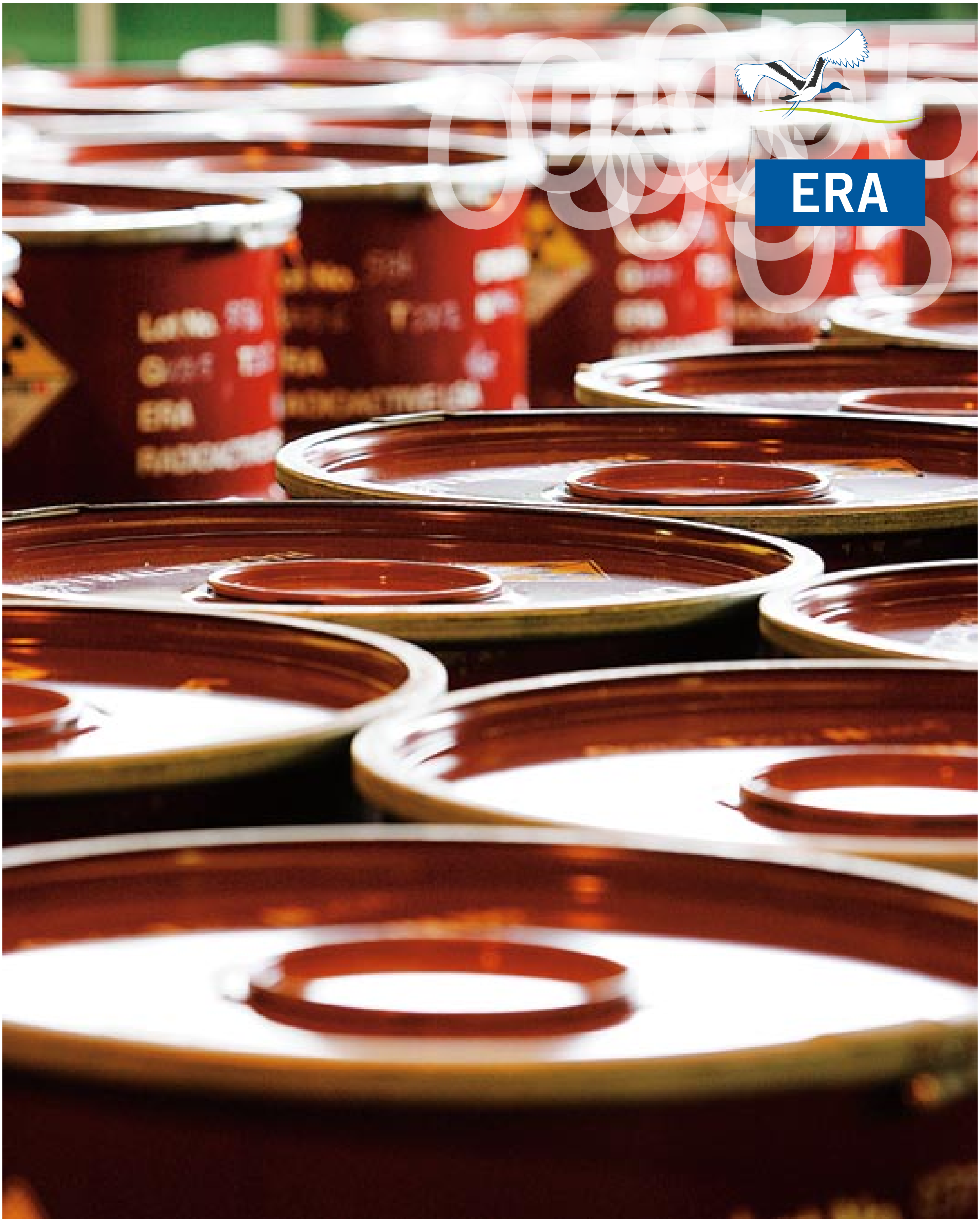
# ERA 2005 Annual Report



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Profit after tax

**$40.7m**

**(2004: $37.0 million)**

Record Production

**5,910 tonnes**

**(2004: 5,137 tonnes) of drummed $U_3O_8$**

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## 2005 Highlights

- A record 5,910 tonnes of drummed uranium oxide
- Net profit increase to $40.7 million (2004: $37.0 million)
- 73 per cent improvement in safety performance
- Construction of $28.0 million water treatment plant
- Unit cost maintained at 2004 level
- Jabiluka care and maintenance agreement signed

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## 2006 Objectives

- Improve Aboriginal employment and training
- Continue improvements in safety and health
- Aim for new production record
- Strengthen community links
- Significantly expand exploration program

# Company Profile

Dr David Klingner, Chairman
Mr Harry Kenyon-Slaney, Chief Executive

Energy Resources of Australia Ltd is one of the largest uranium producers in the world, providing 11 per cent of the world's uranium needs

Since 1980 the company has mined ore and produced uranium oxide ($U_3O_8$) at its Ranger mine, 250 kilometres east of Darwin, in Australia's Northern Territory. ERA sells its product, drummed uranium oxide, to power utilities in Japan, South Korea, Europe and North America under a strict international safeguards regime, monitored by the International Atomic Energy Agency.

The company aims to secure profitable contracts for material mined at Ranger's No. 3 open pit and its ore stockpiles until at least 2014.

ERA also holds title to the Jabiluka deposit situated 22 kilometres north of Ranger. This project is now under long-term care and maintenance.

The Ranger mine and the Jabiluka lease are located on Aboriginal land. The conditions for mining on Aboriginal land are laid down in agreements with the Northern Land Council under the terms of the Commonwealth's Aboriginal Land Rights (NT) Act.

ERA, publicly listed on the Australian Stock Exchange, is 68.4 per cent owned by Rio Tinto, a diversified resource group, and has a management services agreement with Rio Tinto. The balance of the company's shares are publicly held and openly traded.

