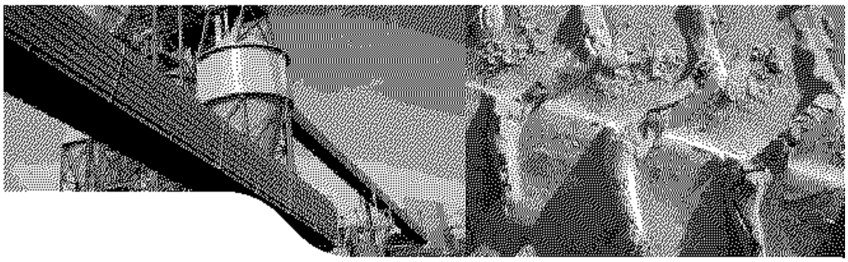

Financial Report 2006

Iluka Resources Limited

ILUKA

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 23 March 2007. 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 2006

		Consolidated		Parent entity	
	Notes	**2006 $M**	2005 $M	**2006 $M**	2005 $M
Revenue	4	**1,024.5**	947.7	**346.0**	327.2
Other income	5	**43.2**	50.6	**-**	14.7
Expenses, excluding borrowing costs, closure costs and impairment charges	6	**(875.1)**	(780.9)	**(268.1)**	(252.3)
Exchange gains (losses) on foreign currency borrowings	6	**-**	-	**10.5**	(11.5)
Interest and finance charges		**(29.0)**	(20.3)	**(28.3)**	(19.4)
Rehabilitation and restoration accretion expense		**(13.4)**	(14.7)	**(2.8)**	(4.0)
Total borrowing costs	6	**(42.4)**	(35.0)	**(31.1)**	(23.4)
Closure costs and impairment charges	6	**(104.5)**	(295.2)	**(60.0)**	-
Profit (loss) before income tax		**45.7**	(112.8)	**(2.7)**	54.7
Income tax (expense) benefit	7	**(14.2)**	41.3	**10.3**	(10.0)
Profit (loss) for the year		**31.5**	(71.5)	**7.6**	44.7
Profit attributable to minority interest		**(10.5)**	(14.4)	**-**	-
Profit (loss) attributable to members of Iluka Resources Limited		**21.0**	(85.9)	**7.6**	44.7

		Cents	Cents
Basic earnings per share	44	**9.1**	(36.9)
Diluted earnings per share	44	**9.1**	(36.9)

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

Balance Sheets

as at 31 December 2006

	Notes	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
ASSETS					
Current assets					
Cash and cash equivalents	8	**17.4**	18.2	**-**	-
Receivables	9	**235.8**	192.6	**56.1**	74.5
Inventories	10	**249.6**	199.9	**77.7**	62.8
Derivative financial instruments	11	**3.5**	25.8	**-**	23.2
Other	12	**17.9**	16.5	**0.5**	3.1
Total current assets		**524.2**	453.0	**134.3**	163.6
Non-current assets					
Receivables	13	**3.8**	5.4	**315.2**	316.8
Inventories	18	**5.5**	5.3	**2.7**	2.4
Other financial assets	14	**1.2**	0.6	**849.2**	847.5
Property, plant and equipment	15	**1,295.7**	1,334.9	**227.9**	274.2
Derivative financial instruments	11	**1.7**	24.2	**-**	22.5
Deferred tax assets	16	**14.9**	22.6	**-**	-
Intangible assets	17	**16.8**	18.5	**-**	-
Other	19	**0.7**	-	**-**	-
Total non-current assets		**1,340.3**	1,411.5	**1,395.0**	1,463.4
Total assets		**1,864.5**	1,864.5	**1,529.3**	1,627.0
LIABILITIES					
Current liabilities					
Payables	20	**133.6**	148.2	**41.9**	35.3
Interest-bearing liabilities	21	**194.0**	145.9	**188.5**	145.9
Current tax liabilities	23	**19.4**	15.3	**8.6**	4.6
Provisions	22	**57.9**	58.1	**18.9**	14.9
Other	24	**-**	-	**-**	78.0
Derivative financial instruments	11	**-**	0.4	**-**	-
Total current liabilities		**404.9**	367.9	**257.9**	278.7
Non-current liabilities					
Interest-bearing liabilities	25	**419.9**	426.5	**419.9**	420.5
Deferred tax liabilities	26	**56.8**	81.1	**6.1**	35.6
Provisions	27	**266.3**	231.6	**75.0**	67.0
Other	28	**0.1**	0.1	**-**	-
Derivative financial instruments	11	**-**	0.2	**-**	-
Total non-current liabilities		**743.1**	739.5	**501.0**	523.1
Total liabilities		**1,148.0**	1,107.4	**758.9**	801.8
Net assets		**716.5**	757.1	**770.4**	825.2
EQUITY					
Contributed equity	29	**611.0**	611.0	**611.0**	611.0
Reserves	30(a)	**39.7**	57.2	**39.8**	53.6
Retained (losses) profits	30(b)	**(3.5)**	20.6	**119.6**	160.6
Parent entity interest		**647.2**	688.8	**770.4**	825.2
Minority interest	31	**69.3**	68.3	**-**	-
Total equity		**716.5**	757.1	**770.4**	825.2

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 2006

		Consolidated		Parent entity	
		2006	2005	**2006**	2005
	Notes	**$M**	$M	**$M**	$M
Exchange differences on translation of foreign entities	30	**(0.6)**	1.0	**-**	-
Cash flow hedges, net of tax	30	**(10.9)**	(43.4)	**(11.4)**	(30.9)
Actuarial losses on defined benefit plans	30	**(0.1)**	(0.6)	**-**	-
Net expense recognised directly in equity		**(11.6)**	(43.0)	**(11.4)**	(30.9)
Profit (loss) for the year		**31.5**	(71.5)	**7.6**	44.7
Total recognised income (expense) for the year		**19.9**	(114.5)	**(3.8)**	13.8
Total recognised income and expense for the year is attributable to:					
Members of Iluka Resources Limited		**9.0**	(127.4)	**(3.8)**	13.8
Minority interest		**10.9**	12.9	**-**	-
		19.9	(114.5)	**(3.8)**	13.8

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 2006

	Notes	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		**1,010.1**	922.0	**312.4**	259.6
Payments to suppliers and employees (inclusive of goods and services tax)		**(855.2)**	(730.0)	**(249.2)**	(232.3)
		154.9	192.0	**63.2**	27.3
Interest received		**1.3**	1.0	**-**	-
Management fees received from controlled entity		**-**	-	**0.9**	0.9
Borrowing costs		**(41.2)**	(31.2)	**(40.4)**	(29.8)
Income taxes paid (net)		**(23.8)**	(6.5)	**(9.9)**	(0.5)
Goods and services tax received		**49.7**	58.5	**17.0**	14.7
Payments for exploration expenditure		**(20.1)**	(21.6)	**-**	-
Coal compensation receipts		**1.5**	4.8	**-**	-
Royalty income		**18.7**	24.9	**-**	-
Receipts from other operating activities		**1.2**	5.1	**0.6**	1.0
Net cash inflow from operating activities	42	**142.2**	227.0	**31.4**	13.6
Cash flows from investing activities					
Payments for property, plant and equipment		**(172.7)**	(341.9)	**(43.5)**	(35.7)
Loans from (to) controlled entities		**-**	-	**13.3**	(102.1)
Proceeds from sale of property, plant and equipment		**41.9**	41.9	**0.2**	21.2
Net cash (outflow) from investing activities		**(130.8)**	(300.0)	**(30.0)**	(116.6)
Cash flows from financing activities					
Proceeds from borrowings		**123.9**	238.5	**123.9**	238.5
Repayment of borrowings		**(74.6)**	(102.8)	**(74.1)**	(84.3)
Dividends paid	32	**(51.2)**	(51.2)	**(51.2)**	(51.2)
Dividends paid to minority interests in controlled entities		**(10.0)**	(6.9)	**-**	-
Net cash (outflow) inflow from financing activities		**(11.9)**	77.6	**(1.4)**	103.0
Net (decrease) increase in cash and cash equivalents		**(0.5)**	4.6	**-**	-
Cash and cash equivalents at the beginning of the year		**18.2**	13.6	**-**	-
Effects of exchange rate changes on cash and cash equivalents		**(0.3)**	-	**-**	-
Cash and cash equivalents at end of year	8	**17.4**	18.2	**-**	-
Financing arrangements	21, 25				
Non-cash financing and investing activities	43				

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

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 IFRSs

Australian Accounting Standards include AIFRSs. Compliance with AIFRSs ensures that the consolidated financial statements and notes of the consolidated entity comply with International Financial Reporting Standards (IFRSs).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and liabilities (including derivative instruments) at fair value through profit or loss 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 2006 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 that control ceases.

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 a 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 41.

(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 profit or loss, 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

(ii) Land development and resale

Land is not sold until the development work is completed, and revenue is recognised where there is a signed unconditional contract of sale.

(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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(h) CASH AND CASH EQUIVALENTS

For cash flow statement presentation purposes, 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 original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial. 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 charge 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 charge 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 derecognition.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The consolidated entity classifies its investments in the following categories: financial assets at fair value through profit or loss, 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.

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 13).

(m) DERIVATIVES

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 30.

(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 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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are 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, machinery and equipment	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
• Other non-mine specific plant and equipment	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 which is 25 years.

(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.

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.

(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% (2005: 6.0%).

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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 in 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 a 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 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 (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 45.

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 the Directors, in accordance with the measurement criteria of Accounting Standard AASB 2 *Share Based Payment.* 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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) 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 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).

(z) 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.

(aa) 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. Those costs that relate to rehabilitation and restoration obligations arising from the production process are recognised in production costs. The estimated costs are discounted using a pre-tax discount rate that reflects the time

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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% (2005: 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 an accretion expense within borrowing costs. This borrowing cost is excluded from the cost of sales of goods.

(ab) 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 economic forecasters which project a long-term decline in the Australian dollar;
- 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.

(ac) 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.

(ad) 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 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 at the acquisition date and this is supported by a detailed plan developed within three months of the acquisition or prior to the completion of the financial report, if earlier.

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.

(ae) 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.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(af) 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 thousand dollars and the nearest dollar.

(ag) NEW ACCOUNTING STANDARDS AND UIG INTERPRETATIONS

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2006 reporting periods. The consolidated entity's assessment of the impact of relevant new standards and interpretations is set out below.

UIG 8 Scope of AASB 2

UIG 8 is applicable to annual reporting periods beginning on or after 1 May 2006. It requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued, to establish whether or not they fall within the scope of AASB 2. The consolidated entity will apply UIG 8 from 1 January 2007, but it is not expected to have any significant impact on the consolidated entity's financial statements.

UIG 9 Reassessment of Embedded Derivatives

UIG 9 is effective for annual reporting periods beginning on or after 1 June 2006. It requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required.

AASB I 10 Interim Financial Reporting and Impairment

AASB I 10 applies to annual reporting periods beginning on or after 1 November 2006. It prohibits impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The consolidated entity will apply AASB I 10 from 1 January 2007 but as no goodwill or investments in equity interests are held it is not expected to have any impact on the consolidated entity's financial statements.

AASB 7 Financial Instruments: Disclosures and AASB 2005 10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]

AASB 7 and AASB 2005 10 are applicable to annual reporting periods beginning on or after 1 January 2007. The consolidated entity has not adopted the standards early. Application of the standards will not affect any of the amounts recognised in the financial statements, but will impact the type of information disclosed in relation to the consolidated entity's financial instruments.

Revised AASB 101 Presentation of Financial Statements

A revised AASB 101 was issued in October 2006 and is applicable to annual reporting periods beginning on or after 1 January 2007. The consolidated entity has not adopted the standard early. Application of the revised standard will not have any impact on the amounts recognised in the consolidated entity's financial statements.

AASB I 11 AASB 2 Group and Treasury Share Transactions and AASB 2007 1 Amendments to Australian Accounting Standards arising from AASB Interpretation 11

AASB I 11 and AASB 2007 1 are effective for annual reporting periods commencing on or after 1 March 2007. AASB I 11 addresses whether certain types of share-based payment transactions should be accounted for as equity settled or as cash settled transactions and specifies the accounting in a subsidiary's financial statements for share-based payment arrangements involving equity instruments of the parent. The consolidated entity will apply AASB I 11 from 1 January 2007, but it is not expected to have any impact on the consolidated entity's financial statements.

AASB 8 Operating Segments and AASB 2007 1 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007 3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a change in the approach to segment reporting, as it requires adoption of a "management approach" to reporting on the financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The consolidated entity has not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different type of information being reported in the segment note of the financial report. However, it will not affect any of the amounts recognised in the financial statements.

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 Note 1(ab). These calculations require the use of estimates, which have been outlined in Note 1(ab).

NOTE 2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

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 adjustments to the current or prior years. This could lead to a reversal of part, or all, of impairment charges recorded in the current or prior years, or the recognition of additional impairment charges in the future.

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 (negative or positive) 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:

- future operating costs for the Murray Basin Douglas mine;
- future capital and operating costs for the Northern Murray Basin development;
- estimates of short and long-term exchange rates between the Australian and US dollars, which are based on independent forecasts by recognised economic forecasters which project a long-term decline in the Australian dollar against the US dollar;
- 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;
- the completion of the pre-feasibility study for the Brink mine development in Virginia, United States;
- the completion of the organisational review of the group's operations in the South West of Western Australia;
- completion of review of Western Australian business; and
- timing of access to reserves and resources.

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.

(ii) Exploration and evaluation expenditure

Expenditure with a value of $6.3 million (2005: $4.3 million) which does not form part of the Cash Generating Units assessed for impairment has been carried forward in accordance with Note 1(y) 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(aa), these provisions represent 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 6.0% (2005: 6.0%).

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. 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 or for obligations arising from the production process, the adjustment is reflected directly in the Income Statement.

