Iluka Resources Limited

ABN 34 008 675 018

ASX Half-year information – 30 June 2005

Lodged with the ASX under Listing Rule 4.2A.
This information should be read in conjunction with the
31 December 2004 Annual Report

Contents

Iluka Resources Limited
For the Half-year ended 30 June 2005
(Previous corresponding period: Half-year ended 30 June 2004)

Results for announcement to the market

				$M
Revenue *(Appendix 4D item 2.1)*	up	**16.9%**	to	**464.3**
Profit / (loss) after tax attributable to members *(Appendix 4D item 2.2)*	up	**112.6%**	to	**79.3**
Profit / (loss) for the period attributable to members *(Appendix 4D item 2.3)*	up	**112.6%**	to	**79.3**

Dividends / distributions *(Appendix 4D item 2.4)*	Amount per security (cents)	Franked amount per security (cents)
Interim dividend (Prior year)	10.0	8.7
Interim dividend **(Current year)**	**10.0**	**5.0**

Key Ratios	**2005 June**	2004 June
Basic and diluted earnings per share (cents)	**34.1**	16.0
Operating cash flow per share (cents)	**52.4**	61.6
Interest cover (times) *	**17.5**	12.0
Return on equity (%) (annualised)	**17.6**	9.7

Key Ratios	**2005 June**	2004 December
Gearing (%) **	**33.8**	32.0
Net tangible assets per share ($)	**4.04**	3.78

* Interest cover = EBITDA/interest and finance charges (rehabilitation, restoration and other borrowings unwind is excluded from interest and finance charges and EBITDA for the purpose of this calculation)
** Gearing = net debt/(net debt+equity)

June 2005 Results Commentary

Synopsis

Profit after tax and minority interests for the six months ended June 2005 was $79.3 million, an increase of $42.0 million (113%) over the previous corresponding period. Sales revenue was $446.6 million, an increase of $54.0 million (14%).

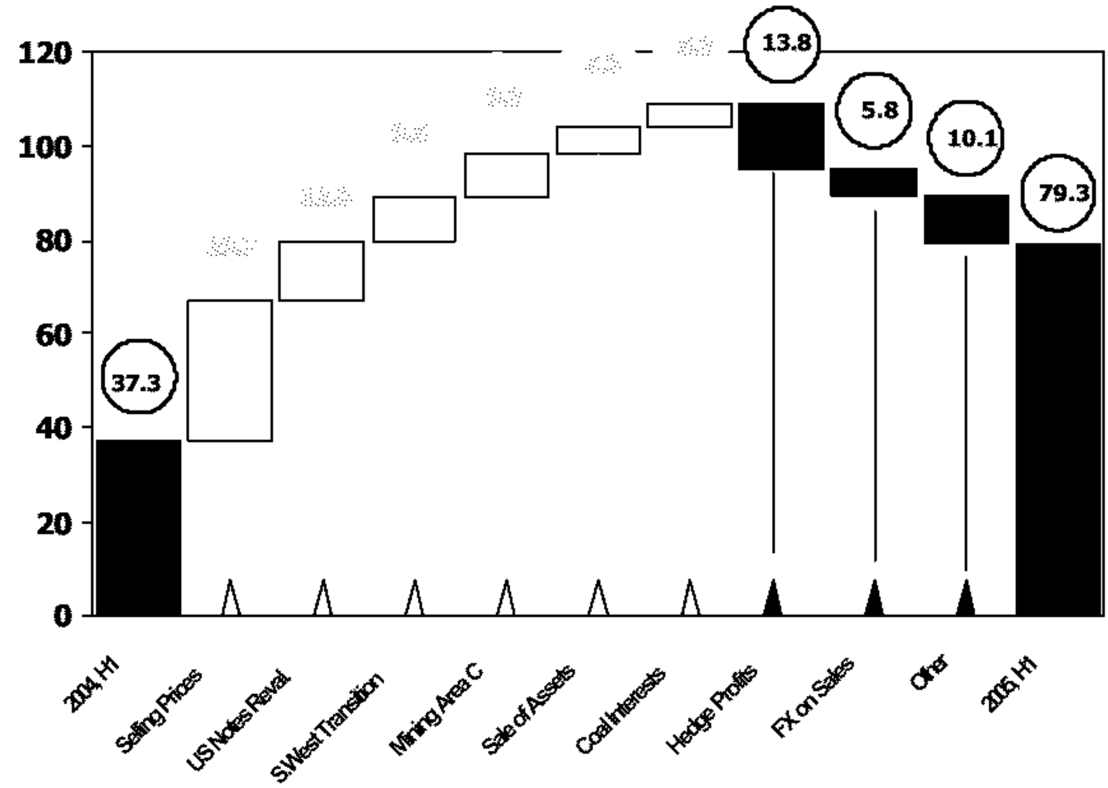
Key drivers of increased profitability in the half were increased mineral sands selling prices (particularly zircon and rutile), a higher contribution from iron ore and coal interests and increased profit from asset sales. In addition, the non-recurrence in 2005 of items which negatively impacted 2004 (the exchange loss on revaluation of US dollar denominated borrowings and the low grade transitional mining at Capel) also enhanced half on half performance. These factors more than offset the negative impact of reduced hedge profits and the higher A$:US$ exchange rates which prevailed in 2005 compared with 2004.

During the six months to June 2005 net debt increased by $88.1 million to $492.5 million which represents a gearing ratio of 33.8%. The main driver of increased debt was high capital expenditure during the first half of 2005 amounting to $172.8 million, versus $89.1million for the previous corresponding period. The increase in capital expenditure was primarily due to the construction of the Douglas mine site and the Hamilton separation plant in the Murray Basin.

Significant movements versus prior corresponding period

The significant movements in net profit after tax and minority interests are summarised in Chart 1 below in conjunction with Explanatory Notes 1 to 9.

Chart 1; June 2005 Profit after Tax and Minority Interests versus June 2004 - A$M



Explanatory Notes

1. Selling Prices (+ve $29.7 million)

Iluka achieved US dollar price increases across the majority of its products compared with the previous corresponding period. In particular, zircon and rutile pricing improved significantly.

2. 2004 Loss on Revaluation of US$ Borrowings (+ve $12.8 million)

The US dollar denominated borrowings (US$100 million) were "swapped" back to Australian dollars in August 2004. As a result the revaluation losses recorded in the six months to June 2004, ($12.8 million tax adjusted) have not recurred in 2005.

3. 2004 Southwest Transition (+ve $9.5 million)

In the first half of 2004, the Capel operations were impacted by a period of high cost remnant mining at the Yoganup Extended ore body prior to transitioning into the Yoganup West ore body. The improved grade encountered in the first half of 2005 significantly improved both output and unit costs .

4. Mining Area C (+ve $9.2 million)

Iluka holds an interest in the "Mining Area C" iron ore operation managed by BHP Billiton. Iluka's interest includes a royalty entitlement to 1.25% of FOB sales as well as an entitlement to "capacity payments" which accrue as production throughput exceeds predetermined thresholds. In the first half of 2005, Iluka booked $16.0 million of pre-tax contribution versus $2.8 million in 2004. This half on half variance of $13.2 million equates to $9.2 million after tax.

5. Asset Sales (+ve $5.3 million)

The contribution of asset sales in first half 2005 was higher compared with the first half of 2004. This was primarily due to the sale of the Snapper Deposit (Murray Basin) in May 2005 for $3.9 million and also the sale of property at Whitby (South West Western Australia) in June 2005 for $2.7 million. The profits on both these transactions were largely sheltered by carried forward CGT losses.