## Vision and Values

At ERA we strive to keep to the guiding principles set out in our Code of Business Conduct, particularly:

- Placing paramount importance on the safety and wellbeing of our people
- Creating value for our shareholders
- Building partnerships with our customers, aiming to exceed their expectations
- Caring for our surrounding environment through exemplary management systems and a commitment to the principles of sustainable development
- Respecting the culture and aspirations of Indigenous people in our community, particularly the Mirarr Traditional Owners of Ranger and Jabiluka
- Strengthening the culture of compliance with the legal framework within which ERA operates.

# Chairman's and Chief Executive's Report

**ERA celebrated 25 years of continuous operation in 2005, with record production, a ten per cent profit increase, and an improved safety performance.**

ERA produced 5,910 tonnes of uranium oxide in 2005, a 15 per cent improvement on 2004, the previous highest year on record for production.

Net profit after tax rose ten percent to $40.7 million, compared with a profit of $37.0 million for the same period in 2004. Profit before interest and tax totalled $65.3 million, a 53 per cent increase on 2004. The results were driven by a steady rise in the average realised price of uranium oxide from US$13.68 per pound in 2004 to US$16.00 per pound in 2005.

While this average realised price fell short of the improvement in the market price for uranium oxide, the 2005 results reflect the fact that existing contracts were let under less favourable market conditions. This means that ERA's revenue is only partially influenced by market prices and this will persist as the company fulfils its existing contracts. New contracts are currently being let at higher prices as old ones expire.

A final dividend of 17 cents per share fully franked was declared for the year.

Record sales of 5,688 tonnes of uranium oxide included 136 tonnes of third party material purchased in 2004. ERA expects sales in 2006 to be at a similar level to 2005.

A company-wide effort achieved a big improvement in safety, with a 73 per cent drop in the lost time injury frequency rate, and a reduction in the number of actual lost time injuries from 12 to 5. The company also achieved certification under the Australian standard AS 4801 for its health and safety management system.

Sound environmental management is the basis for ERA's licence to operate and 2005 witnessed the construction of a new $28 million water treatment plant to allow long-term improvements in water management at the company's Ranger minesite. Purified water is now able to be discharged into the surrounding environment, assisting operations in the mine, as well as preparing the way for final rehabilitation of the site in due course. The company was re-certified by independent auditors, under International Standard ISO 14001 for its environmental management system.

The improvement in the market price of uranium oxide enabled the company to extend its operating life by three years to 2014 through the lowering of the cut-off grade from 0.12% to 0.08% uranium oxide. This has increased Ranger reserves by more than 6,000 tonnes.

The company's shareholding structure changed in 2005 following the sale by former B and C class shareholders in December 2005 of their shareholdings in the company. As a result of the sale the company now has only A class shares on issue totalling 190,737,934 shares. Rio Tinto continues to hold 68.39 per cent of the company's shares with the balance publicly held.

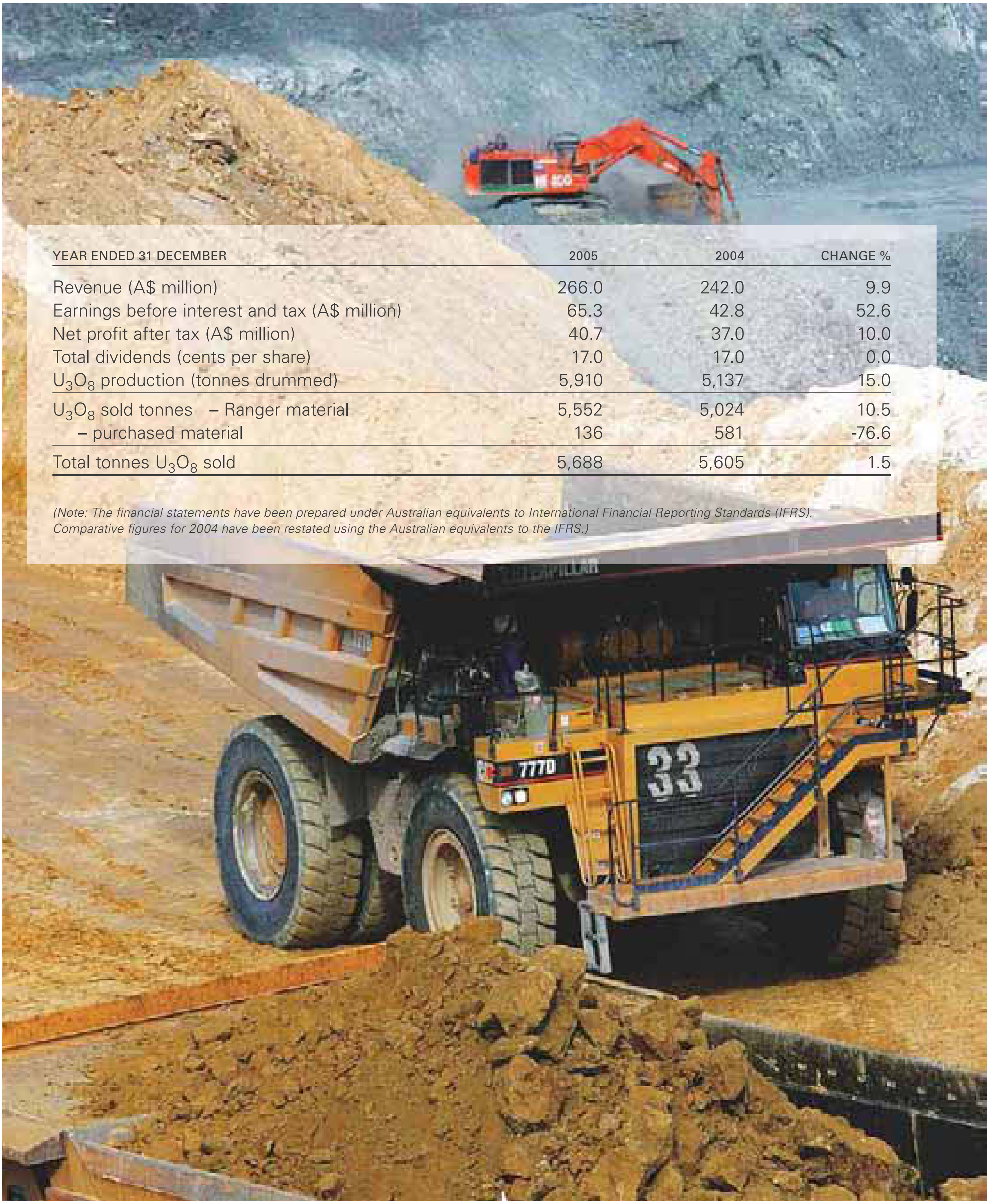
Efforts continue to strengthen relationships with the Mirarr people, Traditional Owners of the Ranger and Jabiluka leases. Better relations have developed following the signing of the Jabiluka Long Term Care and Maintenance Agreement in February 2005, giving the Mirarr the right of consent over future development on the Jabiluka lease. Discussions over final closure plans for Ranger will continue in 2006, with Traditional Owners actively involved in developing final rehabilitation and land form plans.