(iv) Income tax

The consolidated entity is subject to income taxes in Australia and the United States (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 not previously recognised.

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

Recovery of deferred tax assets

Net deferred tax assets of $11.6 million (2005: $23.4 million) are carried in respect of the US operations, including $3.7 million (2005: $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.

NOTE 3. SEGMENT INFORMATION

(a) PRIMARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS

	WA $M	MB $M	QLD - CRL $M	VA $M	FL/G $M	NSW $M	MAC $M	Consolidated $M
2006								
Sales to external customers	**696.1**	**-**	**125.9**	**111.2**	**28.9**	**41.1**	**-**	**1,003.2**
Other revenue/income	**1.9**	**-**	**0.4**	**0.5**	**29.9**	**12.7**	**19.1**	**64.5**
Total segment revenue/income	**698.0**	**-**	**126.3**	**111.7**	**58.8**	**53.8**	**19.1**	**1,067.7**
Segment result before notable items (and impairment charges)	**131.1**	**-**	**33.1**	**27.9**	**(25.1)**	**13.9**	**18.7**	**199.6**
Closure costs and impairment charges	**(60.0)**	**-**	**-**	**-**	**(39.9)**	**-**	**-**	**(99.9)**
Coal compensation	**-**	**-**	**-**	**-**	**-**	**12.5**	**-**	**12.5**
Profit on sale of Brunswick property	**-**	**-**	**-**	**-**	**29.9**	**-**	**-**	**29.9**
Iron oxide provision	**(25.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**(25.0)**
Write-off of assets	**-**	**(4.6)**	**-**	**-**	**-**	**-**	**-**	**(4.6)**
Segment result	**46.1**	**(4.6)**	**33.1**	**27.9**	**(35.1)**	**26.4**	**18.7**	**112.5**
Rehabilitation and restoration accretion expense								**(13.4)**
Interest and finance costs								**(29.0)**
Corporate administration and finance								**(26.0)**
Interest revenue								**1.6**
Profit before income tax								**45.7**
Income tax expense								**(14.2)**
Net profit for the year								**31.5**
Segment assets	**902.4**	**554.8**	**203.4**	**111.0**	**19.1**	**45.7**	**13.2**	**1,849.6**
Unallocated assets								**14.9**
Total assets								**1,864.5**
Segment liabilities	**336.2**	**13.0**	**40.3**	**15.4**	**41.2**	**11.8**	**-**	**457.9**
Unallocated liabilities								**690.1**
Total liabilities								**1,148.0**
Acquisition of property, plant and equipment and other non-current segment assets	**109.7**	**61.7**	**17.1**	**4.7**	**0.1**	**3.8**	**-**	**197.1**
Depreciation and amortisation expense	**77.3**	**14.6**	**14.8**	**13.2**	**0.9**	**6.1**	**0.4**	**127.3**
Other non-cash expenses	**33.9**	**0.8**	**2.2**	**1.8**	**12.8**	**-**	**-**	**51.5**

WA - Western Australia (including corporate activities and group exploration and evaluation)

MB - Murray Basin (New South Wales/Victoria - Australia)

QLD - CRL, Queensland, Australia

VA - Virginia, United States of America

FL/G - Florida/Georgia, United States of America

NSW - New South Wales, Australia

MAC - Mining Area C Iron Ore (Western Australia)

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 3. SEGMENT INFORMATION (continued)

(a) PRIMARY REPORTING FORMAT - GEOGRAPHICAL SEGMENTS (continued)

	WA $M	MB $M	QLD - CRL $M	VA $M	FL/G $M	NSW $M	MAC $M	Consolidated $M
2005								
Sales to external customers	621.7	-	118.6	88.9	51.4	40.4	-	921.0
Other revenue/income	25.7	-	3.5	-	-	24.6	23.5	77.3
Total segment revenue/income	647.4	-	122.1	88.9	51.4	65.0	23.5	998.3
Segment result before notable items (and impairment charges)	123.7	-	37.8	28.4	(37.7)	15.4	23.1	190.7
Closure costs and impairment charges	(96.1)	(88.0)	-	-	(111.1)	-	-	(295.2)
Net gain on sale of property, plant and equipment	20.9	-	2.4	-	-	14.8	-	38.1
Coal compensation	-	-	-	-	-	6.3	-	6.3
Nardell royalty income	-	-	-	-	-	1.3	-	1.3
Deferred settlement	-	-	-	-	-	2.0	-	2.0
PT Koba Tin	0.8	-	-	-	-	-	-	0.8
Total segment result	49.3	(88.0)	40.2	28.4	(148.8)	39.8	23.1	(56.0)
Rehabilitation and restoration accretion expense								(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
Net loss for the year								(71.5)
Segment assets	942.2	461.3	195.5	119.5	66.9	43.4	13.1	1,841.9
Unallocated assets								22.6
Total assets								1,864.5
Segment liabilities	343.1	13.8	38.6	3.1	16.0	6.1	17.9	438.6
Unallocated liabilities								668.8
Total liabilities								1,107.4
Acquisition of property, plant and equipment and other non-current segment assets	123.2	214.5	14.9	7.6	16.9	6.7	-	383.8
Depreciation and amortisation expense	92.1	-	11.7	9.0	7.8	4.4	0.4	125.4
Other non-cash expenses	7.9	0.9	5.8	2.3	26.2	0.1	-	43.2

NOTE 3. SEGMENT INFORMATION (continued)

(b) SECONDARY REPORTING FORMAT - BUSINESS SEGMENTS

	Segment revenue from sales to external customers		Segment assets		Acquisition of property, plant & equipment & other non-current segment assets	
	2006 $M	2005 $M	**2006 $M**	2005 $M	**2006 $M**	2005 $M
Titanium Minerals and Zircon	**962.1**	880.6	**1,790.7**	1,785.4	**193.3**	377.1
Coal	**41.1**	40.4	**45.7**	43.4	**3.8**	6.7
Iron Ore Royalty	**-**	-	**13.2**	13.1	**-**	-
Unallocated	**-**	-	**14.9**	22.6	**-**	-
	1,003.2	921.0	**1,864.5**	1,864.5	**197.1**	383.8

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:

	Consolidated	
	2006 $M	2005 $M
- North America	**211.2**	224.6
- Europe	**329.5**	274.6
- Asia	**338.5**	312.1
- Australia	**124.0**	109.7
Total sales revenue	**1,003.2**	921.0

NOTES TO AND FORMING PART OF THE SEGMENT INFORMATION

Change in Segment Reporting

The consolidated entity has changed its disclosure of primary and secondary segment reports so as to present the primary segment information based on geographical business units. This change reflects both the varying risks and returns of each business unit and also how internally generated reports are presented to senior management and the Board. Comparative information has been represented to reflect the revised reporting format.

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.

NOTE 4. REVENUE

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
Sales revenue				
Sale of goods	**1,003.2**	921.0	**266.5**	262.2
Other revenue				
Interest	**1.6**	1.0	**78.1**	63.7
Management fee income	**-**	-	**0.9**	0.9
Royalty income	**19.1**	25.1	**-**	-
Rental income	**0.6**	0.6	**0.5**	0.4
	21.3	26.7	**79.5**	65.0
	1,024.5	947.7	**346.0**	327.2

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for the year ended 31 December 2006

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 5. OTHER INCOME				
Net gain on disposal of property, plant and equipment	**30.1**	38.1	**-**	13.9
Deferred settlement income	**-**	2.8	**-**	-
Coal compensation receipts	**12.5**	6.3	**-**	-
Sundry income	**0.6**	0.1	**-**	0.1
Net foreign exchange gains	**-**	3.3	**-**	0.7
	43.2	50.6	**-**	14.7
NOTE 6. EXPENSES				
Cost of sales of goods				
Cost of production*	**667.2**	586.4	**196.6**	173.1
Depreciation	**89.4**	89.6	**27.5**	31.2
Amortisation	**37.9**	35.8	**7.4**	10.0
Cost of sales of goods	**794.5**	711.8	**231.5**	214.3
Corporate administration and finance	**26.0**	22.8	**19.8**	20.3
Marketing and selling including government royalties	**35.5**	31.2	**10.5**	10.9
Research and development	**6.3**	6.8	**6.3**	6.8
Exploration and evaluation	**12.8**	8.3	**-**	-
Expenses, excluding borrowing costs, closure costs and impairment charges	**875.1**	780.9	**268.1**	252.3

* Included in 2006 cost of production is $25.0 million (consolidated entity) and $9.4 million (parent entity) relating to the rehabilitation of iron oxide in tailings dams.

	Consolidated		Parent entity	
Profit (loss) before income tax includes the following specific expenses:				
Florida/Georgia closure costs and impairment charges				
Write-off of assets	**-**	46.9	**-**	-
Provision for diminution in asset values	**27.6**	42.5	**-**	-
Rehabilitation and closure provisions	**12.3**	21.7	**-**	-
Total Florida/Georgia closure costs and impairment charges	**39.9**	111.1	**-**	-
Western Australia and Murray Basin impairment charges				
Mid West - provision for diminution in asset values	**-**	96.1	**-**	-
Murray Basin - provision for diminution in asset values	**-**	88.0	**-**	-
South West - provision for diminution in asset values	**60.0**	-	**60.0**	-
Murray Basin - write-off of assets	**4.6**	-	**-**	-
Total Western Australia and Murray Basin impairment charges	**64.6**	184.1	**60.0**	-
Total closure costs and impairment charges	**104.5**	295.2	**60.0**	-
Borrowing costs				
Interest and finance charges paid/payable	**42.1**	32.9	**41.4**	31.6
Rehabilitation and restoration accretion expense	**13.4**	14.7	**2.8**	4.0
Amortisation of deferred borrowing costs	**0.4**	0.5	**0.4**	0.4
Interest capitalised	**(13.5)**	(13.1)	**(13.5)**	(12.6)
Borrowing costs expensed	**42.4**	35.0	**31.1**	23.4
Operating lease expense	**15.4**	11.0	**3.6**	3.3
Foreign exchange gains and losses				
Net foreign exchange gains included in other income	**-**	3.3	**-**	0.7
Exchange gains (losses) on foreign currency borrowings	**-**	-	**10.5**	(11.5)
Net foreign exchange losses included in corporate costs	**(2.4)**	-	**(0.4)**	-
Net foreign exchange (losses) gains	**(2.4)**	3.3	**10.1**	(10.8)
Defined contribution superannuation expense	**14.5**	11.1	**-**	-
Net realisable value of inventories recognised as expense	**0.5**	4.4	**-**	-
Employee benefits expense	**166.8**	154.2	**62.7**	57.5

NOTE 7. INCOME TAX

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
(a) INCOME TAX EXPENSE (BENEFIT)				
Current tax	**35.2**	45.5	**19.2**	13.3
Deferred tax	**(16.2)**	(77.5)	**(32.1)**	(2.3)
(Over) under provided in prior years	**(4.8)**	(9.3)	**2.6**	(1.0)
	14.2	(41.3)	**(10.3)**	10.0
Deferred income tax (revenue) expense included in income tax expense comprises:				
Decrease (increase) in deferred tax assets (Note 16)	**4.4**	(24.7)	**-**	-
(Decrease) increase in deferred tax liabilities (Note 26)	**(20.6)**	(52.8)	**(32.1)**	(2.3)
	(16.2)	(77.5)	**(32.1)**	(2.3)
(b) NUMERICAL RECONCILIATION OF INCOME TAX EXPENSE (BENEFIT) TO PRIMA FACIE TAX PAYABLE				
Profit (loss) before income tax expense	**45.7**	(112.8)	**(2.7)**	54.7
Tax at the Australian tax rate of 30% (2005: 30%)	**13.7**	(33.8)	**(0.8)**	16.4
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
Unfranked dividends received	**0.9**	1.7	**-**	-
Tax base of foreign exchange hedge contracts	**(0.2)**	(1.9)	**(3.0)**	-
Net foreign exchange losses	**-**	-	**-**	2.5
Capital gains shielded by capital losses	**-**	(6.3)	**-**	(3.7)
Research and development	**(6.1)**	(4.5)	**(6.0)**	(4.5)
Other non-deductible items	**0.3**	0.1	**-**	0.3
Benefit of tax losses not recognised	**8.5**	-	**(3.1)**	-
	17.1	(44.7)	**(12.9)**	11.0
Difference in overseas tax rates	**1.9**	12.7	**-**	-
(Over) under provision in prior years*	**(4.8)**	(9.3)	**2.6**	(1.0)
Total income tax expense (benefit)	**14.2**	(41.3)	**(10.3)**	10.0

* Included in the net over provision of income tax in prior years is an amount of $3.7 million (2005: $7.4 million) for the consolidated entity relating to additional research and development deductions identified subsequent to the 31 December 2005 and 31 December 2004 year-ends.

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
(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 16 and 26)	**(1.9)**	(16.6)	**(5.5)**	(13.2)

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 7. INCOME TAX (continued)

(d) 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.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M

NOTE 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2006 $M	2005 $M	**2006 $M**	2005 $M
Cash at bank and in hand	**15.1**	16.3	**-**	-
Deposits at call	**2.3**	1.9	**-**	-
	17.4	18.2	**-**	-

DEPOSITS AT CALL

The deposits are bearing floating interest rates between 2.8% and 7.0% (2005: 1.2% and 7.1%) on US dollar and Australian dollar denominated deposits.

NOTE 9. CURRENT ASSETS - RECEIVABLES

	2006 $M	2005 $M	**2006 $M**	2005 $M
Trade receivables	**202.1**	160.9	**45.9**	61.3
Other debtors	**21.2**	17.9	**3.3**	4.5
Prepayments	**7.9**	10.0	**5.2**	7.6
Goods and services tax (GST)	**4.6**	3.8	**1.7**	1.1
	235.8	192.6	**56.1**	74.5

(a) DOUBTFUL RECEIVABLES

The consolidated entity recognised a gain during the year ended 31 December 2005 of $0.2 million in respect of the write-back of provision for doubtful receivables no longer required. No provision movement occurred during 2006.

