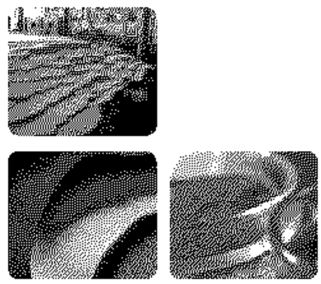

Financial Report 2005

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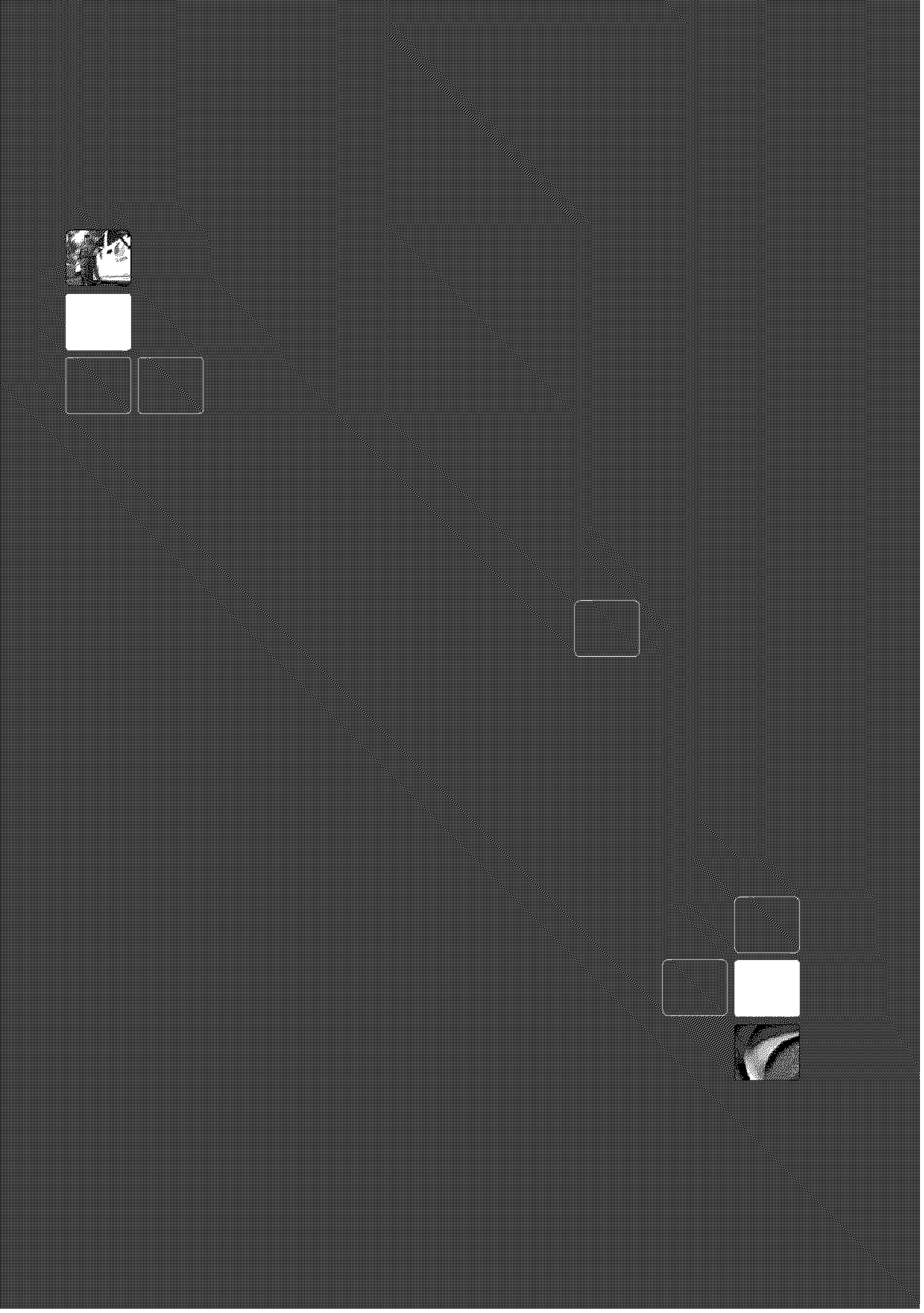

Contents

This Financial Report covers both Iluka Resources Limited as an individual entity and the consolidated entity consisting of Iluka Resources Limited and its subsidiaries. The Financial Report is presented in the Australian currency.

Iluka Resources Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Iluka Resources Limited
Level 23, 140 St Georges Terrace
PERTH WA 6000

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities on page 1 in the Directors' Report which is not part of this Financial Report.

The Financial Report was authorised for issue by the Directors on 22 March 2006. The Company has the power to amend and reissue the Financial Report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete and available globally at minimum cost to the Company. All press releases, financial reports and other information is available at our Investor and Media Centre on our website: www.iluka.com.

Income Statements

for the year ended 31 December 2005

		Consolidated		Parent entity	
	Notes	**2005 $M**	2004 $M	**2005 $M**	2004 $M
Revenue	4	**947.7**	831.9	**327.2**	343.4
Other income	5	**50.6**	13.1	**14.7**	2.1
Expenses, excluding borrowing costs, exchange losses on foreign currency borrowings, closure costs and impairment losses	6	**(780.9)**	(680.2)	**(252.3)**	(220.1)
Exchange losses on foreign currency borrowings		**-**	(8.8)	**(11.5)**	(1.2)
Interest and finance charges		**(20.3)**	(23.7)	**(19.4)**	(22.8)
Rehabilitation, restoration and other borrowing cost unwind		**(14.7)**	(12.0)	**(4.0)**	(3.9)
Total borrowing costs	6	**(35.0)**	(35.7)	**(23.4)**	(26.7)
Closure costs and impairment losses	6	**(295.2)**	-	**-**	-
(Loss) profit before income tax		**(112.8)**	120.3	**54.7**	97.5
Income tax benefit (expense)	7	**41.3**	(14.0)	**(10.0)**	(21.5)
(Loss) profit for the year		**(71.5)**	106.3	**44.7**	76.0
Profit attributable to minority interest		**(14.4)**	(11.5)	**-**	-
(Loss) profit attributable to members of Iluka Resources Limited		**(85.9)**	94.8	**44.7**	76.0

		Cents	Cents
Basic earnings per share	45	**(36.9)**	40.7
Diluted earnings per share	45	**(36.9)**	40.7

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

Balance Sheets

as at 31 December 2005

	Notes	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
ASSETS					
Current assets					
Cash and cash equivalents	8	**18.2**	13.6	**-**	-
Receivables	9	**192.6**	168.5	**74.5**	62.5
Inventories	10	**199.9**	153.1	**62.8**	48.6
Derivative financial instruments	11	**25.8**	-	**23.2**	-
Current tax assets	12	**-**	2.3	**-**	-
Other	11, 13	**16.5**	61.0	**3.1**	42.3
Total current assets		**453.0**	398.5	**163.6**	153.4
Non-current assets					
Receivables	14	**5.4**	12.1	**316.8**	134.8
Inventories	19	**5.3**	6.0	**2.4**	3.0
Other financial assets	15	**0.6**	0.6	**847.5**	847.5
Property, plant and equipment	16	**1,334.9**	1,340.9	**274.2**	285.7
Derivative financial instruments	11	**24.2**	-	**22.5**	-
Deferred tax assets	17	**22.6**	6.3	**-**	-
Intangible assets	18	**18.5**	23.4	**-**	-
Other	11, 20	**-**	54.2	**-**	48.9
Total non-current assets		**1,411.5**	1,443.5	**1,463.4**	1,319.9
Total assets		**1,864.5**	1,842.0	**1,627.0**	1,473.3
LIABILITIES					
Current liabilities					
Payables	21	**148.2**	108.2	**35.3**	32.8
Interest bearing liabilities	22	**145.9**	55.0	**145.9**	48.5
Current tax liabilities	24	**15.3**	2.0	**4.6**	-
Provisions	23	**58.1**	30.4	**14.9**	5.4
Other	11, 25	**-**	49.8	**78.0**	102.8
Derivative financial instruments	11	**0.4**	-	**-**	-
Total current liabilities		**367.9**	245.4	**278.7**	189.5
Non-current liabilities					
Interest bearing liabilities	26	**426.5**	363.0	**420.5**	345.0
Deferred tax liabilities	27	**81.1**	115.4	**35.6**	21.6
Provisions	28	**231.6**	211.4	**67.0**	67.5
Other	11, 29	**0.1**	54.2	**-**	48.9
Derivative financial instruments	11	**0.2**	-	**-**	-
Total non-current liabilities		**739.5**	744.0	**523.1**	483.0
Total liabilities		**1,107.4**	989.4	**801.8**	672.5
Net assets		**757.1**	852.6	**825.2**	800.8
EQUITY					
Contributed equity	30	**611.0**	611.0	**611.0**	611.0
Reserves	11, 31(a)	**57.2**	24.7	**53.6**	22.9
Retained profits	31(b)	**20.6**	157.5	**160.6**	166.9
Parent entity interest		**688.8**	793.2	**825.2**	800.8
Minority interest	32	**68.3**	59.4	**-**	-
Total equity		**757.1**	852.6	**825.2**	800.8

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

Statements of Recognised Income and Expense

for the year ended 31 December 2005

	Notes	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:					
Retained profits	31	**0.2**	-	**0.2**	-
Hedge reserve	31	**74.8**	-	**60.9**	-
Exchange differences on translation of foreign entities	31	**1.0**	(1.9)	**-**	-
Cash flow hedges, net of tax	31	**(43.4)**	-	**(30.9)**	-
Actuarial (losses) gains on defined benefit plans	31	**(0.6)**	0.4	**-**	-
Net income (expense) recognised directly in equity		**32.0**	(1.5)	**30.2**	-
(Loss) profit for the year		**(71.5)**	106.3	**44.7**	76.0
Total recognised (expense) income for the year		**(39.5)**	104.8	**74.9**	76.0
Total recognised income and expense for the year is attributable to:					
Members of Iluka Resources Limited		**(52.4)**	93.2	**74.9**	76.0
Minority interest		**12.9**	11.6	**-**	-
		(39.5)	104.8	**74.9**	76.0

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

Cash Flow Statements

for the year ended 31 December 2005

	Notes	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**922.0**	880.4	**259.6**	284.7
Payments to suppliers and employees (inclusive of goods and services tax)		**(730.0)**	(664.1)	**(232.3)**	(235.8)
		192.0	216.3	**27.3**	48.9
Interest received		**1.0**	0.1	**-**	-
Management fees received from controlled entity		**-**	-	**0.9**	1.5
Borrowing costs		**(31.2)**	(26.5)	**(29.8)**	(25.2)
Income tax paid (net)		**(6.5)**	(1.9)	**(0.5)**	-
Goods and services tax received		**58.5**	35.6	**14.7**	10.8
Payments for exploration expenditure		**(21.6)**	(14.0)	**-**	-
Coal compensation receipts		**4.8**	4.0	**-**	-
Royalty income		**24.9**	6.8	**-**	-
Receipts from other operating activities		**5.1**	7.5	**1.0**	0.8
Net cash inflow from operating activities	43	**227.0**	227.9	**13.6**	36.8
Cash flows from investing activities					
Payments for property, plant and equipment		**(341.9)**	(205.5)	**(35.7)**	(25.9)
Loans (to) from controlled entities		**-**	-	**(102.1)**	17.5
Proceeds from sale of property, plant and equipment		**41.9**	4.5	**21.2**	2.0
Net cash outflow from investing activities		**(300.0)**	(201.0)	**(116.6)**	(6.4)
Cash flows from financing activities					
Proceeds from issues of shares		**-**	0.4	**-**	0.4
Proceeds from borrowings		**238.5**	103.1	**238.5**	87.5
Repayment of borrowings		**(102.8)**	(69.9)	**(84.3)**	(67.1)
Dividends paid	33	**(51.2)**	(51.2)	**(51.2)**	(51.2)
Dividends paid to minority interests in controlled entities		**(6.9)**	(0.9)	**-**	-
Net cash inflow (outflow) from financing activities		**77.6**	(18.5)	**103.0**	(30.4)
Net increase in cash and cash equivalents		**4.6**	8.4	**-**	-
Cash and cash equivalents at the beginning of the year		**13.6**	5.2	**-**	-
Cash and cash equivalents at the end of the year	8	**18.2**	13.6	**-**	-
Financing arrangements	22, 26				
Non-cash financing and investing activities	44				

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

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the Financial Report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The Financial Report includes separate financial statements for Iluka Resources Limited as an individual entity and the consolidated entity consisting of Iluka Resources Limited and its subsidiaries.

(a) BASIS OF PREPARATION

This general purpose financial report has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS), other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with AIFRS ensures the consolidated financial statements and notes of Iluka Resources Limited comply with IFRS. The parent entity financial statements and notes also comply with IFRS except that it has elected to apply the relief provided to parent entities in respect of certain disclosure requirements contained in AASB 132 *Financial Instruments: Presentation and Disclosure*.

Application of AASB 1 First-time Adoption of Australian Equivalents to International Financial Reporting Standards

These financial statements are the first Iluka Resources Limited financial statements to be prepared in accordance with AIFRS. AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing these financial statements.

Financial statements of Iluka Resources Limited until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles ("AGAAP"). AGAAP differs in certain respects from AIFRS. When preparing Iluka Resources Limited 2005 financial statements, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2004 were 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.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the consolidated entity's equity and its net income are given in Note 47.

Early adoption of standard

The consolidated entity has elected to apply AASB 119 Employee Benefits (issued in December 2004) to the annual reporting period 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*.

There a number of new accounting standards and interpretations that are issued but not effective at reporting date. These include:

- AASB 2005-1 *Cash Flow Hedge Accounting of Forecast Intra Group Transactions*;
- AASB 2005-1 *Cash Flow Hedge Accounting of Forecast Intra Group Transactions*;
- AASB 2005-4 *Fair Value Option*;
- UIG4 & AASB 2005-5 *Determining Whether an Arrangement Contains a Lease*;
- UIG5 & AASB 2005-5 *Restoration and Environmental Rehabilitation Funds*;
- AASB 2005-9 *Financial Guarantee Contracts*; and
- AASB 7 *Financial Instruments Disclosures*.

The impact of the above standards has not been assessed and the impact, if any, on the financial statements of the consolidated entity and parent entity cannot be reasonably determined.

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 the income statement and certain classes of property, plant and equipment.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 2.

(b) PRINCIPLES OF CONSOLIDATION

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Iluka Resources Limited ("Company" or "parent entity") as at 31 December 2005 and the results of all subsidiaries for the year then ended. Iluka Resources Limited and its subsidiaries together are referred to in this Financial Report as the Group or the consolidated entity.

Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date control ceases.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(g)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the results and equity of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(ii) Joint ventures

The consolidated entity has coal operation and titanium minerals and zircon exploration activities which are conducted through joint ventures with other parties.

The proportionate interests in the assets, liabilities and expenses of the joint venture operations have been incorporated in the financial statements under the appropriate headings. Details of joint ventures are set out in Note 42.

(c) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(d) FOREIGN CURRENCY TRANSLATION

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is Iluka Resources Limited's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Translation differences on non-monetary items, such as equities held at fair value through the income statement, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(iii) Foreign currency loans

Loans drawn down from entities which are repayable in foreign currencies are translated to Australian dollars at exchange rates applicable at year end.

(iv) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates; and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or borrowings repaid, a proportionate share of such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Product sales

Amounts are recognised as sales revenue when there has been a passing of risk to a customer, and:

- the product is in a form suitable for delivery and no further processing is required by, or on behalf of, the consolidated entity;
- the quantity, quality and selling price of the product can be determined with reasonable accuracy; and
- the product has been despatched to the customer and is no longer under the physical control of the consolidated entity or the customer has formally acknowledged legal ownership of the product including all inherent risks, albeit that the product may be stored in facilities the consolidated entity controls.

Gains and losses, including premiums paid or received, in respect of forward sales, options and other deferred delivery

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

arrangements which hedge anticipated revenues from future production, are deferred and included in sales revenue when the hedged proceeds are received.

(f) INCOME TAX

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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, based on those tax rates which are enacted or substantively enacted for each jurisdiction. 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 loss 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.

Tax consolidation legislation

Iluka Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Iluka Resources Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Iluka Resources Limited for any current tax payable assumed and are compensated by Iluka Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Iluka Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

(g) ACQUISITIONS OF ASSETS

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the consolidated entity's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Costs relating to the acquisition of new areas of interest are capitalised 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 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(i) TRADE RECEIVABLES

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade and other receivables are due for settlement no more than 90 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

(j) 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 include 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.

(k) NON-CURRENT ASSETS (OR DISPOSAL GROUPS) HELD FOR RESALE

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

(l) INVESTMENTS AND OTHER FINANCIAL ASSETS

From 1 January 2004 to 31 December 2004

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 January 2005. The consolidated entity has applied previous AGAAP to the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

Adjustments on transition date: 1 January 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that, with the exception of held-to-maturity investments and loans and receivables which are measured at amortised cost (refer below), fair value is the measurement basis. Fair value is exclusive of transaction costs. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 January 2005) changes to carrying amounts are taken to retained earnings or reserves.

For further information concerning the adjustments on transition date reference should be made to the following notes:

- Reserves and retained profits - Note 31
- Explanation of transition to AIFRS - Note 47: section 4 of this note discloses the adjustment to each line item in the financial statements on transition date.

From 1 January 2005

The consolidated entity classifies its investments in the following categories: financial assets at fair value through income statement, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

The only investment category for the current and preceding year is loans and receivables.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the consolidated entity provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are included in receivables in the balance sheet (Notes 9 and 14).

(m) DERIVATIVES

From 1 January 2004 to 31 December 2004

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The consolidated entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139.

The following sets out how derivatives are accounted for under previous AGAAP.

Interest rate swaps

The net amount receivable or payable under interest rate swap agreements is progressively brought to account over the period to settlement. The amount recognised is accounted for as an adjustment to interest and finance charges during the period and included in other debtors or other creditors at each reporting date.

Where an interest rate swap is terminated early and the underlying hedged transaction is:

(a) still expected to occur as designated: the gains or losses arising on the swap upon its early termination continue to be deferred and are progressively brought to account over the period during which the hedged transactions are recognised; and

(b) no longer expected to occur as designated: the gains or losses arising on the swap upon its early termination are recognised in the income statement at the date of termination.

Forward foreign exchange contracts

Gains or costs arising from entering into a contract intended to hedge the purchase or sale of goods or services, together with the subsequent exchange gains or losses resulting from remeasurement of those contracts by reference to movements in spot exchange rates are deferred in the balance sheet from the inception of the hedging transaction up to the date of the purchase or sale and included in the measurement of the purchase or sale.

Early termination of forward foreign exchange contracts is accounted for on a basis consistent with interest rate swaps (refer above). For both interest rate swaps and foreign exchange contracts, if the hedged transaction is not expected to occur as originally designated, or if the hedge is no longer expected to be effective, any previously deferred gains or losses are recognised as revenue or expense immediately.

Gains and losses on speculative foreign currency transactions are brought to account as they arise. These gains and losses are measured by reference to movements in the forward exchange rates for the relative currencies.

Adjustments on transition date: 1 January 2005

The nature of the main adjustments to make this information comply with AASB 132 and AASB 139 are that derivatives are measured on a fair value basis. Changes in fair value are either taken to the income statement or an equity reserve (refer below). At the date of transition (1 January 2005) carrying amounts of derivatives previously classified as other liabilities were taken to retained earnings or reserves, depending on whether the criteria for hedge accounting was satisfied at the transition date.

For further information concerning the adjustments on transition date reference should be made to:

- Derivative financial instruments - Note 11;
- Reserves and retained profits - Note 31; and
- Explanation of transition to AIFRS - Note 47: section 4 of this note discloses the adjustment to each line item in the financial statements on transition date.

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 at balance date. 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: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

At the inception of the transaction, the consolidated entity documents 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 transaction inception and on an ongoing basis, of whether the derivatives that are 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.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 11. Movements in the hedging reserve in shareholders' equity are shown in Note 31.

(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 are 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

in equity in the hedging 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.

(n) FAIR VALUE ESTIMATION

The fair value of financial assets and financial liabilities must be estimated for recognition, measurement and disclosure purposes.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the consolidated entity is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. The consolidated entity uses a variety of methods and makes assumptions that are based on market conditions existing at each balance date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt instruments held. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward exchange contracts is determined using forward exchange market rates at the balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the consolidated entity for similar financial instruments.

(o) PROPERTY, PLANT AND EQUIPMENT

Land and buildings are shown at historical cost, less subsequent depreciation for buildings. All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land is not depreciated.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Mine specific plant, machinery and equipment refers to plant, machinery and equipment for which the economic useful life cannot extend beyond the life of its host mine.

Depreciation and amortisation of mine buildings, reserves and development and mine specific plant, machinery and equipment is provided for 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;
- Mine specific plant: the shorter of applicable mine or asset life and 25 years, depending on the nature of the asset;
- Reserves and development: the applicable mine life; and
- Other non mine specific: 3-25 years.

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

(p) INTANGIBLE ASSETS

(i) Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight line basis over the periods of their expected benefit.

(ii) Royalty income and amortisation of royalty assets

Royalty income included in the consolidated entity is recognised as revenue using an accrual basis. Under the terms of the royalty agreements, royalty income is received on a quarterly basis and any under or over accrual applicable to previously recognised royalty income is adjusted for based on the receipt of the royalty income entitlement.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The royalty entitlement asset (Mining Area C) included in intangible assets is stated at cost less accumulated amortisation. The cost of the asset is amortised on a straight line basis so as to write off the cost over its estimated useful life of 25 years.

(q) TRADE AND OTHER PAYABLES

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

(r) BORROWINGS

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The consolidated entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS such costs are included in the carrying amounts.

(s) 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.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's outstanding borrowings during the year. The weighted average interest rate applied in the current year was 6.0% (2004: 5.9%)

Borrowing costs include:

- interest on bank overdrafts and short-term and long-term borrowings, including amounts paid or received on interest rate swaps;
- amortisation of ancillary costs incurred in connection with the arrangement of borrowings; and
- finance lease charges.

(t) PROVISIONS

Provisions for legal claims are recognised when:

- the consolidated entity has a present legal obligation as a result of past events;
- it is more likely than not that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required on settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(u) EMPLOYEE BENEFITS

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

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in current liabilities - payables. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as 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 service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations

All employees of the consolidated entity are entitled to benefits on retirement, disability or death from the consolidated entity's superannuation plans. The consolidated entity has defined benefit section and an accumulation type benefits section within its plans. The defined benefit section provides defined lump sum benefits based on years of service and final average salary. The accumulation type benefits section receives fixed contributions from consolidated entity companies and the consolidated entity's legal or constructive obligation is limited to these contributions.

A liability or asset in respect of defined benefit superannuation plans is recognised in the balance sheet, and is measured as the present value of the defined benefit obligation at the reporting date plus actuarial gains (less actuarial losses) less the fair value of the superannuation fund's assets at that date and any unrecognised past service cost. The present value of the defined benefit obligation is based on expected future payments which arise from membership of the fund to the reporting date, calculated annually by independent actuaries using the projected unit credit method. Consideration is given to expected future wage

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity over the employees' expected average remaining working lives.

