less: provision for write down of PT Koba Tin assets after adjustment for outside equity interest at 31 December 2001	(26.8)	—
Less: disposal costs	(0.4)	—
	23.7	—
Proceeds on sale (Note 2)	24.5	—
Profit on disposal	0.8	—

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 15. DISCONTINUING OPERATIONS

On 1 November 2001 the Company announced the sale of its 75% stake in its Indonesian operation PT Koba Tin to Malaysia Smelting Corporation Berhad. The sale process was completed on 9 April 2002, thereby discontinuing the groups operations in the Tin segment (refer Note 37).

Sale proceeds consist of US\$13.7 million in cash and a deferred component, (contingent on London Metal Exchange tin prices) which at settlement was capped at US\$6.0 million over three years, since reduced to US\$4.0 million over the next two years. The deferred sales proceeds component has not been recognised in the accounts.

On 4 July 2001 the Company announced that Westtime (WA) Limited had ceased operation at its Dongara Quicklime facility. The property, plant and equipment of Westtime was sold in December 2001.

Financial information relating to PT Koba Tin and the Westtime (WA) Limited operation for the reporting period is included in the statements of financial performance, statements of financial position, statements of cash flows and segment disclosures under the heading of Discontinuing Operations.

Separate disclosure of each discontinuing operation statements of performance, position and cash flows is included below.

Discontinuing Operations Statements of Financial Performance

	PT Koba Tin		Westtime		Total	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Revenue from operating activities	57.7	125.2	–	2.9	57.7	128.1
Revenue from outside operating activities	0.2	2.9	–	1.3	0.2	4.2
Revenue from ordinary activities	57.9	128.1	–	4.2	57.9	132.3
Cost of goods sold	54.2	134.8	–	7.0	54.2	141.8
Other expenses from ordinary activities	5.1	5.7	–	1.3	5.1	7.0
Writedown of assets to recoverable amount	–	37.5	–	6.3	–	43.8
Expenses from ordinary activities	59.3	178.0	–	14.6	59.3	192.6
Loss from ordinary activities before income tax expense	(1.4)	(49.9)	–	(10.4)	(1.4)	(60.3)
Income tax benefit	0.7	2.8	–	–	0.7	2.8
Net loss	(0.7)	(47.1)	–	(10.4)	(0.7)	(57.5)
Net loss attributable to outside equity interest	0.2	13.4	–	–	0.2	13.4
Net loss attributable to the members of Iluka Resources Limited	(0.5)	(33.7)	–	(10.4)	(0.5)	(44.1)

Discontinuing Operations Statements of Financial Position

	PT Koba Tin		Westtime		Total	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Cash assets	–	5.7	–	–	–	5.7
Receivables	–	7.3	–	1.0	–	8.3
Current tax assets	–	1.3	–	–	–	1.3
Inventories	–	25.6	–	–	–	25.6
Property, plant and equipment	–	14.0	–	–	–	14.0
Total assets	–	53.9	–	1.0	–	54.9
Payables	–	6.9	–	0.2	–	7.1
Provisions	–	11.8	–	–	–	11.8
Deferred tax liabilities	–	2.2	–	–	–	2.2
Total liabilities	–	20.9	–	0.2	–	21.1
Net assets	–	33.0	–	0.8	–	33.8

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 15. DISCONTINUING OPERATIONS (CONTINUED)

Discontinuing Operations Statements of Cash Flows

	PT Koba Tin		Westlime		Total	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Cash flows from operating activities						
Receipts from trade customers	50.8	124.6	–	3.1	50.8	127.7
Payments to suppliers and employees	(52.4)	(114.5)	–	(13.0)	(52.4)	(127.5)
Interest received	–	0.1	–	–	–	0.1
Borrowing costs paid to parent entity	–	(0.4)	–	–	–	(0.4)
Income taxes paid	(0.1)	(1.9)	–	(0.1)	(0.1)	(2.0)
Receipts from other operating activities	–	0.1	–	0.1	–	0.2
Net cash (outflow)/inflow from operating activities	(1.7)	8.0	–	(9.9)	(1.7)	(1.9)
Cash flows from investing activities						
Payments for property, plant and equipment	(1.4)	(2.0)	–	–	(1.4)	(2.0)
Proceeds from sale of property, plant and equipment	0.2	3.2	–	–	0.2	3.2
Proceeds from sale of Westlime (WA) Limited property, plant and equipment	–	–	–	1.3	–	1.3
Loans to related parties	(0.3)	(10.2)	–	8.9	(0.3)	(1.3)
Deposit received on sale	–	1.4	–	–	–	1.4
Cash disposed on sale	(2.4)	–	–	–	(2.4)	–
Net Cash (outflow)/inflow from investing	(3.9)	(7.6)	–	10.2	(3.9)	2.6
Net (decrease)/increase in cash held	(5.6)	0.4	–	0.3	(5.6)	0.7
Cash at beginning of financial year	5.7	5.0	–	(0.3)	5.7	4.7
Effect of exchange rate changes on cash	(0.1)	0.3	–	–	(0.1)	0.3
Cash at the end of the financial year	–	5.7	–	–	–	5.7

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 16. PAYABLES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Current				
Trade creditors	74.0	62.9	25.8	16.8
Other creditors	20.9	16.0	2.7	3.3
	94.9	78.9	28.5	20.1

NOTE 17. INTEREST BEARING LIABILITIES

Current				
Bank loans – unsecured (a)	53.0	–	53.0	–
Bank loans – secured (d)	23.1	–	–	–
Bank overdrafts – unsecured	–	–	–	1.2
Lease liabilities (Note 35)	0.1	0.1	–	–
	76.2	0.1	53.0	1.2
Non-current				
Senior notes – unsecured (b)	264.6	293.3	264.6	293.3
Bank loans – unsecured (c)	128.3	69.3	128.3	69.3
Bank loans – secured (d)	–	25.8	–	–
Lease liabilities (Note 35)	0.4	0.5	–	–
Related parties	–	–	–	7.2
	393.3	388.9	392.9	369.8

(a) Details of major unsecured credit facilities of the parent entity

Trade Finance Facility

On 21 November 2002, Iluka Resources Limited entered into a A\$60 million Trade Finance Facility with a financier for a period of one year. As at 31 December 2002, US\$17.0 million and A\$23.0 million was drawn.

(b) **Senior Notes**

Iluka Resources Limited holds US\$150.0 million of Senior Notes issued in the United States Private Placement market for maturities ranging from December 2004 to December 2011 at fixed interest rates ranging from 7.19% to 7.63%. As at 31 December 2002 US\$150.0 million was fully drawn under the Senior Notes (2001: US\$150.0 million).

(c) **Loan Note Subscription Agreement**

On 12 December 2001 Iluka Resources Limited entered into a US\$100 million Loan Note Subscription Agreement to replace Core Revolving Credit Facility which expired on 14 December 2001. The agreement is for five years and is structured with an appointed bank agent and a group of banks and financiers. As at 31 December 2002 US\$ Nil (2001: US\$15.0 million) and A\$128.3 million (2001: A\$40.0 million) was drawn.

(d) Details of major secured credit facility of controlled entities

Consolidated Rutile Limited

Consolidated Rutile Limited has in place a A\$40.0 million Revolving Credit Facility (2001: A\$27.5 million). The facility consists of three linked bilateral facilities and is available until 16 July 2003. As at 31 December 2002, the facility was drawn to A\$23.1 million (2001: A\$25.8 million).