(b) 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 13).

Notes to the Financial Statements

for the year ended 31 December 2006

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M

NOTE 10. CURRENT ASSETS - INVENTORIES

	2006 $M	2005 $M	**2006 $M**	2005 $M
Consumable stores				
- at cost	**29.2**	25.2	**9.8**	5.5
Work in progress				
- at cost	**133.9**	84.8	**41.3**	32.9
- at net realisable value	**1.8**	11.9	**1.8**	10.4
	135.7	96.7	**43.1**	43.3
Finished goods				
- at cost	**82.6**	65.0	**23.8**	8.2
- at net realisable value	**2.1**	13.0	**1.0**	5.8
	84.7	78.0	**24.8**	14.0
	249.6	199.9	**77.7**	62.8

(a) INVENTORY EXPENSE

Write-downs of inventories to net realisable value recognised as an expense during the year ended 31 December 2006 amounted to $0.5 million (2005: $4.4 million).

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS

Balance sheet summary

Foreign exchange derivatives are reflected in the Balance Sheet as follows:

	2006 $M	2005 $M	**2006 $M**	2005 $M
Current assets				
Mark to market gain on foreign exchange derivatives	**3.5**	25.8	**-**	23.2
Non-current assets				
Non-current assets - mark to market gain on foreign exchange derivatives	**1.7**	24.2	**-**	22.5
Current liabilities				
Forward foreign exchange contracts - cash flow hedges	**-**	0.4	**-**	-
Non-current liabilities				
Mark to market gains on foreign exchange derivatives	**-**	0.2	**-**	-

(a) FOREIGN EXCHANGE DERIVATIVES

Consolidated entity

The group net asset position of foreign exchange derivatives at 31 December 2006 was $5.2 million (2005: $49.4 million). During the year ended 31 December 2006, the consolidated entity transferred a total gain of $28.9 million (2005: $46.9 million) to the Income Statement from equity. This gain predominantly represented the gains attributable to delivered contracts and those relating to contracts terminated early which were due for delivery in the year.

Parent entity

The net asset position at 31 December 2005 was $45.7 million. During the year ended 31 December 2006, a total of $24.6 million (2005: $35.5 million) was transferred to the Income Statement from equity.

On 25 August 2006, the parent entity closed-out its hedge book. This generated a profit of $37.7 million of which $10.3 million was recognised in 2006 (part of $28.9 million mentioned above). The balance of $27.4 million has been deferred in reserves and will be recognised during 2007 as revenue in line with the delivery dates of the original contracts.

NOTE 11. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

(b) FINANCIAL RISK MANAGEMENT

The consolidated entity's activities expose it to a variety of financial risks including foreign exchange 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.

Risk management is carried out under the following policies approved by the Board of Directors.

(i) 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 entity manages this by borrowing in US dollars to provide a hedge for the net US dollar denominated investment in overseas operations or through derivative instruments.

The consolidated entity operates internationally and is exposed to foreign exchange risk arising predominantly from currency exposures to the US dollar. The parent entity does not hedge this exposure, however a controlled entity, Consolidated Rutile Limited (CRL), may hedge its exposure through the use of derivative instruments in accordance with policies approved by the Board of CRL.

(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. The consolidated entity (excluding CRL) maintains an insurance policy to assist in managing the credit risk of its customers. 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 or credit facilities to meet the operating requirements of the business. This is managed through committed undrawn facilities and prudent cash flow management.

(iv) Cash flow and fair value interest rate risk

Interest rate risk arises from the consolidated entity's borrowing program. When managing interest rate risk the consolidated entity seeks to minimise its overall cost of funds with a preference for variable interest rate exposures.

Borrowings issued at variable rates expose the consolidated entity to cash flow interest rate risk while borrowings issued at fixed rates expose the consolidated entity to fair value interest rate risk.

(c) INTEREST RATE RISK EXPOSURE

Refer to Note 21 and Note 25 for the consolidated entity's exposure to interest rate risk.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 12. CURRENT ASSETS - OTHER				
Deferred overburden removal	**17.9**	16.5	**0.5**	3.1

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 13. NON-CURRENT ASSETS - RECEIVABLES				
Loans to controlled entities (a)	**-**	-	**315.0**	316.5
Prepayments	**0.2**	2.0	**0.2**	0.3
Other debtors (b)	**3.6**	3.4	**-**	-
	3.8	5.4	**315.2**	316.8

(a) LOANS TO CONTROLLED ENTITIES

Further information relating to loans to controlled entities is set out in Note 38.

(b) FAIR VALUES

The fair values of the non-current receivables are based on cash flows discounted using a current lending rate of 7.0% (2005: 7.0%).

(c) INTEREST RATE RISK EXPOSURE

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

(d) 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.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 14. NON-CURRENT ASSETS - OTHER FINANCIAL ASSETS				
Retirement benefits surplus (Note 35)	**1.2**	0.6	**-**	-
Shares in controlled entities (Note 39)	**-**	-	**849.2**	847.5
	1.2	0.6	**849.2**	847.5

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	Land & Buildings $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Exploration & Evaluation $M	Project Development Expenditure $M	Total $M
At 1 January 2005						
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 charges	(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	90.7	1,270.6	687.1	58.9	325.3	2,432.6
Accumulated depreciation*	(20.7)	(674.7)	(350.3)	-	(52.0)	(1,097.7)
Net written down value	70.0	595.9	336.8	58.9	273.3	1,334.9
Year ended 31 December 2006						
Opening written down value	**70.0**	**595.9**	**336.8**	**58.9**	**273.3**	**1,334.9**
Additions	**6.5**	**77.8**	**32.8**	**7.0**	**73.0**	**197.1**
Disposals	**(6.6)**	**(0.5)**	**-**	**-**	**-**	**(7.1)**
Write-off of exploration expenditure	**-**	**-**	**-**	**(1.7)**	**-**	**(1.7)**
Write-offs and impairment charges	**(8.0)**	**(73.1)**	**(11.1)**	**-**	**-**	**(92.2)**
Depreciation/amortisation expense	**(1.0)**	**(81.5)**	**(43.1)**	**-**	**(0.1)**	**(125.7)**
Foreign currency exchange differences	**(0.2)**	**(7.7)**	**(0.4)**	**-**	**-**	**(8.3)**
Transfers/reclassifications	**6.5**	**152.0**	**3.8**	**(4.5)**	**(159.1)**	**(1.3)**
Closing written down value	**67.2**	**662.9**	**318.8**	**59.7**	**187.1**	**1,295.7**
At 31 December 2006						
Cost	**91.8**	**1,419.9**	**710.3**	**59.7**	**238.4**	**2,520.1**
Accumulated depreciation*	**(24.6)**	**(757.0)**	**(391.5)**	**-**	**(51.3)**	**(1,224.4)**
Net written down value	**67.2**	**662.9**	**318.8**	**59.7**	**187.1**	**1,295.7**

* Includes impairment charges

NOTE 15. 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 2005				
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
Year ended 31 December 2006				
Opening written down value	**33.2**	**213.6**	**27.4**	**274.2**
Additions	**6.8**	**20.8**	**21.6**	**49.2**
Disposals	**(0.3)**	**(0.3)**	**-**	**(0.6)**
Depreciation/amortisation expense	**(0.2)**	**(23.0)**	**(11.7)**	**(34.9)**
Impairment charges	**(8.0)**	**(45.5)**	**(6.5)**	**(60.0)**
Closing written down value	**31.5**	**165.6**	**30.8**	**227.9**
At 31 December 2006				
Cost	**44.7**	**449.9**	**114.3**	**608.9**
Accumulated depreciation*	**(13.2)**	**(284.3)**	**(83.5)**	**(381.0)**
Net written down value	**31.5**	**165.6**	**30.8**	**227.9**

* Includes impairment charges

Mine reserves and development

Included in mine reserves and development are amounts totalling $164.7 million for the consolidated entity and $21.8 million for the parent entity (2005: $192.9 million and $5.7 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 $39.8 million for the consolidated entity and $17.2 million for the parent entity (2005: $42.8 million and $14.7 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 for 2005 were amounts of $273.3 million relating to expenditure on Murray Basin. These amounts were not depreciated as the project had not been commissioned.

During 2006, $61.7 million was incurred in project development expenditure on Murray Basin. Part of this expenditure relates to the Douglas Wet Concentrator Plant which was commissioned on 5 April 2006, the asset cost was transferred to plant and equipment and has been depreciated from that date. The Hamilton Mineral Separation Plant, which represents the balance of the project development expenditure, was not commissioned at year-end and depreciation will commence in 2007.

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 15. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT (continued)

Non-current assets pledged as security

Refer to Note 25 for information on non-current assets pledged as security by the parent entity or its controlled entities.

Write-offs and impairment charges

As at 31 December 2006 and 31 December 2005, a number of impairment charges were recognised to write-down assets to their recoverable amount, being fair value less costs to sell. As stated in Note 1(ab), 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 key assumptions are included in Note 2.

2006 Cash Generating Units	Land & Buildings $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Exploration & Evaluation $M	Project Development $M	Total Write-offs & Impairment Charges $M
South West	**8.0**	**45.5**	**6.5**	**-**	**-**	**60.0**
Murray Basin	**-**	**-**	**4.6**	**-**	**-**	**4.6**
Florida/Georgia	**-**	**27.6**	**-**	**-**	**-**	**27.6**
Total	**8.0**	**73.1**	**11.1**	**-**	**-**	**92.2**

The 2005 impairment write-downs have been allocated across property, plant and equipment balances on a pro-rata basis according relative book values, as follows:

2005 Cash Generating Units	Land & Buildings $M	Plant, Machinery & Equipment $M	Mine Reserves & Development $M	Exploration & Evaluation $M	Project Development $M	Total Write-offs & Impairment Charges $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 charge in respect of Florida/Georgia follows the staged closure of these operations. The charges recognised in respect of the South West, Mid West and Murray Basin (2005) relate to reductions in carrying value as a result of impairment testing at year-end. The factors contributing to the impairment write-downs for these CGUs are provided below:

South West (2006)

- higher operating costs; and
- land access issues.

Mid West (2005)

- higher operating costs;
- 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 (2005)

- 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.

NOTE 16. NON-CURRENT ASSETS - DEFERRED TAX ASSETS

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Employee benefits	**8.0**	7.3	**3.6**	3.5
Rehabilitation provisions	**73.9**	73.6	**21.8**	22.8
Other provisions	**6.2**	1.0	**0.7**	0.4
Foreign exchange	**-**	(0.4)	**-**	-
Borrowing expenses	**-**	0.1	**-**	0.1
Accruals	**1.9**	1.4	**1.1**	1.1
Tax revenue losses*	**4.2**	12.2	**-**	-
Restructuring provision	**-**	4.2	**-**	-
Other	**1.3**	1.3	**-**	(0.9)
	95.5	100.7	**27.2**	27.0
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 26)	**(80.6)**	(78.1)	**(27.2)**	(27.0)
Net deferred tax assets	**14.9**	22.6	**-**	-
Movements:				
Opening balance at 1 January	**22.6**	6.3	**-**	-
Credited (charged) to the income statement (Note 7)	**(4.4)**	24.7	**-**	-
Recoupment of carried forward losses	**-**	(24.1)	**-**	-
Over (under) provision in prior years	**0.3**	15.5	**-**	-
Credited (charged) directly to equity (Notes 7 and 30)	**(3.6)**	0.2	**-**	-
Closing balance at 31 December	**14.9**	22.6	**-**	-

* The balance is attributable to carried forward US tax losses which are probable of recoupment in ensuing years.

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 17. NON-CURRENT ASSETS - INTANGIBLE ASSETS

CONSOLIDATED	Patents, trademarks & licences $M	Royalty entitlement asset $M	Total $M
At 1 January 2005			
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
Year ended 31 December 2006			
Opening written down value	**9.4**	**9.1**	**18.5**
Amortisation charge	**(1.3)**	**(0.4)**	**(1.7)**
Closing written down value	**8.1**	**8.7**	**16.8**
At 31 December 2006			
Cost	**17.2**	**10.0**	**27.2**
Accumulated amortisation**	**(9.1)**	**(1.3)**	**(10.4)**
Net written down value	**8.1**	**8.7**	**16.8**

* Impairment charge of $Nil (2005: $2.9 million) is included in closure costs and impairment charges in the Income Statement.

** Includes impairment charges.

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
NOTE 18. NON-CURRENT ASSETS - INVENTORIES				
Consumable stores				
- at cost	**5.5**	5.3	**2.7**	2.4
NOTE 19. NON-CURRENT ASSETS - OTHER				
Deferred overburden	**0.7**	-	-	-
NOTE 20. CURRENT LIABILITIES - PAYABLES				
Trade payables	**56.9**	75.0	**11.2**	9.6
Other creditors and accruals	**64.0**	60.8	**25.4**	20.1
Employee benefits	**12.7**	12.4	**5.3**	5.6
	133.6	148.2	**41.9**	35.3

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 21. CURRENT LIABILITIES - INTEREST-BEARING LIABILITIES				
Secured				
Bank loans (d)	**5.5**	-	-	-
Unsecured				
Bank loans (a) and (c)	**119.9**	41.5	**119.9**	41.5
Receivables acquisition facility (e)	**68.6**	43.0	**68.6**	43.0
Senior notes (b)	-	61.4	-	61.4
Total unsecured current interest-bearing liabilities	**188.5**	145.9	**188.5**	145.9
Total current interest-bearing liabilities	**194.0**	145.9	**188.5**	145.9

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 25.

(a) TRADE FINANCE FACILITY

During the year, the limit of the Trade Finance Facility was increased by A$25.0 million to A$85.0 million and the maturity date extended to December 2007. As at 31 December 2006, US$17.0 million and A$41.5 million was outstanding under this facility at interest rates of 5.6% and 6.6% respectively (2005: US$Nil and A$41.5 million at 6.0%).