6. Coal Interests (+ve $5.2 million)

Iluka's coal interests contributed significantly more to net profit in the first half of 2005 compared with the first half of 2004. The key drivers were the receipt in 2005 of $3.8 million from the NSW Coal Compensation Board in relation to compensation for mining leases compulsorily resumed in the 1980's. In addition, the Narama Joint venture (operated by JV partner Xstrata) substantially improved its performance in the first half of 2005 based on accelerated volume off-take by Macquarie Generation and by operational and coal quality improvements.

7. Hedge Profits (-ve $13.8 million)

Iluka's hedgebook delivered a $30.4 million pre tax contribution for the first half of 2005 compared with $49.9 million for the first half of 2004. After the impact of tax and minority interests this difference represents $13.8 million. The key driver of reduced hedge profit was the lower volume of hedging utilised in the first half of 2005. This lower volume reflects the change of approach in 2005 to quarterly designation of hedge contracts. This approach effectively spreads the hedge cover across the whole year in contrast to the 2004 approach whereby virtually all hedging was utilised in the first half.

8. FX on Australian Revenue (-ve $5.8 million)

The sales weighted average A$:US$ exchange rate applying to Iluka's Australian based US$ revenues for the first half of 2005 was 0.773 versus 0.740 for the first half of 2004. The stronger Australian dollar reduced the translated value of Australian sourced, US denominated sales by A$8.8 million on a pre-hedge basis. After tax and minority interests this equates to a $5.8 million negative impact on NPAT for the first half of 2005 compared with the first half of 2004.

9. Other (-ve $10.1 million)

Other impacts of negative $10.1 million primarily reflect the net impact of grade decline less the offsetting impact of Iluka's business improvement program. Grade decline has been most notable at the Eneabba operations in WA. Eneabba has been subject to some 40 years of mining and average grades reduced significantly between first half 2004 and first half 2005. Iluka's group wide business improvement program is targeted at preserving profitability in the face of grade decline by aggressively pursuing cost, throughput and separation efficiencies throughout all facets of Iluka's operations. In addition, Iluka actively engages in local "brownfield" exploration aimed at identifying new areas of superior grade to supplement the existing reserve base.

Progress toward key objectives

During the first half of 2005, the Company made significant progress toward key objectives. This progress included:

- continuing to achieve increased prices across most products, particularly zircon;
- continuing the profit turnaround in respect of the USA and CRL operations;
- construction of the Douglas project in the Murray Basin was disappointing during the first half of 2005. As at June 2005 the project was approximately 60% complete;
- successful completion of the northern Murray Basin mining test pit program aimed at determining the preferred mining methodology in the northern Murray Basin;
- continued infill drilling on the Jacinth and Ambrosia deposits as well as further regional reconnaissance drilling in the Eucla region;
- technical and economic evaluation of the feasibility of converting the iron oxide by-product from synthetic rutile manufacture into saleable pig iron product; and
- continued progress on the group wide business improvement program targeted at driving cost savings and productivity improvements.

Iluka Resources Limited
Half-year Report - 30 June 2005

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2004 and any public announcements made by Iluka Resources Limited during the interim reporting in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

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 half-year ended 30 June 2005.

The half-year to 30 June 2005 is the first time the consolidated entity has reported under the Australian Equivalents of International Financial Reporting Standards ("AIFRS"). The changes to the consolidated entity's accounting policies resulting from the adoption of AIFRS are shown in Note 1 to the Financial Report. The comparative results for the 2004 half-year previously reported under Australian Generally Accepted Accounting Principles ("AGAAP") have been restated to comply with AIFRS.

Note 13 to the Financial Report provides a full AGAAP to AIFRS reconciliation of the following consolidated financial statements:

- balance sheet as at 1 January 2004 (AIFRS transition date);
- balance sheet as at 30 June 2004;
- income statement for the half-year ended 30 June 2004;
- balance sheet as at 31 December 2004;
- income statement for the year ended 31 December 2004; and
- balance sheet as at 1 January 2005.

Directors

The following persons were Directors of Iluka Resources Limited during the whole of the half-year and up to the date of this report:

Ian Colin Robert Mackenzie (Chairman)
Robert Lindsay Every
William Henry John Barr
Grahame David Campbell
Valerie Anne Davies
Keith Michael Folwell
Donald Marshall Morley
Richard August Tastula

Review of operations

Revenue for the half-year ended 30 June 2005 was $464.3 million (2004: $397.3 million).

Profit before income tax expense for the half-year ended 30 June 2005 was $110.0 million (2004: $57.2 million).

Profit attributable to members of Iluka Resources Limited for the consolidated entity for the half-year ended 30 June 2005 was $79.3 million (2004: $37.3 million).

Murray Basin development

The key construction elements of Iluka's A$270 million investment in the Douglas project include infrastructure, a mine and wet concentrator plant (WCP) and a mineral separation plant (MSP).

The majority of the project investment relates to a lump sum, largely fixed price, engineering, procurement and construction (EPC) contract with Roche Mining. The balance of the investment is being managed internally by Iluka.

The original completion dates specified under the EPC contract were April 2005 for the WCP and October 2005 for the MSP. Since January 2005, Roche have continued to revise their expected completion dates. The latest advice from Roche Mining concerning the EPC completion schedule indicates the following:

- completion of the WCP is expected in September 2005; and
- completion of the MSP is expected around March 2006.

This represents a project delay of at least 5 months compared with the original completion schedule.

As a consequence of the delays, Iluka has sought a third party assessment of likely completion dates. This assessment indicates that in order for Roche to meet a September 2005 completion date for the WCP and a March 2006 completion date for the MSP, a substantial (but achievable) increase in productivity is required. If the increase in productivity is not realised, the completion dates are more likely to be October 2005 for the WCP and mid-2006 for the MSP.

Dividend

An interim dividend of 10.0 cents per share, partly franked to 5.0 cents (2004: 10 cents, partly franked to 8.7 cents) has been declared by the Directors. The interim dividend will be paid on 30 September 2005, with the record date being 16 September 2005.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 9.

Matters subsequent to balance date

The Directors have not become aware of any other matter or circumstance which 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.

Rounding amounts to the nearest hundred thousand dollars

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

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

Ian Colin Robert Mackenzie
Chairman

Keith Michael Folwell
Managing Director and Chief Executive Officer

Perth
17th August 2005

PricewaterhouseCoopers
ABN 52 780 433 757

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
www.pwc.com/au
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999

Auditors' Independent Declaration

As the lead auditor for the review of Iluka Resources Limited for the half year ended 30 June 2005, I declare to the best of my knowledge and belief, there have been:

(a) no contraventions of the audit independence requirements of the Corporations Act 2001 in relation to the review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Iluka Resources Limited and the entities its controlled during the period.

John O'Connor
Partner
Assurance

Perth
17 August 2005

Contents

Iluka Resources Limited
Consolidated income statement
for the half-year ended 30 June 2005

	Notes	**30 June 2005 $M**	30 June 2004 $M
Revenue	3	**464.3**	397.3
Other income	4	**12.0**	8.2
Expenses, excluding borrowing costs expense	5	**(348.9)**	(319.0)
Interest and finance charges		**(10.7)**	(12.3)
Rehabilitation, restoration and other borrowing cost unwind		**(6.7)**	(5.8)
Exchange losses on foreign currency borrowings		**-**	(11.2)
Total borrowing costs	5	**(17.4)**	(29.3)
Profit before income tax		**110.0**	57.2
Income tax expense	6	**(24.8)**	(16.6)
Profit for the half-year		**85.2**	40.6
Profit attributable to minority interest		**(5.9)**	(3.3)
Profit attributable to members of Iluka Resources Limited		**79.3**	37.3

		Cents	Cents
Basic earnings per share	11	**34.1**	16.0
Diluted earnings per share	11	**34.1**	16.0

The above consolidated income statement should be read in conjunction with the accompanying notes.