Past service costs are recognised immediately in income, unless the changes to the superannuation fund are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortised on a straight-line basis over the vesting period.

Future taxes that are funded by the consolidated entity and are part of the provision of the existing benefit obligation (eg. taxes on investment income and employer contributions) are taken into account in measuring the net liability or asset.

Contributions to the accumulation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Performance Incentive Plan, the Directors', Executives' and Employees' Share Acquisition Plan and the Employee Share Ownership scheme. Information relating to these schemes is set out in Note 46.

The fair value of shares granted under the Performance Incentive Plan is determined to be the closing share price on the grant date. The fair value of the grant is charged as an expense through the income statement on a straight-line basis between the grant date and the vesting date of entitlements.

The fair value of entitlements offered under the Plan has been determined by reference to an option pricing model. This fair value is recognised as an expense through the income statement on a straight-line basis between the offer date and the vesting date for each respective plan.

Shares provided under the Employee Share Ownership scheme are purchased on-market, with the purchase cost being recognised as an employee benefits expense.

(v) Profit-sharing and bonus plans

The consolidated entity recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The consolidated entity recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(v) CONTRIBUTED EQUITY

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business, are not included in the cost of the acquisition as part of the purchase consideration.

(w) DIVIDENDS

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(x) EARNINGS PER SHARE

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders 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.

(y) FINANCIAL INSTRUMENT TRANSACTION COSTS

The consolidated entity has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The consolidated entity has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. Under previous AGAAP, transaction costs were excluded from the amounts disclosed in the financial statements. Under AIFRS, such costs are included in the carrying amounts. At the date of transition to AASB 132 and AASB 139 the adjustment to carrying amounts for the consolidated entity was immaterial.

(z) PROJECT EXPLORATION, EVALUATION AND DEVELOPMENT EXPENDITURE

Exploration and evaluation expenditure is accumulated separately for each area of interest in accordance with AASB 6 *Exploration and Evaluation of Mineral Resources*. Such expenditure comprises net direct costs and an appropriate portion of related overhead expenditure.

Expenditure is carried forward when incurred in areas for which the consolidated entity has rights of tenure and where economic mineralisation is indicated, but activities have not yet reached a stage

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 3 *Business Combinations.*

Projects are advanced to development status when it is expected that accumulated and future expenditure can be recouped through project development or sale. Capitalised exploration is transferred to mine reserves once the related ore body has achieved JORC reserve status and has been included in the life of mine plan.

Direct costs associated with the commissioning of plant and equipment are capitalised and included in property, plant and equipment. Pre-commissioning costs in testing the processing plant are also capitalised.

All the 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(o).

(aa) NON-CURRENT ASSETS CONSTRUCTED BY THE CONSOLIDATED ENTITY

The cost of non-current assets constructed by the consolidated entity includes the cost of all materials used in construction, direct labour on the project, project management costs, borrowing costs incurred during construction and an appropriate proportion of variable and fixed overheads.

Borrowing costs included in the cost of non-current assets are those costs that would have been avoided if the expenditure on the construction of the assets had not been made.

(ab) REHABILITATION AND MINE CLOSURE COSTS

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

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 cost of sales of goods.

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 6.0% (2004: 6.0%) 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 sales of goods.

(ac) 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. Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the consolidated entity could receive for the Cash Generating Unit in an arms length transaction. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash Generating Units).

The estimates of future cash flows for each Cash Generating Unit are based on significant assumptions including:

- estimates of the quantities of mineral reserves and resources for which there is a high degree of confidence of economic extraction;
- future production levels and the ability to sell that production;
- future product prices based on the consolidated entity's assessment of short and long term prices for each of the key products;
- future exchange rates for the Australian Dollar compared to the US Dollar using external forecasts by recognised market commentators;
- future cash costs of production, sustaining capital expenditure, rehabilitation and mine closure; and
- the asset specific discount rate applicable to the Cash Generating Unit, based upon the consolidated entity's weighted average cost of capital.

(ad) OVERBURDEN COSTS

Expenditure associated with the removal of mine overburden is deferred and charged to the income statement over its useful life, which typically does not exceed one year.

(ae) RESTRUCTURING COSTS

Liabilities arising directly from undertaking a restructuring program, not in connection with the acquisition of an entity or operations, are recognised when a detailed plan of the restructuring activity has been developed and implementation of the restructuring program as planned has commenced, by either entering into contracts to undertake the

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

restructuring activities or making a detailed announcement such that affected parties are in no doubt the restructuring program will proceed.

Liabilities for the cost of restructuring entities or operations acquired are recognised as at the date of acquisition of an entity, or part thereof, if the main features of the restructuring were planned and there was a demonstrable commitment to the restructuring by the acquired entity at the acquisition date.

The cost of restructuring provided for, other than related employee termination benefits, is the estimated cash flows, having regard to the risks of the restructuring activities, discounted using market yields at balance date on national government guaranteed bonds with terms to maturity and currency that match, as closely as possible, the expected future payments, where the effect of discounting is material.

Liabilities for employee termination benefits associated with restructurings are brought to account on the basis described in the accounting policy note for employee benefits (Note 1(u)). Liabilities for costs of restructurings and related employee termination benefits are disclosed in aggregate where the restructuring occurs as a consequence of an acquisition.

(af) MAINTENANCE AND REPAIRS

Certain items of plant used in the primary extraction, separation and secondary processing of extracted minerals are subject to major overhaul on a cyclical basis. Costs incurred during such overhauls are characterised as either in the nature of capital or in the nature of repairs and maintenance. Work performed may involve:

(i) the replacement of a discrete sub-component asset, in which case an asset addition is recognised and the book value of the replaced item is written off; and

(ii) demonstrably extending the useful life or functionality of an existing asset, in which case the relevant cost is added to the capitalised cost of the asset in question.

Costs incurred during a major cyclical overhaul which do not constitute (i) or (ii) above, are written off as repairs and maintenance as incurred. Costs qualifying for capitalisation under (i) or (ii) above are subsequently depreciated in accordance with Note 1(o).

General repairs and maintenance which are not characterised as part of a major cyclical overhaul are written off as incurred.

(ag) ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments 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, the nearest dollar.

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The consolidated entity makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of assets

The recoverable amount of each Cash Generating Unit (CGU) is determined as the higher of value-in-use and fair value less costs to sell, in accordance with accounting policy 1(ac). These calculations require the use of estimates, which have been outlined in accounting policy 1(ac).

Given the nature of the consolidated entity's mining activities, future changes in long term assumptions upon which these estimates are based, may give rise to material adjustment to the carrying value of the CGU. This could lead to a reversal of part, or all, of impairment losses recorded in the year to 31 December 2005, or the recognition of additional impairment losses in the future (refer to Note 16 and Note 18 for details of impairment losses). The inter-relationships of the significant assumptions upon which estimated future cash flows are based, however, are such that it is impracticable to disclose the extent of the possible effects of a change in a key assumption in isolation.

Due to the nature of the assumptions and their significance to the assessment of the recoverable amount of each CGU, relatively modest changes in one or more assumptions could require a material adjustment to the carrying value of the related non-current assets within the next reporting period.

The key sources of estimation uncertainty are set out below:

- estimates of the final capital cost for the Murray Basin Douglas mine development;
- future operating costs for the Murray Basin Douglas mine;
- future capital and operating costs for the Northern Murray Basin development for which additional information will become available in the next financial year;
- estimates of short and long term exchange rates between the Australian and US dollars, which are based on forecasts by recognised independent market commentators;
- estimates of long term sales prices for titanium minerals and zircon products;
- the completion of the pre-feasibility study for the Cataby mine development in the Mid West of Western Australia; and
- the completion of the pre-feasibility study for the Brink mine development in Virginia, United States.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(ii) Exploration and evaluation expenditure

Expenditure with a value of $4.3 million which does not form part of the Cash Generating Units assessed for impairment has been carried forward in accordance with policy 1(z) on the basis that exploration and evaluation 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. In the event that significant operations cease and/or economically recoverable reserves are not assessed as being present, this expenditure will be expensed to the Income Statement.

(iii) Rehabilitation and mine closure provisions

As set out in note 1(ab), the value of these provisions represents the discounted value of the present obligation to restore, dismantle and rehabilitate certain items of property, plant and equipment. The discounted value reflects a combination of management's assessment of the cost of performing the work required, the timing of the cash flows and the discount rate of 6%.

A change in any, or a combination, of the three key assumptions used to determine the provisions could have a material impact to the carrying value of the provision (refer to Note 28). In the case of provisions for assets which remain in use, adjustments to the carrying value of the provision are offset by a change in the carrying value of the related asset. Where the provisions are for assets no longer in use, the adjustment is reflected directly in the Income Statement.

(iv) Income tax

The consolidated entity is subject to income taxes in Australia and the US. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate determination is not finalised until statutory tax returns are lodged with the appropriate authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made which is usually the subsequent financial year.

The key assumptions made regarding the income tax expense for the current year are the deductibility for tax purposes of all closure costs relating to the US operation, the level of research and development expenditure that will qualify for concessional tax deductions and the level of capital gains on asset disposals that can be shielded by available capital losses.

(b) CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

(i) Derivative financial instruments

Forward foreign exchange contracts with an aggregate face value of US$139.0 million and currency options of US$66.0 million have been designated as cash flow hedges and accounted for in accordance with Note 1(m) and (n). Management's assessment is that the derivatives have been highly effective in offsetting changes in the fair value of the future cash flows against which they have been designated and, as such, movements in the fair value (net of tax) of $7.1 million that would otherwise have been recorded directly in the Income Statement have been deferred in the Hedging Reserve.

(ii) Recovery of deferred tax assets

Net deferred tax assets of $23.4 million are carried in respect of the US operations, including $12.2 million attributable to tax losses. Management has assessed that it is probable that these tax losses will be recoverable against future taxable profits to be generated in the US.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 3. SEGMENT INFORMATION

PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS

2005

	Titanium Minerals and Zircon $M	Coal $M	Iron Ore Royalty $M	Unallocated $M	Consolidated $M
Sales to external customers	880.6	40.4	-	-	921.0
Other revenue/income	27.4	24.6	23.5	1.8	77.3
Total segment revenue/income	908.0	65.0	23.5	1.8	998.3
Segment result before notable items and impairment losses	152.2	15.4	23.1	-	190.7
Florida/Georgia closure costs and impairment losses	(111.1)	-	-	-	(111.1)
Mid West and Murray Basin impairment losses	(184.1)	-	-	-	(184.1)
Net gain on disposal of property, plant and equipment	23.3	14.8	-	-	38.1
Coal compensation	-	6.3	-	-	6.3
Nardell royalty	-	1.3	-	-	1.3
Deferred settlement	-	2.0	-	0.8	2.8
Segment result	(119.7)	39.8	23.1	0.8	(56.0)
Rehabilitation, restoration and other borrowing cost unwind					(14.7)
Interest and finance costs					(20.3)
Corporate administration and finance					(22.8)
Interest revenue					1.0
Loss before income tax					(112.8)
Income tax benefit					41.3
Loss for the year					(71.5)
Segment assets	1,785.4	43.4	13.1	-	1,841.9
Unallocated assets					22.6
Total assets					1,864.5
Segment liabilities	431.4	7.2	-	-	438.6
Unallocated liabilities					668.8
Total liabilities					1,107.4
Acquisitions of property, plant and equipment and other non-current segment assets	377.1	6.7	-	-	383.8
Depreciation and amortisation expense	120.6	4.4	0.4	-	125.4
Florida/Georgia - impairment losses	89.4	-	-	-	89.4
Mid West and Murray Basin - impairment losses	184.1	-	-	-	184.1
Other non-cash expenses	14.4	0.3	-	-	14.7

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 3. SEGMENT INFORMATION (continued)

PRIMARY REPORTING FORMAT - BUSINESS SEGMENTS

2004

	Titanium Minerals and Zircon $M	Coal $M	Iron Ore Royalty $M	Unallocated $M	Consolidated $M
Sales to external customers	785.3	34.3	-	-	819.6
Other revenue/income	8.7	5.6	9.1	2.0	25.4
Total segment revenue/income	794.0	39.9	9.1	2.0	845.0
Segment result before notable items	154.6	11.3	8.7	-	174.6
Net gain (loss) on disposal of property, plant and equipment	1.7	(0.5)	-	-	1.2
Coal compensation	-	4.0	-	-	4.0
Nardell royalty income	-	2.1	-	-	2.1
Deferred settlement	-	-	-	1.5	1.5
Segment result	156.3	16.9	8.7	1.5	183.4
Rehabilitation, restoration and other borrowing cost unwind					(12.0)
Interest and finance costs					(23.7)
Exchange losses on foreign currency borrowings					(8.8)
Corporate administration and finance					(19.1)
Interest revenue					0.5
Profit before income tax					120.3
Income tax expense					(14.0)
Profit for the year					106.3
Segment assets	1,780.8	39.3	13.3	-	1,833.4
Unallocated assets					8.6
Total assets					1,842.0
Segment liabilities	447.8	6.2	-	-	454.0
Unallocated liabilities					535.4
Total liabilities					989.4
Acquisitions of property, plant and equipment and other non-current segment assets	237.8	4.2	-	-	242.0
Depreciation and amortisation expense	118.3	3.3	0.4	-	122.0
Other non-cash expenses	11.6	0.3	-	-	11.9

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 3. SEGMENT INFORMATION (continued)

SECONDARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

	Segment revenue from sales to external customers 2005 $M	2004 $M	Segment result 2005 $M	2004 $M	Segment assets 2005 $M	2004 $M	Segment depreciation & amortisation 2005 $M	2004 $M	Acquisitions of property, plant & equipment & other non-current segment assets 2005 $M	2004 $M
Australia										
WA pre-asset sales and impairment losses	**621.7**	574.4	**123.7**	133.3	**1,038.3**	1,011.2	**92.1**	93.1	**123.2**	89.3
WA asset sales	**-**	-	**20.9**	1.7	**-**	-	**-**	-	**-**	-
Mid West impairment losses	**-**	-	**(96.1)**	-	**(96.1)**	-	**-**	-	**-**	-
Total WA operations	**621.7**	574.4	**48.5**	135.0	**942.2**	1,011.2	**92.1**	93.1	**123.2**	89.3
CRL pre-asset sales	**118.6**	80.9	**37.8**	11.8	**195.5**	199.0	**11.7**	10.4	**14.9**	30.0
CRL asset sales	**-**	-	**2.4**	(0.1)	**-**	-	**-**	-	**-**	-
Total CRL - Qld operations	**118.6**	80.9	**40.2**	11.7	**195.5**	199.0	**11.7**	10.4	**14.9**	30.0
NSW coal operations	**40.4**	34.2	**15.4**	11.3	**43.4**	39.3	**4.4**	3.3	**6.7**	4.2
Nardell royalty and other asset sales	**-**	-	**14.8**	(0.5)	**-**	-	**-**	-	**-**	-
Coal compensation	**-**	-	**6.3**	4.0	**-**	-	**-**	-	**-**	-
Deferred settlement	**-**	-	**2.0**	-	**-**	-	**-**	-	**-**	-
Nardell royalty income	**-**	-	**1.3**	2.1	**-**	-	**-**	-	**-**	-
Total NSW operations	**40.4**	34.2	**39.8**	16.9	**43.4**	39.3	**4.4**	3.3	**6.7**	4.2
Murray Basin pre-impairment losses	**-**	-	**-**	-	**549.3**	322.8	**-**	-	**214.5**	92.0
Murray Basin impairment losses	**-**	-	**(88.0)**	-	**(88.0)**	-	**-**	-	**-**	-
Total Murray Basin	**-**	-	**(88.0)**	-	**461.3**	322.8	**-**	-	**214.5**	92.0
MAC	**-**	-	**23.1**	8.7	**13.1**	13.3	**0.4**	0.4	**-**	-
Unallocated	**-**	-	**(56.0)**	(61.6)	**22.6**	8.6	**-**	-	**-**	-
USA										
USA - Florida/Georgia pre-closure costs and impairment losses	**51.4**	42.4	**(37.7)**	(18.3)	**156.3**	137.1	**7.8**	5.2	**16.9**	20.6
USA - Florida/Georgia closure costs and impairment losses	**-**	-	**(111.1)**	-	**(89.4)**	-	**-**	-	**-**	-
USA - Virginia	**88.9**	87.7	**28.4**	27.9	**119.5**	110.7	**9.0**	9.6	**7.6**	5.9
Total USA Operations	**140.3**	130.1	**(120.4)**	9.6	**186.4**	247.8	**16.8**	14.8	**24.5**	26.5
	921.0	819.6	**(112.8)**	120.3	**1,864.5**	1,842.0	**125.4**	122.0	**383.8**	242.0

WA - Western Australia

CRL - Consolidated Rutile Limited

Qld - Queensland

NSW - New South Wales

MAC - Mining Area C Iron Ore Royalty (Western Australia)

USA - United States of America

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated	
	2005 $M	2004 $M
NOTE 3. SEGMENT INFORMATION (continued)		
Segment revenue is derived from sales to external customers domiciled in various geographical regions. Details of segment revenue by location of customers are as follows:		
- North America	**224.6**	194.7
- Europe	**274.6**	280.9
- Asia	**312.1**	240.1
- Australia	**109.7**	103.9
Total sales revenue	**921.0**	819.6

NOTES TO AND FORMING PART OF THE SEGMENT INFORMATION

(a) Accounting Policies

Segment information is prepared in conformity with the accounting policies of the entity as disclosed in Note 1 and accounting standard AASB 114 *Segment Reporting.*

Segment revenues, expenses, assets and liabilities are those that are directly attributable to a segment and the relevant portion that can be allocated to the segment on a reasonable basis. Segment assets include all assets used by a segment and consist primarily of operating cash, receivables, inventories, property, plant and equipment and goodwill and other intangible assets, net of related provisions. Segment liabilities consist primarily of trade and other creditors, employee benefits and provision for rehabilitation and restoration. Segment assets and liabilities do not include income taxes and interest bearing liabilities.

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 4. REVENUE				
Sales revenue				
Sale of goods	**921.0**	819.6	**262.2**	257.5
Other revenue				
Interest	**1.0**	0.5	**63.7**	63.7
Management fee income	**-**	-	**0.9**	1.5
Dividend income	**-**	-	**-**	20.3
Royalty income	**25.1**	11.2	**-**	-
Rental income	**0.6**	0.6	**0.4**	0.4
	26.7	12.3	**65.0**	85.9
	947.7	831.9	**327.2**	343.4
NOTE 5. OTHER INCOME				
Net gain on disposal of property, plant and equipment	**38.1**	1.2	**13.9**	0.5
Deferred settlement income	**2.8**	1.5	**-**	-
Coal compensation receipts	**6.3**	4.0	**-**	-
Sundry income	**0.1**	3.3	**0.1**	0.4
Net foreign exchange gains	**3.3**	3.1	**0.7**	1.2
	50.6	13.1	**14.7**	2.1

NOTE 6. EXPENSES

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Cost of sales of goods				
Cost of production	**586.4**	494.3	**173.1**	142.2
Depreciation	**89.6**	82.5	**31.2**	34.5
Amortisation	**35.8**	39.5	**10.0**	6.8
Cost of sales of goods	**711.8**	616.3	**214.3**	183.5
Corporate administration and finance	**22.8**	19.1	**20.3**	18.7
Marketing and selling including royalties	**31.2**	28.9	**10.9**	8.3
Research and development	**6.8**	9.6	**6.8**	9.6
Exploration and evaluation	**8.3**	6.3	**-**	-
Expenses, excluding borrowing costs, closure costs and impairment losses	**780.9**	680.2	**252.3**	220.1
(Loss) profit before income tax includes the following specific expenses:				
Florida/Georgia closure costs and impairment losses				
Write-off of assets	**46.9**	-	**-**	-
Provision for diminution in asset values	**42.5**	-	**-**	-
Restructuring charges	**21.7**	-	**-**	-
Total Florida/Georgia closure costs and impairment losses	**111.1**	-	**-**	-
Mid West and Murray Basin impairment losses				
Mid West - provision for diminution in asset values	**96.1**	-	**-**	-
Murray Basin - provision for diminution in asset values	**88.0**	-	**-**	-
Total Mid West and Murray Basin impairment losses	**184.1**	-	**-**	-
Total closure costs and impairment losses	**295.2**	-	**-**	-
Borrowing costs				
Interest and finance charges paid/payable	**32.9**	27.0	**31.6**	25.2
Rehabilitation, restoration and other borrowing cost unwind	**14.7**	12.0	**4.0**	3.9
Amortisation of deferred borrowing costs	**0.5**	0.3	**0.4**	0.3
Interest capitalised	**(13.1)**	(3.6)	**(12.6)**	(2.7)
Borrowing costs expensed	**35.0**	35.7	**23.4**	26.7
Operating lease expense	**11.0**	12.0	**3.3**	3.1
Foreign exchange gains and losses				
Net foreign exchange gains included in other income	**3.3**	3.1	**0.7**	1.2
Exchange losses on foreign currency borrowings	**-**	(8.8)	**(11.5)**	(1.2)
Net foreign exchange gains (losses)	**3.3**	(5.7)	**(10.8)**	-
Net realisable value of inventories recognised as expense	**4.4**	3.3	**-**	-
Employee benefits expense	**154.2**	128.9	**57.5**	48.6
Defined contribution superannuation expense	**9.1**	8.2	**-**	-

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
NOTE 7. INCOME TAX				
(a) INCOME TAX (BENEFIT) EXPENSE				
Current tax	**45.5**	14.8	**13.3**	8.3
Deferred tax	**(77.5)**	7.6	**(2.3)**	15.7
Over provided in prior years	**(9.3)**	(8.4)	**(1.0)**	(2.5)
	(41.3)	14.0	**10.0**	21.5
Deferred income tax (revenue) expense included in income tax expense comprises:				
(Increase) decrease in deferred tax assets (Note 17)	**(24.7)**	47.4	**-**	-
(Decrease) increase in deferred tax liabilities (Note 27)	**(52.8)**	(39.8)	**(2.3)**	15.7
	(77.5)	7.6	**(2.3)**	15.7
(b) NUMERICAL RECONCILIATION OF INCOME TAX (BENEFIT) EXPENSE TO PRIMA FACIE TAX PAYABLE				
(Loss) profit before income tax expense	**(112.8)**	120.3	**54.7**	97.5
Tax at the Australian tax rate of 30% (2004: 30%)	**(33.8)**	36.1	**16.4**	29.3
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Unfranked dividends received	**1.7**	-	**-**	-
Non-deductible foreign expenditure	**-**	-	**-**	0.2
Rebatable dividends	**-**	-	**-**	(6.1)
Tax base of foreign exchange hedge contracts	**(1.9)**	(2.9)	**-**	-
Net foreign exchange losses	**-**	4.7	**2.5**	3.1
Capital gains shielded by capital losses	**(6.3)**	(1.4)	**(3.7)**	-
Research and development	**(4.5)**	(4.2)	**(4.5)**	(1.7)
Recognition of the tax benefit upon formation of Consolidated Rutile Limited's tax consolidated group	**-**	(9.6)	**-**	-
Other non-deductible items	**0.1**	1.2	**0.3**	(0.8)
	(44.7)	23.9	**11.0**	24.0
Difference in overseas tax rates	**12.7**	(0.5)	**-**	-
Over provision in prior years*	**(9.3)**	(8.4)	**(1.0)**	(2.5)
Tax benefits not previously brought to account	**-**	(1.0)	**-**	-
Total income tax (benefit) expense	**(41.3)**	14.0	**10.0**	21.5
(c) AMOUNTS RECOGNISED DIRECTLY IN EQUITY				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity				
Net deferred tax - debited (credited) directly to equity (Notes 17 and 27)	**(16.6)**	0.5	**(13.2)**	-

* Included in the net over provision of income tax in prior years is an amount of $7.4 million (2004: $8.9 million) for the consolidated entity relating to additional research and development deductions identified subsequent to the 31 December 2004 and 31 December 2003 year ends.