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 17. INTEREST BEARING LIABILITIES (CONTINUED)

This facility is secured by various mortgages and fixed and floating charges over the Australian operations. The carrying amount of assets pledged as security are:

	Consolidated	
	2002 \$m	2001 \$m
Cash assets	3.5	5.4
Receivables		
– current	31.7	23.5
Inventories	16.1	20.1
Property, plant and equipment	66.8	75.2
Less: property, plant and equipment under finance lease	(0.6)	(0.7)
	117.5	123.5

NOTE 18. CURRENT TAX LIABILITIES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Income tax provision	3.1	6.0	–	–

NOTE 19. PROVISIONS

Current

Employee entitlements (Note 32)	13.0	9.9	8.9	5.0
Rehabilitation	20.3	22.4	2.0	6.1
Dividends declared	27.9	26.1	27.9	26.1
Mark to market loss on foreign exchange derivatives (Note 33(a)(iii))	7.5	61.6	1.3	–
Deferred gains on foreign exchange derivatives (Note 33(a)(iii))	12.4	–	9.6	–
Other provision	2.0	15.8	–	–
	83.1	135.8	49.7	37.2

Non-current

Employee entitlements (Note 32)	15.2	26.2	11.2	10.3
Rehabilitation and mine closure	127.7	121.4	29.0	23.0
Mark to market loss on foreign exchange derivatives (Note 33(a)(iii))	8.1	29.9	–	6.0
Deferred gains on foreign exchange derivatives (Note 33(a)(iii))	12.1	1.6	10.5	1.6
Other provision	2.3	2.8	2.3	2.6
	165.4	181.9	53.0	43.5

NOTE 20. DEFERRED TAX LIABILITIES

Provision for deferred income tax	26.4	16.9	5.3	–
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Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 21. CONTRIBUTED EQUITY

(a) The paid up capital of the parent entity at 31 December 2002 and 31 December 2001 was made up as follows:

	31 December 2002		31 December 2001	
	No. of Shares	Paid up value \$m	No. of Shares	Paid up value \$m
Ordinary shares – fully paid	232,814,349	610.4	217,311,238	534.0

Details of the movements in ordinary shares during the past two years were:

Date	No. of shares	Issue price	\$m	Purpose of issue
1 January 2001	216,458,538	–	530.6	Opening Balance
	852,700	\$3.97	3.4	Issues of shares – Employee Incentive Option Scheme (d)
31 December 2001	217,311,238	–	534.0	Closing Balance
11 July 2002	7,638,652	\$5.09	38.8	Basin Minerals Limited Takeover (e)
16 July 2002	2,815,813	\$4.93	13.9	Basin Minerals Limited Takeover (e)
19 July 2002	2,493,178	\$4.80	12.0	Basin Minerals Limited Takeover (e)
24 July 2002	696,958	\$4.70	3.3	Basin Minerals Limited Takeover (e)
31 July 2002	118,016	\$4.56	0.5	Basin Minerals Limited Takeover (e)
05 August 2002	868,956	\$4.36	3.8	Basin Minerals Limited Takeover (e)
08 August 2002	758,145	\$4.60	3.5	Basin Minerals Limited Takeover (e)
13 August 2002	20,671	\$4.80	0.1	Basin Minerals Limited Takeover (e)
16 August 2002	37,913	\$4.78	0.2	Basin Minerals Limited Takeover (e)
21 August 2002	37,749	\$4.81	0.2	Basin Minerals Limited Takeover (e)
18 October 2002	17,060	\$4.65	0.1	Basin Minerals Limited Takeover (e)
31 December 2002	232,814,349		610.4	Closing Balance

(b) Ordinary shares entitle the holder to participate in dividends and proceeds on winding up of the Company in proportion to the number of shares held.

On the show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(c) The parent entity has a dividend reinvestment plan and bonus share plan under which holders of ordinary shares may elect to have all or part of their dividend entitlements satisfied by the issue of new ordinary shares rather than by being paid in cash. Both plans are currently suspended.

(d) During the year nil shares (2001: 852,700) were issued pursuant to the Company Employee Incentive Option Scheme. The options were exercised at various dates between 12 January 2001 and 26 June 2001. The issue price shown reflects the weighted average issue price in respect of the exercised options.

(e) As part of the acquisition of Basin Minerals Limited, Basin Minerals' shareholders were offered an option of accepting cash or shares in the parent entity, or any combination of the two. As a result of this offer the parent entity issued 15.5 million shares amounting to \$76.4m.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 22. RESERVES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Asset realisation reserve (a)				
Balance at the beginning and end of the year	0.8	0.8	0.5	0.5
Asset revaluation reserve (b)				
Balance at the beginning and end of the year	24.2	24.2	21.4	21.4
Foreign currency translation reserve (c)				
Balance at the beginning of the year	2.8	2.5	—	—
Net exchange difference on translation of foreign controlled entities and foreign currency loans used as a hedge	—	0.3	—	—
Balance at the end of the year	2.8	2.8	—	—
	27.8	27.8	21.9	21.9

- (a) This reserve records the amount of asset revaluation reserve relating to disposed assets which is now available for distribution to shareholders.
- (b) The asset revaluation reserve was used to record increments and decrements on the revaluation of non-current assets. From 1 January 2001 the Company has adopted a deemed cost basis under AASB 1041 – Revaluation of Non-current Assets. The balance standing to the credit of the reserve may be used to satisfy the distribution of bonus shares to shareholders and is only available for the payment of cash dividends in limited circumstances as permitted by law.
- (c) Exchange differences arising on translation of foreign controlled entities and foreign currency loans used as a hedge are taken to the foreign currency translation reserve, as described in accounting policy Note 1 (p)(ii) and (iii).

NOTE 23. RETAINED PROFITS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Balance at the beginning of the year	129.4	113.6	78.0	18.6
Net profit attributable to the members of Iluka Resources Limited	109.0	63.7	59.3	107.3
Dividend provided for or paid (Note 24)	(51.1)	(47.9)	(51.1)	(47.9)
Balance at the end of the year	187.3	129.4	86.2	78.0

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 24. DIVIDENDS

Final dividend provided of 12 cents unfranked
(2001: 12 cents franked to 1 cent at 30%)
Interim dividend paid of 10 cents franked to 2 cents at 30%
(2001: 10 cents franked to 1 cent at 30%)

Total dividends paid or provided

Franking credits available for the subsequent financial year
(2002: 30%; 2001: 30%)

Consolidated		Parent Entity	
2002 \$m	2001 \$m	2002 \$m	2001 \$m
27.7	26.1	27.7	26.1
23.4	21.8	23.4	21.8
51.1	47.9	51.1	47.9
37.2	33.6	-	0.7

The above amounts represent the balances of the franking accounts as at the end of the financial year, adjusted as applicable for:

- (i) franking credits that will arise from the payment of the current income tax provision;
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the end of the year;
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year; and
- (iv) franking credits that may be prevented from being distributed in subsequent financial years.

The franking credits available to the consolidated entity includes \$35.7 million (2001: \$32.1 million) for the Consolidated Rutile Limited group. Distribution of franking credits by the Company is subject to receipt of fully franked dividends from Consolidated Rutile Limited which was 50.1% owned at 31 December 2002 (2001: 49%).

The new simplified dividend imputation system applied from 1 July 2002 for all taxpayers. Any frankable distribution made on or after 1 July 2002 is required to comply with the new rules. Under the new system, corporate tax entities are required to close off their franking account as at 30 June 2002 and convert franking balances calculated on a tax gross-up basis into tax paid balances. This change in the basis of measurement does not change the value of franking credits to shareholders who may be entitled to franking credits.

NOTE 25. EARNINGS PER SHARE

Basic earnings per share

Diluted earnings per share

Consolidated	
2002 cents	2001 cents
48.6	29.3
48.6	29.3

Weighted average number of ordinary shares outstanding during the financial year used in the calculation of basic earnings per share

Weighted average number of ordinary shares and potential ordinary shares of the entity used as the denominator in calculating diluted earnings per share

2002 Number	2001 Number
224,445,102	217,075,832
224,457,923	217,075,832

Reconciliation of earnings used in calculating earnings per share:

Net profit

Net (profit)/loss attributable to outside equity interest

Earnings used in calculating basic and diluted earnings per share

Consolidated	
2002 \$m	2001 \$m
110.2	57.7
(1.2)	6.0
109.0	63.7

Options granted to employees under the Executive Employment Agreement Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 30.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 26. OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Share capital	32.0	33.1	—	—
Reserves	0.3	6.6	—	—
Retained profits	21.2	26.3	—	—
	53.5	66.0	—	—

- a) The \$1.1 million reduction in share capital attributable to outside equity interests in controlled entities in 2002 has occurred as a result of the following:
- (i) \$0.5 million decrease as a result of the disposal of PT Koba Tin during 2002;
 - (ii) \$0.6 million acquired as an additional investment in Consolidated Rutile Limited during 2002.
- b) The \$6.3 million decrease in reserves is the result of the disposal of PT Koba Tin during 2002.
- c) The \$5.1 million net decrease in retained profits attributable to outside equity interests in controlled entities in 2002 has occurred as a result of the following:
- (i) \$1.2 million increase for the outside equity interest in the 2002 consolidated entity result from ordinary activities after the income tax expense;
 - (ii) \$0.7 million decrease as a result of the additional investment acquired in Consolidated Rutile Limited during 2002;
 - (iii) \$4.4 million decrease as a result of dividends paid to outside equity interests; and
 - (iv) \$1.2 million decrease as a result of the disposal of PT Koba Tin.