In October the company's Chief Executive appeared before the Federal Parliament's House of Representatives Standing Committee on Industry and Resources' hearings into the strategic importance of Australia's uranium reserves. ERA has welcomed this opportunity for the industry to contribute its views to the future development of uranium mining in Australia. At the same time, the company is committed to the Federal Government's three-year Uranium Industry Framework (UIF) process, and takes part in several of the UIF's working groups. The Framework is intended to support the sustainable development of Australia's uranium industry.

# Financial Highlights

| YEAR ENDED 31 DECEMBER | 2005 | 2004 | CHANGE % |
|---|---|---|---|
| Revenue (A$ million) | 266.0 | 242.0 | 9.9 |
| Earnings before interest and tax (A$ million) | 65.3 | 42.8 | 52.6 |
| Net profit after tax (A$ million) | 40.7 | 37.0 | 10.0 |
| Total dividends (cents per share) | 17.0 | 17.0 | 0.0 |
| $U_3O_8$ production (tonnes drummed) | 5,910 | 5,137 | 15.0 |
| $U_3O_8$ sold tonnes – Ranger material | 5,552 | 5,024 | 10.5 |
| – purchased material | 136 | 581 | -76.6 |
| Total tonnes $U_3O_8$ sold | 5,688 | 5,605 | 1.5 |

*(Note: The financial statements have been prepared under Australian equivalents to International Financial Reporting Standards (IFRS). Comparative figures for 2004 have been restated using the Australian equivalents to the IFRS.)*



# Financial Performance

Profit
**$40.7m**
**(2004: $37.0 million)**

EBIT
**$65.3m**
**(2004: $42.8 million)**

Revenue
**$266m**
**(2004: $242 million)**


## Earnings

ERA recorded a net profit after tax of $40.7 million for the full year ended 31 December 2005 compared with a profit of $37.0 million for the same period in 2004.

## Revenue

Sales for the year were 5,688 tonnes (2004: 5,605 tonnes) including 136 tonnes (2004: 581 tonnes) of third party material purchased in 2004. Operating revenue for the year was $262.0 million (2004:$236.3 million). ERA's contractual sale price is only partially influenced by the spot market because of the long-term nature of its sales contracts, and the average realised sale price of uranium oxide was US$16.00/lb (2004: US$13.68/lb). On 31 December 2005 the spot market price was US$36.13/lb (2004: US$20.43/lb).

Revenue was affected by a stronger exchange rate, which had a negative impact of approximately $7.3 million. In addition, revenue of $10.2 million has been deferred due to the accounting treatment applied to some material borrowed back from an existing customer.

## Costs

Employee costs increased as numbers rose to support the additional output in both the mine and the processing plant. Increases were also experienced in diesel expenditure and consumable usage. However, total operating costs on a unit of production basis did not increase and were similar to the corresponding period in 2004.

## Loans

A number of short term uranium loans were required during the year to manage inventory levels at converters. Only one had not been repaid at year end and this involved the sale to, and loan back from, an existing customer of 181 tonnes of uranium oxide. The accounting treatment of this transaction requires that the revenue of $10.2 million and the associated net income of $4.9 million be deferred until the physical loan is repaid. Repayment of the loan is expected to take place in 2008.

## Foreign Currency Hedges

Foreign currency hedges due to mature in 2006 amount to US$42 million at an average rate of 65 US cents (2005: US$45 million at an average rate of 64 US cents.

## Dividends

ERA Directors have declared a final dividend for the year of 11 cents per share, fully franked at 30 per cent (compared with a dividend of 11 cents for the same period in 2004). The record date for the dividend is 15 February 2006 and it will be paid on 1 March 2006. This is in addition to the interim dividend paid in August 2005 of 6 cents per share, giving total dividends paid to shareholders for the year of 17 cents per share, fully franked (2004: 17 cents per share).

# Production

**Ranger achieved a second consecutive year of record production in 2005, with a total of 5,910 tonnes of uranium oxide drummed, a 15 per cent increase on 2004.**

The increase in uranium oxide production was due to:

- record mill throughput at 2.3 million tonnes (10 per cent higher than 2004)
- higher than planned uranium content of ore (head grade) at an average of 0.288 per cent

## Mining

Material excavated from the Ranger Pit 3, the current operating pit, increased by 66 per cent over the previous year, with a total movement of 17.1 million tonnes. A total of 2.19 million tonnes of ore grading 0.274 per cent uranium oxide was included in this quantity. An additional four Caterpillar 777 D haul trucks and a Hitachi EX 1200 excavator were brought into operation to assist the increased production.

Mining focused on the removal of overburden, with the pit expanding on the eastern and western sides out to the final pit walls. The majority of ore grade material was removed from the lower benches of the expanded pit area.

## Processing

Production was increased in order to meet higher commitments as customers exercised upward flexibility in existing sales contracts. Continuous shifts in the mine were introduced from February 2005 to ensure production plans were achieved. For most of the year, operations continued 24 hours a day, seven days a week.

Better utilisation of the mill and better performance on the grinding circuit were achieved through a greater focus on preventative maintenance.

The previous maintenance strategy of one major shutdown was replaced with a series of smaller plant shutdowns allowing increased maintenance efficiencies and tighter control of all aspects of the shutdowns. An increase in the number of tradespeople and supervisors employed in both fixed and mobile plant maintenance allowed for higher planned maintenance efficiencies and quicker reaction to unplanned events.