NOTE 7. INCOME TAX (continued)

(d) UNBOOKED TEMPORARY DIFFERENCES

As at 31 December 2003 $15.8 million of unbooked timing differences related to fair value accounting adjustments made upon the merger in 1998 between Westralian Sands Limited and RGC Ltd. The tax benefit associated with this amount was brought to account on the adoption of AASB 112 *Income Taxes* on 1 January 2004.

(e) TAX CONSOLIDATION LEGISLATION

Iluka Resources Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of 1 January 2004. The accounting policy in relation to this legislation is set out in Note 1.

On adoption of the tax consolidation legislation, the entities in the tax consolidated group entered into a tax sharing agreement which, in the opinion of the Directors, limits the joint and several liability of the wholly-owned entities in the case of a default by the head entity, Iluka Resources Limited.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Iluka Resources Limited for any current tax payable assumed and are compensated by Iluka Resources Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Iluka Resources Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments. The funding amounts are recognised as current intercompany receivables or payables.

NOTE 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Cash at bank and in hand	**16.3**	12.4	**-**	-
Deposits at call	**1.9**	1.2	**-**	-
	18.2	13.6	**-**	-

Deposits at call

The deposits are bearing floating interest rates between 1.2% and 7.1% (2004: 1.2% and 7.0%) on US dollar and Australian dollar denominated deposits.

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 9. CURRENT ASSETS - RECEIVABLES				
Trade receivables	**160.9**	135.5	**61.3**	48.1
Less: provision for doubtful receivables (a)	**-**	(0.2)	**-**	-
	160.9	135.3	**61.3**	48.1
Other debtors	**17.9**	15.8	**4.5**	6.2
Prepayments	**10.0**	10.4	**7.6**	7.2
Loans - RGC employee share plan (b)	**-**	3.0	**-**	-
Goods and services tax (GST)	**3.8**	4.0	**1.1**	1.0
	192.6	168.5	**74.5**	62.5

(a) DOUBTFUL RECEIVABLES

The consolidated entity has recognised a gain during the year ended 31 December 2005 of $0.2 million (2004: $Nil) in respect of the write-back of provision for doubtful receivables no longer required.

(b) LOANS - RGC EMPLOYEE SHARE PLAN

The RGC employee share plan was wound up during 2005 and all loans repaid in full. Refer to Note 14 for the non-current portion of these receivables.

(c) EFFECTIVE INTEREST RATES AND CREDIT RISK

Information concerning the credit risk of both current and non-current receivables is set out in the non-current receivables note (Note 14).

NOTE 10. CURRENT ASSETS - INVENTORIES

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Consumable stores				
- at cost	**25.2**	19.0	**5.5**	4.0
Work in progress				
- at cost	**84.8**	77.7	**32.9**	29.2
- at net realisable value	**11.9**	9.9	**10.4**	5.4
	96.7	87.6	**43.3**	34.6
Finished goods				
- at cost	**65.0**	39.1	**8.2**	10.0
- at net realisable value	**13.0**	7.4	**5.8**	-
	78.0	46.5	**14.0**	10.0
	199.9	153.1	**62.8**	48.6

(a) INVENTORY EXPENSE

Write-down of inventories to net realisable value recognised as an expense during the year ended 31 December 2005 amounted to $4.4 million (2004: $3.3 million).

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

In accordance with accounting standards, 2005 derivatives are disclosed within derivative financial instruments (Note 11) and hedge reserve (Note 31) on the balance sheet and 2004 derivatives are disclosed within other current assets (Note 13), other non-current assets (Note 20), other current liabilities (Note 25) and other non-current liabilities (Note 29). For year-on-year movements in derivatives refer to the balance sheet summary in the table below.

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Balance sheet summary				
Foreign exchange derivatives are reflected in the balance sheet as follows:				
Current assets				
Forward exchange and option contracts - cash flow hedges	**25.8**	-	**23.2**	-
Other (Note 13)	-	49.8	-	38.1
	25.8	49.8	**23.2**	38.1
Non-current assets				
Forward exchange and options contracts - cash flow hedges	**24.2**	-	**22.5**	-
Other (Note 20)	-	54.2	-	48.9
	24.2	54.2	**22.5**	48.9
Current liabilities				
Forward exchange and option contracts - cash flowhedges	**0.4**	-	**-**	-
Other (Note 25)	-	49.8	-	38.1
	0.4	49.8	**-**	38.1
Non-current liabilities				
Forward exchange and option contracts - cash flow hedges	**0.2**	-	**-**	-
Other (Note 29)	-	54.2	-	48.9
	0.2	54.2	**-**	48.9
Reserves				
Forward exchange and option contracts - cash flow hedges (Note 31)	**31.4**	-	**30.0**	-

(a) TRANSITION TO AASB 132 AND AASB 139

The consolidated entity has taken the exemption available under AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005.

For the consolidated entity

On transition the "in-the-money" position of the consolidated entity's derivatives portfolio was $104.0 million. In accordance with AASB 139 this amount was transferred from deferred gains on foreign exchange derivatives in current and non-current liabilities to reserves in shareholders' equity. After recording a deferred tax liability for this amount, the net credit recorded in reserves on 1 January 2005 was $74.8 million (the minority interests' share of which was $6.8 million). For further information refer to Hedging Reserve in Note 31.

For the parent entity

On transition the "in-the-money" position of the parent entity's derivatives portfolio was $87.0 million. In accordance with AASB 139 this amount was transferred from deferred gains on foreign exchange derivatives in current and non-current liabilities to reserves in shareholders' equity. After recording a deferred tax liability for this amount, the net credit recorded in reserves on 1 January 2005 was $60.9 million.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) FOR THE YEAR ENDED 31 DECEMBER 2005

For the consolidated entity

The net asset position of foreign exchange derivatives of $49.4 million represents the total "in-the-money" position at 31 December 2005. This amount includes an effective and ineffective portion. The mark-to-market values of the effective and ineffective derivatives at balance date were $51.1 million and ($1.7) million respectively. The ineffective derivatives represent the "time value" component of the consolidated entity's foreign exchange options. The "intrinsic value" component of these options is included in the effective portion. The mark-to-market movement in the value of the effective derivatives is deferred in equity, whilst the mark-to-market movement in the ineffective component is recognised in the income statement.

During the year ended 31 December 2005, the consolidated entity transferred a total gain of $46.9 million to the income statement from equity. This gain was comprised as follows:

- a gain of $47.7 million from the delivery into derivative contracts; and
- a loss of $0.8 million from the "time value" component of the foreign exchange options transferred to reserves on transition.

In addition a gain of $3.7 million was recognised in the income statement in respect of the mark-to-market movement in the ineffective "time value" component of the foreign exchange options.

For the parent entity

The net asset position of foreign exchange derivatives of $45.7 million represents the total "in-the-money" position at 31 December 2005. This amount includes an effective and ineffective portion. The mark-to-market values of the effective and ineffective derivatives at balance date were $47.4 million and $1.7 million respectively. The ineffective derivatives represent the "time value" component of the consolidated entity's foreign exchange options. The "intrinsic value" component of these options is included in the effective portion. The mark-to-market movement in the value of the effective derivatives is deferred in equity, whilst the mark-to-market movement in the ineffective component is recognised in the income statement.

During the year ended 31 December 2005, the parent entity transferred a total gain of $35.5 million to the income statement from equity. This gain was comprised as follows:

- a gain $36.3 million from the delivery into derivative contracts; and
- a loss of $0.8 million from the "time value" component of the foreign exchange options transferred to reserves on transition.

In addition, a gain of $3.7 million was recognised in the income statement in respect of the mark-to-market movement in the ineffective "time value" component of the foreign exchange options.

	Consolidated		Consolidated	
	2005	2004	**2005**	2004
	US$M	US$M	Average exchange rate	
Foreign exchange derivatives				
At balance date, the details of outstanding contracts are:				
Forward foreign exchange contracts				
Maturity				
Not later than one year	**58.0**	97.5	**0.6896**	0.6078
Later than 1 year but not later than 2 years	**74.5**	38.0	**0.5931**	0.6664
Later than 2 years but not later than 3 years	**6.5**	62.5	**0.6494**	0.5720
Later than 3 years but not later than 4 years	**-**	6.5	**-**	0.6949
	139.0	204.5	**0.6440**	0.6353
Currency options (purchased)				
Maturity				
Not later than one year	**51.0**	38.0	**0.5557**	0.6000
Later than 1 year but not later than 2 years	**15.0**	51.0	**0.6500**	0.5557
Later than 2 years but not later than 3 years	**-**	15.0	**-**	0.6500
	66.0	104.0	**0.6029**	0.6019
Currency options (sold)				
Maturity				
Not later than one year	**18.0**	-	**0.5240**	-
Later than 1 year but not later than 2 years	**-**	18.0	**-**	0.5240
	18.0	18.0	**0.5240**	0.5240

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

These contracts are hedging highly probable forecast cash receipts. The contracts are timed to mature when cash receipts are scheduled to occur.

(c) FINANCIAL RISK MANAGEMENT

The consolidated entity's activities expose it to a variety of financial risks; market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as foreign exchange contracts and interest rate swaps to hedge certain risk exposures.

(i) Market risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The consolidated entity operates internationally and is exposed to foreign exchange risk arising from currency exposures to the Euro and US dollar.

Forward contracts, transacted by Group Treasury and Risk, are used to manage foreign exchange risk. Group Treasury and Risk is responsible for managing exposures in each foreign currency by using external forward currency contracts.

Fair value interest rate risk

Refer to (iv) below.

(ii) Credit risk

The consolidated entity has no significant concentrations of credit risk. The consolidated entity has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The consolidated entity has policies that limit the amount of credit exposure to any one financial institution.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury and Risk aims at maintaining flexibility in funding by keeping committed credit lines available.

(iv) Cash flow and fair value interest rate risk

As the consolidated entity has no significant interest bearing assets, the consolidated entity's income and operating cash flows are substantially independent of changes in market interest rates.

The consolidated entity's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk. Borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

(d) INTEREST RATE RISK MANAGEMENT

As the consolidated entity is a net borrower it periodically reviews its interest rate management with the objective of optimising its exposure to fixed and variable interest rates. The US Private Placement 1996 Senior Notes are fixed at an average rate of 7.47% over their term. The US Private Placement 2003 Senior Notes have effectively been converted to an AUD variable rate exposure through a cross currency swap transaction. The cross currency swap currently bears an average variable interest rate of 6.2% (2004: 5.9%). Other borrowings of the consolidated entity bear average variable interest rates of 4.6% (2004: 3.0%) on USD loans and 6.1% (2004: 5.8%) on AUD loans.

(e) INTEREST RATE RISK EXPOSURE

Refer to Note 22 and Note 26 for the consolidated entity's exposure to interest rate risk.

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 12. CURRENT ASSETS - CURRENT TAX ASSETS				
Current tax assets	**-**	2.3	**-**	-
NOTE 13. CURRENT ASSETS - OTHER				
Deferred overburden removal	**16.5**	7.9	**3.1**	4.2
Mark-to-market gains on foreign exchange derivatives	**-**	49.8	**-**	38.1
Deferred losses on foreign exchange derivatives	**-**	3.3	**-**	-
	16.5	61.0	**3.1**	42.3
NOTE 14. NON-CURRENT ASSETS - RECEIVABLES				
Loans to controlled entities (a)	**-**	-	**316.5**	131.7
Loans - RGC employee share plan (b)	**-**	2.2	**-**	-
Prepayments	**2.0**	9.9	**0.3**	3.1
Other debtors	**3.4**	-	**-**	-
	5.4	12.1	**316.8**	134.8

(a) LOANS TO CONTROLLED ENTITIES

Further information relating to loans to controlled entities is set out in Note 39.

(b) LOANS - RGC EMPLOYEE SHARE PLAN

The RGC employee share plan was wound up during 2005 and all loans repaid in full. Refer to Note 9 for the current portion of these receivables.

(c) FAIR VALUES

The fair values of the non-current receivables are based on cash flows discounted using a current lending rate of 7.0%.

(d) INTEREST RATE RISK EXPOSURE

Cash and cash equivalents (refer Note 8) are the only interest bearing assets of the consolidated entity.

(e) CREDIT RISK

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

Refer to Note 11 for more information on the risk management policy of the consolidated entity.

NOTE 15. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Retirement benefits surplus (Note 36)	**0.6**	0.6	**-**	-
Shares in controlled entities (Note 40)	**-**	-	**847.5**	847.5
	0.6	0.6	**847.5**	847.5

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 16. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Land & Buildings $M	Leased Plant, Machinery & Equipment $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Exploration & Evaluation $M	Project Development Expenditure $M	Total $M
At 1 January 2004							
Cost	82.8	0.8	949.0	644.0	94.2	67.5	1,838.3
Accumulated depreciation	(7.7)	(0.2)	(371.7)	(226.4)	-	-	(606.0)
Net written down value	75.1	0.6	577.3	417.6	94.2	67.5	1,232.3
Year ended 31 December 2004							
Opening written down value	75.1	0.6	577.3	417.6	94.2	67.5	1,232.3
Additions	7.9	-	81.9	41.3	8.6	102.3	242.0
Disposals	(1.2)	-	(3.4)	-	-	-	(4.6)
Write-off of exploration expenditure	-	-	-	-	(1.3)	-	(1.3)
Depreciation/amortisation expense	(1.3)	(0.1)	(73.3)	(45.2)	-	-	(119.9)
Foreign currency exchange differences	(0.3)	-	(5.6)	(1.6)	(0.1)	0.2	(7.4)
Transfers/reclassifications	(0.6)	(0.5)	49.3	0.3	(0.3)	(48.4)	(0.2)
Closing written down value	79.6	-	626.2	412.4	101.1	121.6	1,340.9
At 31 December 2004							
Cost	88.3	-	1,059.0	682.9	101.1	121.6	2,052.9
Accumulated depreciation	(8.7)	-	(432.8)	(270.5)	-	-	(712.0)
Net written down value	79.6	-	626.2	412.4	101.1	121.6	1,340.9
Year ended 31 December 2005							
Opening written down value	**79.6**	**-**	**626.2**	**412.4**	**101.1**	**121.6**	**1,340.9**
Additions	**4.3**	**-**	**107.7**	**43.4**	**14.2**	**214.2**	**383.8**
Disposals	**(9.2)**	**-**	**(0.5)**	**-**	**(0.2)**	**-**	**(9.9)**
Write-off of exploration expenditure	**-**	**-**	**-**	**-**	**(1.0)**	**-**	**(1.0)**
Write-off of Florida/Georgia assets and impairment losses	**(5.4)**	**-**	**(89.6)**	**(95.7)**	**(13.2)**	**(62.7)**	**(266.6)**
Depreciation/amortisation expense	**(1.1)**	**-**	**(79.7)**	**(42.5)**	**-**	**-**	**(123.3)**
Foreign currency exchange differences	**0.4**	**-**	**8.0**	**1.8**	**0.3**	**0.5**	**11.0**
Transfers/reclassifications	**1.4**	**-**	**23.8**	**17.4**	**(42.3)**	**(0.3)**	**-**
Closing written down value	**70.0**	**-**	**595.9**	**336.8**	**58.9**	**273.3**	**1,334.9**
At 31 December 2005							
Cost	**84.4**	**-**	**1,122.0**	**682.6**	**58.9**	**325.3**	**2,273.2**
Accumulated depreciation*	**(14.4)**	**-**	**(526.1)**	**(345.8)**	**-**	**(52.0)**	**(938.3)**
Net written down value	**70.0**	**-**	**595.9**	**336.8**	**58.9**	**273.3**	**1,334.9**

* Includes impairment losses

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 16. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (continued)

PARENT ENTITY	Land & Buildings $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Total $M
At 1 January 2004				
Cost	40.7	419.5	58.8	519.0
Accumulated depreciation	(4.9)	(182.7)	(34.2)	(221.8)
Net written down value	35.8	236.8	24.6	297.2
Year ended 31 December 2004				
Opening written down value	35.8	236.8	24.6	297.2
Additions	3.0	14.3	14.6	31.9
Disposals	(1.1)	(0.6)	(0.4)	(2.1)
Depreciation/amortisation expense	(0.6)	(27.5)	(13.2)	(41.3)
Closing written down value	37.1	223.0	25.6	285.7
At 31 December 2004				
Cost	42.4	429.3	73.0	544.7
Accumulated depreciation	(5.3)	(206.3)	(47.4)	(259.0)
Net written down value	37.1	223.0	25.6	285.7
Year ended 31 December 2005				
Opening written down value	**37.1**	**223.0**	**25.6**	**285.7**
Additions	**3.4**	**21.0**	**19.3**	**43.7**
Disposals	**(7.1)**	**(6.9)**	**-**	**(14.0)**
Depreciation/amortisation expense	**(0.2)**	**(23.5)**	**(17.5)**	**(41.2)**
Closing written down value	**33.2**	**213.6**	**27.4**	**274.2**
At 31 December 2005				
Cost	**38.0**	**430.0**	**92.4**	**560.4**
Accumulated depreciation	**(4.8)**	**(216.4)**	**(65.0)**	**(286.2)**
Net written down value	**33.2**	**213.6**	**27.4**	**274.2**

Mine reserves and development

Included in mine reserves and development are amounts totalling $192.9 million for the consolidated entity and $5.7 million for the parent entity (2004: $248.3 million and $7.4 million respectively) which have not been depreciated as mining of the related area of interest has not yet commenced.

Plant, machinery and equipment

Included in plant, machinery and equipment are amounts totalling $42.8 million for the consolidated entity and $14.7 million for the parent entity (2004: $55.6 million and $19.2 million respectively) which relate to assets under construction. These amounts are not currently being depreciated as the assets are not ready for use.

Project development expenditure

Included in project development expenditure are amounts totalling $273.3 million (2004: $111.0 million) relating to expenditure on Murray Basin. These amounts are not currently being depreciated as the project has not yet been commissioned.

Non-current assets pledged as security

Refer to Note 26 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 16. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (continued)

Write-offs and impairment losses

As at 31 December 2005, a number of impairment losses were recognised to write-down assets to their recoverable amount, being fair value less costs to sell. As stated in Note 1(ac), where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the consolidated entity could receive for each Cash Generating Unit (CGU) in an arms length transaction. For this purpose, the consolidated entity has calculated the net present value of each CGU having regard, where appropriate, to external market evidence in support of key assumptions.

The impairment write-downs have been allocated across property, plant and equipment balances on a pro-rata basis according to relative book values, as follows:

Cash Generating Units	Land & Buildings $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Exploration & Evaluation $M	Project Development $M	Total Write-offs & Impairment losses $M
Mid West	**4.1**	**53.3**	**33.6**	**2.2**	**-**	**93.2**
Murray Basin	**1.3**	**1.5**	**24.9**	**8.3**	**52.0**	**88.0**
Florida/Georgia	**-**	**34.8**	**37.2**	**2.7**	**10.7**	**85.4**
Total	**5.4**	**89.6**	**95.7**	**13.2**	**62.7**	**266.6**

The write-off and impairment losses in respect of Florida/Georgia follows the intention to undertake a staged closure of these operations during 2006.

The impairment losses recognised in respect of the Mid West and Murray Basin as a result of impairment testing as at 31 December 2005 have reduced their carrying values from $401.1 million to $305.0 million and $537.2 million to $449.2 million respectively. The factors contributing to the impairment write-downs for these CGUs are provided below:

Mid West

- higher operating costs; and
- some reductions in long-term selling price assumptions; and
- the exclusion of any assumed future cash inflows in relation to the possible commercial treatment of residual iron oxide tailings.

Murray Basin

- forecast for higher costs for labour, energy and mining services emanating from more detailed, contemporary mining plans and the assessment of prevailing conditions for major resource projects; and
- delays and uncertainties relating to the commencement of the Douglas Project.

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$M	$M	**$M**	$M
NOTE 17. NON-CURRENT ASSETS - DEFERRED TAX ASSETS				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**7.3**	6.3	**3.5**	3.3
Rehabilitation provisions	**73.6**	66.0	**22.8**	19.9
Other provisions	**1.0**	0.1	**0.4**	0.5
Foreign exchange	**(0.4)**	0.1	**-**	-
Borrowing expenses	**0.1**	0.2	**0.1**	0.2
Accruals	**1.4**	1.8	**1.1**	0.8
Inventories	**(1.3)**	1.3	**(0.8)**	0.7
Tax revenue losses*	**12.2**	14.5	**-**	-
Restructuring provision	**4.2**	-	**-**	-
Other	**2.6**	1.8	**(0.1)**	0.1
	100.7	92.1	**27.0**	25.5
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 27)	**(78.1)**	(85.8)	**(27.0)**	(25.5)
Net deferred tax assets	**22.6**	6.3	**-**	-
Movements:				
Opening balance at 1 January	**6.3**	56.4	**-**	-
Credited (charged) to the income statement (Note 7)	**24.7**	(47.4)	**-**	-
Recoupment of carried forward losses	**(24.1)**	-	**-**	-
Over (under) provision in prior years	**15.5**	(2.0)	**-**	-
Credited (charged) directly to equity (Notes 7 and 31)	**0.2**	(0.7)	**-**	-
Closing balance at 31 December	**22.6**	6.3	**-**	-

* The deferred tax asset for 2005 is attributable to carried forward US tax losses which are probable of recoupment in ensuing years.

NOTE 18. NON-CURRENT ASSETS - INTANGIBLE ASSETS

	Patents, trademarks & licences $M	Royalty entitlement asset $M	Total $M
CONSOLIDATED			
At 1 January 2004			
Cost	17.2	10.0	27.2
Accumulated amortisation	(1.6)	(0.1)	(1.7)
Net written down value	15.6	9.9	25.5
Year ended 31 December 2004			
Opening written down value	15.6	9.9	25.5
Amortisation charge	(1.7)	(0.4)	(2.1)
Closing written down value	13.9	9.5	23.4
At 31 December 2004			
Cost	17.2	10.0	27.2
Accumulated amortisation	(3.3)	(0.5)	(3.8)
Net written down value	13.9	9.5	23.4
Year ended 31 December 2005			
Opening written down value	**13.9**	**9.5**	**23.4**
Impairment charge*	**(2.9)**	**-**	**(2.9)**
Amortisation charge**	**(1.6)**	**(0.4)**	**(2.0)**
Closing written down value	**9.4**	**9.1**	**18.5**
At 31 December 2005			
Cost	**17.2**	**10.0**	**27.2**
Accumulated amortisation	**(7.8)**	**(0.9)**	**(8.7)**
Net written down value	**9.4**	**9.1**	**18.5**

* Impairment charge of $2.9 million (2004: $Nil) is included in closure costs and impairment losses in the income statement.