NOTE 27. EQUITY

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Total equity at the beginning of the year Total	757.2	754.8	633.9	571.1
Total change in equity recognised in the statement of financial performance	109.0	64.0	59.3	107.3
Transactions with owners as owners:				
Ordinary shares issued	76.4	3.4	76.4	3.4
Dividend provided for or paid	(51.1)	(47.9)	(51.1)	(47.9)
Total change in outside equity interest	(12.5)	(17.1)	—	—
Total equity at the end of the year	879.0	757.2	718.5	633.9

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 28. JOINT VENTURE INTERESTS

(a) Narama Joint Venture

The consolidated entity holds a 50% interest in the Narama Joint Venture coal operation in the Hunter Valley, New South Wales, Australia. The joint venture was formed to develop the Narama coal deposit.

The consolidated entity's interest in joint venture assets and liabilities are summarised below and are included in the consolidated statements of financial position.

	Consolidated	
	2002 \$m	2001 \$m
Current assets		
Receivables	2.3	1.0
Inventories	0.1	0.4
Total current assets	2.4	1.4
Non-current assets		
Property, plant and equipment	31.1	31.2
Total assets	33.5	32.6
Current liabilities		
Payables	0.2	0.9
Provisions	0.7	0.7
Total current liabilities	0.9	1.6
Non-current liabilities		
Provisions	3.2	2.7
Total liabilities	4.1	4.3
Net assets	29.4	28.3
Contingent liabilities (Note 36(a))	1.6	1.6

- (b) The consolidated entity also has a number of interests in joint ventures to explore for titanium minerals and zircon resources. The consolidated entity's share of expenditure in respect of these exploration activities is capitalised in accordance with the accounting policy stated in Note 1(i), and no revenue is generated. The consolidated entity's share of the assets and liabilities in respect of these joint ventures is not material.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 29. REMUNERATION OF DIRECTORS

Remuneration paid or payable, or otherwise made available to Directors by entities in the consolidated entity and related parties to:

Directors of the parent entity

Directors of other entities in the consolidated entity

Consolidated		Parent Entity	
2002 \$m	2001 \$m	2002 \$m	2001 \$m
1,588	2,298	1,588	2,298
105	112	-	-
1,693	2,410	1,588	2,298

The number of Directors of the parent entity whose total remuneration was within the following bands:

\$0 to	\$9,999
\$20,000 to	\$29,999
\$60,000 to	\$69,999
\$70,000 to	\$79,999
\$80,000 to	\$89,999
\$100,000 to	\$109,999
\$150,000 to	\$159,999
\$160,000 to	\$169,999
\$320,000 to	\$329,999
\$620,000 to	\$629,999
\$1,700,000 to	\$1,709,999

Consolidated	
2002 Number	2001 Number
1	-
1	-
2	3
-	2
2	-
-	1
1	1
1	-
1	-
1	-
-	1

Directors' remuneration excludes insurance premiums paid by the parent entity in respect of Directors' and officers' liability insurance as the contracts do not specify premiums paid in respect of individual Directors and officers.

The contracts contain prohibitions on disclosure of the amount of the premiums and the nature of the liabilities under the policies.

Remuneration of Directors in 2002 includes long term option and share incentives and short term bonus payments made during 2002 for the year ended 31 December 2001 (2001: Payment made during 2001 for the year ended 31 December 2000).

The number of options in the parent entity held by Directors at the end of the year was Nil (2001: Nil). Prior to his appointment as Managing Director K M Folwell was granted 33,478 (\$155,114) ordinary shares pursuant to his contract of employment during the year ended 31 December 2002 (2001: no shares were issued to Directors). These shares have been granted under the Directors, Executives and Employees Share Acquisition Plan.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 30. REMUNERATION OF EXECUTIVES

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Remuneration received, or due and receivable, from entities in the consolidated entity and related parties by Australian-based executive officers (including executive Directors) whose remuneration was at least \$100,000:				
Executive officers of the parent entity	3,899	3,339	3,899	3,339
Executive officers of other entities in the consolidated entity	—	—	—	—

Executives' remuneration excludes insurance premiums paid by the parent entity in respect of executives' liability insurance contracts, as the contracts do not specify premiums paid in respect of individual Directors and officers. The contracts contain prohibitions on disclosure of the amount of the premiums and the nature of the liabilities under the policies.

Options are granted to executive officers under the Special Short Term Incentive Plan 2002. Details of which are set out in Note 32. A summary of the numbers of options granted to, exercised and held by executive officers, with incomes of at least \$100,000 during the year ended 31 December 2002 is set out below.

	Number of Options Outstanding 31 December 2001	Number of Options Granted	Number of Options Exercised	Number of Options Cancelled	Number of Options Outstanding 31 December 2002
Executive officers of the parent entity	—	300,000	—	(100,000)	200,000

The amounts disclosed for remuneration of executive officers in the note include the assessed fair values at the date they were granted of options to executive officers during the year ended 31 December 2002. Fair values have been assessed using the Black-Scholes option pricing model. Factors taken into account by this model include the exercise price, the term of the option, the current price and expected price volatility of the underlying share and the risk-free interest rate of the option.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 30. REMUNERATION OF EXECUTIVES (CONTINUED)

The number of executive officers whose total income was at least \$100,000 is shown in the following income bands:

\$160,000	to	\$169,999
\$250,000	to	\$259,999
\$260,000	to	\$269,999
\$280,000	to	\$289,999
\$320,000	to	\$329,999
\$370,000	to	\$379,999
\$390,000	to	\$399,999
\$420,000	to	\$429,999
\$600,000	to	\$609,999
\$620,000	to	\$629,999
\$760,000	to	\$769,999
\$800,000	to	\$809,999
\$1,700,000	to	\$1,709,999

Consolidated		Parent Entity	
2002 Number	2001 Number	2002 Number	2001 Number
1	—	1	—
—	1	—	1
2	—	2	—
—	1	—	1
—	1	—	1
—	1	—	1
—	1	—	1
1	—	1	—
1	—	1	—
1	—	1	—
1	—	1	—
1	—	1	—
—	1	—	1

- (a) Remuneration of executives in 2002 includes short term incentive payments made during 2002 for the year ended 31 December 2001 (2001: Payments made during 2001 for the year ended 31 December 2000).
- (b) The total income reported above includes the income of executive Directors. This is also included in the remuneration of Directors reported in Note 29.
- (c) The amounts include retirement and retrenchment benefits.
- (d) Amounts paid to executive officers who worked mainly or wholly outside Australia during the year are excluded from the above disclosures.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 31. REMUNERATION OF AUDITORS

During the year the auditor of the parent entity and its related practices earned the following remuneration:

Auditors of the parent entity:

- Parent entity
- Controlled entities

Remuneration for other services by the parent entity auditors:

- Parent entity (a)
- Controlled entities (b)

Consolidated		Parent Entity	
2002 \$'000	2001 \$'000	2002 \$'000	2001 \$'000
321	280	321	280
183	179	-	-
504	459	321	280
362	445	362	445
444	427	-	-
806	872	362	445

(a) Other services for the parent entity comprises advisory services \$136,234 (2001: nil), taxation compliance \$42,926 (2001: \$238,000), taxation consulting \$175,012 (2001: \$111,000), environmental consulting nil (2001: \$56,000) and sundry \$7,898 (2001: \$40,000).

(b) Other services for the controlled entities comprises advisory services \$89,794 (2001: nil), taxation compliance \$118,300 (2001: \$281,000), taxation consulting \$221,424 (2001: \$103,000) and sundry \$14,055 (2001: \$43,000).

NOTE 32. EMPLOYEE ENTITLEMENTS

Employee entitlement expenses

Current year expenses

Employee entitlement liabilities

Provision for employee entitlements

Current (Note 19)

Non-current (Note 19)

Aggregate employee entitlement liability

Employee Numbers

Average number of employees during the financial year

Consolidated		Parent Entity	
2002 \$m	2001 \$m	2002 \$m	2001 \$m
13.4	14.9	6.4	6.3
13.0	9.9	8.9	5.0
15.2	26.2	11.2	10.3
28.2	36.1	20.1	15.3
1,741	2,605	767	897

Superannuation funds

On 28 December 2001 the Iluka Resources Limited Superannuation Plan and RGC Group Superannuation Fund were merged to form the Iluka Superannuation Plan.