	Notes	**30 June 2005 $M**	31 December 2004 $M
ASSETS			
Current assets			
Cash assets		**29.7**	13.6
Receivables		**193.6**	168.5
Inventories		**186.2**	153.1
Derivative financial instruments		**37.3**	-
Current tax assets		**1.9**	2.3
Other		**18.0**	65.1
		466.7	402.6
Non-current assets classified as held for sale		**5.6**	-
Total current assets		**472.3**	402.6
Non-current assets			
Receivables		**7.7**	12.1
Inventories		**6.4**	6.0
Other financial assets		**0.6**	0.6
Property, plant and equipment		**1,508.3**	1,339.1
Derivative financial instruments		**40.9**	-
Deferred tax assets		**0.3**	6.3
Intangible assets		**22.4**	23.4
Other		**-**	54.2
Total non-current assets		**1,586.6**	1,441.7
Total assets		**2,058.9**	1,844.3
LIABILITIES			
Current liabilities			
Payables		**155.7**	108.2
Interest bearing liabilities		**61.8**	55.0
Current tax liabilities		**5.7**	2.0
Provisions		**34.2**	30.4
Other		**-**	49.8
Total current liabilities		**257.4**	245.4
Non-current liabilities			
Interest bearing liabilities		**460.4**	363.0
Deferred tax liabilities		**148.1**	114.1
Provisions		**226.8**	210.1
Other		**0.1**	54.2
Total non-current liabilities		**835.4**	741.4
Total liabilities		**1,092.8**	986.8
Net assets		**966.1**	857.5
EQUITY			
Contributed equity	7	**611.0**	611.0
Reserves	8	**74.1**	24.7
Retained profits		**214.1**	162.4
Total parent entity interest		**899.2**	798.1
Minority interests		**66.9**	59.4
Total equity		**966.1**	857.5

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

	30 June 2005 $M	30 June 2004 $M
Consolidated statement of recognised income and expense		
Adjustment on adoption of *AASB 132* and *AASB 139*, net of tax:		
Retained profits	**0.3**	-
Hedge reserve	**74.8**	-
Cash flow hedges, net of tax	**(21.9)**	-
Exchange differences on translation of foreign entities	**0.4**	1.5
Actuarial gains on defined benefit plans	**-**	0.4
Employee share options	**0.4**	0.3
Net income recognised directly in equity	**54.0**	2.2
Profit for the half-year	**85.2**	40.6
Total recognised income and expense for the half-year	**139.2**	42.8
Total recognised income and expense for the half-year is attributable to:		
Members of Iluka Resources Limited	**128.8**	39.9
Minority interest	**10.4**	2.9
	139.2	42.8

The above consolidated statement of recognised income and expense should be read in conjunction with the accompanying notes.

	30 June 2005 $M	30 June 2004 $M
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	**446.8**	456.3
Payments to suppliers and employees (inclusive of goods and services tax)	**(339.0)**	(316.5)
	107.8	139.8
Interest received	**0.4**	0.3
Interest and other costs of finance paid	**(14.6)**	(13.5)
Income taxes paid	**(2.6)**	(0.3)
Payments for exploration expenditure	**(9.2)**	(6.6)
Goods and services tax	**29.0**	19.2
Other income	**11.1**	4.6
Net cash inflow from operating activities	**121.9**	143.5
Cash flows from investing activities		
Payments for property, plant and equipment	**(172.8)**	(89.1)
Proceeds from sale of property, plant and equipment and land held for resale	**2.9**	1.8
Net cash outflow from investing activities	**(169.9)**	(87.3)
Cash flows from financing activities		
Proceeds from borrowings	**118.1**	13.4
Repayment of borrowings	**(23.5)**	(34.8)
Dividends paid	**(27.9)**	(27.9)
Dividends paid to minority interest in subsidiaries	**(2.7)**	(0.9)
Net cash inflow (outflow) from financing activities	**64.0**	(50.2)
Net increase in cash held	**16.0**	6.0
Cash at the beginning of the reporting period	**13.6**	5.2
Effects of exchange rate changes on cash	**0.1**	0.4
Cash at the end of the reporting period	**29.7**	11.6

The above consolidated cash flow statement should be read in conjunction with the accompanying notes.

Note 1. Summary of significant accounting policies

This general purpose financial report for the interim half-year reporting period ended 30 June 2005 has been prepared in accordance with Accounting Standard *AASB 134 Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include all the notes of the type normally included in an annual financial report. The notes included relate only to those accounting policies which have changed due to the adoption of the Australian Equivalents of International Financial Reporting Standards ("AIFRS"). Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2004 and any public announcements made by Iluka Resources Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation of half-year financial report

This interim financial report is the first interim financial report prepared by the consolidated entity under AIFRS. *AASB 1 - First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Until 31 December 2004 the financial statements of the consolidated entity had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). AGAAP differs in certain respects from AIFRS. When preparing the consolidated entity's AIFRS interim financial report for the half-year ended 30 June 2005, management has amended certain accounting policies applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the 2004 comparative figures have been restated to reflect these adjustments. The consolidated entity has taken the exemption available under *AASB 1* to only apply *AASB 132 - Financial Instruments: Disclosure and Presentation* and *AASB 139 - Financial Instruments: Recognition and Measurement* from 1 January 2005.

A complete AGAAP to AIFRS reconciliation of the 2004 comparative financial statements is included in Note 13.

Early adoption of standard
The consolidated entity has elected to apply *AASB 119 - Employee Benefits* (issued in December 2004) to the reporting periods beginning 1 January 2005. This includes applying *AASB 119* to the comparatives in accordance with *AASB 108 - Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly the actuarial gains and losses on defined benefit plans are deferred in equity (refer to note 13(d)).

Historical cost convention
These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, certain classes of property, plant and equipment and investment property.

Accounting policy changes resulting from AIFRS adoption

(a) Income tax
The adoption of AIFRS has resulted in a change to the consolidated entity's income tax accounting policy. Under the former *AASB 1020 – Accounting for Income Tax*, deferred tax balances were determined using the income statement method, whereby items were only tax-effected if they were included in the determination of pre-tax accounting profit or loss and/or taxable income or loss. In addition, current and deferred taxes could not be recognised directly in equity under AGAAP.

Under *AASB 112 – Income Taxes*, the income tax expense (or revenue) for the period is the tax payable on the current period's taxable income (based on the relevant country tax rate) adjusted for temporary differences. These temporary differences arise from

- differences between the tax and accounting bases of assets and liabilities which give rise to deferred tax assets and liabilities; and
- unused tax losses.

Note 1. Summary of significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

(b) Derivatives

The consolidated entity has taken the exemption available under *AASB 1* to apply *AASB 132 – Financial Instruments: Disclosure and Presentation* and *AASB 139 - Financial Instruments: Recognition and Measurement* from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of *AASB 132* and *AASB 139*. For further information on previous AGAAP treatment refer to the consolidated entity's annual report for the year ended 31 December 2004.

Adjustments on Financial Instruments transition date: 1 January 2005

Under the former AGAAP the fair value of the consolidated entity's derivatives were recorded in both assets and liabilities in the balance sheet, therefore having no impact on net assets. On transition, derivatives that qualified as a hedged item under AGAAP also qualify as a hedged item under AIFRS. However post transition, the fair value of derivatives which do not qualify as hedged items are marked-to-market through the income statement. On transition, being 1 January 2005 for derivatives, the liability recorded under AGAAP in respect of 'in-the-money' derivatives is eliminated and recorded in equity as a hedge reserve.

From 1 January 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The consolidated entity designates certain derivatives as either; (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

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

Note 1. Summary of significant accounting policies (continued)

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity via the hedge reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement. For the consolidated entity, the time value component of its option hedge instruments is deemed to be ineffective.

(e) Rehabilitation and mine closure costs

The adoption of AIFRS has resulted in a substantial change in the accounting treatment of the rehabilitation and mine closure provision.

