

Appendix 4E

Energy Resources of Australia Limited

ABN 71 008 550 865

ASX Preliminary final report – 31 December 2006

Lodged with the ASX under Listing Rule 4.3A

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Energy Resources of Australia Limited
Year ended 31 December 2006
(Previous corresponding period:
Year ended 31 December 2005)

Results for announcement to the market

| | | | | 2006 | 2005 |
|---|-----------|-----|----|---------|---------|
| | | | | \$000 | \$000 |
| Revenue from ordinary activities | up | 19% | to | 317,190 | 265,928 |
| Profit/(loss) from ordinary activities after tax attributable to members | up | 7% | to | 43,607 | 40,702 |
| Net profit/(loss) for the period attributable to members | up | 7% | to | 43,607 | 40,702 |
| EPS (cents) | | | | 22.8 | 21.3 |

| Dividends/distributions | Amount per security | Franked amount per security |
|--------------------------------|---------------------|-----------------------------|
| Final dividend | 11 cents | 30% |
| Interim dividend | 6 cents | 30% |

Record date for determining entitlements to the dividend

15 February 2007

These financial results have been prepared in accordance with Australian equivalent to International Financial Reporting Standards (AIFRS).

Review of results of operations

The net profit after tax for the consolidated entity for the year ended 31 December 2006 was \$43.6 million (2005: \$40.7 million). Earnings before interest and tax (EBIT) were \$68.8 million (2005: \$65.3 million).

Sales for the year were 5,760 tonnes (2005: 5,688 tonnes including 136 tonnes of third party material). Operating revenue for the year was \$312.7 million (2005: \$262.0 million). ERA's contractual sale price is only partially influenced by the spot market because of its diversified sales contract portfolio and the average realised sale price of uranium oxide was US\$18.36/lb (2005: US\$16.00/lb). On 31 December 2006 the spot market price for uranium oxide was US\$72.00/lb (2005: US\$36.13/lb). The strength of the Australian dollar has negatively impacted revenue by approximately A\$2.4 million in comparison with the effective exchange rate for 2005.

One short term loan for 316 tonnes of uranium oxide taken out to partially cover sales commitments in December was outstanding at the end of the year. The loan was required to cover the late arrival of a charter vessel due to bad weather and it was paid back in mid January 2007.

The company settled US\$42 million (2005: US\$45 million) in forward exchange contracts during the year at an average A\$:US\$ exchange rate of 65 cents (2005: 64 cents). No new currency exchange contracts were entered into during the year.

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Preliminary consolidated income statement

Drummed production of uranium oxide for the year of 4,748 tonnes was 20 per cent below that in 2005 (2005: 5,910 tonnes). This was due to the elevated water level in the pit, resulting from an unusually high rainfall wet season, preventing access to high grade ore in the second and third quarters. In addition, production in the second quarter was further impacted by a reduction in the volume of ore treated due to difficulties experienced in bringing the acid plant back to full production after a planned maintenance shutdown.

Following a review of long term acid supply options, the company has signed a five year agreement under which ERA's entire requirements will be imported commencing in the third quarter of 2007. At this point, the existing acid plant will be closed down and the remaining book value of \$5.5 million will be written off during 2007. A pre-tax amount of \$4.74 million recorded in construction work-in-progress that related to the rehabilitation of the acid plant over the past 18 months was written off in 2006.

While revenues increased as a consequence of the rise in the average realised price, this was offset by a rise in employee and contractor numbers and associated costs, and increased expenditure on consumables, particularly sulphuric acid and diesel. Total operating costs on a unit of production basis rose reflecting the combined effect of the lower output and higher costs.

Dividends

ERA Directors have declared a final dividend for the year of 11 cents per share, fully franked at 30 per cent. The record date for the dividend is 15 February 2007 and it will be paid on 1 March 2007. This is in addition to the interim dividend paid in August 2006 of six cents per share, giving total dividends paid to shareholders for the year of 17 cents per share, fully franked (2005: 17 cents per share).