All employees of the consolidated entity are entitled to benefits on retirement, resignation, disability or death from the Iluka Superannuation Plan (the Plan).

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 32. EMPLOYEE ENTITLEMENTS (CONTINUED)

The vast majority of members are entitled to accumulation benefits only in the Plan. This Plan also provides defined lump sum and pension benefits based on years of service and final average salary for a small number of members. Employees contribute to the Plan at various percentages of their salaries and wages. Entities in the consolidated entity contribute to the Plan at a rate recommended by the Trustee and the Actuary. Entity contributions in excess of the superannuation guarantee charge are not legally enforceable.

An external actuary makes an actuarial assessment of the Plan on a triennial basis with an additional twelve-month period allowed to complete this assessment. The last date of such assessments for the Plan and the name of the person making that assessment is included in the table set out below.

Based on calculations made as part of these assessments and on unqualified audit opinions given by the auditors of the financial statements of the Plan, the Directors are of the view that the assets of the Plan are sufficient to satisfy all benefits that would have been vested under the Plan in the event of termination, or voluntary or compulsory termination of the employment of each employee as at the reporting date.

Actuarial Assessments	Present value of employees' accrued benefits \$m	Net market value of assets held by the fund to meet future benefit payments \$m	Surplus (a) \$m	Vested benefits \$m
Iluka Superannuation Plan (b)	61.6	64.5	2.9	61.5

	Date of last actuarial assessment	Actuarial assessment Made by
Iluka Superannuation Plan	1 July 2002	Des Butterly, MA, FIA, FIAA

(a) This column represents the excess of the net market value of assets held by the plan or fund to meet future benefit payments over the present value of employees' accrued benefits, as per the last actuarial assessment.

(b) At the date of the most recent financial statements, being 30 June 2002, the net market value of the Plan's assets was \$64.5 million. The vested benefits being the amount the Plan would be required to pay if all members were to voluntarily leave employment at that date was \$61.5 million.

	Employer contributions to the fund 2002 \$m	Employer contributions to the fund 2001 \$m
Iluka Superannuation Plan	5.7	—
Iluka Resources Limited Superannuation Plan	—	4.9
RGC Group Superannuation Fund	—	2.3
	5.7	7.2

(c) Prior to the merger of the Iluka Resources Limited Superannuation Plan and RGC Group Superannuation Fund, at the most recent financial statements being 30 June 2001, the net market value of the fund and plan assets was \$73.7 million. The vested benefits being the amount the Plan and Fund would be required to pay if all members were to voluntarily leave employment were \$69.7 million.

Vested benefits are benefits which are not conditional upon continued membership of the Plan (or any factor other than resignation) and include benefits which members were entitled to receive had they terminated their membership as at the reporting date.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 32. EMPLOYEE ENTITLEMENTS (CONTINUED)

OWNERSHIP BASED REMUNERATION SCHEMES

Iuka Resources Limited Share Plans

The Company has in place two share plans which were approved by shareholders at the annual general meeting held on 21 May 1999.

(a) Employee Share Plan

The Board may from time to time in its discretion make written offers to employees to acquire up to \$1,000 of fully paid ordinary shares in the Company out of pre-tax remuneration of the employees.

In the case of shares issued under the employee share plan, the number and value of shares to be issued to the employee will be determined by reference to the weighted average sale price of shares traded on the Australian Stock Exchange over a 5 day period prior to the issue date.

In January 2002 an offer was made to all employees to acquire 200 fully paid ordinary shares at a price of \$4.47 each, being the average price that the Company acquired the shares on the Australian Stock Exchange. Acceptances were received by the closing date of 9 January 2002 for a total of 71,400 shares, at a cost of \$319,158.

In July 2002 an offer was made to all employees to acquire 200 fully paid ordinary shares at a price of \$4.84 each, being the average price that the Company acquired the shares on the Australian Stock Exchange. Acceptances were received by the closing date of 30 August 2002 for a total of 65,200 shares, at a cost of \$315,568.

In June 2001 an offer was made to all employees to acquire 200 fully paid ordinary shares at a price of \$4.67 each, being the average price that the Company acquired the shares on the Australian Stock Exchange. Acceptances were received by the closing date of 25 June 2001 for a total of 83,800 shares, at a cost of \$391,346.

(b) Directors, Executives and Employees Share Acquisition Plan

Participation in the share acquisition plan is limited to Directors and those executives and employees who, in the opinion of the Directors, are able, by virtue of their responsibility, experience and skill, to influence the growth of shareholder wealth.

(i) Participation of employees

The board may from time to time in its discretion make written offers to selected key full-time and part-time employees of the Iuka Group to participate in the share acquisition plan. This participation is by way of an acquisition of shares at market price paid for out of the pre-tax remuneration of the employee. Shares acquired under this plan must be held by the employee for a minimum period of 10 years.

During 2002 and 2001 no offers to acquire fully paid ordinary shares were made to employees.

(ii) Participation of executives

The board may invite executive Directors and executives of the Iuka group to participate in the share acquisition plan as a means of providing those executives with an incentive to enhance the performance of the Company.

Under the share acquisition plan, shares are acquired and retained by the Company on behalf of an executive. The shares will be awarded to the executive after a 3 year period if certain performance criteria, as determined by the Board, are satisfied. In the case of an executive Director of the Company, any acquisition of shares under this scheme will be the subject of specific shareholder approval.

During 2002 invitations were made to, and accepted by 27 (2001: 26) executives to participate in the share acquisition plan. The maximum number of shares that currently may be awarded, should the 3 year performance criteria be fully met is 562,994 shares (2001: 478,684 shares).

(iii) Non-executive Directors

The board may from time to time in its discretion issue invitations to non-executive Directors of the Company to participate in the share acquisition plan. The terms of this plan are the same as those for employees, as set out at (i) above.

During 2002 invitations were accepted by 4 (2001: 4) non-executive Directors to sacrifice up to 50 per cent of their annual remuneration to acquire fully paid ordinary shares.

For the year ending 31 December 2002, 12,045 shares (2001: 14,855 shares) were acquired on the Australian Stock Exchange at a total cost of \$57,222 (2001: \$61,894).

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 32. EMPLOYEE ENTITLEMENTS (CONTINUED)

Special Short Term Incentive Plan 2002

The Special Short Term Incentive Plan 2002 provided for the issue of options under executive employment agreements during the year. Executive General Managers (EGM's) could be issued options, at the discretion of the Managing Director. Each EGM could be issued up to 100,000 options. Options were granted for no consideration. Options were to acquire shares in the Company at the average price of the Company shares being traded on the Australian Stock Exchange on the first day on which the exchange was open for trading after commencement of the EGM's contract of employment. Options could not be traded until at least one year after the date of commencement of the EGM's contract of employment. The options had a period of three years from the date of commencement of the EGM's contract of employment, and if not exercised within that 3 year period will expire.

Set out below is a summary of options granted under the plan.

Grant date	Expiry date	Exercise price	Options granted	Options cancelled		Options exercised and shares issued during the year		Unissued shares and options available at the end of the year	
				2002	2001	2002	2001	2002	2001
1 Jan 2002	31 Dec 2004	4.41	300,000	100,000	N/A	~	N/A	200,000	N/A

RGC Employee Share Plan

Iluka Corporation Limited, has an employee share plan (the RGC Employee Share Plan) which was established under a trust deed dated 27 October 1994. The operation of this plan was suspended in 1998 and no shares have been subsequently issued under this plan.

Dividends paid in respect of plan shares are retained to reduce the balance of the loan repayable by the participant.

Refer to Note 6 for the disclosure of loan amounts receivable by the consolidated entity under the RGC Employee Share Plan and Loan Scheme. All plan loans are interest free.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 33. FINANCIAL INSTRUMENTS

The consolidated entity utilises Board approved financial instruments in the normal course of business to mitigate foreign exchange and interest rate exposures. Hedging of foreign currency is effected through a portfolio of forward exchange contracts and foreign exchange options, and hedging of interest rates by fixed rate debt.

(a) Foreign exchange risk management

(i) Treasury policy

Sales revenue of the consolidated entity is mainly denominated in United States dollars (USD). To protect against adverse exchange rate movements a portion of USD sales revenue is sold forward utilising forward exchange contracts and foreign exchange options. The Board approved Treasury policy outlines the foreign exchange hedging limits as a percentage of anticipated USD sales revenue in a given year.