Under the former AGAAP, future rehabilitation and mine closure costs were accrued over the life of the mine and included in the cost of goods sold.

Under *AASB 116 Property, Plant and Equipment*, the cost of an asset must include any estimated costs of dismantling and removing the asset and restoring the site on which it is located. The capitalised rehabilitation and mine closure costs are depreciated (along with the other costs included in the asset) over the asset's useful life. The depreciation expense is included in the costs of goods sold.

AASB 137 Provisions, Contingent Liabilities, and Contingent Assets requires a provision to be raised for the present value of the estimated cost of settling the rehabilitation and restoration obligations existing at balance date. The estimated costs are discounted using a pre-tax discount rate that reflects the time value of money. The discount rate must not reflect risks for which future cash flow estimates have been adjusted. A discount rate of 6% has been used in calculating the rehabilitation and restoration provisions of the consolidated entity.

As the value of the provision represents the discounted value of the present obligation to restore, dismantle and rehabilitate, the increase in the provision due to the passage of time is recognised as a borrowing cost. This borrowing cost is excluded from the cost of goods sold.

Note 1. Summary of significant accounting policies (continued)

(d) Recoverable amount of non-current assets

AASB 136 – Impairment of Assets requires that depreciable assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

(e) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are included in the costs of qualifying assets. Qualifying assets are assets that take more than 12 months to prepare for their intended use or sale. Under the former AGAAP, exchange differences arising from movements in principal amounts of foreign currency borrowings used to fund the construction of qualifying assets could be capitalised. The AIFRS standard *AASB 123 – Borrowing Costs* prohibits the capitalisation of these amounts.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average applicable to the consolidated entity's outstanding borrowings during the year. The weighted average interest rate applied in the current period was 6.03% (2004: 5.79%).

(f) Research & development

The consolidated entity undertakes various research and development activities. The adoption of AIFRS has resulted in a change to the consolidated entity's research and development accounting policy. Under the former AGAAP, the consolidated entity expensed research and development expenditure as incurred unless it expressly qualified for deferral. To qualify for deferral the research and development expenditure was required to be recoverable by reference to the present value of future incremental cash flows generated by the project.

AASB 138 - Intangible Assets is the AIFRS standard relating to research and development expenditure. In accordance with *AASB 138*, the consolidated entity expenses all research costs to the income statement as incurred. Expenditure which qualifies as development is capitalised as an Intangible Asset. Research costs relate to original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding. Examples of Research include:

- activities aimed at obtaining new knowledge;
- the search for, evaluation and final selection of, applications of research findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Development is the application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of a commercial production or use. Examples of Development activities are as follows:

- the design, construction and testing of pre-production or pre-use prototypes and models;
- the design of tools, jigs, moulds and dies involving new technology;
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

Note 1. Summary of significant accounting policies (continued)

(g) Equity based remuneration

Under the former AGAAP, equity based remuneration was not recognised in the income statement.

With the adoption of *AASB 2 – Share-Based Payments*, an expense for equity based remuneration is recognised in the income statement by reference to the fair value of equity instruments granted on the grant date. The corresponding credit is recognised in equity, via an employee share reserve. Valuations of options and ordinary shares are performed in accordance with methodologies prescribed by *AASB 2*.

Note 2. Segment information

Primary reporting - business segments

2005	Titanium Minerals and Zircon $M	Coal $M	Iron Ore Royalty $M	Unallocated $M	Consolidated $M
Sales to external customers	**428.0**	**18.6**	**-**	**-**	**446.6**
Other revenue/income	**7.5**	**4.9**	**16.2**	**1.1**	**29.7**
Total segment revenue	**435.5**	**23.5**	**16.2**	**1.1**	**476.3**
Segment result	**109.6**	**12.6**	**16.0**	**-**	**138.2**
Rehabilitation, restoration and other borrowing cost unwind					**(6.7)**
Interest and finance costs					**(10.7)**
Unallocated revenue less other unallocated expenses					**(10.8)**
Profit before income tax expense					**110.0**

Primary reporting - business segments

2004	Titanium Minerals and Zircon $M	Coal $M	Iron Ore Royalty $M	Unallocated $M	Consolidated $M
Sales to external customers	375.7	16.9	-	-	392.6
Other revenue/income	7.8	1.1	3.0	1.0	12.9
Total segment revenue	383.5	18.0	3.0	1.0	405.5
Segment result	87.6	5.3	2.8	-	95.7
Rehabilitation, restoration and other borrowing cost unwind					(5.8)
Interest and finance costs					(12.3)
Exchange losses on foreign currency borrowings					(11.2)
Unallocated revenue less other unallocated expenses					(9.2)
Profit before income tax expense					57.2

Note 3. Revenue

	30 June 2005 $M	30 June 2004 $M
Revenue		
Sales revenue		
Sale of goods	**446.6**	392.6
Other revenue		
Royalty income	**17.1**	4.1
Interest income	**0.4**	0.3
Rental income	**0.2**	0.3
	17.7	4.7
Revenue	**464.3**	397.3

Note 4. Other income

	30 June 2005 $M	30 June 2004 $M
Other income		
Foreign currency gains (net)	**1.4**	6.5
PT Koba Tin deferred settlement	**0.8**	0.7
Coal compensation receipts	**3.8**	-
Sundry income	**0.2**	0.8
Profit on sale of property, plant & equipment	**2.8**	0.2
Profit on sale of exploration tenements	**3.0**	-
Other income	**12.0**	8.2

Note 5. Expenses

	30 June 2005 $M	30 June 2004 $M
Cost of sales of goods		
Cost of production	**253.5**	222.2
Depreciation	**42.1**	40.9
Amortisation	**18.5**	20.9
Total cost of sales of goods	**314.1**	284.0
Research and development	**3.3**	4.5
Corporate administration and finance	**11.9**	10.1
Marketing and selling including royalties	**16.9**	17.6
Exploration and evaluation	**2.7**	2.8
Expenses, excluding borrowing costs expense	**348.9**	319.0
Borrowing costs		
Interest and finance charges payable	**15.0**	14.0
Amortisation of deferred borrowing costs	**0.3**	0.1
Interest capitalised	**(4.6)**	(1.4)
	10.7	12.7
Rehabilitation, restoration and other borrowing cost unwind	**6.7**	5.8
Exchange losses on foreign currency borrowings	**-**	10.8
Borrowing costs expensed	**17.4**	29.3

Note 6. Income tax

	30 June 2005 $M	30 June 2004 $M
Income tax expense		
Current tax	**6.7**	(4.6)
Deferred tax	**21.7**	24.4
Over provided in prior years	**(3.6)**	(3.2)
	24.8	16.6
Numerical reconciliation of income tax expense to prima facie tax payable		
Profit before income tax	**110.0**	57.2
Tax at the Australian tax rate of 30%	**33.0**	17.2
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Research & development	**(3.2)**	(2.0)
Foreign exchange losses	**-**	4.8
Capital gains shielded by capital losses	**(0.9)**	-
Tax base of hedge contracts	**(1.0)**	-
Other non-deductible items	**0.6**	0.5
	28.5	20.5
Difference in overseas tax rates	**(0.1)**	0.1
Over provision in prior years	**(3.6)**	(3.2)
Deferred tax asset not previously brought to account	**-**	(0.8)
Income tax expense	**24.8**	16.6

Note 7. Contributed equity

	30 June 2005 No. of shares	31 December 2004 No. of shares	30 June 2005 Paid up value $M	31 December 2004 Paid up value $M
Ordinary securities at beginning and end of period	**232,914,349**	232,914,349	**611.0**	611.0