In the processing plant, a program of pipework replacement in the acid plant was commenced and process water line upgrades were completed.

## Exploration

Drilling on the eastern vicinity of the current operating pit occurred during the year, with a total of 9,232 metres drilled at a cost of $2.26 million. This drilling program was designed to determine the ultimate size of Ranger Pit 3 and to test whether there is any possible extension of the orebody. Further drilling is merited in 2006 to continue this process.

Airborne geophysical surveys were conducted and interpretation of the information has highlighted further opportunities that are in the very early stages of assessment. These opportunities will be considered for further exploration drilling in 2006.

| RANGER RESERVES RECONCILIATION | 2005 |
|---|---|
| Reserves at 1 January 2005 | 43,895 |
| Additional Reserves | 7,169 |
| Depletion of Reserves due to mining and processing | –6,606 |
| Reserve as at 31 December 2005 | 44,458 |

| YEAR ENDED 31 DECEMBER | 2005 | 2004 |
|---|---|---|
| Total ore milled, (million tonnes) | 2.293 | 2.086 |
| Processing head grade (% $U_3O_8$) | 0.288 | 0.278 |
| Mill circuit No. 1 (tonnes per operating hour) | 216 | 217 |
| Mill Circuit No. 2 (tonnes per operating hour) | 107 | 102 |
| Processing recovery (%) | 89.2 | 88.8 |
| Total production (tonnes $U_3O_8$ drummed) | 5,910 | 5,137 |
| Product grade (% $U_3O_8$) | 98.7 | 99.2 |

## Ranger Resources and Reserves

In October the company announced an increase in total reserves and resources of contained uranium oxide. These increases result from a reduction in the cut-off grade from 0.12 per cent to 0.08 per cent uranium oxide. The additional reserves will be processed between 2011 and 2014, adding three years to the predicted operational life of Ranger but at lower rates of production. Mining is still expected to cease in 2008 on current projections.

Recent increases in the market price of uranium oxide warranted this review of the cut-off grade for processing Ranger ore (the cut-off grade is the level down to which it is deemed to be economic to process ore). For at least the past ten years, due to market conditions, the economic cut-off grade has been held at 0.12 per cent uranium oxide.

In addition, the company completed its annual assessment and reconciliation of both Ranger and Jabiluka resources and reserves, and this was released in February 2006.

Work continued on the feasibility of treating lateritic ore, presently held in stockpiles.

## Jabiluka Resources and Reserves

The Jabiluka mine design was modified as part of the annual reserve review. Changes to the ore reserve are a result of re-allocation of material from proved and probable reserve to measured and indicated resource. Changes to the resources resulted from measured and indicated material outside the design being re-evaluated. As previously announced to the market, the Jabiluka project remains under long term care and maintenance and will not proceed without the consent of the Traditional Owners.

# Ore Reserves and Mineral Resources

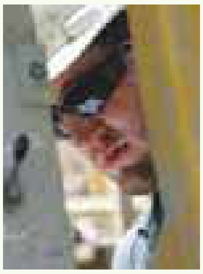
| | AS AT 31 DECEMBER 2005 CUT-OFF GRADE 0.08% $U_3O_8$ | | | AS AT 31 DECEMBER 2004 CUT-OFF GRADE 0.12% $U_3O_8$ | | |
|---|---|---|---|---|---|---|
| | ORE (MT) | GRADE (% $U_3O_8$) | CONTAINED $U_3O_8$ (TONNES) | ORE (MT) | GRADE (% $U_3O_8$) | CONTAINED $U_3O_8$ (TONNES) |
| **RANGER ORE RESERVES** | | | | | | |
| Current Stockpile | 9.98 | 0.15 | 14,716 | 6.34 | 0.20 | 12,878 |
| **Ranger No. 3 pit** | | | | | | |
| In-situ ore | | | | | | |
| Proved | 4.48 | 0.25 | 11,314 | 4.15 | 0.29 | 12,186 |
| Probable | 8.42 | 0.22 | 18,428 | 7.50 | 0.25 | 18,831 |
| Sub-total Proved and Probable | 12.90 | 0.23 | 29,741 | 11.65 | 0.27 | 31,017 |
| **Total Ranger No. 3** | | | | | | |
| Stockpile, Proved and Probable Reserve | 22.78 | 0.20 | 44,458 | 17.99 | 0.24 | 43,895 |
| **RANGER MINERAL RESOURCES** | | | | | | |
| | | | IN ADDITION TO THE ABOVE RESERVE | | | |
| Measured | 1.42 | 0.15 | 2,115 | 0.80 | 0.19 | 1,529 |
| Indicated | 12.55 | 0.14 | 18,018 | 6.26 | 0.19 | 12,020 |
| Sub-total Measured and Indicated Resources | 13.97 | 0.14 | 20,133 | 7.06 | 0.19 | 13,549 |
| Inferred Resources | 16.11 | 0.14 | 22,454 | 7.86 | 0.18 | 14,520 |
| Total Resources | 30.08 | 0.14 | 42,587 | 14.92 | 0.19 | 28,069 |

| | AS AT 31 DECEMBER 2005 CUT-OFF GRADE 0.20% $U_3O_8$ | | | AS AT 31 DECEMBER 2004 CUT-OFF GRADE 0.20% $U_3O_8$ | | |
|---|---|---|---|---|---|---|
| | ORE (MT) | GRADE (% $U_3O_8$) | CONTAINED $U_3O_8$ (TONNES) | ORE (MT) | GRADE (% $U_3O_8$) | CONTAINED $U_3O_8$ (TONNES) |
| **JABILUKA ORE RESERVES** | | | | | | |
| Proved | 6.40 | 0.59 | 38,000 | 6.80 | 0.57 | 39,000 |
| Probable | 6.42 | 0.45 | 29,000 | 7.00 | 0.45 | 32,000 |
| Total Proved and Probable | 12.82 | 0.52 | 67,000 | 13.80 | 0.51 | 71,000 |
| **JABILUKA MINERAL RESOURCES** | | | | | | |
| | | | IN ADDITION TO THE ABOVE RESERVE | | | |
| Measured | 1.80 | 0.41 | 7,000 | 0.05 | 13.76 | 7,000 |
| Indicated | 3.75 | 0.39 | 14,000 | 1.50 | 0.67 | 10,000 |
| Sub-total Measured and Indicated | 5.37 | 0.39 | 21,000 | 1.55 | 1.10 | 17,000 |
| Inferred | 15.70 | 0.48 | 75,000 | 15.70 | 0.48 | 75,000 |
| Total Resources | 21.07 | 0.46 | 96,000 | 17.25 | 0.54 | 92,000 |