(b) SENIOR NOTES - 1996 SERIES

During December 2006, the second tranche of the Senior Notes - 1996 Series totalling US$45.0 million (A$57.3 million) was repaid.

(c) LOAN AGREEMENT

During December 2006, a one year US$45.0 million Loan Agreement was entered into. As at 31 December 2006, US$45.0 million at an interest rate of 5.6% was outstanding under this agreement (2005: US$Nil).

(d) WORKING CAPITAL FACILITY - CRL

During the year, the A$10.0 million Working Capital Facility was extended for a further twelve months to July 2007. As at 31 December 2006, A$5.5 million at an interest rate of 6.6% was outstanding under this facility (2005: A$Nil).

(e) RECEIVABLES ACQUISITION AGREEMENT

During the year, the Receivables Acquisition Agreement was extended to March 2008. As at 31 December 2006, US$54.3 million was outstanding under this agreement at an interest rate of 5.6% (2005: US$22.8 million at 4.6% and A$11.8 million at 6.0%).

(f) INTEREST RATE EXPOSURES

Details of the consolidated entity's exposure to interest rate changes on interest-bearing liabilities are set out in Note 25.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 22. CURRENT LIABILITIES - PROVISIONS				
Employee benefits	**10.8**	10.6	**4.5**	3.5
Rehabilitation and mine closure	**45.7**	45.0	**13.5**	11.4
Other provisions	**1.4**	2.5	**0.9**	-
	57.9	58.1	**18.9**	14.9

Movements in each class of provision during the current financial year, other than employee benefits, are set out in Note 27.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 23. CURRENT LIABILITIES - CURRENT TAX LIABILITIES				
Income tax	**19.4**	15.3	**8.6**	4.6
NOTE 24. CURRENT LIABILITIES - OTHER				
Unearned interest - controlled entity	**-**	-	**-**	78.0
NOTE 25. NON-CURRENT LIABILITIES - INTEREST-BEARING LIABILITIES				
Secured				
Bank loans (d) and (f)	**-**	6.0	**-**	-
Unsecured				
Bank loans (a) and (e)	**203.0**	198.0	**203.0**	198.0
Senior notes (b) and (c)	**218.2**	224.2	**218.2**	224.2
Deferred borrowing costs	**(1.3)**	(1.7)	**(1.3)**	(1.7)
Total unsecured non-current interest-bearing liabilities	**419.9**	420.5	**419.9**	420.5
Total non-current interest-bearing liabilities	**419.9**	426.5	**419.9**	420.5

(a) LOAN NOTE SUBSCRIPTION AGREEMENT

The Loan Note Subscription Agreement has a facility limit of US$130.0 million and maturity date of December 2009. As at 31 December 2006, A$102.0 million at an average interest rate of 7.0% was outstanding under this agreement (2005: A$116.5 million at 6.1%).

(b) SENIOR NOTES - 1996 SERIES

The remaining tranches mature in: December 2008 US$30.0 million and December 2011 US$30.0 million. As at 31 December 2006, US$60.0 million at an average interest rate of 7.6% was outstanding on the Senior Notes (2005: US$105.0 million at 7.5%).

(c) SENIOR NOTES - 2003 SERIES

The Senior Notes - 2003 Series mature in three tranches being June 2010 US$40.0 million, June 2013 US$40.0 million and June 2015 US$20.0 million. As at 31 December 2006, US$100.0 million at an average interest rate of 5.1% was outstanding on the Senior Notes (2005: US$100.0 million at 5.1%).

The translation exposure on these notes has been eliminated through a series of cross currency swap transactions. On maturity of the notes the principal repayments are fixed at an exchange rate of AUD/USD 0.7025.

The swaps also convert the fixed USD interest payments on the notes to an AUD variable interest rate exposure. As at 31 December 2006, the cross currency swaps bear an average interest rate of 6.9% (2005: 6.2%).

(d) SYNDICATED REVOLVING LOAN FACILITY - CRL

During the year the limit of the Syndicated Revolving Loan Facility was reduced by A$20.0 million to A$15.0 million. The maturity date of the facility is July 2008. As at 31 December 2006, this facility was undrawn (2005: A$6.0 million at 6.1%).

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

Bilateral Loan Note Subscription Agreements with two separate financiers for US$40.0 million each, mature in March 2010. As at 31 December 2006, A$101.0 million at an average interest rate of 6.8% was outstanding under these agreements (2005: A$81.5 million at 6.1%).

NOTE 25. NON-CURRENT LIABILITIES - INTEREST-BEARING LIABILITIES (continued)

	Notes	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
(f) ASSETS PLEDGED AS SECURITY					
The carrying amounts of assets pledged as security are:					
Cash and cash equivalents	8	**1.7**	1.6	**-**	-
Current receivables	9	**29.1**	23.8	**-**	-
Inventories	10	**18.8**	21.6	**-**	-
Property, plant and equipment	15	**110.8**	105.3	**-**	-
Total assets pledged as security		**160.4**	152.3	**-**	-
(g) FINANCING ARRANGEMENTS					
Unrestricted access was available at balance date to the following lines of credit:					
Credit arrangements					
Total facilities					
US private placement notes - 1996 series		**75.9**	143.3	**75.9**	143.3
US private placement notes - 2003 series		**142.3**	142.3	**142.3**	142.3
Loan note facility		**164.4**	177.4	**164.4**	177.4
Trade finance facility		**85.0**	60.0	**85.0**	60.0
Bilateral loan note facility		**101.2**	109.2	**101.2**	109.2
Receivables acquisition facility		**75.9**	81.9	**75.9**	81.9
Short term loan		**56.9**	-	**56.9**	-
Syndicated revolving loan credit facility		**15.0**	35.0	**-**	-
Secured working capital facility		**10.0**	10.0	**-**	-
Secured bank overdraft facility		**0.5**	0.5	**-**	-
		727.1	759.6	**701.6**	714.1
Used at balance date					
US private placement notes - 1996 series		**75.9**	143.3	**75.9**	143.3
US private placement notes - 2003 series		**142.3**	142.3	**142.3**	142.3
Loan note facility		**102.0**	116.5	**102.0**	116.5
Trade finance facility		**63.0**	41.5	**63.0**	41.5
Bilateral loan note facility		**101.0**	81.5	**101.0**	81.5
Receivables acquisition facility		**68.6**	43.0	**68.6**	43.0
Short term loan		**56.9**	-	**56.9**	-
Syndicated revolving loan credit facility		**-**	6.0	**-**	-
Secured working capital facility		**5.5**	-	**-**	-
		615.2	574.1	**609.7**	568.1
Unused at balance date					
Loan note facility		**62.4**	60.9	**62.4**	60.9
Trade finance facility		**22.0**	18.5	**22.0**	18.5
Bilateral loan note facility		**0.2**	27.7	**0.2**	27.7
Receivables acquisition facility		**7.3**	38.9	**7.3**	38.9
Syndicated revolving loan credit facility		**15.0**	29.0	**-**	-
Secured working capital facility		**4.5**	10.0	**-**	-
Secured bank overdraft facility		**0.5**	0.5	**-**	-
		111.9	185.5	**91.9**	146.0

NOTE 25. 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				
	Floating interest rate	1 year or less	1 to 5 years	More than 5 years	Non-interest bearing	Total
2006	$M	$M	$M	$M	$M	$M
Payables (Note 20)	**-**	**-**	**-**	**-**	**133.6**	**133.6**
Interest-bearing liabilities* (Notes 21 and 25)	**397.0**	**-**	**132.8**	**85.4**	**-**	**615.2**
Interest rate swaps**	**142.3**	**-**	**(56.9)**	**(85.4)**	**-**	**-**
	539.3	**-**	**75.9**	**-**	**133.6**	**748.8**
Weighted average interest rate	**6.5%**	**-**	**7.6%**	**-**		
2005						
Payables (Note 20)	-	-	-	-	148.2	148.2
Interest-bearing liabilities* (Notes 21 and 25)	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%		

* Excludes deferred borrowing costs

** Notional principal amounts

NOTE 26. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
The balance comprises temporary differences attributable to:				
Amounts recognised in profit or loss				
Depreciation/amortisation	**106.3**	99.9	**26.2**	44.3
Mining capital expenditure	**11.3**	39.7	**0.8**	2.2
Foreign currency exchange	**1.9**	2.3	**3.2**	2.3
Other	**1.0**	1.0	**-**	-
Receivables	**5.3**	1.7	**0.1**	0.1
Inventory	**10.0**	-	**3.0**	-
	135.8	144.6	**33.3**	48.9
Amounts recognised directly in equity				
Cash flow hedges	**1.6**	14.6	**-**	13.7
	137.4	159.2	**33.3**	62.6
Set-off of deferred tax liabilities pursuant to set-off provisions (Note 16)	**(80.6)**	(78.1)	**(27.2)**	(27.0)
Net deferred tax liabilities	**56.8**	81.1	**6.1**	35.6

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 26. NON-CURRENT LIABILITIES - DEFERRED TAX LIABILITIES (continued)				
Movements:				
Opening balance at 1 January	**81.1**	115.4	**35.6**	21.6
Change on adoption of AASB 132 and AASB 139	**-**	29.1	**-**	26.1
Charged/(credited) to the income statement (Note 7)	**(20.6)**	(52.8)	**(32.1)**	(2.3)
Charged/(credited) to equity (Notes 7 and 30)	**(5.5)**	(16.4)	**(5.5)**	(13.2)
Under provision in prior years	**1.8**	5.8	**8.1**	3.4
Closing balance at 31 December	**56.8**	81.1	**6.1**	35.6

NOTE 27. NON-CURRENT LIABILITIES - PROVISIONS

Employee benefits	**6.6**	6.7	**2.1**	2.4
Rehabilitation and mine closure	**258.6**	220.9	**72.0**	63.7
Other provisions	**1.1**	4.0	**0.9**	0.9
	266.3	231.6	**75.0**	67.0

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

	Rehabilitation and mine closure	Other provisions
	$M	$M
CONSOLIDATED - 2006		
Carrying amount at start of year	**265.9**	**6.5**
Additional provisions recognised*	**52.9**	**1.1**
Payments	**(25.7)**	**(1.8)**
Rehabilitation and restoration accretion expense	**13.4**	**-**
Transfers/reclassifications	**-**	**(1.7)**
Foreign exchange rate movements	**(2.2)**	**(0.2)**
Unused amounts reversed	**-**	**(1.4)**
Carrying amount at end of year	**304.3**	**2.5**
PARENT ENTITY - 2006		
Carrying amount at start of year	**75.1**	**0.9**
Additional provisions recognised*	**13.0**	**0.9**
Payments	**(5.4)**	**-**
Rehabilitation and restoration accretion expense	**2.8**	**-**
Carrying amount at end of year	**85.5**	**1.8**

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

* Includes $25.0 million for the consolidated entity and $9.4 million for the parent entity relating to the rehabilitation of iron oxide in tailings dams.

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for the year ended 31 December 2006

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
NOTE 28. NON-CURRENT LIABILITIES - OTHER				
Other	**0.1**	0.1	**-**	-

	Parent entity 2006 Number of shares	Parent entity 2005 Number of shares	Parent entity 2006 Paid up value $M	Parent entity 2005 Paid up value $M
NOTE 29. 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	$M
1 January 2005	Opening balance	232,914,349	611.0
31 December 2005	Balance	232,914,349	611.0
31 December 2006	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.

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
NOTE 30. RESERVES AND RETAINED PROFITS				
(a) RESERVES				
Asset revaluation reserve	**18.9**	20.3	**19.3**	20.7
Asset realisation reserve	**-**	4.7	**-**	1.2
Hedging reserve - cash flow hedges	**20.5**	31.4	**18.6**	30.0
Employee share options reserve	**0.2**	0.2	**0.2**	0.2
Foreign currency translation reserve	**(1.5)**	(0.9)	**-**	-
Share-based payments reserve	**1.7**	1.5	**1.7**	1.5
Defined benefit superannuation reserve	**(0.1)**	-	**-**	-
	39.7	57.2	**39.8**	53.6

NOTE 30. RESERVES AND RETAINED PROFITS (continued)

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Movements:				
Asset revaluation reserve				
Balance 1 January	**20.3**	20.3	**20.7**	20.7
Transfer to asset realisation reserve	**(1.4)**	-	**(1.4)**	-
Balance 31 December	**18.9**	20.3	**19.3**	20.7
Asset realisation reserve				
Balance 1 January	**4.7**	4.7	**1.2**	1.2
Transfer from asset revaluation reserve	**1.4**	-	**1.4**	-
Transfer to retained earnings	**(6.1)**	-	**(2.6)**	-
Balance 31 December	**-**	4.7	**-**	1.2
Hedging reserve - cash flow hedges				
Balance 1 January	**31.4**	-	**30.0**	-
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**-**	74.8	**-**	60.9
Revaluation, net of tax	**7.3**	(5.7)	**4.6**	(4.5)
Transfer to net profit, net of tax	**(17.8)**	(36.3)	**(16.0)**	(26.4)
Attributable to minority interest	**(0.4)**	(1.4)	**-**	-
Balance 31 December	**20.5**	31.4	**18.6**	30.0
Employee share options reserve				
Balance 1 January	**0.2**	0.2	**0.2**	0.2
Balance 31 December	**0.2**	0.2	**0.2**	0.2
Foreign currency translation reserve				
Balance 1 January	**(0.9)**	(1.9)	**-**	-
Currency translation differences arising during the year	**(0.6)**	1.0	**-**	-
Balance 31 December	**(1.5)**	(0.9)	**-**	-
Share-based payments reserve				
Balance 1 January	**1.5**	0.8	**1.5**	0.8
Recognition of the fair value of equity instruments granted to employees under the Performance Incentive Plan	**0.2**	0.7	**0.2**	0.7
Balance 31 December	**1.7**	1.5	**1.7**	1.5
Defined benefit superannuation reserve				
Balance 1 January	**-**	0.6	**-**	-
Decrease for the year	**(0.1)**	(0.6)	**-**	-
Balance 31 December	**(0.1)**	-	**-**	-

(b) RETAINED PROFITS

Movements in retained profits were as follows:

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Balance 1 January	**20.6**	157.5	**160.6**	166.9
Net profit (loss) for the year	**21.0**	(85.9)	**7.6**	44.7
Dividends	**(51.2)**	(51.2)	**(51.2)**	(51.2)
Transfer from asset realisation reserve	**6.1**	-	**2.6**	-
Adjustment on adoption of AASB 132 & AASB 139, net of tax	**-**	0.2	**-**	0.2
Balance 31 December	**(3.5)**	20.6	**119.6**	160.6

NOTE 30. RESERVES AND RETAINED PROFITS (continued)

(c) NATURE AND PURPOSE OF RESERVES

(i) Asset revaluation reserve

The asset 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. The balance of this reserve was transferred to retained earnings at 31 December 2006 as the reserve is considered 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) Share-based payments reserve

The 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 actuarial gains and losses of the net position of the defined benefit superannuation plans not yet recognised through the Income Statement.