Outlook

ERA expects sales in 2007 to be similar to 2006, possibly accompanied by a modest replenishment of inventory in the logistics chain.

Expenditure on exploration drilling rose to \$7.2 million in 2006 (2005:2.3 million) as efforts to delineate 'down dip' extensions to the Ranger orebody were accelerated. A number of encouraging intersections have already been reported to the market.

The board of directors has also approved capital expenditure of \$5.0 million to proceed with a feasibility study on the limited expansion of the present operating pit.

Exploration work is continuing on whether the Ranger 3 orebody extends further to the south east at depth, and at Ranger 18 East.

In January 2007 the board of directors approved capital expenditure of \$13.2 million to construct a single radiometric sorter. The sorter will allow an additional 1,100 tonnes of uranium oxide to be extracted from low grade material over the period 2008 to 2013. This unit may presage wider use of this technology to enhance recovery of uranium oxide from material presently categorised as waste.

Looking forward the outlook for uranium mining appears positive as the market price continues to rise in light of increasing demand. ERA is positioning itself to benefit from this by seeking opportunities to add value by expanding, extending or accelerating output.

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Preliminary consolidated income statement

| | 2006 \$000 | 2005 \$000 |
|---|----------------|----------------|
| Operating revenues | 312,698 | 262,036 |
| Other revenue from outside the operating activities | 4,492 | 3,892 |
| Revenue from ordinary activities | 317,190 | 265,928 |
| Changes in inventories of finished goods and work in progress | (25,558) | 10,755 |
| Raw materials and consumables used | (48,675) | (57,810) |
| Employee benefits and contractor expenses | (80,868) | (58,012) |
| Government and other royalties | (15,997) | (13,223) |
| Commission and shipping expenses | (11,314) | (9,229) |
| Depreciation and amortisation expenses | (33,645) | (47,832) |
| Borrowing costs | (10,989) | (9,971) |
| Statutory and corporate expense | (21,162) | (20,456) |
| Other expenses from ordinary activities | (6,735) | (968) |
| Profit from ordinary activities before income tax expense | 62,247 | 59,182 |
| Income tax relating to ordinary activities | (18,640) | (18,480) |
| Net profit attributable to members of ERA | 43,607 | 40,702 |
| Total changes in equity other than those resulting from transactions with owners as owners | 43,607 | 40,702 |

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Preliminary consolidated balance sheet

| | 2006 \$000 | 2005 \$000 |
|---|----------------|----------------|
| Current assets | | |
| Cash assets | 14,629 | 18,123 |
| Receivables | 104,632 | 100,093 |
| Inventories | 90,117 | 109,936 |
| Derivative financial instruments | 10,645 | 7,363 |
| Other | 1,065 | 750 |
| Total current assets | 221,088 | 236,265 |
| Non-current assets | | |
| Inventories | 60,595 | 39,648 |
| Exploration, evaluation and development expenditure | 203,212 | 203,017 |
| Property, plant and equipment | 325,957 | 326,705 |
| Non-current investment | 44,953 | 42,576 |
| Deferred tax assets | 46,132 | 43,393 |
| Derivative financial instruments | 13,476 | 15,840 |
| Total non-current assets | 694,325 | 671,179 |
| Total assets | 915,413 | 907,444 |
| Current liabilities | | |
| Payables | 37,285 | 26,666 |
| Interest bearing liability | 5,000 | 10,000 |
| Current tax liabilities | 11,129 | 18,613 |
| Provisions | 7,752 | 6,843 |
| Total current liabilities | 61,166 | 62,122 |
| Non-current liabilities | | |
| Payables | 10,305 | 10,207 |
| Deferred tax liabilities | 111,718 | 118,415 |
| Provisions | 179,740 | 176,944 |
| Total non-current liabilities | 301,763 | 305,566 |
| Total liabilities | 362,929 | 367,688 |
| Net assets | 552,484 | 539,756 |
| Shareholders' equity | | |
| Share capital | 214,585 | 214,585 |
| Reserves | 407,978 | 406,432 |
| Retained profits | (70,079) | (81,261) |
| Total shareholders' equity | 552,484 | 539,756 |