*The information in this report that relates to Mineral Resources or Ore reserves is based on information compiled for Ranger by the company's Geologist Stephen Dinkowitz and Mining Engineer Dayle Kenny, who are members of the Australasian Institute of Mining & Metallurgy and full-time employees of the company, and for Jabiluka by Consulting Geologist Andrew Browne and Rio Tinto Mining Engineer Iain Ross, who are members of the Australasian Institute of Mining & Metallurgy. Stephen Dinkowitz, Dayle Kenny, Andrew Browne and Iain Ross have sufficient experience which is relevant to the style of mineralisation and the type of deposit under consideration, and to the activity which they are undertaking to qualify as Competent Persons as defined in the 2004 Edition of the "Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves". Stephen Dinkowitz, Dayle Kenny, Andrew Browne and Iain Ross consent to the inclusion in the report of the matters based on their information in the form and context in which it appears.*

# Water Treatment Plant

**During 2004 the company took the decision to construct a water treatment plant at a cost of $28 million to assist with environmental management and mining operations. In April 2005 construction commenced and by December the plant was complete.**



Typically there are about 1.5 metres of rainfall each year on the Ranger site, and the storage and management of water is one of the mine's biggest environmental challenges. The plant provides a means to safely treat and release water which is stored in various holding areas

The new plant will treat 1.5 million tonnes per year of pond and process water, removing impurities to a level that will allow the water to be released into the surrounding environment, leading to a continuous reduction of water retained on site.

The new plant can treat water at rates of 7,000 tonnes a day for pond water, 4,000 tonnes a day for process water, or in a combined mode, 6,000 tonnes a day. Process water has been used in the treatment of ore in the processing plant and requires more intensive treatment than pond water which is rainwater run-off from stockpiles and other areas of the mine.

The purification process is in three stages: firstly, the pre-treatment or softening process removes the larger impurities using a clarifier; secondly, the water is subject to ultra-filtration using membranes; finally, there is further membrane process known as reverse osmosis.

The water will then be released into the environment either directly (treated pond water) or through wetland filters (treated process water).

The process results in a high degree of purification.

Strict monitoring by Government officials of water downstream from the mine site will continue, with the Commonwealth Government's Supervising Scientist playing a lead role.

The plant is designed for a life of 20 years. It will continue to operate after the end of production (currently scheduled for 2014) becoming an integral part of the Ranger rehabilitation.

The plant was completed under budget, and achieved a good safety record with no lost time injuries being recorded throughout the 150,000 hours worked.

# Marketing

**ERA's total sales of uranium oxide for the year reached a new record of 5,688 tonnes (2004: 5,605 tonnes). When adjusted for material purchased from third parties, sales of ERA material were 5,552 tonnes, an increase of 10.5 per cent over the previous year.**

The recovery in uranium market fundamentals and pricing continued in 2005, following the trend begun in late 2003. The spot price for uranium oxide rose from US$20.43 in January 2005 to US$36.13 at the end of the year. Buying activity was high throughout most of the year as utilities sought to cover near-term requirements and build inventories in the face of supply uncertainties.

The long-term price, against which sales are referenced, remained at a premium to the spot price for most of this time, rising from US$25.00 to US$36.25 over the course of the year. This represents the largest price increase since the 1970s. ERA's average delivery price during 2005 was well below this figure due to the lagging effect of 'legacy' contracts signed in the previous five years. As these older contracts unwind from the portfolio, they will be replaced by contracts at current market levels.

The primary causes of the marked price increase over the past three years have been the depletion of secondary market inventories, arising from the down-blending of weapons-grade uranium following the end of the Cold War, and a renewed interest by utilities in procuring material under long-term contracts. Long-term market volume in 2005, at over 200 million pounds of uranium oxide, greatly exceeded typical annual activity as buyers sought to cover their requirements well into the future in the face of rapidly rising prices. The level of long-term purchasing activity is expected to remain high, as many utilities worldwide are largely uncovered in the period beyond 2009.

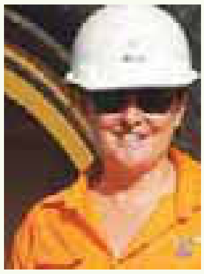
Another factor driving the market recovery is the improved outlook for nuclear power worldwide. A consistent theme of the past several years has been the efforts by utilities to raise utilisation of their nuclear power plants in the face of rising fossil fuel costs. Concern over climate change arising from increased greenhouse gas emissions is forcing governments to take a new look at nuclear power, a fuel which produces minimal greenhouse gases. Developing countries such as China and India are embarking on major nuclear power construction projects, and are poised to become significant importers of uranium within the next few years. Countries that some years ago considered abandoning nuclear power, such as Germany, Sweden and the UK, are now re-evaluating those plans and may elect to develop their nuclear power infrastructure. Some utilities in the United States are also on the verge of ordering new reactors, given both the requirement for energy diversity, and operating cost data illustrating that nuclear power is consistently the lowest-cost source of electricity in the US.

In this encouraging environment, ERA is seeking to maximise the prices received from sales contracts. The company seeks contracts that provide exposure to future market prices, as well as locking in the current favourable price levels. The company also seeks to maintain the geographic and customer diversification that provides the greatest total return, while minimising risk and strictly complying with all international safeguards regimes.

In October 2005, ERA appointed Rio Tinto Uranium to provide sales and market services and sales contract administration. While ERA will retain control over marketing decisions and sales contracts, the new arrangements will provide synergies, including better access to emerging markets, improved communications with customers and rationalised marketing, sales and logistics services.