Note 8. Reserves

	30 June 2005 $M	31 December 2004 $M
Asset revaluation reserve	**20.3**	20.3
Asset realisation reserve	**4.7**	4.7
Hedge reserve	**48.7**	-
Foreign currency translation reserve	**(1.5)**	(1.9)
Defined benefits superannuation reserve	**0.6**	0.6
Share-based payments reserve	**1.3**	1.0
	74.1	24.7

Note 9. Dividends

	30 June 2005 $M	30 June 2004 $M
Ordinary shares		
Dividends provided for or paid during the half-year	**27.9**	27.9
Divi dends not recognised at the end of the half-year		
In addition to the above dividends, since end of the half-year the Directors have recommended the payment of an interim dividend of 10 cents (2004: 10 cents) per fully paid ordinary share, partly franked to 5.0 cents (2004: 8.7 cents). The aggregate amount of the proposed dividend expected to be paid on 30 September 2005 out of retained profits at 30 June 2005, but not recognised as a liability at the end of the half-year, is	**23.3**	23.3
Franking credits available for subsequent financial years based on a tax rate of 30% (2004: 30%)	**0.5**	11.9

The above amounts represent the balance of the franking account as at the end of the half-year, adjusted for:
(a) franking credits that will arise from the payment of the current tax liability;
(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date;
(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date; and
(d) franking credits that may be prevented from being distributed in subsequent financial years.

Note 10. Contingent liabilities and contingent assets

	30 June 2005 $M	31 December 2004 $M
Contingent liabilities		
Performance and finance guarantees	**81.4**	70.7

Contingent assets

In the 1980's the consolidated entity held certain coal leases and associated royalties in New South Wales ("NSW") that were compulsorily acquired by the NSW Government pursuant to the Coal Acquisition Act 1981 (the "1981 Act"). Under the 1981 Act the NSW Government is required to provide compensation to the prior owners for the loss of historical and future royalty earnings. Early in 2005, the NSW Government passed the Coal Compensation Amendment Act which modifies the royalty calculation used in determining compensation from ad valorem (i.e % of coal sales price) to a fixed amount per tonne for all claims not yet finalised.

The amount of compensation is to be determined and agreed by the Coal Compensation Board (the "CCB") and is dependent upon mine plans submitted from current or proposed operators. The amount thereby determined is then subject to the consolidated entity's right of appeal.

The consolidated entity is unable to estimate with any accuracy the quantum and/or timing of any future compensation payments until the determination process is complete. In the half-year to 30 June 2005, $3.8 million coal compensation income was received (30 June 2004: $Nil).

Note 11. Earnings per share

	30 June 2005 Cents	30 June 2004 Cents
Basic earnings per share	**34.1**	16.0
Diluted earnings per share	**34.1**	16.0

.

Weighted average number of shares used as the denominator
The weighted average number of ordinary shares used as the denominator in calculating basic earnings per share was 232,914,349 (2004: 232,814,349).

Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share was 232,914,349 (2004: 232,814,349).

Note 12. Reconciliation of profit after income tax to net cash inflow from operating activities

	30 June 2005 $M	30 June 2004 $M
Profit after income tax	**85.2**	40.6
Depreciation and amortisation	**60.9**	61.9
Previously capitalised exploration expenditure written off	**0.3**	0.7
Interest capitalised	**(4.6)**	(1.4)
CRL Enterprise mine transition costs	**(2.4)**	(3.7)
Current year exploration expenditure capitalisation	**(6.7)**	(3.6)
Net gain on disposal of property, plant and equipment	**(5.8)**	(0.3)
Rehabilitation and restoration borrowing costs	**6.4**	5.8
Non-cash employee benefits expense – share-based payments	**0.4**	0.2
Unwind of deferred interest	**0.3**	-
Doubtful debts	**-**	1.2
Net exchange differences	**(0.1)**	11.4
Changes in operating assets and liabilities		
Decrease (increase) in receivables	**(9.3)**	59.4
Decrease (increase) in inventories	**(33.1)**	(32.6)
Decrease (increase) in future income tax benefit	**6.3**	43.0
Decrease (increase) in other operating assets	**(5.9)**	68.5
Increase (decrease) in payables	**0.8**	1.9
Increase (decrease) in other operating liabilities	**17.3**	(8.1)
Increase (decrease) in provision for income taxes payables	**3.7**	1.0
Increase (decrease) in provision for deferred income tax	**12.2**	(27.8)
Increase (decrease) in other provisions	**(4.0)**	(74.6)
Net cash inflow from operating activities	**121.9**	143.5

Note 13. Explanation of transition to Australian equivalents to IFRS

(1) Reconciliation of profit reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to profit under Australian equivalents to IFRS (AIFRS)

(a) Income statement for the half-year ended 30 June 2004

		Half-year ended 30 June 2004		
	Notes	AGAAP	AIFRS adjustments	AIFRS
		$M	$M	$M
Revenue		**397.3**	**-**	**397.3**
Other income	(i)	9.7	(1.5)	8.2
Expenses, excluding borrowing costs				
Cost of goods sold	(a)	(286.8)	2.8	(284.0)
Research and development	(c)	(3.0)	(1.5)	(4.5)
Corporate administration and finance	(e)	(9.8)	(0.3)	(10.1)
Marketing and selling including royalties		(17.6)	-	(17.6)
Exploration and evaluation		(2.8)	-	(2.8)
Carrying amount of assets sold	(i)	(1.5)	1.5	-
		(321.5)	2.5	(319.0)
Total borrowing costs	(a),(f)	(23.3)	(6.0)	(29.3)
Profit before income tax		**62.2**	**(5.0)**	**57.2**
Income tax (expense) benefit	(b)	(21.3)	4.7	(16.6)
Profit for the half-year		**40.9**	**(0.3)**	**40.6**
Profit attributable to minority interest	(b)	(2.9)	(0.4)	(3.3)
Profit attributable to members of Iluka Resources Limited		**38.0**	**(0.7)**	**37.3**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(b) Income statement for the year ended 31 December 2004

	Notes	AGAAP	AIFRS adjustments	AIFRS
		Year ended 31 December 2004		
		$M	$M	$M
Revenue		**831.9**	**-**	**831.9**
Other income	(i)	17.7	(4.6)	13.1
Expenses, excluding borrowing costs				
Cost of goods sold	(a)	(626.9)	18.3	(608.6)
Research and development	(c)	(6.1)	(3.5)	(9.6)
Corporate administration and finance	(e)	(18.5)	(0.6)	(19.1)
Marketing and selling including royalties		(36.5)	-	(36.5)
Exploration and evaluation		(6.3)	-	(6.3)
Carrying amount of assets sold	(i)	(4.6)	4.6	-
		(698.9)	18.8	(680.1)
Total borrowing costs	(a),(f)	(32.7)	(11.5)	(44.2)
Profit before income tax		**118.0**	**2.7**	**120.7**
Income tax (expense) benefit	(b)	(17.0)	2.9	(14.1)
Profit for the year		**101.0**	**5.6**	**106.6**
Profit attributable to minority interest	(b)	(11.7)	0.1	(11.6)
Profit attributable to members of Iluka Resources Limited		**89.3**	**5.7**	**95.0**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(2) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to IFRS (AIFRS)