NOTE 31. MINORITY INTEREST

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
Interest in:				
Share capital	**63.7**	63.7	**-**	-
Reserves	**1.8**	1.4	**-**	-
Retained profits	**3.8**	3.2	**-**	-
	69.3	68.3	**-**	-

NOTE 32. DIVIDENDS

	Parent entity 2006 $M	Parent entity 2005 $M
(a) ORDINARY SHARES		
Final dividend for the year ended 31 December 2005 of 12 cents partly franked to 9.6 cents at 30% (2004: 12 cents partly franked to 6 cents at 30%) per fully paid share	**27.9**	27.9
Interim dividend for the year ended 31 December 2006 of 10 cents fully franked (2005: 10 cents partly franked to 5 cents at 30%) per fully paid share	**23.3**	23.3
	51.2	51.2
(b) DIVIDENDS NOT RECOGNISED AT YEAR-END		
In addition to the above dividends, since year-end the Directors have declared a final dividend of 12 cents fully franked (2005: 12 cents partly franked to 9.6 cents at 30%) per fully paid ordinary share. The aggregate amount of the dividend expected to be paid on 7 May 2007 out of retained profits at 31 December 2006, but not recognised as a liability at year-end, is	**27.9**	27.9

(c) FRANKED DIVIDENDS

The franked portions of the final dividends recommended after 31 December 2006 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 2007.

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Franking credits available for subsequent financial years based on a tax rate of 30% (2005: 30%)	**20.0**	16.1	**8.6**	5.0

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 $11.0 million (2005: $4.6 million) for the Consolidated Rutile Limited group and $0.4 million (2005: $6.5 million) attributable to Ashton Coal Interests Pty Ltd, of which the consolidated entity owns 93.3% (2005: 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 2006 (2005: 51.04%) and Ashton Coal Interests Pty Limited.

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for the year ended 31 December 2006

NOTE 33. KEY MANAGEMENT PERSONNEL

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**

I C R Mackenzie

(ii) **Managing Director and Chief Executive Officer**

D A Robb

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

G J Pizzey

G J Rezos

R A Tastula

K M Folwell ceased employment as Managing Director and CEO on 31 August 2006. D A Robb was appointed as Managing Director on 18 October 2006.

R A Tastula and W H J Barr retired on 11 May 2006.

All other above persons were Directors of Iluka Resources Limited for all of the financial year, as well as for the financial year ended 31 December 2005, except G J Rezos who was appointed as a Director on 20 June 2006.

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 2006:

P J Benjamin[1]	Executive General Manager - Geology
W R Bisset[2]	Executive General Manager - Global Operations
M J Bourke[3]	Executive General Manager - Technical Services
D H M Calhoun	Executive General Manager - People and Communities
D C Grant[4]	Chief Financial Officer
V E Hugo[5]	Executive General Manager - Sales and Marketing
H E Umlauff[6]	Executive General Manager - Development
S Ward[7]	Executive General Manager - Sales and Marketing, Business Development and United States Operations
C Wilson	Executive General Manager - Legal and Company Secretary

1. P J Benjamin appointed as an Executive 24 May 2006.
2. W R Bisset ceased employment 31 December 2006.
3. M J Bourke ceased employment 3 March 2006.
4. D C Grant ceased employment 16 February 2007.
5. V E Hugo appointed as an Executive 21 February 2006.
6. H E Umlauff appointed as an Executive 9 May 2006.
7. S Ward ceased employment 10 February 2006.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

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

The above persons were also Executives during the year ended 31 December 2005, except:

- P J Benjamin, who was appointed Executive General Manager - Geology on 24 May 2006.
- D H M Calhoun who commenced employment with the consolidated entity on 21 February 2005. The preceding Executive General Manager - People and Communities, G R Allan, ceased employment on 31 March 2005.
- V E Hugo who was appointed Executive General Manager - Sales and Marketing on 21 February 2006. The preceding Executive General Manager - Sales and Marketing, S Ward, terminated on 10 February 2006.
- H E Umlauff, who was appointed as Executive General Manager - Development on 9 May 2006.

REMUNERATION PRINCIPLES

The Board recognises that Iluka's performance is dependent on the quality of its employees and the alignment of their activities and performance with Iluka's business objective – to create and deliver shareholder value. Accordingly, Iluka's remuneration policy is designed to attract, retain and motivate experienced executives and to ensure the focus of executives on shareholder value creation and delivery. This policy is based on the following principles:

- alignment of executive and shareholder interests is supported by executive share ownership;
- executives should be focused on both short and long-term business performance;
- the company's need to attract and retain key executive talent;
- executive rewards must be competitive within the sector in which Iluka operates;
- an appropriate balance should be maintained between fixed and variable components of executive remuneration; and
- all aspects of executive remuneration should be transparent in terms of disclosure and be compliant with relevant legislative requirements and be informed by market practice.

The remuneration of an executive or manager for performance is, therefore, linked to both annual business performance outcomes and to the company's ability to generate competitive levels of shareholder value, as defined by total shareholder return (TSR), and return on equity (ROE), on a longer term basis.

In quantitative terms, a share purchased at the prevailing market price of $4.45 on 1 January 2002 has since generated $3.10 in shareholder returns over the subsequent five year period (a 70 per cent return). This return has comprised aggregate dividend returns of $1.10 plus share price growth of $2.00 per share by reference to the closing price as at 31 December 2006 of $6.65. Over the corresponding five year period, average executive remuneration (for roles existing throughout that period) increased by 28 per cent.

The remuneration policies and practices of CRL, a subsidiary of Iluka, are developed by the CRL Board. Information on these arrangements is available in the CRL Annual Report.

REMUNERATION STRUCTURE

This note discloses remuneration details for the Managing Director, non-executive Directors and the Key Management Personnel of the company and group in 2006.

Remuneration for Executives comprises 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 linked 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 executive reward is aligned with the performance outcomes of the business.

FIXED REMUNERATION

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

Allowance is made for the highly competitive nature of the market for talent in the resources sector.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

Superannuation Benefits

Iluka has appropriate superannuation and pension arrangements in countries where it operates. In Australia the company contributes superannuation at the minimum rate to each executive's nominated eligible fund. Individuals may elect to make further voluntary contributions from pre-tax salary.

All Australian-based executives are entitled to contribute to the Iluka Superannuation Plan. The Plan is administered by ING as part of a master trust and over 90 per cent of employees are members. The plan is primarily an accumulation style plan. A small number of employees have retained membership in a defined benefit sub-plan, a legacy from the 1999 merger of Westralian Sands Limited with RGC Limited. No Executives participate in the defined benefit plan.

VARIABLE REMUNERATION

Performance Incentive Programs 2005 and 2006

In March 2005, the Board introduced the Performance Incentive Program (PIP). The existing rules of the Directors', Executives' and Employees' Share Acquisition Plan (Plan) 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.

In February 2006, the Board approved a number of refinements to the PIP following its first year of operation.

For participating executives, 50 per cent of any award made was in the form of cash and the balance was required to be deferred in the form of share rights. Only nominated managers and executives participated in the PIP. The level of potential award opportunity was determined by an individual's role within the business and capacity to impact the results of the company. In 2006, 39 employees (including all executives) participated in the cash and equity form of PIP, with a further 75 staff nominated for the cash-only form of the Plan.

The PIP provided for an 'at risk' element of remuneration requiring the attainment of annually set, pre-determined objectives and targets. Objectives were both financial and non-financial and were developed individually for participating staff. Performance objectives related to financial (NPAT and ROE), environmental, health and safety performance, business improvement projects and specific targets within the executives' functional responsibilities. Individual objectives were required to align directly with the company's strategic plan and annual budgets.

Each measure and objective had robust targets defined at threshold (minimum level of performance required), target (performance as budgeted) and stretch (superior performance - maximum level of award). Objectives, measures and targets set in 2006 were subject to the approval of the Board, and are applicable to both the cash and equity components of the Plan.

Outcomes of PIP objectives were subject to rigorous assessment by management and, for the Managing Director and executive team, by the Board.

In 2005 and 2006, threshold achievement required a 90 per cent achievement of the target or budgeted performance of the company and paid 45 per cent of the apportioned award. Target achievement required meeting 100 per cent of this criterion and paid 65 per cent of the apportioned award. Stretch achievement required a 120 per cent performance against this criterion, and paid 100 per cent of the apportioned award. There was no additional payment applicable to the executives above stretch, nor was any award payable below threshold level of financial achievement.

For both the 2005 and 2006 Plans, the financial and non-financial objectives and measures were the only criteria required for determining the share entitlements of executives.

For the 2005 PIP, 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 per cent over the next four years, commencing in January 2007. Further, a four year holding period applies to each grant of shares.

For the 2006 PIP, at the end of the performance period in December 2006, 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 2007. The remaining half will be transferred to the executive as rights to fully paid shares over the next three years in one-third instalments commencing in January 2007. The four year holding period on vested share rights applicable in 2005 was replaced by a 50 per cent minimum holding requirement once all shares have vested in the 2006 Plan. Once share rights vest, the award shares will be purchased on the open market.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

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 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, were satisfied.

The performance criteria for each offer was based on Total Shareholder Return (TSR) 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 was assessed and a determination was made as to how much of the maximum allocation the executive was entitled to have acquired on his or her behalf by the trustee.

Since the Plan was approved by shareholders, individual offers were made in 2001, 2002, 2003 and 2004, all of which have now concluded.

The 2003 and 2004 Plans concluded during the 2006 year, at 30 June 2006 and 31 December 2006 respectively. For the 2003 and 2004 Plans, relative TSR performance was measured against the Australian Materials Index. Vesting was determined as follows: (1) For the 2003 Plan, no reward was payable for performance below the 40th percentile. For each 1 per cent above the 40th percentile, 2 per cent of the total number of shares in the award was payable with 100 per cent being payable at the 65th percentile. Iluka ranked at the 53.33 percentile resulting in 77 per cent of the award being achieved; (2) For the 2004 Plan, no reward was payable for performance below the 50th percentile. For each 1 per cent above the 50th percentile, 2 per cent of the total number of shares in the award was payable with 100 per cent being payable at the 75th percentile. Iluka ranked at the 55.8 percentile resulting in 61.6 per cent of the award being achieved.

Mercer Consulting provided an assessment of the Plan performance relative to the Australian Materials Index on a regular basis and at the end of the performance period for the review and consideration of the Remuneration and Nomination Committee.

Once the earned allocation was determined, the trustee purchased the shares and holds them on trust for the executive 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.

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 Chief Executive Officer and Executives are shown in 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.

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

Table 1 – Actual awards made under LTI plans in 2006

	Performance Period	
	01/01/03 - 30/06/06[8]	01/01/04 - 31/12/06[9]
Directors of Iluka Resources Limited	Number of shares	Number of shares
D A Robb[1]	-	-
K M Folwell[2]	-	-
Executives of Iluka Resources Limited		
P J Benjamin	3,749	5,693
W R Bisset[3]	16,216	25,488
M J Bourke[4]	-	-
D H M Calhoun	-	-
D C Grant[5]	-	9,641
V E Hugo	6,910	10,472
H E Umlauff[6]	-	-
S Ward[7]	-	-
C Wilson	-	-
Award Date	28/08/06	01/03/07
Vesting Date	28/08/06	01/03/07

1. D A Robb appointed 18 October 2006.
2. K M Folwell ceased employment 31 August 2006.
3. W R Bisset ceased employment 31 December 2006. Under the terms of the redundancy he was paid cash in lieu of shares under the 01/01/04 – 31/12/06 LTI.
4. M J Bourke ceased employment 3 March 2006.
5. D C Grant ceased employment 16 February 2007.
6. H E Umlauff appointed as an Executive 9 May 2006.
7. S Ward ceased employment 10 February 2006.
8. Grant date 28 August 2006. Vesting date 28 August 2006, with a 10 year holding lock until 1 September 2016.
9. Grant date 1 March 2007. Vesting date 1 March 2007, with a 10 year holding lock until 1 April 2017.

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for the year ended 31 December 2006

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

Fair value per share for awards made under the LTI Plan in 2006:

Performance period 01/01/03 – 30/06/06 = $2.72

Performance period 01/01/04 – 31/12/06 = $2.47

Fair values were determined in accordance with AASB 2 *Share Based Payment* by the Directors. The valuation was performed using an option pricing model.