# Employees

Permanent employees of ERA (including EWL Sciences) increased from 273 at the end of 2004 to 354 at the end of 2005. Contractor numbers dropped from 72 at the end of 2004 to 40 at the end of 2005.



Employee turnover dropped significantly from 2004 levels despite continued tightening of the external labour market.

The reduction in employee turnover can be attributed to a range of interventions undertaken during 2005:

- There has been a strong focus on providing practical leadership training to all employees in leadership roles.
- Induction and training packages were again expanded to support improvements in health, safety and environmental performance.
- ERA sought and gained re-registration as a Registered Training Organisation (RTO) which enabled the company to issue qualifications for task-specific competencies.
- The company developed and implemented a new Work Performance Assessment (WPA) system that rates a team member's overall contribution for the full year against pre-determined individual objectives.
- Competitive remuneration and salary packaging were key areas of focus and the company is continuing to monitor remuneration to ensure the retention and attraction of talented employees. Salary packaging options were expanded.
- A fly-in/fly-out (FIFO) program for some employees was introduced, assisting with a better work/family balance, and helping to alleviate accommodation shortages.

In the tight labour market, recruitment proved challenging and at times drawn out but the company has been successful in filling most vacancies. The focus in 2006 will shift to partnering with a select group of external agencies that are dedicated to securing specialist employees in the key areas of company need.

The company took steps to increase the participation of women across the workforce during 2005 by recruiting a number of female operators into a variety of mining roles. ERA's efforts have been recognised through the retention of our "Employer of Choice" status by the Equal Opportunity for Women in the Workplace Agency (EOWA). The challenge during 2006 will be to extend the participation of women across leadership roles, particularly in operational areas.

# Safety and Health

ERA's Safety and Health performance improved significantly in 2005. The number of lost time injuries dropped from twelve in 2004 to five in 2005.

This was particularly pleasing considering the total number of hours worked by employees and contractors also rose by more than 54 per cent. This is best represented in the Lost Time Injury Frequency Rate (LTIFR) and All Injury Frequency Rate (AIFR). The LTIFR and AIFR reduced by 73% and 40% respectively.

ERA focused on developing and implementing health and safety systems and eliminating unsafe behaviour amongst its workforce to support the company's drive towards zero injuries.

ERA implemented corporate occupational health standards, and achieved certification of its health and safety management system to Australian Standard 4801: Occupational Health and Safety Management Systems.

Specific health and safety initiatives in 2005 included:

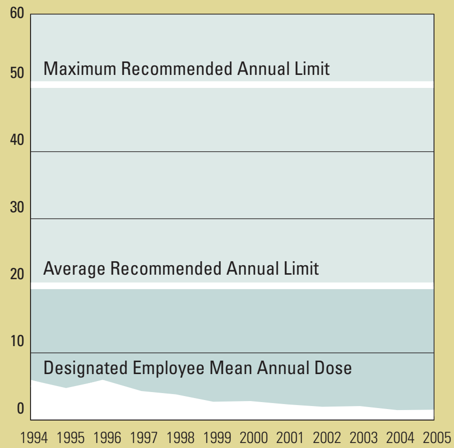
- An update to the Safety and Health policy in May.
- An upgrade of the health and safety management system to meet the requirements for certification to AS 4801 – certification was achieved in September.
- The establishment of a more effective safety & health committee structure.
- Commencing implementation of Group-wide Occupational Health Standards.
- Improved occupational hygiene monitoring, and introduction of audiometric programs.
- A new incident investigation tool was deployed, with selected staff attending a five day training course to reinforce their competency to lead an investigation. The tool ensures the root causes of incidents are identified so that effective corrective and preventative actions can be taken.
- The pre-task hazard assessment tool in use for low risk/routine tasks was improved to better assist employees in identifying potential hazards and effective controls.
- A renewed focus on safety accountability of all employees and contractors.
- Training for staff on how to undertake quality safety interactions was conducted. Data collected from safety interactions was assessed to identify areas for increased health and safety focus.
- The Disaster Management & Recovery Plan and the Emergency Response Plan were revised. A successful full scale exercise of both plans was run in December.
- Safety performance of contractors is lagging behind ERA employees and for this reason a partnership program between ERA and its principal contractors to improve contractor safety performance was initiated in December.

As the result of an accident in 2004, the company was fined $82,500 after pleading guilty to a prosecution by the Northern Territory Government for an injury to a fitter in the processing plant. A range of measures were taken to ensure that there can be no repetition.

# Radiation Management

Further improvements to the company's radiation management system were completed during 2005.

**Designated employee mean annual radiation dose**




The Radiation Management System was thoroughly reviewed and revised. It now forms part of the Safety and Health Management System that was certified to Australian Standard 4801: Occupational Health and Safety Management Systems in September. In addition to being audited by the independent company that issued the AS 4801 certification, the Radiation Management System was also audited by the Australian Radiation Protection and Nuclear Safety Agency on behalf of the Office of the Supervising Scientist and the Commonwealth Department of Industry, Tourism and Resources with positive results.

Radiation management resources were increased with the establishment of two new positions in the radiation management team. New radiation monitoring equipment was also purchased to improve routine monitoring and provide an increased capability for radiation contamination control.

The radiation exposure pathways at ERA's operations are comprehensively measured and reported throughout the year using limits recommended by the International Commission on Radiological Protection. These limits are 100 mSv over five years (average of 20 mSv per year) or a maximum of 50 mSv in any one year.

Designated workers are those employees in work categories that have the potential to exceed 5 millisieverts (mSv) per year. There are over 250 designated employees at the Ranger operation and they received a mean radiation dose of 1.0 mSv during 2005. The following graph depicts the mean annual radiation dose assessed for designated employees working throughout the operation in comparison with the recommended limits.

Employees who work at the mine site but are not working in areas of high exposure (non-designated employees) are subject to the same dose limits as designated employees and in 2005 the maximum dose was 0.9 mSv. Importantly, the exposure of Jabiru residents and surrounding communities is also monitored and the contribution from the mine was assessed as 0.04 mSv in 2005. The natural background in the area is 2-3 mSv. A radiation practice must not expose members of the public to more than 1 mSv per year above natural background.