(a) Balance sheet at the date of transition to AIFRS: 1 January 2004

	Notes	1 January 2004 Previous AGAAP $M	Effect of transition to AIFRS $M	AIFRS $M
ASSETS				
Current assets				
Cash and cash equivalents		5.2	-	5.2
Receivables	(j)	208.4	7.4	215.8
Inventories	(a)	114.6	(1.2)	113.4
Current tax assets		1.2	-	1.2
Other	(j)	78.8	(7.4)	71.4
		408.2	(1.2)	407.0
Non-current assets classified as held for sale	(j)	2.2	(2.2)	-
Total current assets		410.4	(3.4)	407.0
Non-current assets				
Receivables	(j)	1.6	12.5	14.1
Inventories		2.1	-	2.1
Other financial assets	(d)	-	0.3	0.3
Property, plant and equipment	(a),(c),(f),(h),(j)	1,201.7	28.7	1,230.4
Deferred tax assets	(b)	22.2	33.6	55.8
Intangible assets	(g)	15.6	9.9	25.5
Other	(g),(j)	90.3	(22.4)	67.9
Total non-current assets		1,333.5	62.6	1,396.1
Total assets		**1,743.9**	**59.2**	**1,803.1**
LIABILITIES				
Current liabilities				
Payables		113.3	-	113.3
Interest bearing liabilities		105.3	-	105.3
Current tax liabilities		0.3	-	0.3
Provisions	(a)	28.3	2.6	30.9
Other		54.8	-	54.8
Total current liabilities		302.0	2.6	304.6
Non-current liabilities				
Interest bearing liabilities		278.8	-	278.8
Deferred tax liabilities	(b)	20.6	131.0	151.6
Provisions	(a)	136.8	63.4	200.2
Other		64.6	-	64.6
Total non-current liabilities		500.8	194.4	695.2
Total liabilities		**802.8**	**197.0**	**999.8**
Net assets		**941.1**	**(137.8)**	**803.3**
EQUITY				
Contributed equity	(e)	610.4	-	610.4
Reserves	(d),(e),(h)	27.1	(1.4)	25.7
Retained earnings	(l)	249.2	(130.5)	118.7
		886.7	(131.9)	754.8
Minority interest	(b)	54.4	(5.9)	48.5
Total equity		**941.1**	**(137.8)**	**803.3**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(b) Balance sheet at the date of the last half-year reporting period under previous AGAAP: 30 June 2004

	Notes	30 June 2004 Previous AGAAP $M	Effect of transition to AIFRS $M	AIFRS $M
ASSETS				
Current assets				
Cash and cash equivalents		11.6	-	11.6
Receivables	(j)	153.2	7.3	160.5
Inventories	(a)	149.0	(2.4)	146.6
Current tax assets	(b)	1.6	0.2	1.8
Other	(j)	42.0	(7.3)	34.7
		357.4	(2.2)	355.2
Non-current assets classified as held for sale	(j)	2.2	(2.2)	-
Total current assets		359.6	(4.4)	355.2
Non-current assets				
Receivables	(j)	1.3	12.8	14.1
Inventories		2.3	-	2.3
Other financial assets	(d)	-	0.6	0.6
Property, plant and equipment	(a),(c),(f),(h),(j)	1,258.5	27.7	1,286.2
Deferred tax assets	(b)	1.9	9.1	11.0
Intangible assets	(g)	14.7	9.7	24.4
Other	(g),(j)	56.4	(22.5)	33.9
Total non-current assets		1,335.1	37.4	1,372.5
Total assets		**1,694.7**	**33.0**	**1,727.7**
LIABILITIES				
Current liabilities				
Payables		106.9	-	106.9
Interest bearing liabilities		73.2	-	73.2
Current tax liabilities	(b)	-	0.2	0.2
Provisions	(a),(h)	27.8	8.0	35.8
Other		17.7	-	17.7
Total current liabilities		225.6	8.2	233.8
Non-current liabilities				
Interest bearing liabilities		317.8	-	317.8
Deferred tax liabilities	(b),(h)	21.9	102.8	124.7
Provisions	(a),(h)	142.2	60.3	202.5
Other		31.6	-	31.6
Total non-current liabilities		513.5	163.1	676.6
Total liabilities		**739.1**	**171.3**	**910.4**
Net assets		**955.6**	**(138.3)**	**817.3**
EQUITY				
Contributed equity		610.4	-	610.4
Reserves	(d),(e),(h)	29.5	(1.3)	28.2
Retained earnings	(l)	259.3	(131.5)	127.8
		899.2	(132.8)	766.4
Minority interest	(b)	56.4	(5.5)	50.9
Total equity		**955.6**	**(138.3)**	**817.3**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(c) Balance sheet at the date of the last reporting period under previous AGAAP: 31 December 2004

	Notes	31 December 2004 Previous AGAAP $M	Effect of Transition To AIFRS $M	AIFRS $M
ASSETS				
Current assets				
Cash and cash equivalents		13.6	-	13.6
Receivables	(j)	158.2	10.3	168.5
Inventories	(a)	156.7	(3.6)	153.1
Current tax assets	(b)	2.2	0.1	2.3
Other	(j)	75.5	(10.4)	65.1
		406.2	(3.6)	402.6
Non-current assets classified as held for sale	(j)	2.2	(2.2)	-
Total current assets		408.4	(5.8)	402.6
Non-current assets				
Receivables	(j)	2.3	9.8	12.1
Inventories		6.0	-	6.0
Other financial assets	(d)	-	0.6	0.6
Property, plant and equipment	(a),(c),(f),(h),(j)	1,317.9	21.2	1,339.1
Deferred tax assets	(b)	9.0	(2.7)	6.3
Intangible assets	(g)	13.9	9.5	23.4
Other	(g),(j)	73.5	(19.3)	54.2
Total non-current assets		1,422.6	19.1	1,441.7
Total assets		**1,831.0**	**13.3**	**1,844.3**
LIABILITIES				
Current liabilities				
Payables		108.2	-	108.2
Interest bearing liabilities		55.0	-	55.0
Current tax liabilities		2.0	-	2.0
Provisions	(a),(h)	16.7	13.7	30.4
Other		49.8	-	49.8
Total current liabilities		231.7	13.7	245.4
Non-current liabilities				
Interest bearing liabilities		363.0	-	363.0
Deferred tax liabilities	(b),(h)	22.3	91.8	114.1
Provisions	(a),(h)	171.7	38.4	210.1
Other		54.2	-	54.2
Total non-current liabilities		611.2	130.2	741.4
Total liabilities		**842.9**	**143.9**	**986.8**
Net assets		**988.1**	**(130.6)**	**857.5**
EQUITY				
Contributed equity	(e)	610.8	0.2	611.0
Reserves	(d),(e),(h)	24.8	(0.1)	24.7
Retained earnings	(l)	287.3	(124.9)	162.4
		922.9	(124.8)	798.1
Minority interest	(b)	65.2	(5.8)	59.4
Total equity		**988.1**	**(130.6)**	**857.5**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(3) The consolidated entity has taken the exemption available under *AASB 1* to apply *AASB 132 – Financial Instruments: Disclosure and Presentation* and *AASB 139 – Financial Instruments: Recognition and Measurement* from 1 January 2005. The Group has applied previous AGAAP in the comparative information on financial instruments within the scope of *AASB 132* and *AASB 139.*

The balance sheet below reflects the adjustments as at 1 January 2005 as a result of applying *AASB 132* and *AASB 139.*