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Preliminary consolidated statement of changes in equity

| | 2006 \$'000 | 2005 \$'000 |
|---|----------------|----------------|
| Total equity at the beginning of the year | 539,756 | 509,819 |
| Adjustment on adoption of AIFRS to Reserves | - | 22,597 |
| Adjustment on change in rehabilitation policy | - | 4,906 |
| Cash flow hedges, net of tax | 571 | (6,355) |
| Net income recognised directly in equity | 571 | 21,148 |
| Profit for the year | 43,607 | 40,702 |
| Total recognised income and expense for the year | 44,178 | 61,850 |
| Employee share options | 975 | 512 |
| Dividends paid | (32,425) | (32,425) |
| Total equity at the end of the year | 552,484 | 539,756 |

Energy Resources of Australia Limited
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Preliminary consolidated statement of cash flows

| | 2006 \$000 | 2005 \$000 |
|---|--------------------------------|--------------------------------|
| | inflows/ (outflows) | inflows/ (outflows) |
| Cash flows from operating activities | | |
| Receipts from customers | 308,023 | 244,479 |
| Payments to suppliers and employees | (200,897) | (192,453) |
| | 107,126 | 52,026 |
| Interest received | 2,163 | 1,575 |
| Borrowing costs paid | (1,026) | (545) |
| Income taxes paid | (33,315) | (19,653) |
| Net cash inflow from operating activities | 74,948 | 33,403 |
| Cash flows from investing activities | | |
| Payments for property, plant and equipment | (40,927) | (46,171) |
| Proceeds from sale of property, plant and equipment | - | 96 |
| Net cash outflow from investing activities | (40,927) | (46,075) |
| Cash flows from financing activities | | |
| Proceeds from borrowings | 5,000 | 10,000 |
| Payment of borrowings | (10,000) | - |
| Dividends paid | (32,425) | (32,425) |
| Net cash outflow from financing activities | (37,425) | (22,425) |
| Net (decrease)/increase in cash held | (3,404) | (35,097) |
| Cash at the beginning of the financial year | 18,123 | 55,064 |
| Effects of exchange rate changes on cash | (90) | (1,844) |
| Cash at the end of the financial year | 14,629 | 18,123 |

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Additional information for announcement to the market

| Additional dividend/distribution information | | | | | |
|---|----------------|---------|---------------------|----------------|-----------------------------|
| Details of dividends/distributions declared or paid during or subsequent to the year ended 31 December 2006 are as follows: | | | | | |
| Record date | Payment date | Type | Amount per security | Total dividend | Franked amount per security |
| 15 February 2006 | 1 March 2006 | Final | 11.0 cents | \$20.981 m | 11.0 cents |
| 15 August 2006 | 31 August 2006 | Interim | 6.0 cents | \$11.444 m | 6.0 cents |
| 15 February 2007 | 1 March 2007 | Final | 11.0 cents | \$20.981 m | 11.0 cents |

| Retained earnings | 2006 | 2005 |
|---|-----------------|-----------------|
| | \$'000 | \$'000 |
| Retained earnings at the beginning of the financial year | (81,261) | (94,444) |
| Adjustment on change of rehabilitation policy | - | 4,906 |
| Net profit attributable to members of Energy Resources of Australia | 43,607 | 40,702 |
| Dividends provided for or paid | (32,425) | (32,425) |
| Retained profits at the end of the financial year | <u>(70,079)</u> | <u>(81,261)</u> |

| NTA Backing | 2006 | 2005 |
|---|------|------|
| Net tangible asset backing per ordinary share | 1.83 | 1.76 |

Audit

This report is based on accounts that are in the process of being audited.

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Notes to the preliminary consolidated financial statements

Note 1.
Significant Accounting Policies

The significant policies that have been adopted in the preparation of this financial report are:

(a) Basis of Preparation

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

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with the AIFRS ensures that the consolidated financial statements and notes of Energy Resources of Australia Ltd comply with the International Financial Reporting standards (IFRS).