Table 2 – Actual awards made under PIP in 2006

	Performance Period
	01/01/05 - 31/12/05
Directors of Iluka Resources Limited	Number of share rights
D A Robb[1]	-
K M Folwell[2]	18,654
Executives of Iluka Resources Limited	
P J Benjamin	3,445
W R Bisset[3]	10,316
M J Bourke[4]	-
D H M Calhoun	9,777
D C Grant[5]	10,806
V E Hugo	10,484
H E Umlauff[6]	-
S Ward[7]	-
C Wilson	9,576
Grant Date	01/01/06
Vesting Date	2007, 2008, 2009, 2010[8]

1. D A Robb appointed 18 October 2006.
2. K M Folwell ceased employment 31 August 2006. Share rights for all tranches lapsed on termination.
3. W R Bisset ceased employment 31 December 2006. Under the terms of the redundancy all share rights for all tranches vested on 31 December 2006.
4. M J Bourke ceased employment 3 March 2006. Share rights for all tranches lapsed on termination.
5. D C Grant ceased employment 16 February 2007. Share rights for the 2008, 01/01/2009 and 01/01/2010 tranches lapsed on resignation.
6. H E Umlauff appointed as an Executive 9 May 2006.
7. S Ward ceased employment 10 February 2006. Share rights for all tranches lapsed on termination.
8. Vests in four equal tranches on 01/01/2007, 01/01/2008, 01/01/2009 and 01/01/2010 respectively.

Fair value per share for grants made under the PIP in 2006:

Performance period 01/01/05 – 31/12/05 = $7.50

Fair values were determined in accordance with AASB 2 *Share Based Payment* by the Directors. The valuation was performed using an option pricing model.

ILUKA RESOURCES LIMITED EMPLOYEE SHARE PLAN

The company also 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 participate in the plan. An offer was made during the financial year to employees to acquire up to $1,000 of fully paid ordinary shares in the company from pre-tax remuneration. Overall, 31 per cent of eligible employees participated in the 2006 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 increase the alignment of employee attitudes and actions with shareholder value creation and delivery.

SERVICE AGREEMENTS

Managing Director

The Managing Director is Mr David Robb, aged 52. Mr Robb commenced with the company on 18 October 2006. Remuneration and other terms of employment for Mr Robb are formalised in a service agreement.

The service agreement for the Managing Director was negotiated on behalf of the Board at the time of employment. Mr Robb's remuneration was 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 will be reviewed on an annual basis in December by the Board with assistance from external advisers. The total remuneration paid to Mr Robb in 2006 is shown in Table 4. Other remuneration arrangements for Mr Robb are as follows:

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

Salary

Mr Robb's Fixed Annual Remuneration (FAR) is $1,100,000 inclusive of superannuation contributions.

Performance Incentive Program

As announced at the time Mr Robb commenced with the company, he is eligible to participate in Iluka's performance incentive plan on the terms governing that program from time to time. As indicated elsewhere in this report an extensive review of variable remuneration arrangements applying to senior executives in the company has now been completed and Mr Robb's incentive arrangements have been modified accordingly.

In 2007, the maximum incentive Mr Robb may earn is now 150 per cent of FAR, up from 125 per cent. The target incentive opportunity for the Managing Director under the new STIP is 90 per cent of FAR and under the LTIP is 30 per cent of FAR. At stretch levels of performance, the incentive opportunity under the STIP increases to 120 per cent.

For the Managing Director the following weighting of targets will apply under the STIP:

- Profitability (ROC and NPAT) - 50 per cent
- Sustainability (all injury frequency rate, severity rate and environmental notifications) - 10 per cent
- Growth (individual objectives) - 40 per cent

The above structure aligns the arrangements for Mr Robb with those applying to other senior executives. Mr Robb has, however, agreed to take any award in the 2007 STIP plan in the form of Iluka shares, rather than the half cash, half equity arrangement provided for in the new STIP and in his current service agreement.

Other Benefits

Mr Robb purchased approximately $500,000 of Iluka shares prior to commencing employment on the basis that Iluka would match this with an equivalent award of share rights.

Iluka has granted Mr Robb share rights to 71,851 shares to match the shares he has purchased. The share rights will vest on 1 July 2008 or earlier if Mr Robb's employment is terminated as a result of redundancy, material diminution in status or illness, or on notice from Iluka (other than for underperformance). This benefit recognises the benefits Mr Robb has forgone in leaving his previous employment to take up this position.

For the period between 18 October 2006 and 31 December 2006, Mr Robb was paid $200,000 in lieu of participation in the 2006 executive incentive plan in this period.

Termination on Notice from Iluka

Iluka may terminate Mr Robb's employment by giving 12 months notice. Iluka may elect to pay Mr Robb an equivalent amount of FAR in lieu of notice (subject, where required, to shareholder approval).

Mr Robb will also receive a pro-rata short-term incentive component of the executive incentive plan, as determined by the Board, and all shares to which Mr Robb is entitled under the Directors', Executives' and Employees' Share Acquisition Plan will vest within three months of termination.

Mr Robb will also be entitled to payment in lieu of pro-rata long service leave (after seven years of continuous service) and of accrued but untaken annual leave.

Resignation by Mr Robb

Mr Robb may terminate his employment at any time by giving six months notice. Iluka may elect to pay Mr Robb an equivalent amount of FAR in lieu of notice. Any pro-rata award under the executive incentive plan will be at the discretion of the Board.

Mr Robb will also be entitled to payment in lieu of pro-rata long service leave and of accrued but untaken annual leave, on the same basis as detailed above for termination on notice from Iluka.

Termination Without Notice

Iluka may terminate Mr Robb's employment without notice in the case of misconduct and in certain other circumstances. In this event, Mr Robb will not be entitled to any payment under the executive incentive plan or pro-rata long service leave, but will be entitled to payment in lieu of accrued but untaken annual leave.

Termination for other Reasons

Mr Robb's employment may be terminated:

- by Iluka on the ground of redundancy or by Mr Robb if, at the instigation of the Board, he suffers a material diminution in his status as Chief Executive Officer and Managing Director, by giving 24 months notice (if given in the first three years of employment) or 12 months notice (thereafter) provided that Iluka may elect, or Mr Robb may require Iluka, to pay Mr Robb an equivalent amount of FAR in lieu of notice (subject, where required, to shareholder approval); or
- by Iluka if Mr Robb suffers an illness, accident or other cause which renders him unable to perform his duties, by giving Mr Robb six months FAR.

In these circumstances, the consequences of termination are as detailed above for termination on notice from Iluka, except that in respect of the executive incentive plan, Mr Robb will receive a termination payment equal to the total incentive target which Mr Robb would have been entitled to under the executive incentive plan for the relevant year calculated on a pro-rata basis for the relevant notice period given by the company.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

Protection of Interests

Mr Robb is restrained from engaging in certain activities during his employment, and for a period following termination of his employment, in order to protect Iluka's interests. The Executive Employment Agreement contains provisions relating to the protection of confidential information and intellectual property.

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 2006, including superannuation, was $841,945.

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 2006:

- Non-executive Director Fees

Board Chairman (inclusive of Committee fees)	$199,283 per annum
Board Member	$88,000 per annum

- Board Member Committee Fees

Audit and Risk Committee Chairman	$30,000 per annum
Remuneration and Nomination Committee Chairman	$20,000 per annum
Audit and Risk Committee Member	$15,000 per annum
Remuneration and Nomination Committee Member	$10,000 per annum

The current total non-executive Director remuneration is $822,283 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.

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' shareholdings are listed on page 58 of the Concise Annual 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 3 – Aggregate Compensation for Key Management Personnel

	Short-Term Benefits[1] $	Post-Employment Benefits[2] $	Share-Based Payments[3] $	Termination Benefits[4] $	Total $
2006					
Non-Executive Directors	**712,959**	**170,448**	**-**	**-**	**883,407**
Executive Directors	**1,810,996**	**32,783**	**(222,175)**	**1,009,398**	**2,631,002**
Executives	**2,903,918**	**202,921**	**4,633**	**1,403,083**	**4,514,555**
Total	**5,427,873**	**406,152**	**(217,542)**	**2,412,481**	**8,028,964**
2005					
Non-Executive Directors	757,470	66,118	-	-	823,588
Executive Directors	1,026,945	11,585	227,136	-	1,265,666
Executives	2,437,721	245,836	275,289	-	2,958,846
Total	4,222,136	323,539	502,425	-	5,048,100

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).
4. Comprises severance payments and relocation allowances.

NOTE 33. 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 4.

Table 4 – Directors' remuneration

	Short-Term Benefits			Post-Employment Benefits	Termination Benefits	Share-Based Payments	
Name	Cash Salary & Fees[5] $	PIP Cash $	Non-Monetary Benefits $	Superannuation $	Termination $	Share-Based Payments[6] $	Total $
2006							
Non-Executive Directors							
W H J Barr[1]	**33,850**	-	-	**3,046**	-	-	**36,896**
G D Campbell	**96,585**	-	-	**8,693**	-	-	**105,278**
V A Davies	**70,200**	-	-	**41,797**	-	-	**111,997**
R L Every	**94,000**	-	-	**8,460**	-	-	**102,460**
I C R Mackenzie	**193,114**	-	-	**17,380**	-	-	**210,494**
D M Morley	**45,292**	-	-	**74,880**	-	-	**120,172**
G J Pizzey	**94,000**	-	-	**8,460**	-	-	**102,460**
G J Rezos[2]	**52,068**	-	-	**4,686**	-	-	**56,754**
R A Tastula[1]	**33,850**	-	-	**3,046**	-	-	**36,896**
Subtotal	**712,959**	-	-	**170,448**	-	-	**883,407**
Executive Directors							
D A Robb[3]	**206,422**	**200,000**	-	**18,578**	-	**50,871**	**475,871**
K M Folwell[4]	**668,901**	**76,734**	**658,939**	**14,205**	**1,009,398**	**(273,046)**	**2,155,131**
Subtotal	**875,323**	**276,734**	**658,939**	**32,783**	**1,009,398**	**(222,175)**	**2,631,002**
Total	**1,588,282**	**276,734**	**658,939**	**203,231**	**1,009,398**	**(222,175)**	**3,514,409**

1. W H J Barr and R A Tastula retired 11 May 2006.
2. G J Rezos appointed 20 June 2006.
3. D A Robb appointed 18 October 2006. $200,000 paid to Mr Robb in lieu of participation in the 2006 PIP and a grant of 71,851 share rights was made to Mr Robb in October 2006 (share-based payments value of $50,871 to December 2006) matching the grant to Mr Robb's purchase of equivalent value shares in August 2006 as per contract of employment.
4. K M Folwell ceased employment 31 August 2006. Termination benefits consisted of Severance $913,500 in accordance with terms of the contract of employment regarding termination plus payment of statutory leave entitlements $95,898. Non-monetary benefit relates to relocation allowance and associated FBT pursuant to terms of the contract of employment regarding termination.
5. Cash salary includes salary that is sacrificed for the purchase of shares during the year.
6. Represents the estimated monetary value of share rights under grant for the year ended 31 December 2006. 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. A negative value in share-based payments arises where amounts recognised as remuneration in prior years are reversed due to employee forfeiture of the share rights prior to vesting.

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

	Short-Term Benefits			Post-Employment Benefits	Termination Benefits	Share-Based Payments	
Name	Cash Salary & Fees[3] $	PIP Cash $	Non-Monetary Benefits $	Superannuation $	Termination $	Share-Based Payments[4] $	Total $
2005							
Non-Executive Directors							
W H J Barr	88,750	-	-	7,988	-	-	96,738
G D Campbell	93,870	-	-	7,763	-	-	101,633
V A Davies	101,370	-	-	8,438	-	-	109,808
R L Every	93,870	-	-	7,763	-	-	101,633
I C R Mackenzie	178,473	-	-	16,063	-	-	194,536
D M Morley	98,750	-	-	8,888	-	-	107,638
G J Pizzey[1]	13,637	-	-	1,227	-	-	14,864
R A Tastula	88,750	-	-	7,988	-	-	96,738
Subtotal	757,470	-	-	66,118	-	-	823,588
Executive Directors							
K M Folwell	856,415	108,750	61,780[2]	11,585	-	227,136	1,265,666
Total	1,613,885	108,750	61,780	77,703	-	227,136	2,089,254

1. G J Pizzey was appointed as a Director on 7 November 2005.
2. Includes car parking, death, disability and salary continuance insurance, spouse travel and personal phone.
3. Cash salary includes salary that is sacrificed for the purchase of shares during the year.
4. Represents the estimated monetary value of share rights under grant 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* with the fair value of shares at grant date being recognised as remuneration on a straight-line basis between grant date and vesting date. A negative value in share-based payments arises where amounts recognised as remuneration in prior years are reversed due to employee forfeiture of the share rights prior to vesting.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

EXECUTIVES

Remuneration details for each of the Executives are shown in Table 5.