The volume of anticipated USD sales revenue is forecast on current economic conditions in overseas markets, sales history, mine production schedules and fixed commitments from customers. The consolidated entity implements foreign exchange derivatives to hedge USD sales revenue over the Board approved 5 year policy term. These derivative structures are specifically designated against expected future USD sales revenues. In accordance with this Board policy the consolidated entity does not enter into speculative foreign currency transactions.

(ii) Foreign exchange derivatives

The following table provides a summary of all foreign exchange derivatives held by the consolidated entity at balance date.

Consolidated Entity	US Dollars		Average Exchange Rate		Mark to Market Gain/(Loss)	
	2002 US\$m	2001 US\$m			2002 A\$m	2001 A\$m
Forward exchange contracts						
Not later than 1 year	108.2	48.3	0.5504	0.6086	1.9	(15.9)
Later than 1 year but not later than 2 years	42.5	83.2	0.5364	0.5496	0.7	(14.3)
Later than 2 years but not later than 3 years	33.5	37.0	0.5446	0.5368	(1.4)	(5.0)
Later than 3 years but not later than 4 years	—	20.0	—	0.5532	—	(3.4)
Later than 4 years but not later than 5 years	30.0	—	0.4981	—	2.1	—
	214.2	188.5			3.3	(38.6)
Sold put options						
Not later than 1 year	39.0	83.0	0.5707	0.7296	(6.3)	(48.9)
Later than 1 year but not later than 2 years	40.0	40.0	0.5738	0.7381	(6.1)	(24.1)
Later than 2 years but not later than 3 years	22.5	—	0.5939	—	(4.9)	—
Later than 3 years but not later than 4 years	18.0	—	0.5240	—	(2.1)	—
	119.5	123.0			(19.4)	(73.0)

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

(ii) Foreign exchange derivatives (continued)

Consolidated Entity	US Dollars		Average Exchange Rate		Mark to Market Gain/(Loss)	
	2002 US\$m	2001 US\$m			0.5661 2002 A\$m	0.5109 2001 A\$m
Bought call options						
Not later than 1 year	26.5	40.0	0.5393	0.7169	3.1	—
Later than 1 year but not later than 2 years	60.0	10.0	0.5184	0.7137	7.7	—
Later than 2 years but not later than 3 years	30.0	—	0.5208	—	3.7	—
Later than 3 years but not later than 4 years	36.0	—	0.5240	—	4.3	—
	152.5	50.0			18.8	—
Total Consolidated Position	486.2	361.5			2.7	(111.6)

The consolidated entity's foreign exchange derivatives are categorised for accounting purposes into the following designations:

Derivative Designations	2002 US\$m	2001 US\$m	Movement US\$m
Speculative positions			
Net Written Option Position (NWOP) speculative position	30.0	73.0	(43.0)
	30.0	73.0	(43.0)
Specific hedges:			
1. Acquisition hedges			
Sold put options	2.5	50.0	(47.5)
Bought call options	2.5	50.0	(47.5)
	5.0	100.0	(95.0)
2. Post acquisition hedges			
Forward exchange contracts	214.2	188.5	25.7
Sold put options	87.0	—	87.0
Bought call options	150.0	—	150.0
	451.2	188.5	262.7
Total Consolidated Position	486.2	361.5	124.7

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

On acquisition of RGC Limited in 1998 the consolidated entity inherited a complex foreign exchange derivatives portfolio comprising leveraged options and forward exchange contracts.

The leveraged option portfolio had the following characteristics:

- (a) an equal volume of sold put and bought call options (accounted for as hedge transactions and referred to as acquisition hedges); and
- (b) an excess volume of sold put options that are accounted for as speculative transactions and described as the Net Written Option Position.

The consolidated entity has entered into forward exchange contracts and foreign exchange options since the acquisition in 1998 (accounted for as hedge transactions and referred to as post acquisition hedges).

During 2002, the consolidated entity pre-delivered US\$18.25 million of the inherited derivatives portfolio of acquisition hedges, represented by matching sold put and bought call options. This was done to consolidate counterparty relationships and remove some of the complexity in the inherited foreign exchange derivatives portfolio. As the anticipated transactions that were being hedged are still expected to occur as designated, this redesignation had no effect on the 2002 operating profit.

(iii) Statement of Financial Position summary

Foreign exchange derivatives are reflected in the statement of financial position as follows:

	Notes	Consolidated		Parent Entity	
		2002 \$m	2001 \$m	2002 \$m	2001 \$m
Other assets					
Current – mark to market gain on foreign exchange derivatives	10	6.3	–	3.4	–
Current – deferred losses on foreign exchange derivatives	10	7.1	41.9	–	–
Non-current – mark to market gain on foreign exchange derivatives	10	12.0	–	10.5	–
Non-current – deferred losses on foreign exchange derivatives	10	11.8	15.9	–	–
		37.2	57.8	13.9	–
Other provisions					
Current – mark to market loss on foreign exchange derivatives	19	7.5	61.6	1.3	–
Current – deferred gains on foreign exchange derivatives	19	12.4	–	9.6	–
Non-current – mark to market loss on foreign exchange derivatives	19	8.1	29.9	–	6.0
Non-current – deferred gains on foreign exchange derivatives	19	12.1	1.6	10.5	1.6
		40.1	93.1	21.4	7.6

The mark to market gain on foreign exchange derivatives in Note 10 represents the total in the money position at year end of the foreign exchange derivatives portfolio not inherited from RGC Limited.

The deferred losses on foreign exchange derivatives in Note 10 represents both:

- (a) the difference between the fair value provisions for derivatives created on acquisition of RGC Limited in 1998 at USD 0.62 cents, and the market rate at year end of USD 0.5661 cents (2001: USD 0.5109 cents); and
- (b) the deferred losses created on restructure of acquisition hedges acquired from RGC Limited in 1998. As the anticipated transactions that were being hedged are still expected to occur as designated, the losses have been deferred and will be included in the measurement of sales revenue when the anticipated sales occur.

The mark to market loss on foreign exchange derivatives in Note 19 represents the total out of money position at year end of the foreign exchange derivatives portfolio inherited from RGC Limited, or subsequently restructured after the acquisition in 1998.

The deferred gains on foreign exchange derivatives in Note 19 represents both:

- (a) the difference between provisions for derivatives created on restructure of inherited acquisition hedges, and the market rate at year end of USD 0.5661 cents (2001: USD 0.5109 cents); and
- (b) the deferred gains on post acquisition hedges arising at the time of entering into transactions and to the extent that they arise up to the dates of sale, in accordance with AASB: 1012 Foreign Currency Transactions, are required from 1 January 2002 to be recorded in the statement of financial position.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

(iv) Statement of Financial Performance summary

Foreign exchange derivatives are reflected in the statement of financial performance as follows:

Notes	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Revenue from operations				
Cash received or receivable from goods sold	911.2	947.8	262.1	235.4
Adjustment for the impact of hedging	(16.7)	(47.0)	(10.5)	(16.5)
Sale of goods	2 894.5	900.8	251.6	218.9
Revenue from outside operating activities				
Net cash speculative position gain	2 —	—	—	17.7
Other expenses from ordinary activities				
Net cash speculative position loss	—	(2.1)	—	—
NWOP speculative loss	(12.6)	(13.5)	(6.9)	(9.8)

(v) Foreign exchange hedging of borrowings

In addition to transactional exposures arising from USD sales revenue the consolidated entity has foreign currency borrowings denominated in US dollars. These borrowings form a natural hedge against the consolidated entity's net investment in US dollar denominated assets. Any exchange difference on consolidation is transferred to the foreign currency translation reserve.

(b) Interest rate risk management

As the consolidated entity is a net borrower it periodically reviews its interest rate management with the objective of reducing its exposure to interest rate fluctuations. Furthermore, the Board approved policy allows borrowings to be secured at fixed rates, as used with the US Private Placement Notes, which have an average rate of 7.4% over their term. Other borrowings of the consolidated entity currently bear an average variable interest rate of 2.4% (2001: 1.7%) on USD loans and 5.6% (2001: 5.4%) on A\$ loans.

(c) CPI swaps

The Company closed out a CPI swap in January 2001 resulting in a cash gain of A\$3.3 million. The accounting recognition of this gain will be realised over the life of the contract, which was originally due to mature in December 2007.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 33. FINANCIAL INSTRUMENTS (CONTINUED)

(d) Interest rate risk exposure

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out in the table below. Exposures arise predominantly from assets and liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate assets and liabilities to maturity.