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 and financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical Accounting Estimates

The presentation 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 accounting policies of Energy Resources of Australia Ltd. 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 of the full financial statements.

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities as at balance date and the results for the year ended of the company, being the parent entity, and its controlled entity ('the consolidated entity'). The balances and effects of transactions with the controlled entity have been eliminated in full.

(c) Revenue Recognition

Sale of Goods

Sales are brought to account when the products pass from the physical control of the company pursuant to an enforceable contract, when selling prices are known or can be reasonably estimated and when the products are in a form that requires no further treatment by the company.

A portion of the company's uranium oxide sales is provisionally priced based on prices at the time of shipment. Actual settlement is generally based on average market prices for a specific future period. Provisionally priced sales are adjusted monthly to current spot prices. These adjustments, and adjustments arising on final settlements, are reflected in sales revenue. In case a sale occurs after which (part of) the goods are borrowed back by the company under a separate agreement, the revenue is deferred until repayment of the borrowed goods.

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Rendering of Services

Revenue from the rendering of services is recognised when the service is provided.

Asset Sales

Net gains on disposal of assets is recognised at the date control of the asset passes to the acquirer.

Other Revenue

Interest income is recognised as it accrues.

(d) Foreign Currency

Functional and presentation currency

Items included in the financial statements 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 the company's functional and presentation currency.

Transactions and Balances

Foreign currency transactions are translated into the functional currency at the rates of exchange ruling at the dates of those transactions. Amounts payable and receivable in foreign currencies at balance date are translated at the rates of exchange ruling on that date. Exchange differences relating to amounts payable and receivable in foreign currencies are brought to account as exchange gains or losses in the income statement in the financial year in which the exchange rates change, except when deferred in equity as qualifying cash flow hedges.

(e) Borrowing Costs

Borrowing costs (including interest) are included in the income statement in the period during which they are incurred, except where they are included in the cost of non-current assets that are currently being developed and will take a substantial period of time to complete. The borrowing costs included in the cost of such developments are those costs that would have been avoided if the expenditure on the development had not been made.

Once the asset is ready for use, the capitalised borrowing costs are depreciated as a part of the carrying amount of the related asset.

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

f) Income Tax

Income tax expense for the period is the tax payable on the current period's "taxable income" adjusted by 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. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction other than a business combination that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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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.

The company is a member of a tax consolidated group, of which Energy Resources of Australia Limited is the head entity.

The introduction of UIG1052 Tax Consolidations Accounting means tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the company are recognised in the financial statements of the company using the 'stand-alone taxpayer within a group' method by reference to the carrying amounts in the financial statements of the company and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the company are assumed by the head entity in the tax consolidated group

In accordance with the tax-funding arrangement between the entities in the tax consolidated group, amounts are recognised as payable or receivable by the company in relation to the tax contributions payable to the parent. Where the tax contribution recognised by the company for a particular period is different to the aggregate of the current tax liability or asset and deferred tax asset arising from unused tax losses or credits in respect of that period, the difference is recognised as a contribution from or distribution to the parent entity.

(g) Receivables

Trade debtors are normally settled within 45 days and are carried at amounts due. The collectability of debts is assessed at balance date and specific provision is made for any doubtful amounts.

(h) Inventories

Inventories, other than stores, are carried at the lower of cost and net realisable value using the average cost method. Cost includes both fixed and variable production costs. No accounting value is attributed to ore in situ or stockpiles containing ore at less than the cut-off grade. Stores are valued at cost or net realisable value where applicable taking into account obsolescence. For inventory management purposes the company may enter into uranium loans as a lending or receiving party. These loans are entered into for logistical purposes and are repaid by the company's inventory. The uranium loans do not meet the definition of a financial liability and are recorded net of inventory.