** Amortisation of $2.0 million (2004: $2.1 million) is included in amortisation in the income statement.

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
NOTE 19. NON-CURRENT ASSETS - INVENTORIES				
Consumable stores				
- at cost	**5.3**	6.0	**2.4**	3.0
NOTE 20. NON-CURRENT ASSETS - OTHER				
Mark-to-market gains on foreign exchange derivatives	**-**	54.2	**-**	48.9

Notes to the Financial Statements

for the year ended 31 December 2005

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$M	$M	**$M**	$M
NOTE 21. CURRENT LIABILITIES - PAYABLES				
Trade payables	**75.0**	49.4	**9.6**	15.4
Other creditors and accruals	**60.8**	49.3	**20.1**	12.8
Employee benefits	**12.4**	9.5	**5.6**	4.6
	148.2	108.2	**35.3**	32.8
NOTE 22. CURRENT LIABILITIES - INTEREST BEARING LIABILITIES				
Secured				
Bank loans (a)	**-**	6.5	**-**	-
Unsecured				
Bank loans (b)	**41.5**	48.5	**41.5**	48.5
Receivables acquisition facility (d)	**43.0**	-	**43.0**	-
Senior notes (c)	**61.4**	-	**61.4**	-
Total unsecured current interest bearing liabilities	**145.9**	48.5	**145.9**	48.5
Total current interest bearing liabilities	**145.9**	55.0	**145.9**	48.5

Further details of the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in Note 26.

(a) CONSOLIDATED RUTILE LIMITED

On 9 July 2003, two new facilities were entered into; a Syndicated Revolving Loan Facility Agreement of A$35.0 million for a period of five years and a Working Capital Facility Agreement of A$10.0 million for 364 days. During 2005, the Working Capital Facility was extended for a further 364 days. At 31 December 2005, the Working Capital Facility was drawn to A$Nil (2004: A$6.5 million). The Syndicated Revolving Loan Facility was drawn to A$6.0 million (2004: A$18.0 million) and is disclosed as a non-current liability, refer to Note 26.

(b) TRADE FINANCE FACILITY

During December 2004, Iluka Resources Limited entered into an A$60.0 million Trade Finance Facility with a financier for a period of one year. The Company has negotiated a further extension of this facility to 20 December 2006. As at 31 December 2005, A$41.5 million (2004: A$48.5 million) was drawn under the Facility.

(c) SENIOR NOTES - 1996 SERIES

In accordance with the maturity of Senior Notes, US$45.0 million (A$61.4 million) is scheduled for repayment on 15 December 2006 and accordingly is reflected as a current liability. Refer to further comments in Note 26.

(d) RECEIVABLES ACQUISITION AGREEMENT

During February 2005, the parent entity entered into a US$60 million Receivables Acquisition Agreement with a financier. During December 2005, the facility was extended for a period of one year to 1 December 2006. As at 31 December 2005, US$22.8 million and A$11.8 million (2004: US$Nil and A$Nil) was outstanding under the Agreement.

(e) INTEREST RATE EXPOSURES

Details of the consolidated entity's exposure to interest rate changes on interest bearing liabilities are set out in Note 26.

NOTE 23. CURRENT LIABILITIES - PROVISIONS

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Employee benefits	**10.6**	4.6	**3.5**	2.4
Rehabilitation and mine closure	**45.0**	25.1	**11.4**	3.0
Other provisions	**2.5**	0.7	**-**	-
	58.1	30.4	**14.9**	5.4

Movements in each class of provision during the current financial year, other than employee benefits and rehabilitation and mine closure, are set out below.
For movements in rehabilitation and mine closure refer to Note 28.

	Other provisions $M
Consolidated - 2005	
Carrying amount at start of year	**0.7**
Additional provisions recognised*	**2.6**
Payments	**(0.9)**
Foreign exchange rate movements	**0.1**
Carrying amount at end of year	**2.5**

* Includes $1.6 million of additional provisions recognised in relation to the Florida/Georgia closure costs.

NOTE 24. CURRENT LIABILITIES - CURRENT TAX LIABILITIES

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Income tax	**15.3**	2.0	**4.6**	-

NOTE 25. CURRENT LIABILITIES - OTHER

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Deferred gains on foreign exchange derivatives	**-**	49.8	**-**	38.1
Unearned interest - controlled entity	**-**	-	**78.0**	64.7
	-	49.8	**78.0**	102.8

	Consolidated		Parent entity	
	2005 **$M**	2004 $M	**2005** **$M**	2004 $M
NOTE 26. NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES				
Secured				
Bank loans (d)	**6.0**	18.0	**-**	-
Unsecured				
Bank loans (a) and (e)	**198.0**	67.8	**198.0**	67.8
Senior notes (b) and (c)	**224.2**	277.2	**224.2**	277.2
Deferred borrowing costs	**(1.7)**	-	**(1.7)**	-
Total unsecured non-current interest bearing liabilities	**420.5**	345.0	**420.5**	345.0
Total non-current interest bearing liabilities	**426.5**	363.0	**420.5**	345.0

(a) LOAN NOTE SUBSCRIPTION AGREEMENT

On 12 December 2001, the parent entity entered into a US$100.0 million Loan Note Subscription Agreement. During 2005, the limit of this facility was increased to US$130.0 million and the maturity extended to 12 December 2009. As at 31 December 2005, US$Nil and A$116.5 million (2004: US$45.0 million and A$10.0 million) was outstanding under the Agreement.

(b) SENIOR NOTES 1996 SERIES

The parent entity issued US$150.0 million of Senior Notes 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%. The first tranche of the Senior Notes were repaid on 15 December 2004 (US$45.0 million - A$59.4 million). Subsequent tranches are repayable on 15 December: 2006 US$45.0 million; 2008 US$30.0 million and 2011 US$30.0 million. The weighted average interest rate is 7.47% (2004: 7.47%) and is paid semi-annually in US dollars. As at 31 December 2005, US$105.0 million (2004: US$105.0 million) was outstanding on the Senior Notes.

(c) SENIOR NOTES 2003 SERIES

The parent entity issued US$100.0 million of Senior Notes in the United States private placement market in June 2003. The Senior Note maturities range from June 2010 to June 2015 at fixed interest rates ranging from 4.67% to 5.44%. The Senior Notes are repayable during 2010 US$40.0 million; 2013 US$40.0 million and 2015 US$20.0 million. The weighted average interest rate is 5.06% (2004: 5.06%) and is paid semi-annually in US dollars. As at 31 December 2005, US$100.0 million (2004: US$100.0 million) was outstanding under the Senior Notes.

On 6 August 2004, the USD fixed rate interest exposure was swapped into an AUD floating interest rate exposure for the remainder of the repayment terms of the Senior Notes.

(d) CONSOLIDATED RUTILE LIMITED

On 9 July 2003, two new facilities were entered into; a Syndicated Revolving Loan Facility Agreement of A$35.0 million for a period of five years and a Working Capital Facility Agreement of A$10.0 million for 364 days. During 2005, the Working Capital Facility was extended for a further 364 days. At 31 December 2005, the Syndicated Revolving Facility was drawn to A$6.0 million (2004: A$18.0 million). The Working Capital Facility was drawn to A$Nil (2004: A$6.5 million) and is disclosed as a current liability, refer to Note 22.

The revolving credit facility and working capital facility are secured by various mortgages and fixed and floating charges over the assets of CRL.

(e) BILATERAL LOAN NOTE SUBSCRIPTION AGREEMENTS

During March 2005, the parent entity entered into two Bilateral Loan Note Subscription Agreements with separate financiers. The Agreements are for a period of five years with a facility limit of US$40 million each. As at 31 December 2005, A$81.5 million (2004: A$Nil) was outstanding under these Agreements.

NOTE 26. NON-CURRENT LIABILITIES – INTEREST BEARING LIABILITIES (continued)

	Notes	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
(f) ASSETS PLEDGED AS SECURITY					
The carrying amounts of assets pledged as security are:					
Cash and cash equivalents	8	**1.6**	1.8	**-**	-
Current receivables	9	**23.8**	26.9	**-**	-
Inventories	10	**21.6**	18.3	**-**	-
Property, plant and equipment	16	**105.3**	100.9	**-**	-
Non-current receivables	14	**-**	5.3	**-**	-
Total assets pledged as security		**152.3**	153.2	**-**	-
(g) FINANCING ARRANGEMENTS					
Unrestricted access was available at balance date to the following lines of credit:					
Credit arrangements					
Total facilities					
US private placement 1996 series		**143.3**	134.9	**143.3**	134.9
US private placement 2003 series		**142.3**	142.3	**142.3**	142.3
Loan note facility		**177.4**	128.4	**177.4**	128.4
Trade finance facility		**60.0**	60.0	**60.0**	60.0
Bilateral loan note facility		**109.2**	-	**109.2**	-
Receivables acquisition facility		**81.9**	-	**81.9**	-
Syndicated revolving loan credit facility		**35.0**	35.0	**-**	-
Secured working capital facility		**10.0**	10.0	**-**	-
Secured bank overdraft facility		**0.5**	0.5	**-**	-
		759.6	511.1	**714.1**	465.6
Used at balance date					
US private placement 1996 series		**143.3**	134.9	**143.3**	134.9
US private placement 2003 series		**142.3**	142.3	**142.3**	142.3
Loan note facility		**116.5**	67.8	**116.5**	67.8
Trade finance facility		**41.5**	48.5	**41.5**	48.5
Bilateral loan note facility		**81.5**	-	**81.5**	-
Receivables acquisition facility		**43.0**	-	**43.0**	-
Syndicated revolving loan credit facility		**6.0**	18.0	**-**	-
Secured working capital facility		**-**	6.5	**-**	-
		574.1	418.0	**568.1**	393.5
Unused at balance date					
Loan note facility		**60.9**	60.6	**60.9**	60.6
Trade finance facility		**18.5**	11.5	**18.5**	11.5
Bilateral loan note facility		**27.7**	-	**27.7**	-
Receivables acquisition facility		**38.9**	-	**38.9**	-
Syndicated revolving loan credit facility		**29.0**	17.0	**-**	-
Secured working capital facility		**10.0**	3.5	**-**	-
Syndicated bank overdraft facility		**0.5**	0.5	**-**	-
		185.5	93.1	**146.0**	72.1

NOTE 26. NON-CURRENT LIABILITIES - INTEREST BEARING LIABILITIES (continued)

(h) 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 liabilities is set out in the table below. Exposures arise predominantly from liabilities bearing variable interest rates as the consolidated entity intends to hold fixed rate liabilities to maturity.

		Fixed interest rate				
2005	Floating interest rate **$M**	1 year or less **$M**	1 to 5 years **$M**	More than 5 years **$M**	Non interest bearing **$M**	Total **$M**
Payables (Note 21)	**-**	**-**	**-**	**-**	**148.2**	**148.2**
Interest bearing liabilities* (Notes 22 and 26)	**288.5**	**61.4**	**97.9**	**126.3**	**-**	**574.1**
Interest rate swaps**	**142.3**	**-**	**(56.9)**	**(85.4)**	**-**	**-**
	430.8	**61.4**	**41.0**	**40.9**	**148.2**	**722.3**
Weighted average interest rate	**6.0%**	**7.4%**	**7.5%**	**7.6%**		
2004						
Payables (Note 21)	-	-	-	-	108.2	108.2
Interest bearing liabilities* (Notes 22 and 26)	140.8	-	96.3	180.9	-	418.0
Interest rate swaps**	142.3	-	-	(142.3)	-	-
	283.1	-	96.3	38.6	108.2	526.2
Weighted average interest rate	5.3%	-	7.4%	7.6%		

* Excludes deferred borrowing costs

** Notional principal amounts

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 27. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES				
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Depreciation/amortisation	**99.9**	161.3	**44.3**	42.3
Mining capital expenditure	**39.7**	33.8	**2.2**	1.9
Foreign exchange	**2.3**	2.6	**2.3**	2.6
Other	**1.0**	2.5	**-**	0.3
Receivables	**1.7**	1.0	**0.1**	-
	144.6	201.2	**48.9**	47.1
Amounts recognised directly in equity				
Cash flow hedges	**14.6**	-	**13.7**	-
	159.2	201.2	**62.6**	47.1
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 17)	**(78.1)**	(85.8)	**(27.0)**	(25.5)
Net deferred tax liabilities	**81.1**	115.4	**35.6**	21.6
Movements:				
Opening balance at 1 January	**115.4**	153.7	**21.6**	3.8
Change on adoption of AASB 132 and AASB 139 (Note 1)	**29.1**	-	**26.1**	-
Charged/(credited) to the income statement (Note 7)	**(52.8)**	(39.8)	**(2.3)**	15.7
Charged/(credited) to equity (Notes 7 and 31)	**(16.4)**	(0.2)	**(13.2)**	-
Under provision in prior years	**5.8**	1.7	**3.4**	2.1
Closing balance at 31 December	**81.1**	115.4	**35.6**	21.6

NOTE 28. NON-CURRENT LIABILITIES - PROVISIONS				
Employee benefits	**6.7**	7.3	**2.4**	3.1
Rehabilitation and mine closure	**220.9**	202.9	**63.7**	63.5
Other provisions	**4.0**	1.2	**0.9**	0.9
	231.6	211.4	**67.0**	67.5

NOTE 28. NON-CURRENT LIABILITIES - PROVISIONS (continued)

Movements in each class of provision during the current financial year, other than employee entitlements are set out below:

	Other provisions $M	Rehabilitation and mine closure $M
Consolidated - 2005		
Carrying amount at start of year	1.2	228.0
Additional provisions recognised*	2.8	36.4
Cash spend	-	(12.9)
Rehabilitation and restoration borrowing cost unwind	-	14.4
Carrying amount at end of year	4.0	265.9
Parent entity - 2005		
Carrying amount at start of year	0.9	66.5
Additional provisions recognised	-	7.9
Cash spend	-	(3.3)
Rehabilitation and restoration borrowing cost unwind	-	4.0
Carrying amount at end of year	0.9	75.1

* Other provisions include US closure costs of $2.8 million.

Movement in rehabilitation and mine closure provisions represents an aggregate of current and non-current balances.

NOTE 29. NON-CURRENT LIABILITIES - OTHER

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Deferred gains on foreign exchange derivatives	-	54.2	-	48.9
Other	0.1	-	-	-
	0.1	54.2	-	48.9

Notes to the Financial Statements

for the year ended 31 December 2005

	Parent entity		Parent entity	
	2005 Number of shares	2004 Number of shares	**2005 Paid up value $M**	2004 Paid up value $M
NOTE 30. CONTRIBUTED EQUITY				
(a) SHARE CAPITAL				
Ordinary shares				
Issued and paid up capital	**232,914,349**	232,914,349	**611.0**	611.0

(b) MOVEMENTS IN ORDINARY SHARE CAPITAL:

Date	Details	Number of shares	Issue price	$M
1 January 2004	Opening balance	232,814,349		610.4
26 November 2004	Exercise of 2002 options			
	Proceeds received	100,000	$4.41	0.4
	Transfer from share-based payments reserve			0.2
31 December 2004	Balance	232,914,349		611.0
31 December 2005	Balance	**232,914,349**		**611.0**

(c) ORDINARY SHARES

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the shares held. On a 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.

(d) DIVIDEND REINVESTMENT PLAN AND BONUS SHARE PLAN (PLANS CURRENTLY SUSPENDED)

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 of these plans are currently suspended.

(e) EMPLOYEE INCENTIVE OPTION SCHEME

On 26 November 2004, 100,000 shares were issued pursuant to the Special Short Term Incentive Plan 2002 at an issue price of $4.41. Refer to Note 46 for further information.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 31. RESERVES AND RETAINED PROFITS

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
(a) RESERVES				
Asset revaluation reserve	**20.3**	20.3	**20.7**	20.7
Asset realisation reserve	**4.7**	4.7	**1.2**	1.2
Hedging reserve - cash flow hedges	**31.4**	-	**30.0**	-
Employee share options reserve	**0.2**	0.2	**0.2**	0.2
Foreign currency translation reserve	**(0.9)**	(1.9)	**-**	-
Share-based payments reserve	**1.5**	0.8	**1.5**	0.8
Defined benefit superannuation reserve	**-**	0.6	**-**	-
	57.2	24.7	**53.6**	22.9
Movements:				
Asset revaluation reserve				
Balance 1 January	**20.3**	24.2	**20.7**	21.4
Transfer to asset realisation reserve	**-**	(3.9)	**-**	(0.7)
Balance 31 December	**20.3**	20.3	**20.7**	20.7
Asset realisation reserve				
Balance 1 January	**4.7**	0.8	**1.2**	0.5
Transfer from asset revaluation reserve	**-**	3.9	**-**	0.7
Balance 31 December	**4.7**	4.7	**1.2**	1.2
Hedging reserve - cash flow hedges				
Balance 1 January	**-**	-	**-**	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**74.8**	-	**60.9**	-
Revaluation, net of tax	**(5.7)**	-	**(4.5)**	-
Transfer to net profit, net of tax	**(36.3)**	-	**(26.4)**	-
Attributable to minority interest	**(1.4)**	-	**-**	-
Balance 31 December	**31.4**	-	**30.0**	-
Employee share options reserve				
Balance 1 January	**0.2**	0.3	**0.2**	0.3
Option expense	**-**	0.1	**-**	0.1
Transfer to share capital (options exercised)	**-**	(0.2)	**-**	(0.2)
Balance 31 December	**0.2**	0.2	**0.2**	0.2
Foreign currency translation reserve				
Balance 1 January	**(1.9)**	-	**-**	-
Currency translation differences arising during the year	**1.0**	(1.9)	**-**	-
Balance 31 December	**(0.9)**	(1.9)	**-**	-
Share-based payments reserve				
Balance 1 January	**0.8**	0.2	**0.8**	0.2
Recognition of the fair value of equity instruments granted to employees under the Performance Incentive Plan	**0.7**	0.6	**0.7**	0.6
Balance 31 December	**1.5**	0.8	**1.5**	0.8
Defined benefit superannuation reserve				
Balance 1 January	**0.6**	0.2	**-**	-
(Decrease)/increase in surplus funds	**(0.6)**	0.4	**-**	-
Balance 31 December	**-**	0.6	**-**	-

NOTE 31. RESERVES AND RETAINED PROFITS (continued)

(b) RETAINED PROFITS

Movements in retained profits were as follows:

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
Balance 1 January	**157.5**	113.9	**166.9**	142.1
Net (loss) profit for the year	**(85.9)**	94.8	**44.7**	76.0
Dividends	**(51.2)**	(51.2)	**(51.2)**	(51.2)
Adjustment on adoption of AASB 132 & AASB 139, net of tax	**0.2**	-	**0.2**	-
Balance 31 December	**20.6**	157.5	**160.6**	166.9

(c) NATURE AND PURPOSE OF RESERVES

(i) Asset revaluation reserve

The property, plant and equipment revaluation reserve is used to record increments and decrements on the revaluation of non-current assets, as described in Note 1(o). 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.

(ii) Asset realisation reserve

This reserve records the amount of asset revaluation reserve relating to disposed assets which is now available for distribution to shareholders.

(iii) Hedging reserve - cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised directly in equity, as described in Note 1(m). Amounts are recognised in profit and loss when the associated hedged transaction affects profit and loss.

(iv) Employee share options reserve

The employee share options reserve is used to recognise the fair value of options issued but not exercised.

(v) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in Note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

(vi) Employee share-based payments reserve

The employee share-based payments reserve is used to recognise the fair value of equity instruments granted but not yet issued to employees under the Performance Incentive Plan and the Directors, Executives and Employees Share Acquisition Plan.

(vii) Defined benefit superannuation reserve

The defined benefit superannuation reserve represents the excess of net market value of assets held by the superannuation plans over the present value of employees accrued benefit payments, as described in Note 1(u).

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for the year ended 31 December 2005

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
	$M	$M	**$M**	$M
NOTE 32. MINORITY INTERESTS				
Interest in:				
Share capital	**63.7**	63.7	**-**	-
Reserves	**1.4**	-	**-**	-
Retained profits	**3.2**	(4.3)	**-**	-
	68.3	59.4	**-**	-
NOTE 33. DIVIDENDS				
(a) ORDINARY SHARES				
Final dividend for the year ended 31 December 2004 of 12 cents partly franked to 6 cents at 30% (2003: 12 cents unfranked at 30%) per fully paid share	**27.9**	27.9	**27.9**	27.9
Interim dividend for the year ended 31 December 2005 of 10 cents partly franked to 5 cents at 30% (2004: 10 cents partly franked to 8.7 cents at 30%) per fully paid share	**23.3**	23.3	**23.3**	23.3
Total dividends provided for or paid	**51.2**	51.2	**51.2**	51.2
(b) DIVIDENDS NOT RECOGNISED AT YEAR END				
In addition to the above dividends, since year end the Directors have recommended the payment of a final dividend of 12 cents partly franked to 9.6 cents at 30% (2004: 12 cents partly franked to 6 cents at 30%) per fully paid ordinary share. The aggregate amount of the proposed dividend expected to be paid on 20 April 2006 out of retained profits at 31 December 2005, but not recognised as a liability at year end, is	**27.9**	27.9	**27.9**	27.9
(c) FRANKED DIVIDENDS				
The franked portions of the final dividends recommended after 31 December 2005 will be based on existing franking credits (this includes receiving franked dividends from Consolidated Rutile Limited) and franking credits arising from the payment of income tax in the year ending 31 December 2006.				
Franking credits available for subsequent financial years based on a tax rate of 30% (2004: 30%)	**16.1**	6.0	**5.0**	1.0

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax;

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date; and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The franking credits available to the consolidated entity include $4.6 million (2004: $0.8 million) for the Consolidated Rutile Limited group and $6.5 million (2004: $4.2 million) attributable to Ashton Coal Interests Pty Ltd, of which the consolidated entity owns 93.3% (2004: 93.3%). Distribution of franking credits by the consolidated entity is subject to receipt of fully franked dividends from Consolidated Rutile Limited which was 51.04% owned by the consolidated entity at 31 December 2005 (2004: 51.04%) and Ashton Coal Interests Pty Limited.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 34. KEY MANAGEMENT PERSONNEL

Key Management Personnel of the consolidated entity comprise Directors of Iluka Resources Limited as well as other specific employees of the consolidated entity who met the following criteria: 'personnel who have authority and responsibility for planning, directing and controlling the activities of the consolidated entity, either directly or indirectly'.

The Key Management Personnel for the parent entity are the same as for the consolidated entity. Therefore, disclosure and balances in this Note relate to both the parent entity and the consolidated entity.