		Fixed interest maturing in:					
		Floating interest rate \$m	1 year or less \$m	1 year to 5 years \$m	Greater than 5 years \$m	Non- interest bearing \$m	Total \$m
2002	Notes						
Financial assets							
Cash assets	5	21.3	–	–	–	–	21.3
Receivables	6	–	–	–	–	253.8	253.8
Foreign exchange derivatives	10	–	–	–	–	18.3	18.3
		21.3	–	–	–	272.1	293.4
Weighted average interest rate		3.2%	–	–	–	–	–
Financial liabilities							
Payables	16	–	–	–	–	94.9	94.9
Interest bearing liabilities	17	204.9	–	158.8	105.8	–	469.5
Foreign exchange derivatives	19	–	–	–	–	15.6	15.6
		204.9	–	158.8	105.8	110.5	580.0
Weighted average interest rate		4.9%	–	7.3%	7.6%	–	–
Net financial (liabilities)/assets		(183.6)	–	(158.8)	(105.8)	161.6	(286.6)
2001							
Financial assets							
Cash assets	5	28.2	–	–	–	–	28.2
Receivables	6	–	–	–	–	194.4	194.4
		28.2	–	–	–	194.4	222.6
Weighted average interest rate		4.1%	–	–	–	–	–
Financial liabilities							
Payables	16	–	–	–	–	78.9	78.9
Interest bearing liabilities	17	95.7	–	176.0	117.3	–	389.0
Foreign exchange derivatives	19	–	–	–	–	91.5	91.5
		95.7	–	176.0	117.3	170.4	559.4
Weighted average interest rate		3.9%	–	7.3%	7.6%	–	–
Net financial (liabilities)/assets		(67.5)	–	(176.0)	(117.3)	24.0	(336.8)

(e) Credit risk exposure

The credit risk on financial assets of the consolidated entity which have been recognised on the statement of financial position is generally the carrying amount, net of any provisions for doubtful debts.

For on and off balance sheet instruments which are deliverable, credit risk also arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. A material exposure arises from forward exchange contracts and foreign exchange options, and the consolidated entity is exposed to loss in the event that counterparties fail to delivery the contracted amount.

(f) Net fair value of financial assets and liabilities

The net fair value of on balance sheet financial assets and liabilities approximate their carrying value. The net fair value of off balance sheet derivatives is Nil (2001: \$20.1 million liability).

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 34. COMMITMENTS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
Capital expenditure for the acquisition of plant and equipment contracted for and payable not later than one year	20.9	57.6	3.8	1.6
Exploration expenditure commitments payable (a):				
Not later than 1 year	6.3	5.6	2.2	2.3
Later than 1 year but not later than 5 years	22.3	20.5	7.6	7.8
Later than 5 years	37.4	42.1	12.4	13.9
	66.0	68.2	22.2	24.0

(a) These costs are discretionary. If the expenditure commitments are not met then the associated exploration and mining leases may be relinquished.

NOTE 35. LEASE COMMITMENTS

Operating lease expense	1.8	1.7	0.2	0.1
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Not later than 1 year	6.1	0.2	0.3	0.1
Later than 1 year but not later than 5 years	6.6	0.2	0.4	0.2
Later than 5 years	2.8	0.6	0.5	0.5
Representing non-cancellable operating leases	15.5	1.0	1.2	0.8
Commitments in relation to finance leases are payable as follows:				
Not later than 1 year	0.2	0.2	—	—
Later than 1 year but not later than 5 years	0.4	0.5	—	—
Later than 5 years	—	—	—	—
Minimum lease payments	0.6	0.7	—	—
Less: future finance charges	(0.1)	(0.1)	—	—
Provided for in the financial report	0.5	0.6	—	—
Representing lease liabilities (Note 17)				
Current	0.1	0.1	—	—
Non-current	0.4	0.5	—	—
	0.5	0.6	—	—

NOTE 36. CONTINGENT LIABILITIES

(a) The following contingent liabilities existed at year end:

Performance and finance guarantees	43.6	33.9	3.3	3.2
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Bank guarantees required by state government to meet the Company's obligations under exploration and mining tenements.

- (b) Iluka Corporation Limited (a controlled entity of the parent entity) has agreed to indemnify Goldfields Limited against certain liabilities for tax incurred by it to the extent that they relate to matters occurring on or before 28 December 1994 or arising from the restructuring of the Goldfields Group.
- (c) There is some risk that native title, as established by the High Court of Australia's decision in the Mabo case, exists over some of the land over which the consolidated entity holds tenements. It is impossible at this stage to quantify the impact (if any) which these developments may have on the operations of the consolidated entity.
- (d) In the course of its normal business, the consolidated entity occasionally receives claims arising from its operating activities. In the opinion of the Directors, all such matters are covered by insurance, or, if not covered, are without merit or are of such kind or involve such amounts that would not have a material adverse effect on the operating results or financial position of the consolidated entity if settled unfavourably.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 37. SEGMENTAL ANALYSIS

	2002			
	Continuing Operations		Discontinued Operations	
	Titanium Minerals and Zircon \$m	Coal \$m	Tin \$m	Unallocated \$m
Sales to external customers	805.1	31.7	57.7	–
Total sales revenue	805.1	31.7	57.7	–
Other revenue	34.1	0.2	0.2	1.2
Total segment revenue	839.2	31.9	57.9	1.2
Segment result	138.4	9.5	(1.4)	–
Unallocated expenses				(44.4)
Profit from ordinary activities before income tax				102.1
Income tax benefit				8.1
Net profit				110.2
Segment assets	1,657.8	31.0	–	–
Unallocated assets				32.6
Total assets				1,721.4
Segment liabilities	339.7	4.1	–	–
Unallocated liabilities				496.6
Total liabilities				842.4
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	308.3	0.2	1.4	–
Depreciation and amortisation expense	92.2	2.7	2.7	–
Other non-cash expenses	3.6	0.5	–	–

SECONDARY SEGMENT – GEOGRAPHICAL SEGMENTS

	Sales to external customers \$m	Segment assets \$m	Acquisition of property, plant and equipment, intangibles and other non-current segment assets \$m
Australia	731.3	1,449.1	246.3
United States	105.5	272.3	62.2
Indonesia *	57.7	–	1.4
	894.5	1,721.4	309.9

*Discontinued operations

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 37. SEGMENTAL ANALYSIS (CONTINUED)

	2001					
	Continuing Operations		Discontinued Operations		Unallocated \$m	Consolidated \$m
	Titanium Minerals and Zircon \$m	Coal \$m	Tin \$m	Lime \$m		
Sales to external customers	737.8	34.9	125.2	2.9	–	900.8
Total sales revenue	737.8	34.9	125.2	2.9	–	900.8
Other revenue	12.4	–	2.9	1.3	7.8	24.4
Total segment revenue	750.2	34.9	128.1	4.2	7.8	925.2
Segment result	156.2	12.8	(49.9)	(10.4)	–	108.7
Unallocated expenses						(45.7)
Profit from ordinary activities before income tax expense						63.0
Income tax expense						(5.3)
Net profit						57.7
Segment assets	1,470.4	32.6	53.9	1.0	–	1,557.9
Unallocated assets						7.8
Total assets						1,565.7
Segment liabilities	373.3	4.4	18.7	0.2	–	396.6
Unallocated liabilities						411.9
Total liabilities						808.5
Acquisitions of property, plant and equipment, and other non-current segment assets	122.5	0.2	2.0	–	–	124.7
Depreciation and amortisation expense	90.9	2.8	19.4	0.1	–	113.2
Other non-cash expenses	5.3	0.6	–	–	–	5.9

SECONDARY SEGMENT – GEOGRAPHICAL SEGMENTS

	Sales to external customers \$m	Segment assets \$m	Acquisition of property, plant and equipment, and other non-current segment assets \$m
Australia	641.2	1,260.2	72.7
United States	134.4	251.6	50.0
Indonesia *	125.2	53.9	2.0
	900.8	1,565.7	124.7

* Discontinued operations

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 38. RELATED PARTY TRANSACTIONS

(a) Directors

The names of the persons who were Directors of the parent entity at any time during the year are:

I C R Mackenzie

G D Campbell

J R de Laeter

K M Folwell

K W Court

R A Tastula

W H J Barr

V A Davies

D M Morley

(b) Remuneration, retirement benefits and insurance

Information on remuneration and retirement benefits of Directors are disclosed in Note 29.