The United Nations Scientific Committee on the Effects of Atomic Radiation reports (2000 Report to the UN General Assembly) that the: *"worldwide annual exposures to natural radiation sources would generally be expected to be in the range 1 – 10 mSv, with 2.4 mSv being the present estimate of the central value".*

# Environment

**Water quality monitoring in Magela Creek demonstrated that the environment downstream of the Ranger mine was protected. Uranium concentrations in Magela Creek throughout the 2004/05 wet season remained less than 3 per cent of the limit set by the Commonwealth Government's Office of the Supervising Scientist.**

ERA's Environmental Management System is certified to the international standard ISO 14001 and was subject to two surveillance audits by external auditors in 2005. The surveillance audit in February found only two minor non-conformances while the surveillance audit in August found no non-conformances. This is an excellent result.

Tailings management, and associated water management issues, provided a major focus for the year. Secure storage of tailings in Pit No. 1, both in the short term (during mine operations) and in the long term (post-mining and rehabilitation), is a principal objective of environmental management at Ranger. After comprehensive hydrogeological modelling of Pit 1, and subsequent engineering design work and approval from regulators, the company constructed a barrier in the southeastern part of the pit to seal permeable wall zones, to ensure process water is effectively contained. Grouting the interface between the barrier and the pit wall will be completed in early 2006.

The operation of the new water treatment plant will provide the company with additional capacity to manage process and pond water inventories in coming years.

The improvements to the company's weed management plan made in 2004 delivered results in 2005 with a reduction in the areas known to be affected by grassy weeds at Ranger and Jabiluka. A weed workshop was held in Jabiru in October to share knowledge and identify opportunities for collaboration amongst organisations with active weed control programs or expertise. The workshop was well attended by officials from Kakadu National Park, the Commonwealth and Northern Territory environment departments, the Northern Land Council, the Northern Territory Department of Primary Industry, Fisheries and Mines, the Environmental Research Institute of the Supervising Scientist, ERA, and academics from Charles Darwin University.

Waste management at Ranger was significantly improved by the establishment of a Total Waste Tracking System and the construction of infrastructure to facilitate more efficient sorting and recycling of waste.

The Jabiluka lease remained under care and maintenance. The disturbed area was prepared for revegetation in order to stabilise the site and reduce the risk of erosion. The Interim Water Management Pond, which contains clean rainfall run-off only, remains in place. Monitoring of water downstream of Jabiluka continued, with uranium levels in nearby Swift Creek remaining less than 0.5% of the limit recommended by the Office of the Supervising Scientist.

ERA completed the implementation of new Group-wide environmental standards in 2005. These standards establish a framework for the management of all environmental risks.

The company's obligations in respect of mine closure are clearly articulated in the Ranger authorisation, and each year an amended plan of rehabilitation, backed by a fund held by the Commonwealth Government, is approved by regulators and stakeholders to cover immediate closure of the site. In 2005 the company went further by creating, a draft 'first pass' closure model which seeks to define the work required to close and rehabilitate the Ranger site upon final cessation of mining. The indicative costs of final closure were estimated and taken as a liability onto the balance sheet in July 2005. This model will be discussed with the local community and regulators, with adjustments to both the plans and associated funding as more information becomes available.

The company was fined $150,000 during the year after pleading guilty to two charges brought by the Northern Territory Government over the 2004 water contamination incident and several unrelated radiation clearance incidents involving mobile equipment. All regulatory requirements resulting from these incidents have now been successfully completed.

# Earth-Water-Life Sciences (EWL Sciences Pty Ltd)

**EWL Sciences (EWLS), a commercial environmental consulting business based in Darwin, wholly owned by ERA, provides long term strategic environmental advice to both ERA and external parties.**

EWL Sciences' major tasks in 2005 were to refine the mine closure strategy and conditions, gain approval from regulators and stakeholders to increase tailings deposition in Pit No. 1 and to identify and interpret long-term trends in the routine environmental data collected at Ranger.

Key project work focused on a number of strategic environmental issues including:

- The construction of a seepage limiting barrier in Pit No.1 was approved by the Minesite Technical Committee and commenced in December 2004 and continued through 2005. Ministerial approval allowing tailings deposits to reach RL+12m and process water to reach RL+14m was obtained in August 2005. A further application must be submitted for approval from the regulators for the permanent storage of tailings in the pit.
- A number of major investigations into the hydrogeology of Pit No. 3 were completed in 2005 in preparation for an application to the regulators for approval to deposit tailings in the pit. These data were incorporated into detailed models which provide the basis for engineering the secure storage of tailings. An application will be tabled with the Minesite Technical Committee, made up of stakeholders and regulators, early in 2006.
- A draft first pass Closure Model was developed for the Ranger minesite. The schedules and cost estimates for the proposed decommissioning and rehabilitation strategies provided the basis for an assessment of the closure liability based on the life-of-mine plan at that time. The Minesite Technical Committee and other regulators and stakeholders were briefed on the outcomes of this project and will be consulted regularly as the Closure Model is updated.
- Ongoing work to develop and schedule an appropriate and achievable post-mining landscape at Ranger progressed. Conceptual landforms modelled on natural landscapes in adjacent parts of Kakadu National Park were used. Three technical workshops were held with regulators, stakeholders and technical specialists in the latter part of 2005 as part of a knowledge sharing process.
- Particular effort was made in 2005 to map the distribution of invasive plants on the Ranger and Jabiluka leases and, through a technical workshop with all key stakeholders in the Alligator Rivers region, to assess and implement the most appropriate strategies to control these weeds.

EWLS generated revenue of $3.75 million of which $0.43 million was from external projects that benchmark EWLS's scientific capability and enhance ERA's reputation for strategic environmental management.

EWLS continued to represent ERA on the Alligator Rivers Region Technical Committee (ARRTC). This Committee was established by the Minister for the Environment and Heritage at the instigation of the World Heritage Committee to oversee and make recommendations about the nature and extent of research being undertaken to protect and restore the environment in the Alligator Rivers Region from any effects of uranium mining.