KEY MANAGEMENT PERSONNEL – DIRECTORS

The following persons were Directors of Iluka Resources Limited during the financial year:

(i) Chairman, Non-Executive Director

I C R Mackenzie

(ii) Managing Director and Chief Executive Officer

K M Folwell

(iii) Non-Executive Directors

W H J Barr
G D Campbell
V A Davies
R L Every
I C R Mackenzie
D M Morley
J Pizzey
R A Tastula

All of the above persons were Directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2004, except J Pizzey who was appointed as a Director on 7 November 2005.

KEY MANAGEMENT PERSONNEL - EMPLOYEES OTHER THAN DIRECTORS ("THE EXECUTIVES")

In addition to the Directors of the consolidated entity, the following employees met the definition of Key Management Personnel for the year ended 31 December 2005:

W R Bisset	Executive General Manager - Global Operations
M J Bourke[1]	Executive General Manager - Technical Services
D H M Calhoun	Executive General Manager - People and Communities
D C Grant	Chief Financial Officer
S Ward[2]	Executive General Manager - Sales & Marketing, Business Development and United States Operations
C Wilson	General Counsel and Company Secretary

1 M Bourke resigned on 3 March 2006.

2 S Ward terminated in accordance with his contract on 10 February 2006.

For the remainder of this Note, Key Management Personnel other than Directors of the consolidated entity are referred to as 'Executives'.

All of the above persons were also Executives during the year ended 31 December 2004, except:

- D Calhoun who commenced employment with the consolidated entity on 21 February 2005. G R Allan's contract for service with Iluka as Executive General Manager of People and Communities expired on 31 March 2005;
- D Grant, who was appointed as Acting Chief Financial Officer on 17 May 2004, and Chief Financial Officer on 13 July 2004. M A Hughes resigned as Chief Financial Officer on 17 May 2004;
- C Wilson, who was appointed as General Manager - Legal and Company Secretary on 29 November 2004. The preceding Company Secretary, I Gregory, resigned on 8 December 2004.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee (the Committee) operates in accordance with its charter as approved by the Board. The Committee is comprised solely of independent non-executive Directors and is chaired by Ms Davies. The Committee met five times during the year with all members of the Committee present at every meeting.

The Committee's responsibility is to provide assistance and recommendations to the Board in fulfilling its Corporate Governance responsibilities relating to:

- the overall remuneration strategy of the Company;
- the remuneration of the Managing Director and Chief Executive Officer, Executives and non-executive Directors;
- the performance and succession of Executives; and
- the assessment, composition and succession of the Board.

The Committee has the resources and authority appropriate to discharge its duties and responsibilities, including the authority to engage external professionals on terms it determines appropriate, without seeking the approval of the Board or management. During the year, the Committee engaged external advisers on matters relating to remuneration. These advisers were:

- Mercer Human Resources Consulting Pty Ltd who provided overall advice on reward strategy and executive remuneration; and
- Egan Associates who provided advice on Managing Director and Chief Executive Officer remuneration, non-executive Director remuneration and executive remuneration arrangements.

The Remuneration and Nomination Committee conducted a review of its charter and initiated a performance evaluation on the conduct of the Committee, which was reviewed and circulated for the information of Directors in December 2005.

REMUNERATION PRINCIPLES

The Board recognises that Iluka's performance is dependent on the quality of its employees. Accordingly, Iluka's remuneration policy is designed to attract, retain and motivate highly experienced executives who are dedicated to achieving the Company's strategic objectives and delivering shareholder value. This policy is built on the principles that:

- Executives' rewards are competitive within the sector in which Iluka operates;
- Executives' remuneration will have a balance of fixed and variable components;
- variable remuneration for Executives will have both cash and equity components;
- a significant proportion of Executives' reward will be in the form of 'at risk' variable remuneration and will be linked directly to performance as measured by the financial performance of the Company and achievement of challenging individual performance targets; and
- all aspects of Executive remuneration will be transparent in terms of disclosure and will be compliant with relevant legislative requirements and best practice.

The remuneration of an Executive or manager for performance is heavily linked to annual business performance outcomes and the Company's performance on a longer term basis.

REMUNERATION STRUCTURE

This Note discloses remuneration details for the Key Management Personnel of the consolidated entity and parent entity.

Remuneration for Executives is comprised of two components:

- fixed remuneration which is made up of base salary and superannuation, together with other salary sacrifice items such as novated leases and car parking. Employees are required to meet any fringe benefits tax obligations applicable to benefits; and
- variable remuneration which is tied directly to performance of both the Company and the individual Executive and as such is deemed to be at risk.

The remuneration structure is designed to reflect an appropriate balance between fixed and variable remuneration to ensure that an Executive reward is predominantly aligned with the performance outcomes of the business.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

FIXED REMUNERATION

The Company seeks to align fixed annual remuneration at median levels of the market as defined by the appropriate comparator group of Australian companies with similar operating revenues and market capitalisation, as well as referencing job evaluation data and the individual competence levels of executives.

In some cases, allowance is made for the highly competitive nature of the market for skilled and experienced personnel in the resources sector.

Superannuation Benefits

All Australian based Executives are entitled to contribute to the Iluka Superannuation Plan. The plan is primarily an accumulation style plan (over 98% of employees are members) with a small number of employees retaining membership in a defined benefit sub-plan, the latter a legacy from the 1999 merger of Westralian Sands Limited with RGC Limited. All Executives participate in the plan on an accumulation basis.

From 1 July 2005, the opportunity to direct superannuation contributions to a fund of choice (including self managed superannuation funds) became available to Iluka employees.

The Company's default superannuation fund remains the Iluka Superannuation Plan. In November 2005, it was moved from in-house management to a master trust arrangement administered by ING.

The Company contributes superannuation at the minimum required rate to each Executive's nominated eligible fund. Individuals may elect to make further voluntary contributions from pre-tax salary.

VARIABLE REMUNERATION

For the 2005 year, the Iluka Performance Incentive Program (PIP) was introduced. The plan aims to produce Executive performance that impacts and enhances Company financial performance and, in turn, share price performance. The PIP provides opportunities for Executives and eligible managers to participate in 'at risk' elements of reward based on rigorous financial and individually based targets on an annual basis. For disclosed Executives, 50% of any award made is in the form of cash; the balance is required to be deferred in the form of share rights.

The deferral of a large proportion of incentives in the form of share rights aligns Executives directly with the interests of shareholders through the share price performance.

Performance Incentive Program (PIP)

In March 2005, the Board finalised a new incentive plan - the PIP. The existing rules of the Directors', Executives' and Employees' Share Acquisition Plan (Plan), as approved by shareholders at the Company's Annual General Meeting in May 1999, allow for Directors to make subsequent amendments to the Plan in accordance with the rules. Amendments to the rules required to implement the new PIP were approved by Directors in March 2005.

The introduction of PIP followed an extensive review by the Board, including consideration of independent advice from Egan Associates, on the design and management of variable remuneration within the Company.

Only nominated managers and Executives participate in the PIP. The level of award opportunity is determined by an individual's role within the business and capacity to impact the results of the Company. In 2005, 36 employees (including the Executives) participated in the cash and equity form of PIP, with a further 94 staff nominated for the cash only form of the Plan.

PIP provides for an 'at risk' element of remuneration requiring the attainment of annually set, pre-determined objectives and targets. Objectives are both financial and non-financial and are developed individually for participating staff. Performance objectives relate to financial, environmental, health and safety performance, business improvement projects and specific targets within the Executive's functional responsibilities. Individual objectives are required to align directly with the Company's strategic plan and annual budgeted plans.

Objectives, measures and targets are set on an annual basis and are subject to the approval of the Board, and are applicable to both the cash and equity components of the Plan.

Invitations to participate in the PIP were made by the Board to Executives at the commencement of the 2005 year. Invitations detailed the rules of the PIP and performance criteria required for the award of either cash or deferred equity in the form of share rights being granted.

For the 2005 performance year the maximum incentive award available under PIP to the Managing Director and Chief Executive Officer was 125% of fixed remuneration, with a maximum incentive of 80% for other members of the Executive team. The size of the incentive award is determined at year end on assessment of the extent to which the individual's objectives have been achieved. Of the incentive determined, half is awarded as a cash payment and half on a deferred basis in the form of share rights.

Notes to the Financial Statements

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NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

In 2005, Iluka's financial performance (net profit after tax and return on shareholders' equity) represented 35% weighting in determining satisfaction of the criteria for an incentive payment. Health and safety performance (injury frequency rates; number of level 2 environmental incidents) was apportioned at 10% to 15% and key objectives from the Executive's operational or functional responsibilities accounted for the balance.

The PIP is designed to link the financial outcomes of Executives to achievement of Company results. Each measure and objective has rigorous targets defined at threshold (minimum level of performance required), target (performance as budgeted) and stretch (superior performance – maximum level of award). Outcomes of PIP objective are subject to rigorous assessment by management and, for the Executive management group, by the Board.

In 2005, threshold achievement required a 90% achievement of the target or budgeted performance of the Company and paid 45% of the apportioned award. Target achievement required meeting 100% of this criterion and paid 65% of the apportioned award. Stretch achievement required a 120% performance against this criterion, and paid 100% of the apportioned award. There is no additional payment applicable to the Executive above stretch, nor is any award payable below threshold level of financial achievement.

Targets and Payment of Awards[1]

Threshold (Lowest level of performance for which an incentive is payable)	Target Target = Budget	Stretch Maximum Achievable Stretch = Budget + 20%
Budget/Target (-) 10% Pays 45% of Incentive	Pays 65% of Incentive	Pays up to 100% of Incentive

Note 1:
- All awards are subject to assessment and approval.
- Awards above target are expected to represent a superior level of achievement.

At the end of the performance period in December 2005, performance criteria were assessed for each Executive and an incentive award determined based on the level of achievement. Half of the incentive award was paid in cash in March 2006. The remaining half will be transferred to the Executive as rights to fully paid shares in annual instalments of 25% over the next four years, commencing in January 2007. Further, a four year holding period applies to each grant of shares. All shares awarded are purchased on the open market.

The value of award to an Executive is directly linked to the long term share price. The higher the level of share price growth and hence shareholder value creation, the higher the level of Executive award through the share entitlement.

The financial and non-financial objectives and measures are the only criteria required for determining the share entitlements of Executives.

Performance Incentive Program 2006

In February 2006, the Board approved a number of refinements to the PIP following its first year of operation. Incentive arrangements were reviewed in light of Iluka's market performance and prevailing market conditions.

From the 2006 performance year, the Board has decided to increase the emphasis on financial objectives. Greater weighting (50% of the incentive opportunity) is to be given to financial measures of performance to reflect the most significant priority of the business. Environment, Health & Safety measures remain weighted at between 10% to 15% with achievement of individual performance objectives adjusted to 35% to 40%. In many instances individual objectives also target key financial and performance based outcomes.

Maximum incentive opportunity for Executives members will increase from 80% to 90%. The threshold, target and stretch performance hurdle rates are maintained in the 2006 PIP.

The four year holding period on vested share rights applicable in the 2005 year will be replaced by a 50% minimum holding requirement once all shares have vested in the 2006 plan.

Long Term Incentive Plans prior to 2005

Prior to the introduction of the PIP in 2005, the Company operated long term incentive plans pursuant to the terms of the Directors, Executives and Employees Share Acquisition Plan (Plan). The Plan was approved by shareholders at the Annual General Meeting of the Company in May 1999. Each year the Board may invite the Managing Director and Chief Executive Officer, Mr Folwell, and other employees determined by the Board to hold an executive position, to participate in the Plan as a means of providing those Executives with an incentive to enhance the performance of the Company. The terms of the annual offer included an allocated maximum number of shares (maximum allocation) to be acquired or retained under the Plan on behalf of the Executive if certain performance criteria, as determined by the Board, are satisfied.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

The performance criteria for each offer were based on total shareholder return against a defined comparator group of companies over a three year performance period. At the end of the period, the performance of the Company against the comparator group is assessed and a determination is made as to how much of the maximum allocation the Executive will be entitled to have acquired on his or her behalf by the trustee. Once the maximum allocation is determined, the trustee purchases the shares and holds them on trust for the Executive for a maximum period of 10 years. At the end of the 10 years or earlier if approved by the Board, the shares are transferred from the trustee to the Executive.

Since the Plan was approved by shareholders, there have been individual offers in respect to 2001, 2002, 2003 and 2004. Under the rules of the Plan, the entitlement assessment for the 2001 offer was extended for a further year and was assessed on 30 June 2005. The performance period for the 2002 offer has also concluded and was also assessed on 30 June 2005. As the 2003 and 2004 offers are still subject to the three year performance periods, there has been no determination of the entitlement to shares.

Details of potential share grants under Long Term Incentive Plan

All offers (including plans vested in the 2005 year) and details of the maximum allocation for the Managing Director and Executives are shown the Table 1 below. It should be noted that the maximum allocations listed are subject to the respective performance criteria. If at the end of the performance period the performance criteria have not been met there will be no entitlement to shares.

Table 1 - Maximum Potential Share Allocation

	Performance Period	
	01/07/03 - 30/06/06	01/01/04 - 31/12/06
Directors of Iluka Resources Limited		
K M Folwell	35,336	100,000
Executives of Iluka Resources Limited		
W R Bisset	21,153	41,376
M J Bourke[1]	-	-
D H M Calhoun[2]	-	-
D C Grant[3]	-	15,651
S Ward[4]	-	-
C Wilson[5]	-	-

1. M J Bourke resigned on 3 March 2006.
2. D H M Calhoun was appointed to the position of Executive General Manager – People and Communities on 21 February 2005.
3. D C Grant was appointed to the position of Chief Financial Officer on 13 July 2004.
4. S Ward's potential share entitlements were forfeited upon termination in accordance with his contract on 10 February 2006.
5. C Wilson was appointed to the position of General Manager - Legal and Company Secretary on 29 November 2004.

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NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

Details of Shares Granted under Performance Incentive Plan (PIP) and Long Term Incentive (LTI) Plan in 2005

Table 2 - Actual awards made under LTI plan in 2005

	Performance Period	
	01/07/01 - 0/06/04[1,2]	1/07/02 - 30/06/06[2]
Directors of Iluka Resources Limited		
K M Folwell	N/A	13,419
Executives of Iluka Resources Limited		
W R Bisset	N/A	N/A
M J Bourke[3]	1,563	2,757
D H M Calhoun[4]	N/A	N/A
D C Grant	N/A	N/A
S Ward[5]	2,192	4,641
C Wilson[6]	N/A	N/A
Award Date	17/08/05	17/08/05
Vesting Date	17/08/05	17/08/05

1. Plan extended by one year from 2004.
2. Under the 2001 and 2002 plans, relative TSR performance was measured against the ASX All Resources Index. Nil reward was payable under the plans for performance below the 50%. For each 1% above 50, 4% of the total number of shares in the award was payable. For the 2001 and 2002 plan, 14.28% and 25.36% was allocated accordingly.
3. M J Bourke resigned on 3 March 2006.
4. D H M Calhoun was appointed to the position of Executive General Manager – People and Communities on 21 February 2005.
5. S Ward terminated in accordance with his contract on 10 February 2006.
6. C Wilson was appointed to the position of General Manager - Legal and Company Secretary on 29 November 2004.

Fair Value per share for awards made under the LTI Plan in 2005:

Performance Period 01/07/01 – 30/06/04 = $0.00

Performance Period 01/07/02 – 30/06/05 = $2.09

Fair values were determined in accordance with AASB 2 *Share based Payment* by the Directors with reference to a Monte Carlo analysis performed by KPMG.

Table 3 – Actual awards made under PIP in 2005

	Performance Period
	01/01/04 - 31/12/04[1]
Directors of Iluka Resources Limited	
K M Folwell	34,975
Executives of Iluka Resources Limited	
W R Bisset	12,479
M J Bourke[2]	-
D H M Calhoun[3]	12,479
D C Grant	9,648
S Ward[4]	-
C Wilson[5]	6,972
Award Date	13/09/05
Vesting Date	2008, 2009[6]

1. Transition year for introduction of PIP. The rules of the 2005 PIP are applicable to the plan. No further performance criteria applies.
2. M J Bourke resigned on 3 March 2006. Entitlements to shares under the PIP were forfeited upon resignation.
3. D H M Calhoun was appointed to the position of Executive General Manager – People and Communities on 21 February 2005.
4. C Wilson was appointed to the position of General Manager - Legal and Company Secretary on 29 November 2004.
5. S Ward terminated in accordance with his contract on 10 February 2006.
6. Vests in two equal tranches on 01/01/2008 and 01/01/2009 respectively.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

Fair Value per share for awards made under the PIP in 2005:

Performance Period 01/01/04 – 31/12/04 = $6.30

Fair values were determined in accordance with methods prescribed by AASB 2 *Share based Payment*.

REMUNERATION REVIEW

The Company conducts a review of the remuneration of Executives and staff on an annual basis. For direct reports to the Managing Director and Chief Executive Officer, remuneration reviews are effective 1 January each year and other employee reviews are effective 1 March of each year. Guidelines for reviews are considered by the Board following recommendation by the Remuneration and Nomination Committee in February of each year. Review guidelines are based upon the outcomes of direct and related market review data and external advice from the Company's remuneration advisers. All employees and executives participate in a performance review process which is used in conjunction with market data to determine appropriate remuneration recommendations.

Individual progress against objectives of the PIP is reviewed throughout the performance year with formal reviews occurring at half-year and at the conclusion of the performance year.

Recommendations by the Managing Director and Chief Executive Officer for PIP award outcomes and remuneration for his direct reports are submitted to the Committee in February each year. In respect of all other eligible PIP participants, a one up manager approval process applies with final Managing Director and Chief Executive Officer authority prior to any award or remuneration review being implemented.

ILUKA RESOURCES LIMITED EMPLOYEE SHARE PLAN

The Company operates an employee share plan under the rules of the Iluka Resources Limited Employee Share Plan.

The Board may, from time to time, at its discretion, make written offers to employees to acquire up to $1,000 of fully paid ordinary shares in the Company from the pre-tax remuneration of employees. An offer was made during the financial year which was taken up by four Executives. Overall, 34% of eligible employees participated in the 2005 plan.

Consistent with usual industry practice, shares acquired under the Employee Share Plan are not subject to performance conditions as the primary objective of the plan is to encourage share ownership by all employees and thereby provide employees with an incentive to participate in the growth and development of Iluka.

MANAGING DIRECTOR

The Managing Director and Chief Executive Officer is Mr Keith Michael (Mike) Folwell, aged 51. Remuneration and other terms of employment for Mr Folwell are formalised in a service agreement.

The service agreement for the Managing Director and Chief Executive Officer was reviewed by the Board during the course of the year. Mr Folwell was initially employed on a five year term, commencing on 1 May 2002 and terminating on 30 April 2007. The Board announced during the year that it had agreed with Mr Folwell on an ongoing contract of no fixed term, principally on the same remuneration as previously, namely:

- Fixed remuneration, inclusive of superannuation of $870,000 per annum and non-cash benefits such as car parking, personal phone and spouse travel; and
- participation in the PIP as outlined elsewhere in this report.

Payment of termination benefit by the Company (other than for gross misconduct) is equal to one year of total fixed remuneration. An amount equivalent to 18 months of total fixed remuneration is payable in the event of redundancy.

In the event of both termination and redundancy, Mr Folwell would be paid a pro-rata portion of the cash component and PIP based on his performance up and until the date of termination.

In respect of shares under the Share Acquisition Plan, in the event of termination, Mr Folwell will retain only shares that have vested to him. In the event of redundancy, in addition to an entitlement to vested shares, the Board may give further consideration in accordance with the rules of the Share Acquisition Plan.

Mr Folwell is required to give six months notice to the Company in the event of resignation.

Mr Folwell's remuneration is established by reference to the market and with particular reference to companies of a similar size in terms of market capitalisation and operating revenues. His remuneration is reviewed on an annual basis in December by the Board with assistance from external advisors. The total remuneration paid to Mr Folwell in 2005 is shown in Table 5.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

NON-EXECUTIVE DIRECTORS

The remuneration of the non-executive Directors is determined by the Board on recommendation from the Remuneration and Nomination Committee within a maximum aggregate amount approved by shareholders at an Annual General Meeting. The current maximum as approved by shareholders at the Annual General Meeting held on 12 May 2004 is $1.1 million. The total amount paid in 2005 was $796,562, including superannuation.

A review of Iluka's non-executive Director fees was conducted during the year by Egan Associates. The review took into account the nature of Directors' work, their responsibilities and the survey data on comparative companies. As a result of this review, the following fees were applied from 1 July 2005:

- Non-executive Director Fees

Board Chairman (inclusive of Committee fees)	$186,945 per annum
Board Member	$82,500 per annum

- Board Member Committee Fees

Audit and Risk Committee Chairman	$20,000 per annum
Remuneration and Nomination Committee Chairman	$15,000 per annum
Audit and Risk Committee Member	$10,000 per annum
Remuneration and Nomination Committee Member	$7,500 per annum

With these increases, the current total non-executive Director remuneration is $841,945 per annum, excluding superannuation. The minimum required employer superannuation contribution is paid into each Director's nominated eligible fund and is in addition to the above fees.

Prior to 1 July 2003, all non-executive Directors participated in a defined benefit section of the Iluka Superannuation Plan. As at 30 June 2003, the benefits in the defined benefits section were calculated and transferred to an accumulation section as at 1 July 2003.

Non-executive Directors are able to purchase Company shares under the Directors', Executives' and Employees' Share Acquisition Plan utilising the funds that would otherwise be payable to Directors in cash for Directors' fees. These shares are acquired on market and all transaction costs are borne by Directors. Details of Directors' share purchases are listed on page 59 of this Financial Report. No performance conditions attach to these shares as they are purchased using the funds that would otherwise be payable by the Company to Directors in cash for their fees.

DETAILS OF REMUNERATION

Summary details of remuneration for Key Management Personnel are shown in the table below:

Table 4 – Aggregate Compensation for Key Management Personnel (includes Executive Directors, Non-Executive Directors and Executives)

	Short Term Benefits[1] $	Post Employment Benefits[2] $	Share Based Payments[3] $	Total $
2005				
Non-Executive Directors	**643,095**	**66,118**	**114,375**	**823,588**
Managing Director	**1,026,113**	**11,585**	**227,968**	**1,265,666**
Executives	**2,602,955**	**184,607**	**277,785**	**3,065,347**
Total	**4,272,163**	**262,310**	**620,128**	**5,154,601**
2004				
Non-Executive Directors	583,503	82,438	56,288	722,229
Managing Director	1,265,432	35,052	152,516	1,453,000
Executives	3,075,693	144,377	179,978	3,400,048
Total	4,924,628	261,867	388,782	5,575,277

1. Comprises Cash Salary and Fees, PIP Cash, Non-monetary benefits (other than share based payments), and 'Other' remuneration.
2. Comprises superannuation.
3. Comprises Employee Share Plan, PIP Equity and Long Term Incentive (which is settled via the issue of equity).

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NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

Details of the remuneration of each Director of Iluka Resources Limited and each of the Executives of the consolidated entity, including their personally related entities, are set out in the following tables. Amounts in the 'PIP cash' column are dependent on the satisfaction of performance conditions as set out in the section headed "Performance Incentive Plan" above. Amounts in the 'Share Plan' and 'Long Term Incentive' columns relate to the 2005 component of the fair value of awards made under the PIP and LTI plan respectively. All other elements of remuneration are not directly related to performance.