(i) Impairment of Assets

Assets that have an indefinite useful life and intangible assets that are not yet available for use are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). In assessing recoverable amount for property,

Notes to the preliminary consolidated financial statements

plant and equipment including mine properties, along with development expenditure, the relevant cashflows have been discounted to their present value.

(j) Property, Plant and Equipment

Acquisition

Items of property, plant and equipment are initially recorded at cost and, except for land, are depreciated as outlined below.

Depreciation and Amortisation

Depreciation of plant and equipment is provided for as follows:

- (i) individual assets that have a life equal to or longer than the estimated remaining life of the Ranger mine are depreciated on a unit of production basis over the life of the economically recoverable resources; and
- (ii) each other asset is depreciated over its estimated operating life on a straight line basis.

The following indicates the depreciation method for buildings and plant and equipment on which the depreciation charges are based:

- Buildings – units of production over Ranger life of mine
- Plant and equipment* – units of production over Ranger life of mine

** Some of these assets are depreciated on a straight line basis over their useful operating life which is less than the life of the Ranger mine. See below for the estimated useful lives.*

- Office equipment: computers – 3 years
- Office equipment: general – 5 years
- Plant and equipment – 5 years
- Furniture & fittings – 10 years
- Motor vehicles – 5 years

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is completed and held ready for use.

Leased Plant and Equipment

Payments made under operating leases are charged against profits in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased property.

Ranger Project Rights

Ranger Project Rights are amortised on a unit of production basis over the life of the economically recoverable resources of Ranger.

(k) Exploration, Evaluation and Development Expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to:

- researching and analysing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- compiling pre-feasibility and feasibility studies.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

Capitalisation of exploration expenditure commences when there is a high degree of confidence in the project's viability and hence it is probable that future economic benefits will flow to the company. Capitalised exploration expenditure is reviewed for impairment at each

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balance sheet date. In the case of undeveloped properties, there may be only inferred resources to form a basis for the impairment review. The carrying values of these assets are reviewed twice per annum by management and the results of these reviews are reported to the Audit committee. The review is based on a status report regarding the company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. It is intended that these will be developed and go into production when the current source of ore is exhausted.

Subsequent recovery of the resulting carrying value depends on successful development of the area of interest or sale of the project. If a project does not prove viable, all unrecoverable costs associated with the project and the related impairment provisions are written off. Any impairment provisions raised in previous years are reassessed if there is a change in circumstances which indicates that they may no longer be required, for example if it is decided to proceed with development. If the project proceeds to development, the amounts included within intangible assets are transferred to property, plant and equipment.

This is a change to the policy but has no impact in these financial statements.

(l) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the company or consolidated entity. Trade accounts payable are normally settled within 55 days.

(m) Rehabilitation

The company is required to rehabilitate the Ranger Project Area upon cessation of mining operations. In accordance with industry practice, the company has excluded the provision for employee severance costs from the estimate for rehabilitation.

Closure costs are estimated on the basis of a closure model. The cost estimates are calculated annually during the life of the operation to reflect known developments, and are subject to regular reviews.

The amortisation or unwinding of the discount applied in establishing the net present value of provisions is charged to the profit and loss account in each accounting period. The amortisation of the discount is shown as a financing item. Other movements in the provisions for shutdown and restoration costs, including those resulting from new disturbance, updated cost estimates, changes to lives of operations and revisions to discount rates are capitalised within fixed assets. These costs are then depreciated over the lives of the assets to which they relate.

Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the outstanding continuous rehabilitation work at each balance date. All costs of continuous rehabilitation work are charged to the provision as incurred.

The exclusion of the severance costs from the rehabilitation provision and asset is a change in accounting policy affecting the balances of non-current provisions, property plant and equipment, deferred tax assets and retained profits. Retained profits have been increased by the amount relating to the difference between unwinding of the discount rate on the rehabilitation provision and the amortization of the deferred tax asset in previous periods. After netting out the tax effect, the retained profits balance has been increased by \$4.9 million in relation to these prior period adjustments.