	Notes	31 December 2004 $M	Effect of applying AASB 132 & 139 $M	1 January 2005 $M
ASSETS				
Current assets				
Cash and cash equivalents		13.6	-	13.6
Receivables	(m),(o)	168.5	7.5	176.0
Inventories		153.1	-	153.1
Derivative financial instruments	(n)	-	53.1	53.1
Current tax assets		2.3	-	2.3
Other	(n)	65.1	(53.1)	12.0
Total current assets		402.6	7.5	410.1
Non-current assets				
Receivables	(o)	12.1	(1.2)	10.9
Inventories		6.0	-	6.0
Other financial assets		0.6	-	0.6
Property, plant and equipment		1,339.1	-	1,339.1
Derivative financial instruments	(n)	-	54.2	54.2
Deferred tax assets		6.3	-	6.3
Intangible assets		23.4	-	23.4
Other	(n)	54.2	(54.2)	-
Total non-current assets		1,441.7	(1.2)	1,440.5
Total assets		**1,844.3**	**6.3**	**1,850.6**
LIABILITIES				
Current liabilities				
Payables		108.2	-	108.2
Interest bearing liabilities	(m)	55.0	7.8	62.8
Current tax liabilities		2.0	-	2.0
Provisions		30.4	-	30.4
Other		49.8	(49.8)	-
Total current liabilities		245.4	(42.0)	203.4
Non-current liabilities				
Interest bearing liabilities	(o)	363.0	(1.8)	361.2
Deferred tax liabilities	(n)	114.1	29.2	143.3
Provisions		210.1	-	210.1
Other	(n)	54.2	(54.2)	-
Total non-current liabilities		741.4	(26.8)	714.6
Total liabilities		**986.8**	**(68.8)**	**918.0**
Net assets		**857.5**	**75.1**	**932.6**
EQUITY				
Contributed equity		611.0	-	611.0
Reserves	(n)	24.7	68.0	92.7
Retained earnings	(o)	162.4	0.3	162.7
		798.1	68.3	866.4
Minority interest	(n)	59.4	6.8	66.2
Total equity		**857.5**	**75.1**	**932.6**

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(4) Reconciliation of cash flow statements

The adoption of AIFRS has not resulted in any material adjustments to the cash flow statements for the half-year ended 30 June 2004 or the year ended 31 December 2004.

(5) Notes to the reconciliations

(a) Rehabilitation and mine closure provisions

The consolidated entity has obligations to dismantle, remove, restore and rehabilitate certain items of plant, property and equipment.

Under the former Australian Generally Accepted Accounting Principles ("AGAAP"), future rehabilitation and mine closure costs were accrued over the life of the mine and included in cost of goods sold.

Under AIFRS, the provision for rehabilitation and mine closure costs associated with an asset is derived by discounting the expected expenditures to their present value. The present value of these costs are capitalised to the associated as set and depreciated over the useful life of the asset. The depreciation charge is included in cost of goods sold. The present value of the provision increases in each period to reflect the passage of time. This increase is recognised as a borrowing cost and accordingly is excluded from cost of goods sold.

The split of rehabilitation and mine closure costs between depreciation and borrowing cost in the income statement has resulted in an adjustment to inventory in the consolidated balance sheet and cost of goods sold in the consolidated income statement.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Inventory	(1.2)	(2.4)	(3.6)
Property, plant and equipment	29.2	29.2	24.9
Provisions – current	(2.6)	(8.0)	(13.6)
Provisions – non-current	(63.4)	(60.1)	(38.7)
Retained earnings	38.0	41.3	31.0

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Cost of goods sold	2.8	18.3
Borrowing costs	(5.8)	(11.8)

The tax effect of the above adjustments are reflected in note 13(b).

(b) Taxation balances

Under AGAAP, income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. The amortisation of fair value amounts was a permanent difference under AGAAP. The adoption of AIFRS has resulted in a change in accounting policy.

AIFRS requires deferred tax to be recognised on all fair value adjustments, other than those recorded as goodwill. This has resulted in the recognition of deferred tax liabilities in respect of fair value adjustments made on the acquisition of controlled entities.

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Tax assets - current	-	0.2	0.1
Deferred tax assets	33.6	9.1	(2.7)
Tax liabilities – current	-	(0.2)	-
Deferred tax liabilities – non-current	(131.0)	(101.8)	(92.2)
Minority interest	5.9	5.5	5.7
Retained earnings	91.5	87.2	89.1

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Income tax expense	4.7	2.9
Minority interest	(0.4)	0.1

The adjustments in note 13(b) reflect the tax impact of all other adjustments resulting from the adoption of AIFRS.

(c) Research and development

The consolidated entity undertakes various research and development activities. Under AGAAP, expenditure on research and development was capitalised where the expenditure was expected to be recoverable. AIFRS state that expenditure on 'research' must be expensed as incurred and only 'development' expenditure can be capitalised.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Property, plant and equipment	(2.5)	(4.0)	(6.0)
Retained earnings	2.5	4.0	6.0

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Research and development expenditure	(1.5)	(3.5)

The tax effect of the above adjustments are reflected in note 13(b).

(d) Retirement benefit obligations

The consolidated entity is the sponsor of a superannuation plan with a defined benefit section and defined contribution section. Under previous AGAAP, cumulative actuarial gains and losses on the defined benefit section were not recognised in the financial statements. At the date of transition, an asset is recognised in other financial assets. It is measured as the surplus of the net market value of the superannuation fund's assets over the value of the employees' accrued benefits at that date.

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

Movements in the difference between the net market value of the superannuation fund's assets and the value of the employees' accrued benefits after transition have been recognised directly in equity.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Other financial assets	0.3	0.6	0.6
Other reserves	(0.3)	(0.6)	(0.6)

Effect of these changes on the consolidated entity's income statement:

The movements in the difference between the net market value of the superannuation fund's assets and the value of the employees' accrued benefits are taken up directly in equity, therefore there has been no impact on the consolidated entity's income statement for either the half-year ended 30 June 2004 or the year ended 31 December 2004.

(e) Equity based remuneration

A portion of senior management's remuneration is equity based. Such remuneration has included the granting of options and the granting of ordinary shares upon predetermined performance criteria being met. Under AGAAP, equity based remuneration was not recognised in the consolidated entity's income statement.

Under AIFRS, the consolidated entity is required to recognise an expense for equity based remuneration, by reference to the fair value of equity instruments granted on the grant date. The corresponding credit is recognised in equity, via an employee share reserve. Valuations of the options and potential ordinary shares have been performed in accordance with methodologies prescribed by *AASB 2*.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Contributed equity	-	-	(0.2)
Other reserves	(0.6)	(0.9)	(0.9)
Retained earnings	0.6	0.9	1.1

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Corporate administration and finance	(0.3)	(0.6)

The tax effect of the above adjustments are reflected in note 13(b).

(f) Borrowing costs

A portion of the consolidated entity's borrowing costs are denominated in foreign currencies. Further, the consolidated entity capitalises interest expense in relation to expenditure on qualifying assets. Under AGAAP, exchange rate differences arising from certain foreign currency borrowings were included within the definition of borrowing costs. Under AIFRS, to the extent exchange differences arising from foreign currency borrowings are not regarded as an adjustment to interest costs, they are excluded from borrowing costs and therefore cannot be capitalised.

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Property, plant and equipment	-	(0.2)	0.3
Retained earnings	-	0.2	(0.3)

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Borrowing costs	(0.2)	0.3

The tax effect of the above adjustments are reflected in note 13(b).

(g) Intangible assets

The new *AASB 138 'Intangible Assets'* has an expanded definitional criteria for intangible assets compared to the previous AGAAP. As a result of applying these criteria, the royalty entitlement assets of the consolidated entity which had previously been classified as 'Non-current Assets – other', have been reclassified as intangibles. There have been no changes to the estimated useful lives of these assets.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Non-current assets – other	(9.9)	(9.7)	(9.5)
Intangible assets	9.9	9.7	9.5

Effect of these changes on the consolidated entity's income statement:
This adjustment relates purely to classifications on the face of the consolidated balance sheet, therefore there has been no effect upon the consolidated entity's income statement for the half-year ended 30 June 2004 or the year ended 31 December 2004.

(h) Foreign currency translation reserve

The consolidated entity has elected to apply the exemption in AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards*. The cumulative translation differences for all foreign operations represented in the foreign currency translation reserve are deemed to be zero at the date of transition to AIFRS.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
USA assets and liabilities	-	(0.9)	0.4
Reserves	2.1	3.0	1.7
Retained earnings	(2.1)	(2.1)	(2.1)

As a result of the re-measurement of USA operations' assets and liabilities on transition to AIFRS, the foreign exchange movement taken to FCTR on consolidation has increased by $0.9m at 30 June 2004 and decreased by $0.4m at 31 December 2004, from that previously reported under the former AGAAP.