Table 5 – Executives' remuneration

	Short-Term Benefits			Post-Employment Benefits	Termination Benefits	Share-Based Payments	
Name	Cash Salary & Fees[8] $	PIP Cash[9] $	Non-Monetary Benefits $	Superannuation $	Termination $	Share-Based Payments[10] $	Total $
2006							
P J Benjamin[1]	**174,884**	**54,594**	**3,117**	**11,597**	**-**	**26,240**	**270,432**
W R Bisset[2]	**577,943**	**95,018**	**7,810**	**14,205**	**558,467**	**57,182**	**1,310,625**
M J Bourke[3]	**53,294**	**-**	**4,045**	**6,712**	**287,810**	**(97,844)**	**254,017**
D H M Calhoun	**385,864**	**60,446**	**-**	**14,205**	**-**	**48,925**	**509,440**
D C Grant[4]	**378,308**	**90,945**	**5,094**	**51,327**	**-**	**(4,842)**	**520,832**
V E Hugo[5]	**256,951**	**47,889**	**4,395**	**37,504**	**-**	**64,938**	**411,677**
H E Umlauff[6]	**273,389**	**51,844**	**-**	**23,770**	**-**	**-**	**349,003**
S Ward[7]	**49,430**	**-**	**562**	**6,920**	**556,806**	**(134,749)**	**478,969**
C Wilson	**272,089**	**50,913**	**5,094**	**36,681**	**-**	**44,783**	**409,560**
Total	**2,422,152**	**451,649**	**30,117**	**202,921**	**1,403,083**	**4,633**	**4,514,555**

1. P J Benjamin appointed as an Executive 24 May 2006.
2. W R Bisset ceased employment 31 December 2006. PIP cash is a payment of $95,018 in respect of the 2006 PIP. Severance $515,000 (12 months total fixed remuneration in accordance with contract of employment) plus annual leave entitlement $43,468.
3. M J Bourke ceased employment 3 March 2006. Termination benefits consisted of Severance $283,333 in accordance with terms of the contract of employment regarding termination plus payment of statutory leave entitlements $4,477.
4. D C Grant ceased employment 16 February 2007.
5. V E Hugo appointed as an Executive 21 February 2006.
6. H E Umlauff appointed as an Executive 9 May 2006.
7. S Ward ceased employment 10 February 2006. Termination benefits consisted of Severance $485,000 in accordance with terms of the contract of employment regarding termination plus payment of statutory leave entitlements $71,806.
8. Salary sacrificed for purchase of shares was previously disclosed as Share-Based Payments. This has been included within cash salary as purchase of shares from salary is recognised as a salary sacrifice and not a share based payment.
9. Represents incentives payable in relation to the cash component of the Performance Incentive Plan for the year ended 31 December 2006, paid in March 2007.
10. Represents the estimated monetary value of share rights under grant during the year ended 31 December 2006. 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. A negative value in share-based payments arises where amounts recognised as remuneration in prior years are reversed due to employee forfeiture of the share rights prior to vesting.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

	Short-Term Benefits			Post-Employment Benefits	Termination Benefits	Share-Based Payments	
Name	Cash Salary & Fees[1] $	PIP Cash[2] $	Non-Monetary Benefits $	Superannuation	Termination $	Share-Based Payments[3] $	Total $
2005							
W R Bisset	471,415	60,140	12,345	11,585	-	76,175	631,660
M J Bourke	295,170	59,840	16,172	37,809	-	57,368	466,359
D H M Calhoun[1]	311,931	57,000	-	10,619	-	17,728	397,278
D C Grant	330,063	63,000	11,151	42,937	-	30,614	477,765
S Ward	433,444	-	11,151	112,849	-	80,593	638,037
C Wilson	237,922	55,826	11,151	30,037	-	12,811	347,747
Total	2,079,945	295,806	61,970	245,836	-	275,289	2,958,846

1. D H M Calhoun appointed 21 February 2005.
2. Salary sacrificed for purchase of shares was previously disclosed as Share-Based Payments. This has been included within cash salary as purchase of shares from salary is recognised as a salary sacrifice and not a share based payment.
3. Represents incentives payable in relation to the cash component of the Performance Incentive Plan for the year ended 31 December 2005, paid in March 2006.
4. Represents the estimated monetary value of share rights under grant during 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* with the fair value of shares at grant date being recognised as remuneration on a straight-line basis between grant date and vesting date. A negative value in share-based payments arises where amounts recognised as remuneration in prior years are reversed due to employee forfeiture of the share rights prior to vesting.

Table 6 – PIP Share Rights awarded to Directors and Executives for 2006 Performance

	Vesting Date		
Name	01/01/07	01/01/08	01/01/09
Executives of Iluka Resources Limited	Number of share rights	Number of share rights	Number of share rights
P J Benjamin[1]	2,550	2,550	2,550
W R Bisset[2]	-	-	-
M J Bourke[3]	-	-	-
D H M Calhoun	2,512	2,512	2,512
D C Grant[4]	4,247	-	-
V E Hugo[5]	2,239	2,239	2,239
H E Umlauff[6]	2,423	2,423	2,423
S Ward[7]	-	-	-
C Wilson	2,193	2,193	2,193

1. P J Benjamin appointed as an Executive on 24 May 2006.
2. W R Bisset ceased employment 31 December 2006.
3. M J Bourke ceased employment 3 March 2006.
4. D C Grant ceased employment 16 February 2007.
5. V E Hugo appointed as an Executive 21 February 2006.
6. H E Umlauff appointed as an Executive 9 May 2006.
7. S Ward ceased employment 10 February 2006.

NOTE 33. KEY MANAGEMENT PERSONNEL (continued)

Table 7 – Share Rights awarded to Managing Director under Employment Agreement

	Vesting Date
Name	30/06/08
Directors of Iluka Resources Limited	Number of share rights
D A Robb[1]	71,851

1. D A Robb appointed 18 October 2006.

Table 8 – Share Rights, Options and Shareholdings of Key Management Personnel

	Number of Shares				Number of Options and Rights Holdings				
Name	Balance at 01/01/06	Additions from vesting of share rights	Other Changes	Held at 31/12/06	Held at 01/01/06	Granted during 2006	Vested during 2006	Lapsed during 2006	Held at 31/12/06
Non-Executive Directors									
W H J Barr	20,000	-	(20,000)	-	-	-	-	-	-
G D Campbell	66,419	-	6,573	72,992	-	-	-	-	-
V A Davies	31,869	-	3,403	35,272	-	-	-	-	-
R L Every	10,602	-	6,938	17,540	-	-	-	-	-
I C R Mackenzie	42,256	-	-	42,256	-	-	-	-	-
D M Morley	25,000	-	-	25,000	-	-	-	-	-
G J Pizzey	10,000	-	-	10,000	-	-	-	-	-
G J Rezos	-	-	-	-	-	-	-	-	-
R A Tastula	12,142	-	(12,142)	-	-	-	-	-	-
Executive Directors									
D A Robb	-	-	70,000	70,000	-	71,851	-	-	71,851
K M Folwell	30,597	-	(30,597)	-	170,311	18,654	-	188,965	-
Executives									
P J Benjamin	3,338	3,849	100	7,287	16,882	3,445	3,749	1,142	15,436
W R Bisset	400	26,532	(26,932)	-	75,008	10,316	26,532	17,416	41,376
M J Bourke	5,420	-	(5,420)	-	52,794	-	-	52,794	-
D H M Calhoun	100	-	100	200	9,648	9,777	-	-	19,425
D C Grant	5,400	-	-	5,400	25,299	10,806	-	-	36,105
V E Hugo	500	6,910	100	7,510	31,926	10,484	6,910	2,104	33,396
H E Umlauff	-	-	-	-	-	-	-	-	-
S Ward	7,933	-	(7,933)	-	72,710	-	-	72,710	-
C Wilson	-	-	100	100	6,972	9,576	-	-	16,548

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 2006.

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.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$	$	**$**	$

NOTE 34. 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:

(a) ASSURANCE SERVICES

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Audit and audit related services				
Fees paid to PricewaterhouseCoopers:				
PwC Australia*	**666,020**	832,000	**518,000**	669,000
Other PwC firms	**63,000**	60,782	**-**	-
Total remuneration for assurance services	**729,020**	892,782	**518,000**	669,000

(b) TAXATION SERVICES

	Consolidated 2006 $	Consolidated 2005 $	Parent entity 2006 $	Parent entity 2005 $
Fees paid to PricewaterhouseCoopers:				
PwC Australia	**71,220**	48,000	**71,220**	48,000
Other PwC firms	**9,333**	28,296	**-**	-
Total remuneration for taxation services	**80,553**	76,296	**71,220**	48,000

* Included in audit fees paid to PwC Australia are amounts of $Nil (2005: $146,500) for the consolidated entity and $Nil (2005: $119,500) for the parent entity for the transition to Australian equivalents of International Financial Reporting Standards.

NOTE 35. RETIREMENT BENEFIT OBLIGATIONS

(a) SUPERANNUATION PLANS

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 have 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 sections only of the Australian and US plans.

	Consolidated		Parent Entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M

NOTE 35. RETIREMENT BENEFIT OBLIGATIONS (continued)

(b) BALANCE SHEET AMOUNTS

The amounts recognised in the balance sheet are determined as follows:

Defined benefit plan obligation	**21.5**	21.2	**-**	-
Defined benefit fund plan assets	**(17.4)**	(15.4)	**-**	-
Deficiency of net market value of assets over the present value of employees' accrued benefit payments	**4.1**	5.8	**-**	-
Actuarial gains	**-**	(0.8)	**-**	-
Past service costs	**(2.7)**	(4.2)	**-**	-
Net liability (asset) in the balance sheet*	**1.4**	0.8	**-**	-

* A surplus of $1.2 million (2005: $0.6 million) in respect of the Master Trust plan is included in the 2006 net deficiency of $1.4 million (2005: $0.8 million). That is, the amount recognised as a liability in the balance sheet totals $2.6 million whilst the surplus amount of $1.2 million has been recognised as an asset in the balance sheet (refer Note 14). The surplus has been included in this note for reconciliation purposes only.

The consolidated entity may use any surplus in the defined benefits section of the Australian plans for the purposes of payment of superannuation expenses, a contribution holiday or a reduction in employer contributions. During 2005, 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. No surplus funds were used during 2006.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
(c) CATEGORIES OF PLAN ASSETS				
The major categories of plan assets are as follows:				
Cash	**0.6**	0.3	**-**	-
Equity instruments	**11.8**	10.8	**-**	-
Debt instruments	**2.8**	2.9	**-**	-
Property	**1.1**	0.2	**-**	-
Other assets	**1.1**	1.2	**-**	-
	17.4	15.4	**-**	-

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 35. RETIREMENT BENEFIT OBLIGATIONS (continued)

(d) RECONCILIATIONS

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Reconciliation of the present value of the defined benefit obligation, which is partly funded:				
Balance at 1 January	**21.2**	18.4	-	-
Current service cost	**1.0**	1.0	-	-
Interest cost	**1.2**	1.1	-	-
Contributions by plan participants	**0.1**	0.2	-	-
Actuarial gains and losses	**(0.1)**	0.9	-	-
Foreign currency exchange rate changes	**(1.1)**	0.8	-	-
Benefits paid	**(0.4)**	(1.2)	-	-
Curtailments	**(0.4)**	-	-	-
Balance at 31 December	**21.5**	21.2	-	-
Reconciliation of the fair value of plan assets:				
Balance at 1 January	**15.4**	14.1	-	-
Expected return on plan assets	**1.1**	1.0	-	-
Actuarial gains and losses	**1.0**	0.2	-	-
Foreign currency exchange rate changes	**(0.6)**	0.3	-	-
Contributions by group companies	**0.8**	0.8	-	-
Contributions by plan participants	**0.1**	0.2	-	-
Benefits paid	**(0.4)**	(1.2)	-	-
Balance at 31 December	**17.4**	15.4	-	-

(e) AMOUNTS RECOGNISED IN INCOME STATEMENT

	Consolidated 2006 $M	Consolidated 2005 $M	Parent entity 2006 $M	Parent entity 2005 $M
Current service cost	**1.0**	1.0	-	-
Interest cost	**1.2**	1.1	-	-
Expected return on plan assets	**(1.1)**	(1.0)	-	-
Net actuarial losses (gains) recognised in year	**0.1**	-	-	-
Past service cost	**1.1**	0.2	-	-
Increase in allowance for contributions tax on net liability	**-**	0.8	-	-
Losses (gains) on curtailments and settlements	**(0.2)**	-	-	-
Total included in employee benefits expense	**2.1**	2.1	-	-
Actual return on plan assets	**2.1**	1.1	-	-

NOTE 35. RETIREMENT BENEFIT OBLIGATIONS (continued)

(f) PRINCIPAL ACTUARIAL ASSUMPTIONS

The principal actuarial assumptions used (expressed as weighted averages) were as follows:

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
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	**5.8%**	5.5%	-	-
Expected return on plan assets	**7.5%**	7.5%	-	-
Future salary increases	**3.5%**	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 a 7.2% (2005: 8.0%) rate of return gross of tax (and net of expenses) and a 6.5% (2005: 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% (2005: 7.5%) rate of return net of tax (and expenses).

(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 2007 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 5.0% pa, an inflation rate of 2.0% pa and a discount rate of 4.0% 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 $0.9 million (2005: $0.2 million) for the salaried defined benefit plan and $0.2 million (2005: $Nil) for the hourly defined benefit plan.

Total employer contributions expected to be paid by consolidated entity companies for the year ending 31 December 2007 are $1.2 million.

The economic assumptions used by the actuary to make the funding recommendations were a long term investment earning rate of 7.5% pa (net of fees and taxes), a salary increase rate of 3.5% pa together with an age related promotional scale, an inflation rate of 3.0% pa and a discount rate of 5.8% pa for the pension liabilities.

NOTE 35. RETIREMENT BENEFIT OBLIGATIONS (continued)

(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 2006), and a surplus of $1.2 million (2005: $0.6 million) was reported. There has been no significant change in the plan's net financial position from 30 June 2006 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 2006), and in accordance with IAS 19 *Employee Entitlements*. The deficiency of $2.5 million as reported in the plans' financial report differs from the net liability of $2.6 million recognised in the balance sheet as at 31 December 2006 due to different measurement rules in the relevant accounting standards AAS 25 and IAS 19.

	Consolidated		
	2006	2005	2004
	$M	$M	$M
(i) HISTORIC SUMMARY			
Defined benefit plan obligation	**21.5**	21.2	18.4
Plan assets	**(17.4)**	(15.4)	(14.1)
Deficit	**(4.1)**	(5.8)	(4.3)
Experience adjustments arising on plan liabilities	**-**	(0.3)	-
Experience adjustments arising on plan assets	**-**	0.3	0.4

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
NOTE 36. CONTINGENT LIABILITIES AND ASSETS				
Contingent liabilities				
Details and estimates of maximum amounts of contingent liabilities are as follows:				
Performance and financial guarantees (a)	**75.2**	70.3	**31.3**	30.6

(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, in the amount of $105.4 million. Since that time, Roche has submitted numerous further notices of dispute arising from additional overlapping and unsubstantiated claims resulting in a total amount of claim estimated currently at $155.6 million. Based on detail assessment and external specialist legal advice, the claims continue to be rejected and, accordingly, no contingent liability has been recognised.