The parent entity has a policy to indemnify all Directors of the Company listed above and current and former executive officers of the parent entity and its controlled entities against all liabilities to persons (other than the parent entity or a related body corporate) which arise out of the performance of their normal duties as Director or executive officer unless the liability relates to conduct involving a lack of good faith. The parent entity also has a policy to indemnify the Directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

(c) Controlled entities and controlling entity

Details of material controlled entities are set out in Note 14. The ultimate Australian controlling entity and the ultimate parent entity in the wholly-owned group is Iluka Resources Limited.

(d) Loans to Directors

Loans pursuant to the RGC employee share plan for certain Directors of controlled entities are included in receivables at 31 December 2002 and 31 December 2001 (refer Note 6(a)).

(e) Transactions of Directors and Director-related entities concerning shares and options

The aggregate number of ordinary shares in the parent entity held directly, indirectly or beneficially by Directors at the end of the year was 208,868 (2001: 177,086). The number of options in the parent entity held by Directors at the end of the year was Nil (2001: Nil). K M Folwell was granted 33,478 ordinary shares (with a market value of \$155,114 at date of issue) pursuant to his contract of employment during the year ended 31 December 2002 (2001: Nil). No options were exercised during 2002. M H Macpherson exercised 100,000 options during 2001 and 65,000 of these were subsequently sold.

Directors and their Director related entities received normal dividends on their ordinary shares.

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 38. RELATED PARTY TRANSACTIONS (CONTINUED)

	Notes	Parent Entity	
		2002 \$m	2001 \$m
(f) Wholly-owned group and other related parties			
(i) Non-current payables			
Entities within the controlled group (net)	17	—	7.2
(ii) Non-current receivables			
Entities within the controlled group (net)	6	24.4	—
(iii) Iluka Resources Limited has taken out insurance policies on behalf of certain controlled entities. The Company has a policy of insuring against risks which might materially affect the group's cash flow. Risks covered include property damage, business interruption, public and product liability, fidelity, and Directors and officers' liability.			
(iv) Management services are provided to Consolidated Rutile Limited by Iluka Resources Limited for treasury, taxation, exploration, internal audit, marketing and other corporate and operational services. The fee charged for these services is based on commercial rates and in 2002 amounted to \$1.6 million (2001: \$1.7 million).			
(v) Tax losses transferred between group entities in 2002 amounted to \$55.5 million for consideration of \$16.7 million (2001: \$91.8 million tax losses for consideration of \$27.5 million).			
(vi) Interest revenue			
Wholly-owned controlled entities	2	62.3	61.5
Interest expense			
Wholly-owned controlled entities	3	0.5	5.9
Loans are made between certain entities in the wholly-owned group via Iluka Resources Limited. Where interest is levied it is payable/receivable on the borrowings/lendings at commercial rates. The average borrowing rate for the year ended 31 December 2002 was 4.7% (2001: 4.8%) and the average lending rate for the year was 5.7% (2001: 6.9%). There are no fixed terms for the repayment of principal on loans.			
(vii) Dividend revenue			
Wholly-owned controlled entities	2	5.4	65.2
(g) Ownership interests in related parties			
(i) Controlled Entities: Information relating to controlled entities is set out in Note 14.			
(ii) Joint Ventures: Information relating to venture interests is set out in Note 28.			

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 39. STATEMENTS OF CASH FLOWS

	Consolidated		Parent Entity	
	2002 \$m	2001 \$m	2002 \$m	2001 \$m
(a) Reconciliation of cash flows from operating activities to net profit				
Net profit	110.2	57.7	59.3	107.3
Depreciation and amortisation	97.6	113.2	20.5	18.8
Doubtful debts	—	0.1	—	—
Previously capitalised exploration expenditure written off	3.2	6.3	—	—
Current year exploration expenditure capitalised	(12.0)	(15.0)	—	—
Write down of project assets	8.2	—	8.2	—
Write down of inventory	2.9	0.4	0.6	0.4
Write down of investments/loans	—	0.2	—	5.0
Write off of information technology project	—	5.0	—	5.0
Net profit on disposal of non-current assets	(2.6)	(0.7)	(0.4)	(0.1)
Write down of PT Koba Tin assets	—	37.5	—	—
Profit on sale of PT Koba Tin	(0.8)	—	—	—
Non cash gain on sale of Sierra Rutile Holdings Limited	—	(6.0)	—	—
Net exchange differences	(8.4)	8.1	(32.0)	22.4
Sierra Rutile Holdings Limited non operating costs	—	2.9	—	—
Other non cash operating activities between group entities	—	—	(54.2)	(105.7)
(Increase)/decrease in receivables	(79.0)	(13.2)	(38.3)	(5.1)
(Increase)/decrease in other operating assets	13.7	(4.9)	(14.6)	0.7
(Increase)/decrease in inventories	39.5	(29.0)	29.9	(16.8)
(Increase)/decrease in future income tax benefit	(23.5)	(1.2)	6.1	(1.9)
Increase/(decrease) in payables	9.0	0.2	10.1	(1.8)
Increase/(decrease) in provision for current tax	(6.8)	2.7	—	—
Increase/(decrease) in provision for deferred tax	13.4	(2.6)	5.3	—
Increase/(decrease) in other provisions	(51.6)	(34.9)	5.0	14.1
Increase/(decrease) in other operating liabilities	8.8	4.2	(0.7)	0.3
Net cash inflow from operating activities	121.8	131.0	4.8	42.6

(b) Non cash financing and investing activities

As part of the acquisition of Basin Minerals Limited, Basin Minerals' shareholders were offered an option of accepting cash or shares in the parent entity, or any combination of the two. As a result of this offer the parent entity issued 15.5 million shares amounting to \$76.4m (refer Note 14).

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 40. DEED OF CROSS GUARANTEE

Iluka Resources Limited, Westlme (WA) Limited, Ilmenite Pty Limited, Southwest Properties Pty Limited, Western Mineral Sands Pty Limited and Yoganup Pty Limited in 1998 were parties to a deed of Cross Guarantee under which each Company guarantees the debts of the others. By entering into the Deed, the wholly-owned entities have been relieved from the requirements to prepare a financial report and Directors' report under Class Order 98/1418 (as amended by Class Order 98/2017) issued by the Australian Securities and Investments Commission.

On 26 November 1999 the Australian Securities and Investments Commission approved a Deed of Assumption to the Deed of Cross Guarantee to add the following wholly-owned entities: Iluka Corporation Limited; Associated Minerals Consolidated Limited; Iluka Administration Limited; Iluka (NSW) Limited; Iluka Consolidated Pty Limited; Iluka Exploration Pty Limited; Gold Fields Asia Limited; Iluka International Limited; NGG Holdings Limited; Caroda Pty Limited; Iluka Midwest Limited; Western Titanium Limited; The Mount Lyell Mining and Railway Company Limited; Colinas Pty Limited; Renison Limited; Iluka Finance Limited; The Nardell Colliery Pty Limited; Iluka (Old) Limited; Glendell Coal Limited and Lion Properties Pty Limited.

On 30 January 2003, the Australian Securities and Investments Commission approved a further Deed of Assumption to add Basin Minerals Limited, Basin Minerals Holdings Pty Ltd, Basin Properties Pty Ltd and Swansands Pty Ltd, to the Deed of Cross Guarantee. Relief from the requirement to prepare a financial report and Director's report under the Class Order is effective for the financial year ending 31 December 2002 and subsequent financial years.

All the above companies represent a Closed Group for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Iluka Resources Limited, they also represent the Extended Closed Group.

On 5 April 2002 Kajuara Mining Corporation Pty Limited was disposed of and on 2 July 2002, Pine Creek Goldfields Limited was disposed of and as such were removed from the Deed of Cross Guarantee.

Set out below is a consolidated statements of financial performance for the years ended 31 December 2002 and 31 December 2001 of the Extended Closed Group.

	2002 \$m	2001 \$m
Revenue from ordinary activities	672.2	565.4
Borrowing costs expense	(26.4)	(25.4)
Other expenses from ordinary activities	(563.8)	(470.5)
Profit from ordinary activities before income tax expense	82.0	69.5
Income tax benefit/(expense)	11.4	(0.1)
Net profit	93.4	69.4

Set out below is a summary of movements in consolidated retained profits for the years ended 31 December 2002 and 31 December 2001 of the Extended Closed Group.