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

Effect of these changes on the consolidated entity's income statement:
This adjustment relates purely to classifications on the face of the consolidated balance sheet, therefore there has been no effect upon the consolidated entity's income statement for the half-year ended 30 June 2004 or the year ended 31 December 2004.

(i) Profit on sale of assets

Under the former AGAAP the proceeds from sale of non-current assets were included in other revenue and the net gain on disposal was included in profit. Under AIFRS the net gain on disposal is included in other income. As this represents a reclassification with the consolidated income statement, there is no impact on the consolidated balance sheet.

The effect of these changes on the consolidated entity's income statement is shown in the table below: debits are (negative) / credits are positive.

Consolidated income statement	Consolidated Entity ($M)	
	30 June 2004	31 December 2004
Other income	(1.5)	(4.6)
Written down value of property, plant & equipment sold	1.5	4.6

(j) Reclassifications of balances

The transition to AIFRS has resulted in reclassifications of balances in relation to prepayments and assets held for resale. These reclassifications do not impact the net assets position of the consolidated entity.

Under AGAAP, prepayments were classified as Other Assets. Under AIFRS prepayments are recorded as Receivables.

Under AGAAP, certain non-current assets held for resale were classified as 'Non-current assets classified as held for sale'. The definition of an asset held for resale differs between AGAAP and AIFRS. Under the AIFRS definition, these assets have been reclassified to plant, property and equipment.

The effect of these changes on the consolidated entity's balance sheet is shown in the table below: debits are positive / (credits) are negative.

Consolidated balance sheet	Consolidated Entity ($M)		
	1 January 2004	30 June 2004	31 December 2004
Other assets - current	(7.4)	(7.3)	(10.4)
Other assets – non-current	(12.5)	(12.8)	(9.8)
Receivables - current	7.4	7.3	10.4
Receivables – non-current	12.5	12.8	9.8
Non-current assets classified as held for sale	(2.2)	(2.2)	(2.2)
Plant, property and equipment	2.2	2.2	2.2

(k) Disclosure criteria for contingent assets

The criteria for disclosure of contingent assets under previous AGAAP was that the probability that future economic benefits will eventuate is higher than remote but less than probable. However, under AIFRS, the criteria for disclosure of contingent assets is that it is probable that future economic benefits will eventuate.

Under previous AGAAP, the consolidated entity has disclosed a contingent asset in relation to Sierra Rutile, whereby an amount of up to US$10m would be paid to the consolidated entity if successful mining operations were re-established by a third party at a mine site in Sierra Leone. The Directors do not have sufficient to information to assess whether it is probable that future economic benefits will eventuate from this asset. As such, under AIFRS, no contingent asset is disclosed.

Regardless, the consolidated entity continues to monitor the restart of any mining operation at the site.

Note 13. Explanation of transition to Australian equivalents to IFRS (continued)

(l) Reconciliation of movements in retained earnings

The effects of the changes on retained earnings are set out as follows:

Retained Earnings	Notes	Consolidated Entity ($M)		
		1 January 2004	30 June 2004	31 December 2004
Rehabilitation and restoration	(a)	38.0	41.3	31.1
Tax balances	(b)	91.5	87.2	89.1
Research and development	(c)	2.5	4.0	6.0
Equity based remuneration	(e)	0.6	0.9	1.1
Borrowing costs	(f)	-	0.2	(0.3)
Foreign currency translation reserve	(h)	(2.1)	(2.1)	(2.1)
Total Adjustment		130.5	131.5	124.9

(m) Offsetting a financial asset and a financial liability

The consolidated entity sells various debtors under a receivables acquisition facility and receives payment for these debtors. When the funds are received from the debtor, the facility is repaid. Under the former AGAAP, the receivables sold under this arrangement were not recognised on the balance sheet. However, under the new AIFRS standard *AASB 139*, these amounts do not qualify for derecognition. As such, on transition, being 1 January 2005 for financial instruments, the amounts are shown separately as a receivable and liability.

(n) Financial instruments

Under the former AGAAP the fair value of the consolidated entity's derivatives were recorded in both assets and liabilities in the balance sheet, therefore having no impact on net assets. On transition, derivatives that qualified for hedge accounting under AGAAP also qualify for hedge accounting under AIFRS. Post transition, the fair value of derivatives which do not qualify as hedged items are marked-to-market through the income statement. On transition, being 1 January 2005 for financial instruments, the liability recorded under AGAAP in respect of 'in-the-money' derivatives is eliminated and recorded in equity as a hedge reserve. Refer Note 1(b) for further information.

(o) Initial measurement of financial liabilities

The new *AASB 139 Financial Instruments: Disclosure and Presentation* provides that the initial recognition of financial liabilities should be measured at its fair value plus any transaction costs that are directly attributable to the financial liability. Under the previous AGAAP, transaction costs were recorded as other assets and amortised over the life of the liability. On transition, being 1 January 2005 for financial instruments, the transaction costs are offset against the underlying financial liability and continue to be amortised over the life of the liability.

In the Directors' opinion

(a) the financial statements and notes set out on pages 11 to 38 are in accordance with the *Corporations Act 2001*, including:
   i) comply with Accounting Standards, the *Corporation Regulations 2001* and other mandatory professional reporting requirements; and
   ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2005 and of its performance, as represented by the results of its operations and its cash flows, for the half-year ended on that date; and

(b) there are reasonable grounds to believe that Iluka Resources Limited will be able to pay its debts as and when they become due and payable.

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

Ian Colin Robert Mackenzie
Chairman

Keith Michael Folwell
Managing Director and Chief Executive Officer

Perth
17 August 2005

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

QV1
250 St Georges Terrace
PERTH WA 6000
GPO Box D198
PERTH WA 6840
DX 77 Perth
Australia
www.pwc.com/au
Telephone +61 8 9238 3000
Facsimile +61 8 9238 3999

Independent review report to the members of Iluka Resources Limited

Statement

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the financial report of Iluka Resources Limited:

- does not give a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of the Iluka Resources Group (defined below) as at 30 June 2005 and of its performance for the half-year ended on that date, and
- is not presented in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001*.

This statement must be read in conjunction with the rest of our review report.

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of recognised income and expenses, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for the Iluka Resources Group (the consolidated entity), for the half-year ended 30 June 2005. The consolidated entity comprises both Iluka Resources Limited (the company) and the entities it controlled during that half-year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Review approach

We conducted an independent review in order for the company to lodge the financial report with the Australian Securities and Investments Commission. Our review was conducted in accordance with Australian Auditing Standards applicable to review engagements. For further explanation of a review, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report does not present fairly, in accordance with the *Corporations Act 2001*, Accounting Standard AASB 134: *Interim Financial Reporting* and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and its performance as represented by the results of its operations and cash flows.

We formed our statement on the basis of the review procedures performed, which included:

- inquiries of company personnel, and
- analytical procedures applied to financial data.

Our procedures include reading the other information included with the financial report to determine whether it contains any material inconsistencies with the financial report.

These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit, and accordingly, we do not express an audit opinion.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our review was not designed to provide assurance on internal controls.

Our review did not involve an analysis of the prudence of business decisions made by directors or management.

Independence

In conducting our review, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

John P O'Connor
Partner

Perth
17 August 2005

Additional dividend/distributions information *(Appendix 4D item 5)*
Details of dividends/distributions declared or paid during or subsequent to the half-year ended 30 June 2005 are as follows:

Record Date	Payment date	Type	Amount per security	Total dividend	Franked amount per security
31 March 2005	12 April 2005	Final	12.0 cents	$27,949,721.88	6.0 cents
16 September 2005	30 September 2005	Interim	10.0 cents	$23,291,434.90	5.0 cents