Each year the company is required to submit an annual amended plan for rehabilitation, reflecting the cost of closing the mine immediately, in accordance with government regulations. The Ranger Rehabilitation Trust Fund is a Commonwealth Government requirement and provides for those costs in accordance with regulations.

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An annual independent assessment is made to determine the amount to be held in the trust fund. Any deficit identified is required to be met by either cash or a financial instrument if the cash balance is over \$30 million. The trust fund is shown as an investment in the balance sheet as the company does not control the trust fund. If there is a surplus identified then this may be withdrawn. Transactions requiring cash are shown as changes to cash and investments in the balance sheet and transactions by means of a financial instrument are shown as a note to the accounts. Interest received by the Fund is shown as interest income.

The company is required to rehabilitate the Jabiluka lease area to a standard compatible with incorporation into Kakadu National Park if desired by the landowners, upon cessation of mining operations. The cost of rehabilitation is currently secured by a bank guarantee and fully provided for in the financial statements.

(n) Derivatives

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured to their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates derivatives as hedges with a high probability against forecast transactions (cash flow hedges).

The company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The company also documents its assessment, both at hedge 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.

The effective portion of changes in the fair value 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). 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.

Derivative financial instruments are not held for speculative purposes.

(o) Employee Entitlements

Wages and Salaries, Annual Leave and Sick Leave

The provisions for employee entitlements to wages, salaries and annual leave represent the amount which the consolidated entity has a present obligation to pay resulting from employees' services provided up to the reporting date. The provisions have been measured at the amounts expected to be paid when the liabilities are settled and include all related on-costs. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Long Service Leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision of employee benefits and is measured in accordance with the above. The liability for long service leave expected to be settled more than 12 months from the reporting date is 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

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given to the expected future wage and salary levels, experience of employee departures and periods of service.

Expected future payments are discounted using the rates attaching to Commonwealth Government securities at the reporting date, which most closely match the terms of maturity of the related liabilities.

Superannuation Plan

Many employees of the company are entitled to benefits on retirement, disability or death from their membership of the Rio Tinto Staff Superannuation Fund. The Fund has both a defined benefit and a defined contribution section. Contributions to the defined contribution superannuation plans are expensed in the Income Statement when incurred.

For the defined benefit plans, as there is no agreement in place for charging the net defined benefit cost for the plan as a whole to the individual Rio Tinto Group entities, the company will recognise a cost in the income statement equal to the contribution payable for the period. The cash contributions to the fund are made through reference to a percentage of base salary contribution per defined benefit employee as determined by the fund trustee and applied to those defined benefit employees of the Fund. Rio Tinto Services Limited as the sponsoring entity of the Fund will disclose the defined benefit obligation and associated charges to the income statement.

(p) Investments

Controlled Entities

The investment in the controlled entity is carried in the company's financial report at the lower of cost or recoverable amount. Dividends and distributions are recognised in the statement of financial performance when they are declared by the controlled entity.

(q) Segments

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. The operations of the controlled entity are classified as a business segment.

(r) Cash Equivalents

For the purposes of the statement of cashflows, cash includes cash on hand and deposits held at call with banks net of any bank overdrafts.

(s) Earnings per Share

Basic Earnings per Share

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

Diluted Earnings per Share

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

(t) 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

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financial report. Amounts in the financial report have been 'rounded off' in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(u) Share-based Payments

The executives and employees of the company are eligible to participate in various share based payment plans as part of the companies' membership of the Rio Tinto group.

Share options granted before 7 November 2002 and/or vested before 1 January 2005

These options are excluded from the scope of AASB 2 Share-based Payment under the exemptions contained in AASB 1 First-time Adoption of Australian Equivalents to IFRS. As such the shares are not recognised until the options are exercised, at which time any shortfall between the exercise price paid by the employee of the company and the market price of the Rio Tinto Limited or Rio Tinto plc shares at the date of exercise is recognised as an employee benefits expense in the Income Statement.