REMUNERATION OF DIRECTORS

Details of remuneration of each Director of Iluka Resources is shown in Table 5.

Table 5 - Directors' remuneration

Name	Cash Salary & Fees $	PIP Cash[1] $	Non-Monetary Benefits $	Superannuation $	Share Plan[2] $	PIP Equity[3] $	Long Term Incentive[4] $	Other $	Total $
2005									
W H J Barr	**88,750**	-	-	**7,988**	-	-	-	-	**96,738**
G D Campbell	**50,745**	-	-	**7,763**	**43,125**	-	-	-	**101,633**
V A Davies	**73,245**	-	-	**8,438**	**28,125**	-	-	-	**109,808**
R L Every	**50,745**	-	-	**7,763**	**43,125**	-	-	-	**101,633**
I C R Mackenzie	**178,473**	-	-	**16,063**	-	-	-	-	**194,536**
D M Morley	**98,750**	-	-	**8,888**	-	-	-	-	**107,638**
J Pizzey[5]	**13,637**	-	-	**1,227**	-	-	-	-	**14,864**
R A Tastula	**88,750**	-	-	**7,988**	-	-	-	-	**96,738**
Subtotal	**643,095**	-	-	**66,118**	**114,375**	-	-	-	**823,588**
Managing Director									
K M Folwell	**855,583**	**108,750**	**61,780**[6]	**11,585**	**832**	**64,267**	**162,869**	-	**1,265,666**
Total	**1,498,678**	**108,750**	**61,780**	**77,703**	**115,207**	**64,267**	**162,869**	-	**2,089,254**

1. Represents bonuses paid or payable under the PIP in relation to performance for the year ended 31 December 2005.
2. Relates to participation in the Directors', Executives' and Employees' Share Acquisition Plan.
3. Represents the estimated monetary value of shares granted under the PIP for the year ended 31 December 2005 (refer to Table 3 for additional details). The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 *Share-based Payment* with the fair value of shares at grant date being recognised as remuneration on a straight line basis between grant date and vesting date.
4. Represents the estimated monetary value of potential shares under the LTI plan for the year ended 31 December 2005 (refer to Table 2 for additional details). The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 *Share-based Payment*. The valuation was determined by reference to an option pricing model.
5. J Pizzey was appointed as a director on 7 November 2005.
6. Includes car parking, death, disability and salary continuance insurance, spouse travel and personal phone.

In addition to the cash payments made under the PIP for performance in the year ended 31 December 2005 detailed in Table 5 above, the cash component of the PIP shown in Table 6 was paid during 2005. This payment relates to the Managing Director's performance in 2004.

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

Name	Cash Salary & Fees $	Cash Bonus[1] $	Non-Monetary Benefits $	Superannuation $	Share Plan[3] $	PIP Equity $	Long Term Incentive[4] $	Other $	Total $
2004									
W H J Barr	78,500	-	-	7,065	-	-	-	-	85,565
G D Campbell	49,979	-	-	6,953	27,271	-	-	-	84,203
V A Davies	44,350	-	-	30,630	19,850	-	-	-	94,830
R L Every[2]	57,069	-	-	5,450	3,438	-	-	-	65,957
I C R MacKenzie	159,271	-	-	14,850	5,729	-	-	-	179,850
D M Morley	85,167	-	-	7,665	-	-	-	-	92,832
R A Tastula	78,500	-	-	7,065	-	-	-	-	85,565
Former Directors[5]	30,667	-	-	2,760	-	-	-	-	33,427
Subtotal	583,503	-	-	82,438	56,288	-	-	-	722,229
Managing Director									
K M Folwell	771,666	461,700	2,000	35,052	1,282	-	151,234	30,066	1,453,000
Total	1,355,169	461,700	2,000	117,490	57,570	-	151,234	30,066	2,175,229

1. Represents accrued Short-Term Incentive bonus paid in March 2005.
2. Dr R J Every was appointed as a Director on 25 March 2004.
3. Relates to participation in the Directors', Executives' and Employees' Share Acquisition Plan.
4. Represents the estimated monetary value of potential shares under the Long Term Incentive Plan for the year ended 31 December 2005. The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 Share-based payment. The valuation was determined by reference to an option pricing model.
5. Relates to payments made to persons who were Directors during the year ended 31 December 2004 but not at any time during the year ended 31 December 2005.

Table 6 – Cash component of PIP

Name	Bonus Payment $
2004 cash component of PIP paid in March 2005	
Managing Director	
K M Folwell	461,700
2003 cash component of Short Term Incentive Bonus paid in March 2004	
Total	312,375

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for the year ended 31 December 2005

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

EXECUTIVES

Remuneration details for each of the Executives are shown in Table 7.

Table 7 – Executives' remuneration

Name	Cash Salary & Fees $	PIP Cash[1] $	Non-Monetary Benefits $	Superannuation $	Employee Share Plan[2] $	PIP Equity Based Remuneration[3] $	Long - Term Incentive[4] $	Other $	Total $
2005									
G R Allan[5]	**75,905**[10]	**-**	**-**	**2,896**	**-**	**-**	**-**	**27,700**[11]	**106,501**
W R Bisset	**471,415**	**60,140**	**12,345**	**11,585**	**-**	**22,930**	**53,245**	**-**	**631,660**
M J Bourke[6]	**294,338**	**59,840**	**16,172**	**37,809**	**832**	**16,074**	**41,294**	**-**	**466,359**
D H M Calhoun[7]	**311,099**	**57,000**	**-**	**10,619**	**832**	**17,728**	**-**	**-**	**397,278**
D C Grant	**330,063**	**63,000**	**11,151**	**42,937**	**-**	**17,728**	**12,886**	**-**	**477,765**
S Ward[8]	**433,444**	**-**	**11,151**	**48,724**	**832**	**22,930**	**57,663**	**63,293**[12]	**638,037**
C Wilson[9]	**237,922**	**55,826**	**11,151**	**30,037**	**-**	**12,811**	**-**	**-**	**347,747**
Total	**2,154,186**	**295,806**	**61,970**	**184,607**	**2,496**	**110,201**	**165,088**	**90,993**	**3,065,347**

1. Represents incentives payable in relation to cash component of PIP for the year ended December 31 2005 (to be paid March 2006).
2. Relates to participation in the Directors', Executives' and Employees' Share Acquisition Plan.
3. Represents the estimated monetary value of shares granted under the transition PIP for the year ended 31 December 2005 (refer to Table 3 for additional details). The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 Share-based payment with the fair value of shares at grant date being recognised as remuneration on a straight line basis between grant date and vesting date.
4. Represents the estimated monetary value of potential shares under the Long Term Incentive Plan for the year ended 31 December 2005 (refer to Table 1 for additional details). The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 *Share-based Payment*. The valuation was determined by reference to an option pricing model.
5. G R Allan's contract for service with Iluka ended on 31 March 2005.
6. M J Bourke resigned on 3 March 2006. Entitlements to shares under the PIP were forfeited upon resignation.
7. D H M Calhoun was appointed to the position of Executive General Manager – People and Communities on 21 February 2005.
8. S Ward terminated in accordance with his contract on 10 February 2006. Entitlements to shares under the PIP were forfeited upon resignation.
9. C Wilson was appointed to the position of General Manager Legal and Company Secretary on 29 November 2004.
10. Includes statutory benefits paid on termination.
11. Pro rata PIP cash component paid to G R Allan on 1 April 2005 termination.
12. Gross relocation allowance paid to S Ward associated with repatriation from USA in 2004.

In addition to the cash payments made under the PIP for performance in the year ended 31 December 2005 detailed in Table 7 above, the cash component of the PIP shown in Table 8 was paid during 2005. These payments relate to the Executives' performance in 2004.

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

Name	Cash Salary & Fees $	Cash Bonus[1] $	Non-Monetary Benefits $	Superannuation $	Employee Share Plan $	PIP Equity Based Remuneration $	Long - Term Incentive[2] $	Other $	Total $
2004									
G R Allan	299,125	130,190	-	11,052	-	-	-	-	440,367
W R Bisset	445,666	208,840	2,000	11,052	1,282	-	53,245	-	722,085
M J Bourke	254,746	143,208	33,128	35,844	1,282	-	45,081	-	513,289
D C Grant[3]	256,422	147,598	-	32,627	-	-	12,886	-	449,533
S Ward[4]	446,460	199,350	-	19,234	1,282	-	64,038	183,403	913,767
C Wilson[5]	21,215	-	-	2,672	-	-	-	-	23,887
Former Executives[6]	266,613	-	17,729	31,896	882	-	-	20,000	337,120
Total	1,990,247	829,186	52,857	144,377	4,728	-	175,250	203,403	3,400,048

1. Includes bonuses paid or payable under the Short-Term Incentive Plan in relation to performance for the year ended 31 December 2004.
2. Represents the estimated monetary value of potential shares under the Long Term Incentive Plan for the year ended 31 December 2005. The indicative valuation was determined in accordance with the measurement criteria of accounting standard AASB 2 Share-based payment. The valuation was determined by reference to an option pricing model.
3. D C Grant was appointed to the position of Chief Financial Officer on 13 July 2004.
4. S Ward's remuneration includes an amount of $120,110 as a result of expatriate status for the period 1 January to 30 September 2004 plus a resettlement allowance of $63,293. In addition, it includes payment of $38,734 for leave cashed out. The superannuation total includes a $15,740 deduction which was a correction for overpayment in 2003. The total superannuation earned in 2004 was $34,974.
5. C Wilson was appointed to the position of General Manager Legal and Company Secretary on 29 November 2004.
6. Relates to payments made to persons who were Executives during the year ended 31 December 2004 but not at any time during the year ended 31 December 2005.

Table 8 – Cash component of PIP

Name	Bonus Payment $
2004 cash component of PIP paid in March 2005	
G R Allan[1]	130,190
W R Bisset	208,840
M J Bourke[2]	143,208
D H M Calhoun[3]	-
D C Grant	147,598
S Ward	199,350
C Wilson[4]	-
Total	829,186
2003 cash component of Short Term Incentive Bonus paid in March 2004	
Total	476,640

1. G R Allan's contract for service with Iluka ended on 31 March 2005.
2. M J Bourke resigned on 3 March 2006.
3. D H M Calhoun was appointed to the position of Executive General Manager – People and Communities on 21 February 2005.
4. C Wilson was appointed to the position of General Manager - Legal and Company Secretary on 29 November 2004.

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for the year ended 31 December 2005

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

EXECUTIVE SERVICE AGREEMENTS

Remuneration and other terms of employment for the Executives are formalised in Service Agreements. Invitations to Executives to participate in the PIP are issued each year. Invitations include details of plan rules, and terms and conditions of the offer. Major provisions of the agreements relating to remuneration are set out below.

W R Bisset, Executive General Manager - Global Operations

- Commencement date: 3 December 2002
- Term of agreement: no fixed term
- Fixed remuneration inclusive of superannuation for the year ended 31 December 2005: $485,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

M J Bourke, Executive General Manager - Technical Services

- Commencement date: 30 April 2001
- Term of agreement: no fixed term
- Resigned: 3 March 2006. A termination payment has been made. Details of the payment will be disclosed in the Remuneration Report for the financial year ending 31 December 2006 in accordance with statutory requirements
- Fixed remuneration inclusive of superannuation for the year ended 31 December 2005: $340,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

D H M Calhoun, Executive General Manager - People & Communities

- Commencement date: 21 February 2005
- Term of agreement: no fixed term
- Fixed remuneration inclusive of superannuation for year ending 31 December 2005: $375,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

D C Grant, Chief Financial Officer

- Commencement date: 15 September 2003 (appointed CFO on 13 July 2004)
- Term of agreement: no fixed term
- Fixed remuneration inclusive of superannuation for the year ended 31 December 2005: $375,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

S Ward, Executive General Manager - Sales & Marketing, Business Development and USA Operations

- Commencement date: 1 October 1999
- Terminated: 10 February 2006
- Term of agreement: no fixed term
- Payment of 12 months fixed remuneration ($485,000) in accordance with the employment contract
- Fixed term inclusive of superannuation for the year ended 31 December 2005: $485,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

C Wilson, General Manager - Legal and Company Secretary

- Commencement date: 29 November 2004
- Term of agreement: no fixed term
- Fixed remuneration inclusive of superannuation to 28 February 2005: $264,772; increased to $271,000 from 1 March 2005
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- Pro-rata cash based PIP based on performance up to and until the date of termination

V Hugo, Executive General Manager - Sales & Marketing

- Commencement date: 5 May 2003 (appointed Executive General Manager – Sales & Marketing on 21 February 2006)
- Term of agreement: no fixed term
- Fixed remuneration inclusive of superannuation from 21 February 2006: $340,000
- Payment of termination benefit on termination by the employer (other than for gross misconduct) equal to one year's total fixed remuneration
- 3 months notice required upon resignation
- Pro-rata cash based PIP based on performance up to and until the date of termination

Table 9 – PIP shares awarded to Directors and Executives for 2005 Performance

	Vesting Date			
Name	01/01/07	01/01/08	01/01/09	01/01/10
Directors of Iluka Resources Limited				
K M Folwell	**4,664**	**4,664**	**4,664**	**4,664**
Executives of Iluka Resources Limited				
G R Allan[1]	-	-	-	-
W R Bisset	**2,579**	**2,579**	**2,579**	**2,579**
M J Bourke[2]	-	-	-	-
D H M Calhoun[3]	**2,702**	**2,702**	**2,702**	**2,702**
D C Grant	**2,702**	**2,702**	**2,702**	**2,702**
S Ward[4]	-	-	-	-
C Wilson	**2,394**	**2,394**	**2,394**	**2,394**

1. G R Allan's contract for service with Iluka ended on 31 March 2005.
2. M J Bourke resigned on 3 March 2006.
3. D H M Calhoun appointed as Executive General Manager – People and Communities on 21 February 2005.
4. S Ward terminated in accordance with his contract on 10 February 2006.

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NOTE 34. KEY MANAGEMENT PERSONNEL (continued)

SHAREHOLDINGS

The number of shares in the Company held during the financial year by Key Management Personnel of Iluka Resources Limited, including their personally related entities, are set out below.

Table 10 - Directors' Shareholdings

Name	Balance at the start of the year	Changes during the year	Balance at the end of the year
Non-Executive Directors			
I C R Mackenzie	41,989	267	42,256
W H J Barr	20,000	-	20,000
G D Campbell	59,697	6,722	66,419
V A Davies	27,378	4,491	31,869
R L Every	5,000	5,602	10,602
D M Morley	20,000	5,000	25,000
J Pizzey[1]	-	10,000	10,000
R A Tastula	12,142	-	12,142
Managing Director			
K M Folwell	16,478	14,119	30,597

1. J Pizzey was appointed as a Director on 7 November 2005.

Table 11 - Key Management Personnel Other Than Directors Shareholdings

Name	Balance at the start of the year	Other changes during the year	Balance at the end of the year
G R Allan[1]	-	-	-
W R Bisset	400	-	400
M J Bourke[2]	1,000	4,420	5,420
D H M Calhoun[3]	-	100	100
D C Grant	1,200	4,200	5,400
S Ward[4]	1,000	6,933	7,933
C Wilson	-	-	-

1. G R Allan's contract for service with Iluka ended on 31 March 2005.
2. M J Bourke resigned on 3 March 2006.
3. D H M Calhoun appointed as Executive General Manager - People and Communities on 21 February 2005. Shares acquired post appointment as Executive General Manager - People and Communities.
4. S Ward terminated in accordance with his contract on 10 February 2006

Loans to Key Management Personnel

No loans existed at the commencement of the year and no loans were made during the year ended 31 December 2005.

Other transactions with Key Management Personnel

There were no transactions which occurred between the consolidated entity and Key Management Personnel that were outside of the nature described below:

(a) Occurrence was within a normal employee, customer or supplier relationship on terms and conditions no more favourable than those it is reasonable to expect the consolidated entity would have adopted if dealing at arms length with an unrelated individual;

(b) Information about these transactions does not have the potential to adversely affect decisions about the allocation of scarce resources made by users of the financial report, or the discharge of accountability by the Key Management Personnel; and

(c) The transactions are trivial or domestic in nature.

Therefore, specific details of other transactions with Key Management Personnel are not disclosed.

NOTE 35. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated 2005 $	Consolidated 2004 $	Parent entity 2005 $	Parent entity 2004 $
(a) ASSURANCE SERVICES				
Audit and audit related services				
Fees paid to PricewaterhouseCoopers:				
PwC Australia*	**804,422**	652,800	**641,422**	517,800
Other PwC firms	**60,782**	54,335	**-**	-
Total remuneration for assurance services	**865,204**	707,135	**641,422**	517,800
(b) TAXATION SERVICES				
Fees paid to PricewaterhouseCoopers:				
PwC Australia	**48,000**	52,662	**48,000**	52,662
Other PwC firms	**28,296**	67,544	**-**	-
Total remuneration for taxation services	**76,296**	120,206	**48,000**	52,662
(c) ADVISORY SERVICES				
Fees paid to PricewaterhouseCoopers:				
PwC Australia	**-**	8,000	**-**	-
Total remuneration for advisory services	**-**	8,000	**-**	-

* Included in audit fees paid to PwC Australia are amounts of $146,500 (2004: $62,140) for the consolidated entity and $119,500 (2004: $62,140) for the parent entity for the transition to Australian equivalents of International Financial Reporting Standards.

NOTE 36. RETIREMENT BENEFIT OBLIGATIONS

(a) SUPERANNUATION PLAN

Australia

All employees of the consolidated entity who do not elect an alternate fund under the Superannuation Fund Choice Legislation are entitled to benefits from the Iluka Section of the ING Master Trust ("Master Trust") on retirement, disability or death. The consolidated entity only provides superannuation through the Master Trust. The vast majority of members are entitled to accumulation benefits only in the Master Trust. The Master Trust also provides defined lump sum and pension benefits based on years of service and final average salary for a small number of members. The defined contribution section receives fixed contributions from consolidated entity companies and the consolidated entity's legal or constructive obligation is limited to these contributions.

USA

All employees of the US operations are entitled to benefits from the US operations' pension plans on retirement, disability or death. The US operations has two defined benefit plans and one defined contribution plan. One of the defined benefits plans provides a monthly benefit based on a set amount per month per year of service. The other defined benefit plan provides a monthly benefit based on average salary and years of service. The defined contribution plan receives an employee's elected contribution and an employer's match-up to a fixed percentage and the entity's legal or constructive obligation is limited to these contributions.

The following sets out details in respect of the defined benefit section only.

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 36. RETIREMENT BENEFIT OBLIGATIONS (continued)				
(b) BALANCE SHEET AMOUNTS				
The amounts recognised in the balance sheet are determined as follows:				
Defined benefit plan obligation	**21.2**	18.4	**-**	-
Defined benefit plan assets	**(15.4)**	(14.1)	**-**	-
Deficiency of net market value of assets over the present value of employees' accrued benefit payments	**5.8**	4.3	**-**	-
Actuarial gains	**(0.8)**	-	**-**	-
Past service costs	**(4.2)**	(4.9)	**-**	-
Net liability (asset) in the balance sheet*	**0.8**	(0.6)	**-**	-

* A surplus of $0.6 million in respect of the Master Trust plan is included in the 2005 deficiency of $0.8 million. That is, the amount recognised as a liability in the balance sheet totals $1.4 million whilst the surplus amount of $0.6 million has been recognised as an asset in the balance sheet (refer Note 15). The surplus has been included in this note for reconciliation purposes only.

The consolidated entity may use any surplus in the defined benefits section for the purposes of payment of superannuation expenses, a contribution holiday or a reduction in employer contributions. As part of the process of transferring to the Master Trust approximately $0.3 million of the surplus was allocated to the cost of the transfer.

(c) CATEGORIES OF PLAN ASSETS

The major categories of plan assets are as follows:	**2005 $M**	2004 $M	**2005 $M**	2004 $M
Cash	**0.3**	0.3	**-**	-
Equity instruments	**10.8**	9.6	**-**	-
Debt instruments	**2.9**	2.7	**-**	-
Property	**0.2**	0.2	**-**	-
Other assets	**1.2**	1.3	**-**	-
	15.4	14.1	**-**	-

The assets are invested with professional investment managers. The number of shares (if any) of Iluka Resources Limited held by the managers is decided solely by the investment managers.

NOTE 36. RETIREMENT BENEFIT OBLIGATIONS (continued)

(d) RECONCILIATIONS

Reconciliation of the present value of the defined benefit obligation, which is partly funded:

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
		Australia only		
Balance at the beginning of the year - Australia	**6.9**	8.5	**-**	-
Balance at the beginning of the year - USA	**11.5**	-	**-**	-
Current service cost	**1.0**	0.4	**-**	-
Interest cost	**1.1**	0.4	**-**	-
Contributions by plan participants	**0.2**	0.2	**-**	-
Actuarial gains and losses	**0.9**	-	**-**	-
Foreign currency exchange rate changes	**0.8**	-	**-**	-
Benefits paid	**(1.2)**	(2.6)	**-**	-
Balance at the end of the year	**21.2**	6.9	**-**	-

Reconciliation of the fair value of plan assets:

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
		Australia only		
Balance at the beginning of the year - Australia	**7.5**	8.7	**-**	-
Balance at the beginning of the year - USA	**6.6**	-	**-**	-
Expected return on plan assets	**1.0**	0.5	**-**	-
Actuarial gains and losses	**0.2**	0.4	**-**	-
Foreign currency exchange rate changes	**0.3**	-	**-**	-
Contributions by Group companies	**0.8**	0.3	**-**	-
Contributions by plan participants	**0.2**	0.2	**-**	-
Benefits paid	**(1.2)**	(2.6)	**-**	-
Balance at the end of the year	**15.4**	7.5	**-**	-

The present value of the US defined benefit plans' obligations and assets were balanced as at 31 December 2004. However, the reconciliation of the movements in the fair value of the defined benefit obligation and plan assets are not available at this time.

NOTE 36. RETIREMENT BENEFIT OBLIGATIONS (continued)

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
(e) AMOUNTS RECOGNISED IN THE INCOME STATEMENT				
		Australia only		
Current service cost	**1.0**	0.4	**-**	-
Interest cost	**1.1**	0.4	**-**	-
Expected return on plan assets	**(1.0)**	(0.5)	**-**	-
Past service cost	**0.2**	-	**-**	-
Increase in allowance for contributions tax on net liability	**0.8**	-	**-**	-
Total included in employee benefits expense	**2.1**	0.3	**-**	-
Actual return on plan assets	**1.1**	0.9	**-**	-

The present value of the US defined benefit plans' obligations and assets were balanced as at 31 December 2004. However, the reconciliation of the movements in the fair value of the defined benefit obligation and plan assets are not available at this time. Accordingly, the 2004 comparative figures in this section represent the Australian plan only.