NOTE 36. CONTINGENT LIABILITIES AND ASSETS (continued)

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 2006, $12.5 million (2005: $6.3 million) of coal compensation income was recognised in the Income Statement. Coal compensation income in future years is not expected to be significant.

NOTE 37. COMMITMENTS

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
(a) CAPITAL COMMITMENTS				
Capital expenditure for the acquisition of plant and equipment and mine development contracted for and payable not later than one year*	**9.0**	45.3	**4.1**	3.5

* Included in capital commitments for the consolidated entity are commitments in relation to the Murray Basin of $0.7 million (2005: $28.1 million).

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
(b) EXPLORATION COMMITMENTS				
Exploration expenditure commitments payable*:				
Within one year	**14.5**	13.5	**7.0**	5.1
Later than one year but not later than five years	**34.5**	31.3	**12.6**	8.9
Later than five years	**51.8**	42.3	**10.8**	10.0
	100.8	87.1	**30.4**	24.0

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

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $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	**8.0**	12.2	**2.6**	3.1
Later than one year but not later than five years	**22.0**	12.4	**4.8**	5.0
Later than five years	**19.1**	1.0	**0.7**	0.8
	49.1	25.6	**8.1**	8.9

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 37. COMMITMENTS (continued)

(d) OTHER COMMITMENTS

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$M	$M	**$M**	$M
Commitments for payments in relation to non-cancellable contracts are payable as follows:				
Within one year	**38.8**	34.6	**34.4**	34.4
Later than one year but not later than five years	**115.0**	128.2	**113.0**	127.4
Later than five years	**81.7**	100.0	**80.0**	100.0
	235.5	262.8	**227.4**	261.8

Included in other commitments are amounts of $232.2 million (2005: $262.8 million) in respect of the consolidated entity and $227.4 million (2005: $261.8 million) in respect of the parent entity which relate to long term contracts for coal, gas, electricity and water used in the production process.

NOTE 38. RELATED PARTY TRANSACTIONS

(a) DIRECTORS AND SPECIFIED EXECUTIVES

Disclosures relating to Directors and Key Management Personnel are set out in Note 33.

(b) CONTROLLED ENTITIES AND CONTROLLING ENTITIES

Details of material controlled entities are set out in Note 39. 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 39.

Transactions between Iluka Resources Limited and other entities in the wholly-owned group during the years ended 31 December 2006 and 31 December 2005 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; and

(iv) 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.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
NOTE 38. RELATED PARTY TRANSACTIONS (continued)				
Aggregate amounts included in the determination of profit (loss) before income tax that resulted from transactions with entities in the wholly-owned group:				
Interest revenue	-	-	**77,965**	63,712
Aggregate amounts receivable from/payable to entities in the wholly-owned group at balance date:				
Non-current receivables (loans)	-	-	**315,000**	316,500
Other current liabilities - unearned revenue	-	-	-	77,965
OTHER RELATED PARTIES				
Aggregate amounts included in the determination of profit (loss) before income tax that resulted from transactions with other related parties:				
Management fee revenue - controlled entity	-	-	**940**	940

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. There were no borrowings by the parent entity in 2006 (2005: average borrowing rate - 6.4%). The average lending rate for the year was 5.9% (2005: 5.9%). 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 39; and

(ii) joint ventures - information relating to joint venture interests - Note 41.

	Consolidated		Parent entity	
	2006	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000
(d) TRANSACTIONS WITH RELATED PARTIES				
Current tax payable assumed from wholly-owned tax consolidated entities	-	-	**28,987**	19,600
Tax losses assumed from wholly-owned tax consolidated entities	-	-	**10,101**	23,300
(e) OUTSTANDING BALANCES ARISING FROM SALE/PURCHASE OF GOODS AND SERVICES				
Current receivable (tax funding arrangement) Wholly-owned tax consolidated entities	-	-	**28,987**	19,600
Current payables (tax funding agreement) Wholly-owned tax consolidated entities	-	-	**10,101**	23,300

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 39. INVESTMENTS IN SIGNIFICANT CONTROLLED ENTITIES

NAME OF ENTITY	Country of incorporation	Equity holding 2006 %	2005 %
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

NOTE 40. 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 Directors' 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 2006 and 31 December 2005 of the Extended Closed Group.

	2006 $M	2005 $M
CONDENSED INCOME STATEMENT		
Revenue from ordinary activities	**794.0**	728.9
Interest and finance costs	**(39.2)**	(32.6)
Exchange losses on foreign currency borrowings	**(1.0)**	(4.0)
Other expenses from ordinary activities	**(644.1)**	(547.7)
Impairment charges	**(64.6)**	(184.1)
Income tax benefit	**6.1**	30.9
Profit (loss) for the year	**51.2**	(8.6)

NOTE 40. DEED OF CROSS GUARANTEE (continued)

SUMMARY OF MOVEMENTS IN CONSOLIDATED RETAINED PROFITS

	2006 $M	2005 $M
Retained profits at the beginning of the financial year	**79.4**	139.0
Adjustment on adoption of AASB 132 and AASB 139, net of tax	**-**	0.2
Transfer from asset realisation reserve	**6.1**	-
Profit (loss) for the year	**51.2**	(8.6)
Dividends provided for or paid	**(51.2)**	(51.2)
Retained profits at the end of the financial year	**85.5**	79.4

CONDENSED BALANCE SHEET

Set out below are consolidated balance sheets as at 31 December 2006 and 31 December 2005 of the Extended Closed Group.

	2006 $M	2005 $M
Current assets		
Cash and cash equivalents	**5.0**	6.6
Receivables	**167.3**	136.2
Inventories	**209.5**	153.7
Derivative financial instruments	**16.3**	23.2
Other	**-**	14.8
Total current assets	**398.1**	334.5
Non-current assets		
Receivables	**110.4**	128.7
Inventories	**5.5**	5.3
Other financial assets	**149.9**	149.3
Property, plant and equipment	**1,078.5**	1,066.7
Derivative financial instruments	**-**	22.5
Intangible assets	**16.8**	18.5
Total non-current assets	**1,361.1**	1,391.0
Total assets	**1,759.2**	1,725.5
Current liabilities		
Payables	**110.7**	115.5
Interest-bearing liabilities	**188.5**	145.9
Current tax liabilities	**8.6**	4.5
Provisions	**30.1**	31.3
Total current liabilities	**337.9**	297.2
Non-current liabilities		
Interest-bearing liabilities	**419.9**	420.5
Deferred tax liabilities	**43.1**	69.9
Provisions	**220.2**	189.2
Other	**0.1**	1.0
Total non-current liabilities	**683.3**	680.6
Total liabilities	**1,021.2**	977.8
Net assets	**738.0**	747.7
Equity		
Contributed equity	**611.0**	611.0
Reserves	**41.5**	57.3
Retained profits	**85.5**	79.4
Total equity	**738.0**	747.7

Notes to the Financial Statements

for the year ended 31 December 2006

NOTE 41. 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	
	2006 $M	2005 $M
Receivables	**3.6**	4.1
Inventories	**0.2**	0.1
Plant and equipment	**69.4**	69.1
Less: accumulated depreciation	**(40.1)**	(37.2)
	29.3	31.9
Total assets	**33.1**	36.1
Payables	**0.2**	1.1
Non-current provisions	**6.4**	6.1
Total liabilities	**6.6**	7.2
Net interest in joint venture	**26.5**	28.9

(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 is capitalised in accordance with the accounting policy stated in Note 1(y), and no revenue is generated. The consolidated entity's share of the assets and liabilities in respect of these joint ventures is not material.

NOTE 42. RECONCILIATION OF PROFIT (LOSS) AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
Profit (loss) after income tax	**31.5**	(71.5)	**7.6**	44.7
Depreciation and amortisation	**127.3**	125.4	**34.9**	41.2
Previously capitalised exploration expenditure written-off	**1.3**	1.0	**-**	-
Current year exploration expenditure capitalised	**(7.0)**	(14.2)	**-**	-
Interest capitalised	**(13.5)**	(13.1)	**(13.5)**	(12.6)
Net (gain) loss on disposal of property, plant and equipment	**(30.1)**	(38.5)	**0.4**	(13.9)
Net exchange differences	**2.4**	0.7	**(8.2)**	12.7
CRL Enterprise mine transition costs	**-**	(4.1)	**-**	-
Rehabilitation, restoration and accretion expense	**13.4**	14.7	**2.8**	4.0
Non-cash employee benefits	**(0.5)**	0.7	**0.1**	0.8
Asset impairments and write-offs	**92.2**	273.5	**60.0**	-
Amortisation of deferred borrowing costs	**0.4**	0.5	**0.4**	0.4
Other non-cash operating activities between group entities	**-**	-	**(79.7)**	(50.4)
Change in operating assets and liabilities				
Decrease (increase) in receivables	**(52.3)**	(11.4)	**18.6**	(3.3)
Decrease (increase) in inventories	**(51.8)**	(46.0)	**(15.3)**	(13.5)
Decrease (increase) in deferred tax assets	**6.0**	(14.0)	**-**	-
Decrease (increase) in other operating assets	**29.3**	2.0	**32.2**	(1.9)
Increase (decrease) in payables	**(12.9)**	35.8	**1.4**	(5.8)
Increase (decrease) in other operating liabilities	**2.8**	14.2	**5.3**	8.7
Increase (decrease) in provision for income taxes payables	**4.1**	13.2	**5.3**	4.6
Increase (decrease) in provision for deferred tax liabilities	**(20.1)**	(48.3)	**(26.1)**	1.2
Increase (decrease) in other provisions	**19.7**	6.4	**5.2**	(3.3)
Net cash inflow from operating activities	**142.2**	227.0	**31.4**	13.6

NOTE 43. NON-CASH INVESTING AND FINANCING ACTIVITIES

There were no non-cash investing and financing activities during the years ended 31 December 2006 and 31 December 2005.

NOTE 44. EARNINGS PER SHARE

	Consolidated	
	2006	2005
	Cents	Cents
Basic earnings per share	**9.1**	(36.9)
Diluted earnings per share	**9.1**	(36.9)

	Consolidated	
	2006	2005
	$M	$M
(a) RECONCILIATIONS OF EARNINGS USED IN CALCULATING EARNINGS PER SHARE		
Profit (loss) for the year	**31.5**	(71.5)
Net profit attributable to minority interests	**(10.5)**	(14.4)
Profit (loss) attributable to the ordinary equity holders of the company used in calculating basic and diluted earnings per share	**21.0**	(85.9)

	Consolidated	
	2006	2005
	Number	Number
(b) WEIGHTED AVERAGE NUMBER OF SHARES USED AS THE DENOMINATOR		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**232,914,349**	232,914,349
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**232,914,349**	232,914,349

NOTE 45. SHARE-BASED PAYMENTS

(a) PERFORMANCE INCENTIVE PLAN

The Performance Incentive Plan (PIP) was introduced in March 2005.

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 employee. Performance targets relate to financial, environmental, health and safety performance, business improvement projects and specific targets within the employee's functional responsibilities.

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

The maximum level of participation in 2006 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.

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 2006, Iluka's financial performance (NPAT and ROE) represented 50% of the apportionment, health and safety performance (LTIFR, AIFR, Level 2 Environmental Incidents) was apportioned at 10% and key objectives from the employee's operational or functional responsibilities accounted for the balance. Any share rights granted pursuant to the 2006 PIP will have a grant date of 1 January 2007 and do not constitute share based payments in the year ended 31 December 2006.

The Remuneration and Nomination Committee assess the achievement of KPIs for the Managing Director and Executives based on recommendations of the Managing Director. The committee receives advice from external remuneration 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 45. SHARE-BASED PAYMENTS (continued)

Maximum potential share rights granted under the PIP to participating employees on 1 January:

	Consolidated		Parent entity	
	2006 Number	2005 Number	**2006 Number**	2005 Number
	126,208	94,949	**126,208**	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 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 are 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 employee.

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 2006 pursuant to the 2003 plan as well as shares awarded in 2005 pursuant to the 2001 and 2002 plans are shown in the table below.

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

Under the 2004 plan, relative TSR performance is measured against the Australian Materials Index. 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 has been 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 were awarded under the Directors', Executives' and Employees' Share Acquisition Plan to participating employees on 14 August 2006;

	Consolidated		Parent entity	
	2006 Number	2005 Number	**2006 Number**	2005 Number
	93,602	45,546	**93,602**	45,546

(c) SHARE RIGHTS PROVIDED TO THE MANAGING DIRECTOR

The Managing Director was granted 71,851 share rights in October 2006, to match the shares he purchased prior to commencing employment on the basis that Iluka would match this with an equivalent award of share rights.

These share rights vest on 30 June 2008. The fair value of these share rights has been determined at grant date, refer Note 33. The fair value of the grant is released as an expense through the Income Statement between the grant date and the vesting date of the entitlements.

(d) EXPENSES ARISING FROM SHARE-BASED PAYMENT TRANSACTIONS

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

	Consolidated		Parent entity	
	2006 $M	2005 $M	**2006 $M**	2005 $M
	0.1	0.8	**0.1**	0.8

Directors' Declaration

31 December 2006

In the Directors' opinion:

(a) the financial statements and notes set out on pages 1 to 62 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 2006 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 40 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 40.

The Directors have been given the declarations by the Chief Executive Officer and 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

D A Robb
Managing Director

Perth
23 March 2007

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 2006, 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, cash flow statement, statement of recognised income and expense, accompanying notes to the financial statements, and the directors' declaration for both Iluka Resources Limited (the company) and the Iluka Resources Limited Group (the consolidated entity), for the year ended 31 December 2006. 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.

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

David J Smith

David J Smith
Partner

Perth
23 March 2007

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