Share options granted after 7 November 2002 and vested after 1 January 2005

The fair value of options granted under the equity-settled share-based payment plans are recognised as an employee benefit expense over the expected vesting period. The fair value of the share plans is determined at the date of grant, taking into account any market-based vesting conditions attached to the award. When market prices are not available, fair values are used that are provided by independent actuaries.

The fair value of the options granted excludes the impact of any non-market based vesting conditions. Non-market based vesting conditions are taken into account in estimating the number of awards likely to vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date, at which point the estimate is adjusted to reflect the actual awards issued. No adjustment is made after the vesting date even if the awards are forfeited or not exercised.

(v) Dividends

Provision is made for the amount of any dividend declared, determined or publicly recommended by the Directors on or before the end of the financial year but not distributed at balance date.

(w) New accounting standards and UIG interpretations

Certain new standards and UIG interpretations have been published that are not mandatory for 31 December 2006 reporting period; these changes have not been adopted early. The impact of these new standards and interpretations is not expected to impact any of the amounts recognised in the financial statements when they are adopted in the future.

Energy Resources of Australia Limited
Year ended 31 December 2006
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Notes to the preliminary consolidated financial statements

| Note 2. | | |
|--|----------------|----------------|
| Revenue | 2006 | 2005 |
| | \$000 | \$000 |
| Revenue from operating activities | | |
| Sale of goods | 312,188 | 261,602 |
| Rendering of services | 510 | 434 |
| Total sales revenue | 312,698 | 262,036 |
| Revenue from outside operating activities | | |
| Interest received/receivable, other parties | 4,492 | 3,892 |
| Proceeds from sale property, plant and equipment | - | 96 |
| Total revenue | 317,190 | 266,024 |

| Note 3. | | |
|--|---------------|---------------|
| Operating Profit | 2006 | 2005 |
| | \$000 | \$000 |
| The operating profit before income tax expense includes the following specific net gains and expenses: | | |
| Cost of Sales | 194,522 | 157,041 |
| Amortisation of Ranger Project Rights | 11,360 | 17,467 |
| Amortisation of Rehabilitation asset | 2,016 | 3,496 |
| Depreciation of non-current assets: | | |
| Land and buildings | 1,779 | 3,748 |
| Plant and equipment | 18,490 | 23,121 |
| Total depreciation | 20,269 | 26,869 |
| Net exchange (gain)/loss on translation of US\$ bank accounts | (10) | 301 |
| Royalty payments | 3,636 | 2,999 |
| Payments to Aboriginal interests | 12,361 | 10,224 |
| Rental expense relating to operating leases | 200 | 261 |
| Borrowing costs: | | |
| Related parties | 446 | 193 |
| Other parties | 580 | 352 |
| Rehabilitation provision | 9,964 | 9,426 |
| Other charges against assets: | | |
| Write down of stores to net realisable value | 245 | 283 |
| Research and development expenditure | 8,236 | 3,478 |
| Long-term employee benefits expense | 1,303 | 39 |
| Net (gain)/loss on sale of property, plant and equipment | 537 | 4 |

Energy Resources of Australia Limited
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Notes to the preliminary consolidated financial statements

| Note 4. | | |
|---|---------|--------|
| Reconciliation of income tax expense | | |
| | 2006 | 2005 |
| | \$000 | \$000 |
| Operating profit before income tax | 62,247 | 59,182 |
| Prima facie income tax expense @ 30% | 18,674 | 17,754 |
| Tax effect of permanent differences: | | |
| R&D Tax Concession | (1,841) | - |
| Amortisation of rehabilitation asset | 577 | 1,049 |
| Other non-allowable items | 567 | 35 |
| Tax effect of finalisation of trading stock case | - | - |
| Income tax over provided in prior years | 663 | (358) |
| Income tax expense attributable to operating profit | 18,640 | 18,480 |
| Income tax expense | 18,640 | 18,480 |