	Consolidated		Parent entity	
	2005	2004	**2005**	2004
(f) PRINCIPAL ACTUARIAL ASSUMPTIONS				
The principal actuarial assumptions used (expressed as weighted averages) were as follows:				
Australia*				
Discount rate	**6.0 %**	6.0 %	**-**	-
Expected return on plan assets	**6.5 %**	6.5 %	**-**	-
Future salary increases	**5.0 %**	5.0 %	**-**	-
Expected rate of inflation	**2.0 %**	2.0 %	**-**	-
USA**				
Discount rate	**5.5 %**	5.8 %	**-**	-
Expected return on plan assets	**7.5 %**	7.5 %	**-**	-
Future salary increases	**3.0 %**	3.0 %	**-**	-
Expected rate of inflation	**3.0 %**	3.0 %	**-**	-

*The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories. This resulted in the selection of an 8.0% rate of return gross of tax (and net of expenses) and a 6.5% rate of return net of tax (and expenses).

**The expected rate of return on assets has been based on historical and future expectations of returns for each of the major categories of asset classes as well as the expected and actual allocation of plan assets to these major categories. This resulted in the selection of a 7.5% rate of return net of tax (and expenses).

NOTE 36. RETIREMENT BENEFIT OBLIGATIONS (continued)

(g) EMPLOYER CONTRIBUTIONS

Australia

Employer contributions to the defined benefits section of the plan are based on recommendations by the section's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the aggregate funding method. This funding method seeks to have benefits funded by means of a total contribution which is expected to be a constant percentage of members' salaries over their working lifetimes.

Using the funding method described above and particular actuarial assumptions as to the defined benefits plan's future experience (as detailed below), the actuary recommended in the actuarial review, the payment of employer contributions to the defined benefit plan ranging between 0.0% and 12.4% of salaries dependent on the defined benefit category of membership.

Total employer contributions expected to be paid by consolidated entity companies for the year ending 31 December 2006 are $0.3 million.

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 6.5% pa (net of fees and taxes), a salary increase rate of 5% pa and a discount rate of 4.3% pa for the pension liabilities.

USA

Employer contributions to the defined benefits section of the plan are based on recommendations by the plan's actuary.

The objective of funding is to ensure that the benefit entitlements of members and other beneficiaries are fully funded by the time they become payable. To achieve this objective, the actuary has adopted a method of funding benefits known as the Projected Unit Credit (PUC) method effective as at 1 January 2003. Under the PUC method, unfunded past service is amortised over 10 years and future benefit accruals are funded during participants' working lifetime with cost varying based on the age of participants. Actuarial gains/losses are amortised over 5 years.

Using the funding method described above and particular actuarial assumptions as to the defined benefits section's future experience (as detailed below), the actuary recommended in the actuarial review, the payment of $210,287 representing 1.78% of payroll for the salaried defined benefit plan and nil for the hourly defined benefit plan.

Total employer contributions expected to be paid by consolidated entity companies for the year ending 31 December 2006 are $0.7 million.

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 8.0% pa (net of fees and taxes), a salary increase rate of 3.5% pa together with an age related promotional scale and an inflation rate of 3% pa.

(h) NET FINANCIAL POSITION OF PLAN

In accordance with AAS 25 *Financial Reporting by Superannuation Plans* the plan's net financial position is determined as the difference between the present value of the accrued benefits and the net market value of plan assets.

Australia

This has been determined as at the date of the most recent financial report of the superannuation fund (30 June 2005), and a surplus of $0.6 million was reported. There has been no significant change in the plan's net financial position from 30 June 2005 to balance date.

USA

The net financial position of the USA plans has been determined as at the date of the most recent financial report of the superannuation fund (31 December 2005), and a deficiency of $1.4 million was reported.

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NOTE 36. RETIREMENT BENEFIT OBLIGATIONS (continued)

	Consolidated	
	2005 $M	2004 $M
(i) HISTORIC SUMMARY		
Defined benefit plan obligation	**21.2**	18.4
Plan assets	**(15.4)**	(14.1)
Deficit	**5.8**	4.3
Experience adjustments arising on plan liabilities*	**(0.3)**	-
Experience adjustments arising on plan assets*	**0.3**	0.4

* Australia only

Information in respect of all defined benefit plans is unavailable prior to 2004.

NOTE 37. CONTINGENT LIABILITIES AND ASSETS

Contingent liabilities

Details and estimates of maximum amounts of contingent liabilities are as follows:

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
Performance and financial guarantees (a)	**70.3**	70.7	**30.6**	27.4

(a) The consolidated entity has negotiated a number of bank guarantees in favour of various government authorities and service providers to meet its obligations under exploration and mining tenements.

(b) 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 or over land required for access purposes. It is impossible at this stage to quantify the impact (if any) which these developments may have on the operations of the consolidated entity.

(c) 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 a 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.

(d) In December 2005, the consolidated entity announced that it received notices of dispute from Roche Mining Pty Ltd, a subsidiary of Downer EDI Limited, under the contract for the design and construction of the Iluka Douglas Mineral Sands Project in Victoria. The total amount of the claim is for $105.3 million. The claims were assessed in detail and rejected.

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 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 year ended 31 December 2005, $6.3 million (2004: $4.0 million) coal compensation income was recognised in the income statement.

NOTE 38. COMMITMENTS

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
(a) CAPITAL COMMITMENTS				
Capital expenditure for the acquisition of plant and equipment contracted for and payable not later than one year*	**45.3**	213.3	**3.5**	2.2

* Included in capital commitments for the consolidated entity are commitments in relation to the Murray Basin of $28.1 million (2004: $203.4 million).

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
(b) EXPLORATION COMMITMENTS				
Exploration expenditure commitments payable*				
Within one year	**13.5**	11.5	**5.1**	4.6
Later than one year but not later than five years	**31.3**	28.2	**8.9**	9.1
Later than five years	**42.3**	38.6	**10.0**	11.2
	87.1	78.3	**24.0**	24.9

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

	Consolidated 2005 $M	Consolidated 2004 $M	Parent entity 2005 $M	Parent entity 2004 $M
(c) LEASE COMMITMENTS				
Commitments in relation to operating leases contracted for at the reporting date but not recognised as liabilities, payable:				
Within one year	**12.2**	8.7	**3.1**	2.5
Later than one year but not later than five years	**12.4**	14.0	**5.0**	5.9
Later than five years	**1.0**	1.9	**0.8**	0.1
	25.6	24.6	**8.9**	8.5
(d) OTHER COMMITMENTS				
Commitments for payments in relation to non-cancellable contracts are payable as follows:				
Within one year	**34.6**	34.4	**34.4**	34.4
Later than one year but not later than five years	**128.2**	137.6	**127.4**	137.6
Later than five years	**100.0**	124.2	**100.0**	124.2
	262.8	296.2	**261.8**	296.2

Included in other commitments are amounts of $262.8 million (2004: $296.2 million) in respect of the consolidated entity and $261.8 million (2004: $296.2 million) in respect of the parent entity which relate to long term contracts for the supply of coal, gas, electricity and water used in the production process.

NOTE 39. RELATED PARTY TRANSACTIONS

(a) DIRECTORS AND SPECIFIED EXECUTIVES

Disclosures relating to Directors and Key Management Personnel are set out in Note 34.

(b) CONTROLLED ENTITIES AND CONTROLLING ENTITIES

Details of material controlled entities are set out in Note 40. The ultimate Australian controlling entity and the ultimate parent entity in the wholly-owned group is Iluka Resources Limited.

(c) WHOLLY-OWNED GROUP

The wholly-owned group consists of Iluka Resources Limited and its wholly-owned controlled entities. Ownership interests in these material wholly-owned entities are set out in Note 40.

Transactions between Iluka Resources Limited and other entities in the wholly-owned group during the years ended 31 December 2005 and 2004 consisted of:

(i) loans advanced by Iluka Resources Limited;

(ii) loans repaid to Iluka Resources Limited;

(iii) the payment of interest on the above loans;

(iv) the payment of dividends to Iluka Resources Limited;

(v) forward exchange contracts entered into by Iluka Resources Limited; and

(vi) management services provided by Iluka Resources Limited.

Management fees applicable to the provision of services to Consolidated Rutile Limited cover treasury, taxation, exploration, internal audit, marketing and other corporate and operational services. The fee charged for these services is based on commercial rates.

	Parent entity	
	2005 $M	2004 $M
Aggregate amounts included in the determination of (loss) profit before income tax that resulted from transactions with entities in the wholly-owned group:		
Interest revenue	**63.7**	63.7
Aggregate amounts receivable from/payable to entities in the wholly-owned group at balance date:		
Non-current receivables (loans)	**316.5**	131.7
Other current liabilities - unearned revenue	**78.0**	64.7
OTHER RELATED PARTIES		
Aggregate amounts included in the determination of (loss) profit before income tax that resulted from transactions with other related parties:		
Dividend revenue - controlled entity	**-**	20.3
Management fee revenue - controlled entity	**0.9**	1.5
Subscriptions for new ordinary shares by the controlling entity pursuant to a rights issue by a controlled entity		
Controlled entity	**-**	20.3

NOTE 39. RELATED PARTY TRANSACTIONS (continued)

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 2005 was 6.4% (2004: 6.1%) and the average lending rate for the year was 5.9% (2004: 5.6%). There are no fixed terms for the repayment of principal on loans.

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 consolidated entity's cash flow. Risks covered include property damage, business interruption, public and product liability, fidelity, and Directors and officers' liability.

OWNERSHIP INTERESTS IN RELATED PARTIES

Interests held in the following classes of related parties are set out in the following notes:

(i) controlled entities - Note 40, and

(ii) joint ventures - information relating to joint venture interests - Note 42.

	Parent entity 2005 $M	Parent entity 2004 $M
(d) TRANSACTIONS WITH RELATED PARTIES		
Current tax payable assumed from wholly-owned tax consolidated entities	**19.6**	14.5
Tax losses assumed from wholly-owned tax consolidated entities	**23.3**	18.8
(e) OUTSTANDING BALANCES ARISING FROM SALE/PURCHASE OF GOODS AND SERVICES		
Current receivables (tax funding agreement) Wholly-owned tax consolidated entities	**19.6**	14.5
Current payables (tax funding agreement) Wholly-owned tax consolidated entities	**23.3**	18.8

NOTE 40. INVESTMENTS IN MATERIAL CONTROLLED ENTITIES

NAME OF ENTITY	Country of incorporation	Equity holding 2005 %	Equity holding 2004 %
Iluka Corporation Limited	Australia	**100.0**	100.0
Basin Minerals Limited	Australia	**100.0**	100.0
Iluka Midwest Limited	Australia	**100.0**	100.0
The Nardell Colliery Pty Ltd	Australia	**100.0**	100.0
Consolidated Rutile Limited	Australia	**51.0**	51.0
Iluka Administration Limited	Australia	**100.0**	100.0
Iluka Resources Inc	USA	**100.0**	100.0
Iluka Exploration Pty Limited	Australia	**100.0**	100.0
Ashton Coal Interests Pty Limited	Australia	**93.3**	93.3

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NOTE 41. DEED OF CROSS GUARANTEE

In 1998, Iluka Resources Limited, Westlime (WA) Limited, Ilmenite Pty Limited, Southwest Properties Pty Limited, Western Mineral Sands Pty Ltd and Yoganup Pty Limited 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 ("ASIC").

On 26 November 1999, ASIC approved a 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; Glendell Coal Limited and Lion Properties Pty Limited.

On 30 January 2003, ASIC 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 December 2002 and subsequent financial years.

During 2004, ASIC approved a Deed of Assumption for the removal of Iluka (NSW) Limited, Caroda Pty Limited and Colinas Pty Limited from the Deed of Cross Guarantee. During 2005 these companies were deregistered.

During 2005, ASIC approved a further Deed of Assumption to add Iluka (Eucla Basin) Pty Ltd to the Deed of Cross Guarantee.

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.

Set out below are condensed consolidated income statements for the years ended 31 December 2005 and 31 December 2004 of the Extended Closed Group.

	2005 $M	2004 $M
Condensed income statement		
Revenue from ordinary activities	**737.0**	624.0
Interest and finance costs	**(32.6)**	(33.5)
Exchange losses on foreign currency borrowings	**(12.1)**	(1.2)
Other expenses from ordinary activities	**(547.7)**	(458.7)
Mid West and Murray Basin impairment losses	**(184.1)**	-
Income tax benefit (expense)	**30.9**	(27.2)
(Loss) profit for the year	**(8.6)**	103.4
Summary of movements in consolidated retained profits		
Retained profits at the beginning of the financial year	**204.1**	151.9
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**0.2**	-
(Loss) profit for the year	**(8.6)**	103.4
Dividends provided for or paid	**(51.2)**	(51.2)
Retained profits at the end of the financial year	**144.5**	204.1

NOTE 41. DEED OF CROSS GUARANTEE (continued)

(a) CONDENSED BALANCE SHEET

Set out below are consolidated balance sheets as at 31 December 2005 and 31 December 2004 of the Extended Closed Group.

	2005 $M	2004 $M
Current assets		
Cash and cash equivalents	**6.6**	4.8
Receivables	**136.2**	118.0
Inventories	**153.7**	121.3
Derivative financial instruments	**23.2**	-
Other	**14.8**	44.3
Total current assets	**334.5**	288.4
Non-current assets		
Receivables	**193.8**	183.6
Inventories	**5.3**	6.1
Other financial assets	**149.3**	149.3
Property, plant and equipment	**1,066.7**	1,007.0
Derivative financial instruments	**22.5**	-
Intangible assets	**18.5**	23.4
Other	**-**	48.9
Total non-current assets	**1,456.1**	1,418.3
Total assets	**1,790.6**	1,706.7
Current liabilities		
Payables	**115.5**	90.0
Interest bearing liabilities	**145.9**	48.5
Current tax liabilities	**4.5**	0.4
Provisions	**31.3**	14.8
Other	**-**	38.1
Total current liabilities	**297.2**	191.8
Non-current liabilities		
Interest bearing liabilities	**420.5**	345.0
Deferred tax liabilities	**69.9**	98.4
Provisions	**189.2**	180.0
Other	**1.0**	49.8
Total non-current liabilities	**680.6**	673.2
Total liabilities	**977.8**	865.0
Net assets	**812.8**	841.7
Equity		
Contributed equity	**611.0**	611.0
Reserves	**57.3**	26.6
Retained profits	**144.5**	204.1
Total equity	**812.8**	841.7

NOTE 42. INTERESTS IN JOINT VENTURES

(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 and is entitled to 50% of its output. 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 balance sheet.

	Consolidated 2005 $M	Consolidated 2004 $M
Receivables	**4.1**	4.3
Inventories	**0.1**	0.1
Plant and equipment	**69.1**	62.3
Less: accumulated depreciation	**(37.2)**	(32.8)
	31.9	29.5
Total assets	**36.1**	33.9
Accounts payable	**1.1**	0.4
Provisions	**2.3**	-
Non-current provisions	**8.0**	8.4
Total liabilities	**11.4**	8.8
Net interest in joint venture	**24.7**	25.1

(b) OTHERS

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

	Consolidated		Parent entity	
	2005 $M	2004 $M	**2005 $M**	2004 $M
NOTE 43. RECONCILIATION OF (LOSS) PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES				
(Loss) profit after income tax	**(71.5)**	106.3	**44.7**	76.0
Depreciation and amortisation	**125.4**	122.0	**41.2**	41.3
Previously capitalised exploration expenditure written-off	**1.0**	1.3	**-**	-
Current year exploration expenditure capitalised	**(14.2)**	(8.4)	**-**	-
Interest capitalised	**(13.1)**	(3.6)	**(12.6)**	(2.7)
Net gain on disposal of property, plant and equipment	**(38.5)**	(1.2)	**(13.9)**	(0.5)
Dividends received from controlled entities	**-**	-	**-**	(20.3)
Net exchange differences	**0.7**	7.6	**12.7**	0.8
CRL Enterprise mine transition costs	**(4.1)**	(7.7)	**-**	-
Rehabilitation, restoration and other borrowing cost unwind	**14.7**	12.0	**4.0**	3.9
Non-cash employee benefits expense - share-based payments	**0.7**	0.7	**0.8**	0.5
Amortisation of deferred borrowing costs	**0.5**	0.3	**0.4**	0.3
Florida/Georgia closure costs and impairment losses	**111.1**	-	**-**	-
Mid West and Murray Basin impairment losses	**184.1**	-	**-**	-
Other non-cash operating activities between group entities	**-**	-	**(50.4)**	(78.4)
Change in operating assets and liabilities				
Decrease (increase) in receivables	**(11.4)**	49.2	**(3.3)**	16.9
Decrease (increase) in inventories	**(46.0)**	(44.0)	**(13.5)**	(19.2)
Decrease (increase) in deferred tax assets	**(14.0)**	48.7	**-**	-
Decrease (increase) in other operating assets	**2.0**	16.8	**(1.9)**	0.2
Increase (decrease) in payables	**35.8**	(16.6)	**(5.8)**	6.1
Increase (decrease) in other operating liabilities	**9.9**	2.2	**8.7**	(0.6)
Increase (decrease) in provision for income taxes payables	**13.2**	1.7	**4.6**	-
Increase (decrease) in provision for deferred tax liabilities	**(48.3)**	(37.8)	**1.2**	17.8
Increase (decrease) in other provisions	**(11.0)**	(21.6)	**(3.3)**	(5.3)
Net cash inflow from operating activities	**227.0**	227.9	**13.6**	36.8

NOTE 44. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash financing activities during the year ended 31 December 2005 for the consolidated entity.

During 2004, a controlled entity made a special dividend payment to the parent entity amounting to $20.3 million. This amount was not paid in cash and was funded by an interest bearing loan between the parent entity and the controlled entity. This loan was extinguished via the settlement of $20.4 million owing by the parent entity to the controlled entity as a result of a rights issue share entitlement.

The parent entity charges interest and is charged interest on certain loans with controlled entities. This includes charging a controlled entity interest in advance, which is classified as unearned revenue and included in Current Liabilities – Other. These interest transactions are non-cash in nature.

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for the year ended 31 December 2005

NOTE 45. EARNINGS PER SHARE

	Consolidated 2005 Cents	Consolidated 2004 Cents
Basic earnings per share	**(36.9)**	40.7
Diluted earnings per share	**(36.9)**	40.7

(a) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE

	Consolidated 2005 $M	Consolidated 2004 $M
(Loss) profit for the year	**(71.5)**	106.3
Net profit attributable to minority interests	**(14.4)**	(11.5)
(Loss) profit attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	**(85.9)**	94.8

(b) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR

	Consolidated Number	Consolidated Number
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**232,914,349**	232,824,185
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**232,914,349**	232,824,185

NOTE 46. SHARE-BASED PAYMENTS

(a) PERFORMANCE INCENTIVE PLAN

In March 2005, the Board finalised a new incentive plan – the Performance Incentive Plan (PIP).

The introduction of the PIP followed an extensive review by the Board including obtaining independent advice from Egan & Associates on the design and management of variable remuneration.

The PIP is an at risk component of remuneration which requires the attainment of annually set, pre-determined objectives and targets. These key performance targets, both financial and non-financial, are developed for each participating executive. Performance targets relate to financial, environmental, health and safety performance, business improvement projects and specific targets within the Executive's functional responsibilities.

Only nominated managers and Executives participate in the PIP. The level of participation and award opportunity is determined by an Executive's position within the business and capacity to impact outcomes and results of the Company.

The maximum level of participation in 2005 for members of the executive team was 80% of total fixed remuneration. Upon achievement of pre-determined objectives, 40% maximum may be awarded as cash; the remaining 40% maximum is required to be deferred in the form of share rights. In the case of the Managing Director, a maximum of 62.5% is available as a cash reward and 62.5% is required in the form of share rights.

Objectives, measures and targets are set on an annual basis and are subject to the approval of the Board, and are applicable to both the cash and equity components of the plan.

For the year ended 31 December 2005, Iluka's financial performance (NPAT and ROE) represented 35% of the apportionment, health and safety performance (LTIFR, AIFR, Level 2 environmental incidents) was apportioned at 10-15% and key objectives from the executive's operational or functional responsibilities accounted for the balance.

The Remuneration and Nomination Committee is responsible for assessing whether the KPIs of the Managing Director have been achieved. The Committee assess the achievement of KPIs for other Executives based on the recommendations of the Managing Director. The Committee receives advice from external consultants as required.

The fair value of shares granted under the PIP is determined at grant date. The fair value of the grant is released as an expense through the Income Statement on a straight line basis between the grant date and the vesting date of entitlements.

NOTE 46. SHARE-BASED PAYMENTS (continued)

Shares granted under the PIP to participating employees on 1 January 2005 (2004 - N/A)

	Consolidated		Parent entity	
	2005 Number	2004 Number	**2005 Number**	2004 Number
	94,949	-	**94,949**	-

(b) DIRECTORS', EXECUTIVES' AND EMPLOYEES' SHARE ACQUISITION PLAN

Prior to the introduction of the PIP in 2005, the Company operated Long-term Incentive Plans pursuant to the terms of the Directors', Executives' and Employees' Share Acquisition Plan (Plan). The Plan was approved by shareholders at the Annual General Meeting of the Company in May 1999. From year to year the Board invited the Managing Director, Mr Folwell and other employees determined by the Board to hold an executive position, to participate in the Plan as a means of providing those employees with an incentive to enhance the performance of the Company. The terms of the annual offer included an allocated maximum number of shares (maximum allocation) that will be acquired or retained under the Plan on behalf of the employee if certain performance criteria, as determined by the Board, are satisfied.

The performance criteria for each offer is based on total shareholder return against a pre-determined comparator group of companies over a three year performance period. At the end of the performance period the performance of the Company against the comparator group is assessed and a determination is made as to how much of the maximum allocation the employee will be entitled to have acquired on his or her behalf by the Trustee. Once the maximum allocation is determined, the Trustee purchases the shares and holds them on trust for the employee for a maximum period of ten years. At the end of the ten years or earlier if approved by the Board, the shares are transferred from the Trustee to the Executive.

Since the Plan was approved by shareholders, there have been individual offers in respect to 2001, 2002, 2003 and 2004. Under the rules of the Plan, the entitlement assessment for the 2001 offer was extended for a further year and was assessed on 30 June 2005. The performance period for the 2002 plan concluded and was also assessed on 30 June 2005. Shares awarded in 2005 pursuant to the 2001 and 2002 plans are shown in the table below.

As the 2003 and 2004 plans are still subject to the three year performance periods, there have been no determination of the entitlement to shares. If at the end of the performance period the performance criteria has not been met there will be no entitlement to shares.

Under the 2003 and 2004 plans, relative TSR performance is measured against the Australian Materials Index. For the 2003 plan, nil reward is payable for performance below 40%. For each 1% above 40%, 2% of the total number of shares in the award is payable with 100% being payable at the 65 percentile. For the 2004 plan, nil reward is payable for performance below 50%. For each 1% above the 50%, 2% of the total number of shares in the award is payable with 100% being payable at the 75 percentile.

The fair value of entitlements offered under the Plan was determined via an option pricing model. This fair value is released as an expense through the Income Statement on a straight line basis between the offer date and the assessment date for each respective plan.