	2002 \$m	2001 \$m
Balance at the beginning of the year	76.5	55.0
Profit from ordinary activities after income tax	93.4	69.4
Dividend provided for or paid	(51.1)	(47.9)
Balance at the end of the year	118.8	76.5

Notes to the Financial Statements

For the Year Ended 31 December 2002

NOTE 40. DEED OF CROSS GUARANTEE (CONTINUED)

Set out below is a consolidated statements of financial position as at 31 December 2002 and 31 December 2001 of the Extended Closed Group.

	2002 \$m	2001 \$m
Current assets		
Cash assets	15.2	15.6
Receivables	171.6	109.1
Inventories	95.2	137.2
Other assets	20.6	42.4
Total current assets	302.6	304.3
Non-current assets		
Receivables	108.5	52.3
Other financial assets	128.2	197.6
Inventory	2.0	0.9
Property, plant and equipment	881.0	735.2
Deferred tax assets	11.6	0.2
Intangible assets	17.6	—
Other assets	37.2	30.8
Total non-current assets	1,186.1	1,017.0
Total assets	1,488.7	1,321.3
Current liabilities		
Payables	81.1	53.4
Interest bearing liabilities	53.0	—
Provisions	66.7	121.3
Total current liabilities	200.8	174.7
Non-current liabilities		
Interest bearing liabilities	392.9	362.6
Provisions	140.8	148.5
Total non-current liabilities	533.7	511.1
Total liabilities	734.5	685.8
Net assets	754.2	635.5
Equity		
Contributed equity	610.4	534.0
Reserves	25.0	25.0
Retained profits	118.8	76.5
Total Equity	754.2	635.5

Directors' Declaration

For the Year Ended 31 December 2002

The Directors declare that the financial statements and notes set out on pages 7 to 54:

- (a) comply with Accounting Standards; the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2002 and of their performance, as represented by the results of their operations and their cash flows, for the financial year ended on that date.

In the Directors' opinion:

- (a) the financial statements and notes are in accordance with the Corporations Act 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in Note 40 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deeds of cross guarantee described in Note 40.

This declaration is made in accordance with a resolution of the Directors.



I C R Mackenzie
Chairman



K M Folwell
Managing Director and Chief Executive Officer

Perth
26 March 2003

Independent Audit Report

To the Members of Iluka Resources Limited

Audit opinion

In our opinion, the financial report, set out on pages 7 to 55:

- presents a true and fair view, as required by the Corporations Act 2001 in Australia, of the financial position of Iluka Resources Limited and the Iluka Resources Group (defined below) as at 31 December 2002 and of their performance for the year ended on that date;
- is presented in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001.

This opinion must be read in conjunction with the following explanation of the scope and summary of our role as auditor.

Scope and summary of our role

The financial report – responsibility and content

The preparation of the financial report for the year ended 31 December 2002 is the responsibility of the Directors of Iluka Resources Limited. It includes the financial statements for Iluka Resources Limited (the Company) and for the Iluka Resources Group (the Group), which incorporates Iluka Resources Limited and the entities it controlled during the year ended 31 December 2002.

The auditor's role and work

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the Company. Our role was to conduct the audit in accordance with Australian Auditing Standards to provide reasonable assurance as to whether the financial report is free of material misstatement. Our audit did not involve an analysis of the prudence of business decisions made by the directors or management.

In conducting the audit, we carried out a number of procedures to assess whether in all material respects the financial report presents fairly a view in accordance with the Corporations Act 2001, Accounting Standards and other mandatory professional reporting requirements in Australia, and the Corporations Regulations 2001, which is consistent with our understanding of the Company's and the Group's financial position, and their performance as represented by the results of their operations and cash flows.

The procedures included:

- selecting and examining evidence, on a test basis, to support amounts and disclosures in the financial report. This included testing, as required by auditing standards, certain internal controls, transactions and individual items. We did not examine every item of available evidence;
- evaluating the accounting policies applied and significant accounting estimates made by the directors in their preparation of the financial report;
- obtaining written confirmation regarding material representations made to us in connection with the audit;
- reviewing the overall presentation of information in the financial report.

Our audit opinion was formed on the basis of these procedures.

Independence

As auditor, we are required to be independent of the Group and free of interests which could be incompatible with integrity and objectivity. In respect of this engagement, we followed the independence requirements set out by The Institute of Chartered Accountants in Australia, the Corporations Act 2001 and the Auditing and Assurance Standards Board.

In addition to our statutory audit work, we were engaged to undertake other services for the Group. These services are disclosed in note 31 to the financial statements. In our opinion the provision of these services has not impaired our independence.

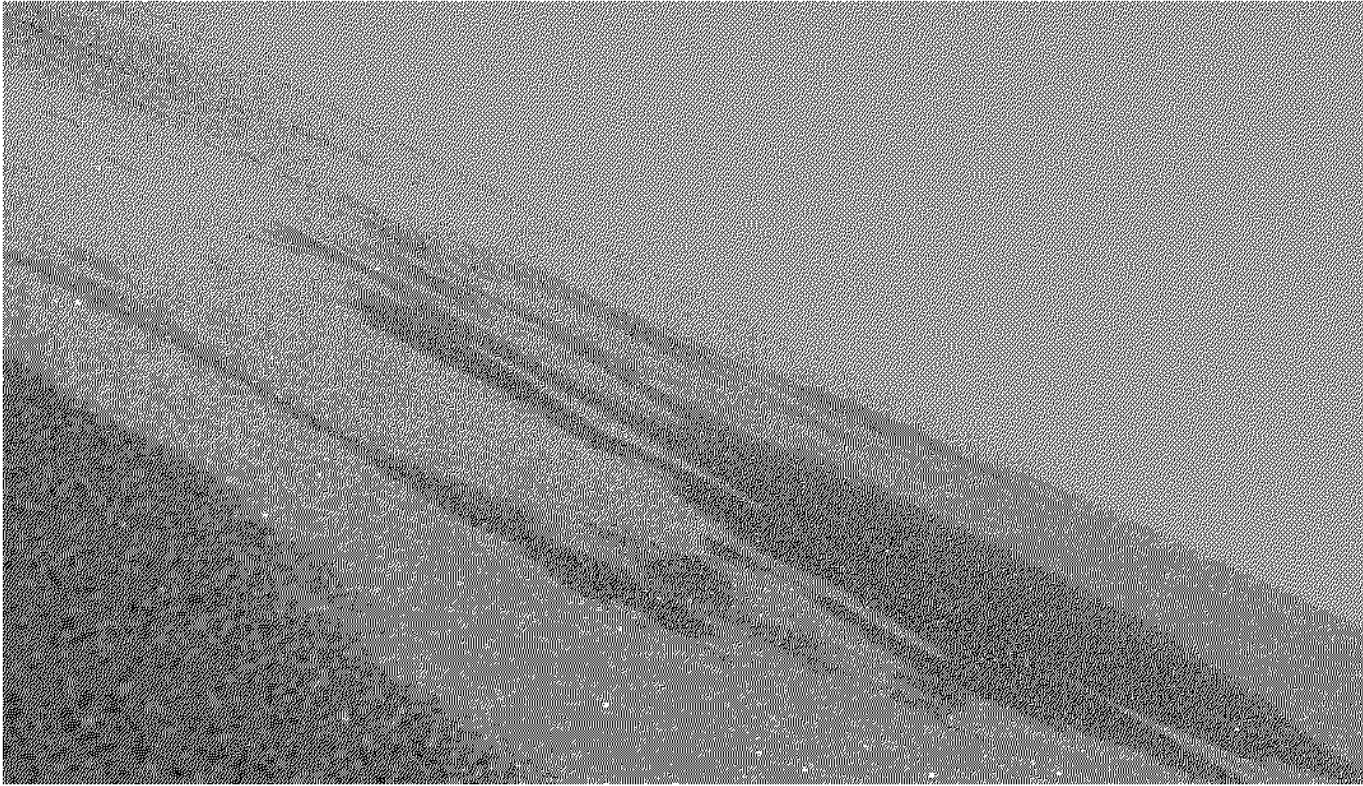


PricewaterhouseCoopers
CHARTERED ACCOUNTANTS



J O'Connor
Partner

Perth
26 March 2003



ILUKA RESOURCES LIMITED