| Note 5. | | |
|--|---------------|---------------|
| Reconciliation of profit from ordinary activities after income tax to net cash flow from operating activities | | |
| | 2006 | 2005 |
| | \$000 | \$000 |
| Operating profit after income tax | 43,607 | 40,702 |
| Add/(less) items classified as investing/financing activities: | | |
| (Profit)/loss on sale of non-current assets | 537 | 4 |
| Add/(less) non-cash items: | | |
| Depreciation and amortisation | 33,645 | 47,832 |
| Closure interest expense | 9,964 | 9,426 |
| Employee benefits – share scheme | 220 | 140 |
| Unrealised foreign exchange on cash | (632) | (301) |
| Net exchange differences | (90) | 1,844 |
| Increase in deferred tax - hedges | 275 | (6,961) |
| Change in operating assets and liabilities: | | |
| (Increase)/decrease in trade and other debtors | (3,952) | (46,785) |
| (Increase)/decrease in inventories | (1,129) | (29,922) |
| (Increase)/decrease in prepayments | (314) | 336 |
| (Increase)/decrease in interest receivable | (2,328) | (2,318) |
| (Decrease)/increase in trade creditors | 9,954 | 2,120 |
| (Decrease)/increase in provision for income taxes payable | (7,483) | 11,356 |
| (Decrease)/increase in net provision for deferred income tax liability and future income tax benefit | (7,467) | (5,567) |
| (Decrease)/increase in other provisions/liabilities | 141 | 11,497 |
| Net cash inflow provided by operating activities | 74,948 | 33,403 |

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Notes to the preliminary consolidated financial statements

**Note 6.
Segment Reporting**

| 2006 | Uranium \$000 | Consulting \$000 | Eliminations \$000 | Consolidated \$000 |
|---|------------------|---------------------|-----------------------|-----------------------|
| Sales to external customers | 312,188 | 510 | - | 312,698 |
| Inter-segment sales | - | 2,488 | (2,488) | - |
| Total sales revenue | 312,188 | 2,998 | (2,488) | 312,698 |
| Other revenue | 4,487 | 5 | - | 4,492 |
| Total segment revenue | 316,675 | 3,003 | (2,488) | 317,190 |
| Segment result before tax | 62,952 | (705) | - | 62,247 |
| Income tax expense | 18,813 | (173) | - | 18,640 |
| Segment result after tax | 44,139 | (532) | - | 43,607 |
| Total assets (exc tax) | 870,073 | 397 | (1,189) | 869,281 |
| Total liabilities (exc tax) | 240,026 | 1,145 | (1,089) | 240,082 |
| Acquisition of non-current assets | 39,230 | 170 | - | 39,400 |
| Depreciation & amortisation expense | 33,442 | 203 | - | 33,645 |
| Other non-cash expenses | (1,624) | (8) | - | (1,632) |
| Net cash inflow from operating activities | 74,941 | 7 | - | 74,948 |
| 2005 | Uranium \$000 | Consulting \$000 | Eliminations \$000 | Consolidated \$000 |
| Sales to external customers | 261,602 | 434 | - | 262,036 |
| Inter-segment sales | - | 3,287 | (3,287) | - |
| Total sales revenue | 261,602 | 3,721 | (3,287) | 262,036 |
| Other revenue | 3,983 | 5 | - | 3,988 |
| Total segment revenue | 265,585 | 3,726 | (3,287) | 266,024 |
| Operating profit/(loss) before tax | 59,496 | (314) | - | 59,182 |
| Income tax expense | 18,556 | (76) | - | 18,480 |
| Operating profit/(loss) after tax | 40,940 | (238) | - | 40,702 |
| Total assets (exc tax) | 864,817 | 652 | (965) | 864,504 |
| Total liabilities (exc tax) | 238,214 | 841 | (1,066) | 237,989 |
| Acquisitions of non-current assets | 57,175 | 105 | - | 57,280 |
| Depreciation & amortisation expense | 47,706 | 126 | - | 47,832 |
| Other non-cash expenses | (1,481) | (5) | - | (1,486) |
| Net cash inflow from operating activities | 33,370 | 33 | - | 33,403 |