Shares awarded under the Directors', Executives' and Employees' Share Acquisition Plan to participating employees on 17 August 2005 (2004: N/A):

	Consolidated		Parent entity	
	2005 Number	2004 Number	**2005 Number**	2004 Number
	45,546	-	**45,546**	-

NOTE 46. SHARE-BASED PAYMENTS (continued)

(c) SHARES PROVIDED ON THE EXERCISE OF REMUNERATION OPTIONS

No shares were issued pursuant to the exercise of remuneration options for the year ended 31 December 2005. The Company did not have any remuneration options on issue during the year ended 31 December 2005 and does not have any remuneration options currently in place.

During the year ended 31 December 2004, 100,000 remuneration options granted in a previous year were exercised at an exercise price of $4.41.

(d) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

Consolidated		Parent entity	
2005 **$M**	2004 $M	**2005** **$M**	2004 $M
0.8	0.5	**0.8**	0.5

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS

(1) RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS AUSTRALIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (AGAAP) TO EQUITY UNDER AUSTRALIAN EQUIVALENTS TO IFRS (AIFRS)

(a) CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

		Consolidated Year ended 31 December 2004		
	Notes	AGAAP $M	AIFRS adjustments $M	AIFRS $M
Revenue		**831.9**	**-**	**831.9**
Other income	(i)	17.7	(4.6)	13.1
Expenses, excluding borrowing costs				
Cost of goods sold	(a)	(634.5)	18.2	(616.3)
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		(28.9)	-	(28.9)
Exploration and evaluation		(6.3)	-	(6.3)
Carrying amount of assets sold	(i)	(4.6)	4.6	-
		(698.9)	18.7	(680.2)
Exchange losses on foreign currency borrowings		-	(8.8)	(8.8)
Total borrowing costs	(a),(f)	(32.7)	(3.0)	(35.7)
Profit before income tax		**118.0**	**2.3**	**120.3**
Income tax (expense) benefit	(b)	(17.0)	3.0	(14.0)
Profit for the year		**101.0**	**5.3**	**106.3**
Profit attributable to minority interest	(b)	(11.7)	0.2	(11.5)
Profit attributable to members of Iluka Resources Limited		**89.3**	**5.5**	**94.8**

(b) PARENT ENTITY INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004

		Parent Entity Year ended 31 December 2004		
	Notes	AGAAP $M	AIFRS adjustments $M	AIFRS $M
Revenue		**343.4**	**-**	**343.4**
Other income	(i)	3.6	(1.5)	2.1
Expenses, excluding borrowing costs				
Cost of goods sold	(a)	(187.1)	5.9	(181.2)
Research and development	(c)	(6.1)	(3.5)	(9.6)
Corporate administration and finance	(e)	(18.2)	(0.6)	(18.8)
Marketing and selling including royalties		(10.5)	-	(10.5)
Carrying amount of assets sold	(i)	(1.5)	1.5	-
		(223.4)	3.3	(220.1)
Exchange losses on foreign currency borrowings		-	(1.2)	(1.2)
Total borrowing costs	(a),(f)	(24.4)	(2.3)	(26.7)
Profit before income tax		**99.2**	**(1.7)**	**97.5**
Income tax (expense) benefit	(b)	(22.9)	1.4	(21.5)
Profit for the year		**76.3**	**(0.3)**	**76.0**

NOTE 47. 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) CONSOLIDATED ENTITY BALANCE SHEET AT THE DATE OF TRANSITION TO AIFRS: 1 JANUARY 2004

	Notes	Consolidated 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	(a),(j)	78.8	(11.5)	67.3
		408.2	(5.3)	402.9
Non-current assets classified as held for sale	(j)	2.2	(2.2)	-
Total current assets		410.4	(7.5)	402.9
Non-current assets				
Receivables	(a),(b),(f),(h),(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	30.6	1,232.3
Deferred tax assets	(b)	22.2	34.2	56.4
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	65.1	1,398.6
Total assets		1,743.9	57.6	1,801.5
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	133.1	153.7
Provisions	(a)	136.8	64.4	201.2
Other		64.6	-	64.6
Total non-current liabilities		500.8	197.5	698.3
Total liabilities		802.8	200.1	1,002.9
Net assets		**941.1**	**(142.5)**	**798.6**
EQUITY				
Contributed equity	(e)	610.4	-	610.4
Reserves	(d),(e),(h)	27.1	(1.3)	25.8
Retained earnings	(l)	249.2	(135.3)	113.9
Parent entity interest		886.7	(136.6)	750.1
Minority interest	(b)	54.4	(5.9)	48.5
Total equity		**941.1**	**(142.5)**	**798.6**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(b) PARENT ENTITY BALANCE SHEET AT THE DATE OF TRANSITION TO AIFRS: 1 JANUARY 2004

	Notes	Parent Entity 1 January 2004 Previous AGAAP $M	Effect of transition to AIFRS $M	AIFRS $M
ASSETS				
Current assets				
Receivables	(j)	72.3	6.1	78.4
Inventories	(a)	33.1	(0.7)	32.4
Other	(a),(j)	54.4	(6.1)	48.3
Total current assets		159.8	(0.7)	159.1
Non-current assets				
Receivables	(a),(b),(f),(h),(j)	50.1	4.4	54.5
Other financial assets	(d)	847.5	-	847.5
Property, plant and equipment	(a),(c),(f),(h),(j)	285.6	11.6	297.2
Deferred tax assets	(b)	0.2	(0.2)	-
Other	(g),(j)	60.7	(4.4)	56.3
Total non-current assets		1,244.1	11.4	1,255.5
Total assets		1,403.9	10.7	1,414.6
LIABILITIES				
Current liabilities				
Payables		28.9	-	28.9
Interest bearing liabilities		98.6	-	98.6
Provisions	(a)	7.5	(1.4)	6.1
Other		108.7	-	108.7
Total current liabilities		243.7	(1.4)	242.3
Non-current liabilities				
Interest bearing liabilities		273.7	-	273.7
Deferred tax liabilities	(b)	5.1	(1.3)	3.8
Provisions	(a)	39.3	24.2	63.5
Other		56.3	-	56.3
Total non-current liabilities		374.4	22.9	397.3
Total liabilities		618.1	21.5	639.6
Net assets		**785.8**	**(10.8)**	**775.0**
EQUITY				
Contributed equity	(e)	610.4	-	610.4
Reserves	(d),(e),(h)	21.9	0.6	22.5
Retained earnings	(i)	153.5	(11.4)	142.1
Total equity		**785.8**	**(10.8)**	**775.0**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(c) CONSOLIDATED ENTITY BALANCE SHEET AT THE DATE OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP: 31 DECEMBER 2004

		Consolidated 31 December 2004		
	Notes	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	(a),(j)	75.5	(14.5)	61.0
		406.2	(7.7)	398.5
Non-current assets classified as held for sale	(j)	2.2	(2.2)	-
Total current assets		408.4	(9.9)	398.5
Non-current assets				
Receivables	(a),(b),(f),(h),(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	23.0	1,340.9
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	20.9	1,443.5
Total assets		1,831.0	11.0	1,842.0
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	93.1	115.4
Provisions	(a),(h)	171.7	39.7	211.4
Other		54.2	-	54.2
Total non-current liabilities		611.2	132.8	744.0
Total liabilities		842.9	146.5	989.4
Net assets		**988.1**	**(135.5)**	**852.6**
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	(129.8)	157.5
Parent entity interest		922.9	(129.7)	793.2
Minority interest	(b)	65.2	(5.8)	59.4
Total equity		**988.1**	**(135.5)**	**852.6**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(d) PARENT ENTITY BALANCE SHEET AT THE DATE OF THE LAST REPORTING PERIOD UNDER PREVIOUS AGAAP: 31 DECEMBER 2004

		Parent Entity 31 December 2004		
	Notes	Previous AGAAP $M	Effect of transition to AIFRS $M	AIFRS $M
ASSETS				
Current assets				
Receivables	(j)	55.3	7.2	62.5
Inventories	(a)	51.0	(2.4)	48.6
Other	(a),(j)	49.5	(7.2)	42.3
Total current assets		155.8	(2.4)	153.4
Non-current assets				
Receivables	(a),(b),(f),(h),(j)	117.2	17.6	134.8
Inventories		3.0	-	3.0
Other financial assets	(d)	847.5	-	847.5
Property, plant and equipment	(a),(c),(f),(h),(j)	281.0	4.7	285.7
Deferred tax assets	(b)	0.2	(0.2)	-
Other	(g),(j)	52.0	(3.1)	48.9
Total non-current assets		1,300.9	19.0	1,319.9
Total assets		1,456.7	16.6	1,473.3
LIABILITIES				
Current liabilities				
Payables		32.8	-	32.8
Interest bearing liabilities		48.5	-	48.5
Provisions	(a),(h)	3.8	1.6	5.4
Other		102.8	-	102.8
Total current liabilities		187.9	1.6	189.5
Non-current liabilities				
Interest bearing liabilities		345.0	-	345.0
Deferred tax liabilities	(b),(h)	9.3	12.3	21.6
Provisions	(a),(h)	54.3	13.2	67.5
Other		48.9	-	48.9
Total non-current liabilities		457.5	25.5	483.0
Total liabilities		645.4	27.1	672.5
Net assets		**811.3**	**(10.5)**	**800.8**
EQUITY				
Contributed equity	(e)	610.8	0.2	611.0
Reserves	(d),(e),(h)	21.9	1.0	22.9
Retained earnings	(i)	178.6	(11.7)	166.9
Total equity		**811.3**	**(10.5)**	**800.8**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(e) 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.

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

	Notes	Consolidated 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)	61.0	(53.1)	7.9
Total current assets		398.5	7.5	406.0
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		1,340.9	-	1,340.9
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		1,443.5	(1.2)	1,442.3
Total assets		1,842.0	6.3	1,848.3
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	(n)	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)	115.4	29.3	144.7
Provisions		211.4	-	211.4
Other	(n)	54.2	(54.2)	-
Total non-current liabilities		744.0	(26.7)	717.3
Total liabilities		989.4	(68.7)	920.7
Net assets		**852.6**	**75.0**	**927.6**
EQUITY				
Contributed equity		611.0	-	611.0
Reserves	(n)	24.7	68.0	92.7
Retained earnings	(o)	157.5	0.2	157.7
Parent entity interest		793.2	68.2	861.4
Minority interest	(n)	59.4	6.8	66.2
Total equity		**852.6**	**75.0**	**927.6**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(ii) The parent entity balance sheet below reflects the adjustments as at 1 January 2005 as a result of applying AASB 132 and AASB 139.

	Notes	Parent Entity 31 December 2004 $M	Effect of applying AASB 132 & 139 $M	1 January 2005 $M
ASSETS				
Current assets				
Receivables		62.5	(0.3)	62.2
Inventories		48.6	-	48.6
Derivative financial instruments	(n)	-	38.1	38.1
Other	(n)	42.3	(38.1)	4.2
Total current assets		153.4	(0.3)	153.1
Non-current assets				
Receivables		134.8	(1.2)	133.6
Inventories		3.0	-	3.0
Other financial assets		847.5	-	847.5
Property, plant and equipment		285.7	-	285.7
Derivative financial instruments	(n)	-	48.9	48.9
Deferred tax assets		-	-	-
Other	(n)	48.9	(48.9)	-
Total non-current assets		1,319.9	(1.2)	1,318.7
Total assets		1,473.3	(1.5)	1,471.8
LIABILITIES				
Current liabilities				
Payables		32.8	-	32.8
Interest bearing liabilities		48.5	-	48.5
Provisions		5.4	-	5.4
Other	(n)	102.8	(38.1)	64.7
Total current liabilities		189.5	(38.1)	151.4
Non-current liabilities				
Interest bearing liabilities	(o)	345.0	(1.8)	343.2
Deferred tax liabilities	(n)	21.6	26.2	47.8
Provisions		67.5	-	67.5
Other	(n)	48.9	(48.9)	-
Total non-current liabilities		483.0	(24.5)	458.5
Total liabilities		672.5	(62.6)	609.9
Net assets		**800.8**	**61.1**	**861.9**
EQUITY				
Contributed equity		611.0	-	611.0
Reserves	(n)	22.9	60.9	83.8
Retained earnings	(o)	166.9	0.2	167.1
Total equity		**800.8**	**61.1**	**861.9**

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(3) RECONCILIATION OF CASH FLOW STATEMENTS

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

(4) NOTES TO THE RECONCILIATIONS

(a) Rehabilitation and mine closure provisions

The consolidated entity has obligations to dismantle, remove, restore and rehabilitate certain items of property, plant 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 asset 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 balance sheet and cost of goods sold in the income statement.

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

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Inventories	(1.2)	(3.6)	(0.7)	(2.4)
Other assets - current	(4.1)	(4.1)	-	-
Receivables - non-current	-	-	-	(0.9)
Property, plant and equipment	31.0	26.0	14.1	10.7
Provisions - current	(2.6)	(13.7)	1.4	(1.6)
Provisions - non-current	(64.4)	(39.7)	(24.2)	(13.2)
Retained earnings	41.3	35.1	9.4	7.4

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

	Consolidated Entity $M	Parent Entity $M
Income statement	31 December 2004	31 December 2004
Cost of goods sold	18.2	5.9
Borrowing costs	(12.1)	(3.8)

The tax effect of the above adjustments is reflected in Note 47(b).

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(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.

Iluka Resources Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 January 2004. Under previous AGAAP, the parent entity recognised current and deferred tax amounts relating to transactions, events and balances of the tax consolidated entities as if those transactions, events and balances were its own.

Under AIFRS, the parent entity only recognises the current tax payable and deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The effect of these changes on the balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Tax assets	-	0.1	-	-
Receivables – non-current	-	-	-	15.0
Deferred tax assets	34.2	(2.7)	(0.2)	(0.2)
Tax liabilities	-	-	-	-
Deferred tax liabilities	(133.1)	(93.1)	1.3	(12.3)
Minority interest	5.9	5.7	-	-
Retained earnings	93.0	90.0	(1.1)	(2.5)

The effect of these changes on the income statement is shown in the table below: (debits)/credits.

	Consolidated Entity $M	Parent Entity $M
Income statement	31 December 2004	31 December 2004
Income tax expense	3.0	(1.4)
Minority interest	0.2	-

The adjustments in Note 47(b) reflect the tax impact of all other adjustments resulting from the adoption of AIFRS.

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(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 states that expenditure on 'research' must be expensed as incurred and only 'development' expenditure can be capitalised.

The effect of these changes on the balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Property, plant and equipment	(2.5)	(6.0)	(2.5)	(6.0)
Retained earnings	2.5	6.0	2.5	6.0

The effect of these changes on the income statement is shown in the table below: (debits)/credits.

	Consolidated Entity $M	Parent Entity $M
Income statement	31 December 2004	31 December 2004
Research and development expenditure	(3.5)	(3.5)

The tax effect of the above adjustments is reflected in Note 47(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.

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 balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Other financial assets	0.3	0.6	-	-
Other reserves	(0.3)	(0.6)	-	-

Effect of these changes on the 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 or parent entity's income statement for the year ended 31 December 2004.

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(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 balance sheet is shown in the table below: debits/(credits).

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

The effect of these changes on the income statement is shown in the table below: (debits)/credits.

	Consolidated Entity $M	Parent Entity $M
Income statement	31 December 2004	31 December 2004
Corporate administration and finance	(0.6)	(0.6)

The tax effect of the above adjustments is reflected in Note 47(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.

The effect of these changes on the balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Receivables – non-current	-	-	-	0.3
Property, plant and equipment	-	0.3	-	-
Retained earnings	-	(0.3)	-	(0.3)

The effect of these changes on the income statement is shown in the table below: (debits)/credits.

	Consolidated Entity $M	Parent Entity $M
Income statement	31 December 2004	31 December 2004
Borrowing costs	0.3	0.3

The tax effect of the above adjustments is reflected in Note 47(b).

Notes to the Financial Statements

for the year ended 31 December 2005

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(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 balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Non-current assets – other	(9.9)	(9.5)	-	-
Intangible assets	9.9	9.5	-	-

Effect of these changes on the income statement:

This adjustment relates purely to classifications on the face of the balance sheet, therefore there has been no effect upon the consolidated entity's or the parent entity's income statement for 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 balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
USA assets and liabilities	-	0.4	-	-
Reserves	2.1	1.7	-	-
Retained earnings	(2.1)	(2.1)	-	-

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

Effect of these changes on the income statement:

This adjustment relates purely to classifications on the face of the balance sheet, therefore there has been no effect upon the consolidated entity's or the parent entity's income statement for the year ended 31 December 2004.

NOTE 47. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS (continued)

(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 income statement is shown in the table below: (debits)/credits.

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

(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 asset position of the consolidated entity or the parent 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 property, plant and equipment.

The effect of these changes on the balance sheet is shown in the table below: debits/(credits).

	Consolidated Entity $M		Parent Entity $M	
Balance sheet	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Other assets - current	(7.4)	(10.4)	(6.1)	(7.2)
Other assets - non-current	(12.5)	(9.8)	(4.4)	(3.1)
Receivables - current	7.4	10.4	6.1	7.2
Receivables- non-current	12.5	9.8	4.4	3.1
Non-current assets classified as held for sale	(2.2)	(2.2)	-	-
Property, plant and equipment	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 47. 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:

		Consolidated Entity $M		Parent Entity $M	
Retained Earnings	Notes	1 January 2004	31 December 2004	1 January 2004	31 December 2004
Rehabilitation and restoration	(a)	41.3	35.1	9.4	7.4
Tax balances	(b)	93.0	90.0	(1.1)	(2.5)
Research and development	(c)	2.5	6.0	2.5	6.0
Equity based remuneration	(e)	0.6	1.1	0.6	1.1
Borrowing costs	(f)	-	(0.3)	-	(0.3)
Foreign currency translation reserve	(h)	(2.1)	(2.1)	-	-
Total Adjustment		135.3	129.8	11.4	11.7

The adjustment to retained earnings previously reported in the 30 June 2005 Half-Year Report has been amended to reflect an adjustment to rehabilitation and mine closure provisions in the US operations and also to correct the deferred tax balances of a controlled entity. The changes resulted in a decrease to retained earnings of $4.7m at 1 January 2004 and $4.9m at 31 December 2004.

(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 de-recognition. 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 to 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.

Directors' Declaration

31 December 2005

In the Directors' opinion:

(a) the financial statements and notes set out on pages 2 to 89 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 31 December 2005 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; 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 41 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 41.

The Directors have been given the declarations by the Chief Executive Officer and the Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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
24 March 2006

Independent Audit Report

to the members of Iluka Resources Limited

AUDIT OPINION

In our opinion, the financial report of Iluka Resources Limited:

- gives 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 Limited Group (defined below) as at 31 December 2005, and of their performance for the year ended on that date, and
- is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the *Corporations Regulations 2001.*

This opinion must be read in conjunction with the rest of our audit report.

SCOPE

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of recognised income and expense, cash flow statement, accompanying notes to the financial statements, and the directors' declaration for both the Iluka Resources Limited (the company) and the Iluka Resources Limited Group (the consolidated entity), for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that 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.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards, in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected. For further explanation of an audit, visit our website http://www.pwc.com/au/financialstatementaudit.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations, changes in equity and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

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

Independent Audit Report

to the members of Iluka Resources Limited

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

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

INDEPENDENCE

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

PricewaterhouseCoopers

PricewaterhouseCoopers

John P O'Connor
Partner

Perth
24 March 2006

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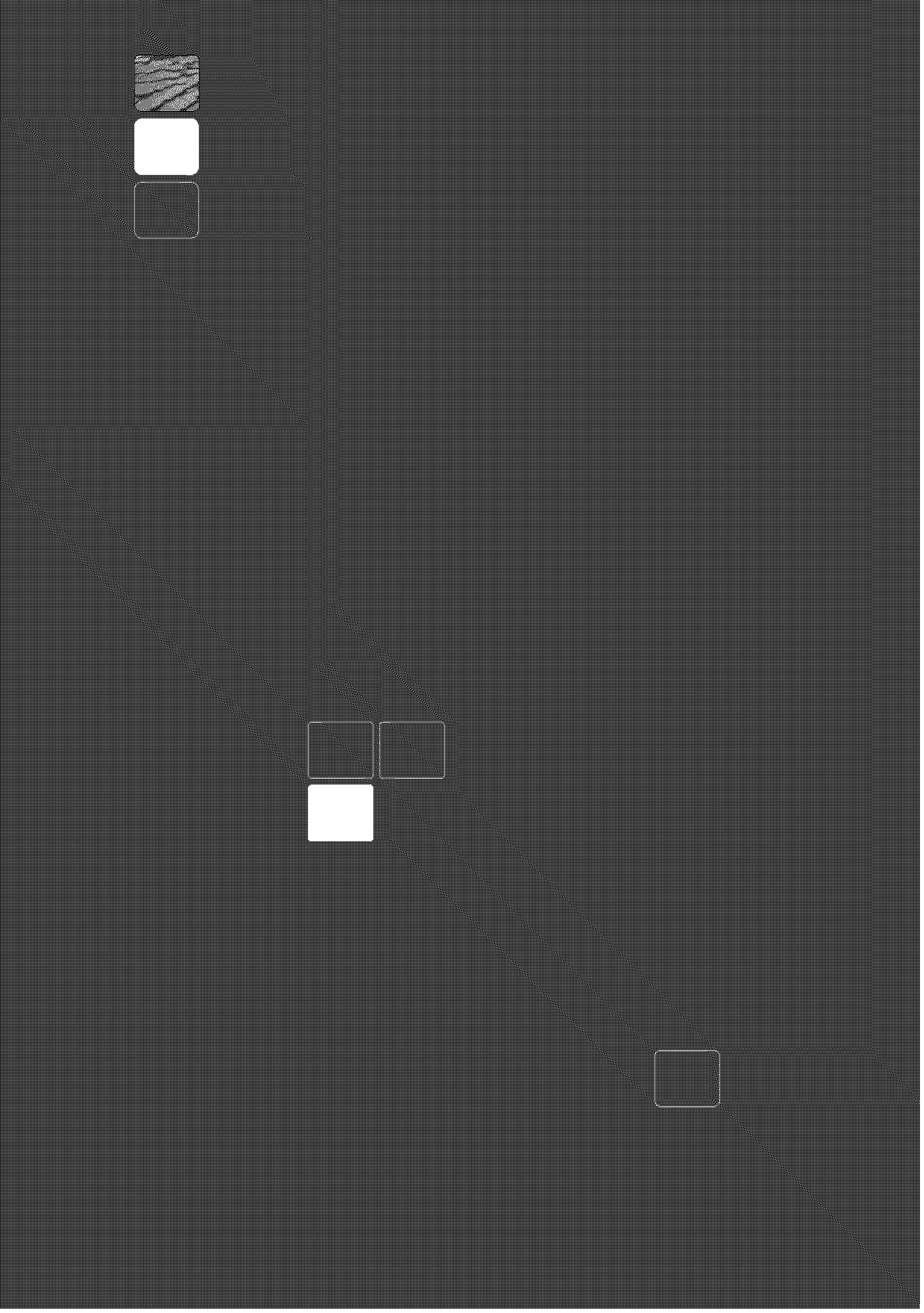

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