EWLS maintained ISO 9001-2000 certification for its quality management system.

# Community

The signing of the Jabiluka Long Term Care and Maintenance Agreement with the Mirarr Traditional Owners and the Northern Land Council in February was a landmark for the company. ERA continued to build constructive working relationships with local stakeholder groups, including the Mirarr Traditional Owners and the Kakadu National Park Board of Management.



## Community Partnership

Kakadu Community Development (KCD), a partnership project established in 2004, now including ERA, the Commonwealth Director of National Parks, the Northern Territory Government, the Jabiru Town Council and the Jabiru Town Development Authority, continued to assist development initiatives proposed by community members.

During its first full year of operation, the KCD delivered a variety of social and economic projects in the areas of employment, education, new business and youth development. Some examples of programs prepared and launched by KCD during the past year include:

- A parent–school partnership initiative
- Opening the Kakadu Employment Centre
- Introducing Year 11 and 12 classes at Jabiru Area School
- Launching the Kakadu Youth Employment Scheme
- Providing business facilitation services to ten new Indigenous enterprises
- Developing of a range of public information products, several in local Aboriginal languages
- Introduction and implementation of a Small Grants Scheme for local projects

## Traditional Owner Relationships

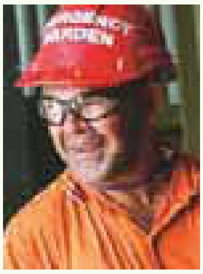
During 2005, EWL Sciences (an ERA subsidiary) in cooperation with the company and the Environmental Research Institute of the Supervising Scientist (eriss), moved forward with the design and evaluation of the final landform of the Ranger minesite as part of the closure planning process.

The Mirarr invited EWLS and eriss to begin consulting directly on land use, landform design and mine rehabilitation issues. Closure schedules, landform design and revegetation plans were discussed, and Traditional Owner views and concerns about the process and the final result were obtained.

Rehabilitation of the Djarr Djarr camp, formerly operated by Pancontinental, the previous holder of the Jabiluka lease, was commenced in 2005. Infrastructure was removed and the area was prepared for planting. Plants for the rehabilitation have been supplied by Kakadu Native Plant Supplies, an initiative of a local Indigenous entrepreneurial family.

In 2005, ERA also contracted with Mirarr representatives to work jointly on environmental rehabilitation. In late December 2005, under this contract, members of Mirarr performed rehabilitation work on the Jabiluka minesite.

# COMMUNITY CONTINUED




## Aboriginal Employment

At the end of 2005, ERA employed 46 Indigenous employees, including three apprentice trade trainees. There were a further two Aboriginal people employed under a Community Development Employment Program (CDEP). The Aboriginal participation rate in the company was 13 per cent, an increase from 10.5 per cent at the end of 2004.

In November 2005, ERA hosted the Indigenous Mining Enterprise Taskforce (IMETF) quarterly meeting in Jabiru. A total of 35 representatives of government agencies and mining companies attended.

## Rio Tinto Child Health Partnership

For the second year, ERA contributed $25,000 to the Kakadu Health Service for the employment of a maternal health educator under this program, and the company will continue to work with Territory and local health administrators to try to ensure better health among young Indigenous mothers and their babies.

## Payments – Ranger and Jabiluka

During 2005, ERA paid $10.2 million in Ranger royalties to the Commonwealth government. This money is ultimately distributed to Northern Territory-based Aboriginal groups. In addition, ERA paid $2.9 million in royalties to the Commonwealth government for distribution to the Northern Territory government. Ranger has paid a total of $220.9 million in royalties since the mine began in 1980.

## Community and Sporting Sponsorships

ERA continued to provide direct support to a wide range of community projects and activities, in the region of the mine and further afield. ERA was the major sponsor of the Australian Football League (AFL) Indigenous All Stars game held in Darwin early in the year. Junior football clinics were held in both Jabiru and Oenpelli communities as part of this project, and local children attended the game.

Other community-based events supported by ERA through the year included:

- The Petrol Manwari DVD to combat petrol sniffing in Indigenous communities.
- Provision of a specialist trainer to assist the Sea Ranger project, an initiative that allows Aboriginal people of Arnhem Land to protect coastal waters and sites of cultural significance.
- Mahbilil Festival (formerly the Wind Festival) and the Gunbalanya Open Day cultural festival, both of which highlight Aboriginal culture in western Arnhem Land.
- Assistance to regional Indigenous artist Christine Christopherson for the *Blueprint* project of artwork and film depicting ancestral stories, exhibited in Darwin, and Lille in France.

# Directors' Outlook

**Nuclear power now makes up 16 per cent of total global electricity production. As leading countries around the world review their national energy policies and address the need to reduce carbon dioxide and other greenhouse gas emissions the need for nuclear energy to be given full and serious consideration is becoming increasingly apparent.**

While energy efficiency and renewables have an important role to play, arguments that fossil fuels and nuclear energy can be phased out in the medium term, and that solar and wind-powered options can fill the gap, are now almost universally regarded as unrealistic. Nuclear power and hydro-electricity are currently the only mature technologies that can supply baseload electricity, cost-effectively, with low greenhouse gas emissions.

In 2005, a total of 31 countries operated 443 commercial nuclear reactors, with 25 more under construction, according to the International Atomic Energy Agency. France and Lithuania obtain around three-quarters of their power from nuclear energy, while Belgium, Bulgaria, Hungary, Slovakia, South Korea, Sweden, Switzerland, Slovenia and the Ukraine get one-third or more. Japan, Germany and Finland obtain more than a quarter of their power from nuclear energy, while the USA, with the largest number of reactors, obtains one-fifth of its power from nuclear. China and India are embarking on ambitious nuclear power programs to support their growing populations and increasing economic development.

The market price for uranium oxide continued to rise in 2005 and has now reached levels required to reinforce the appetite for new investment. Interest in uranium exploration is increasing and a number of new companies have been floated with the express purpose of exploring and developing new uranium deposits. The discovery and development of new resources has a long lead time and it will be perhaps a decade before supply from newly discovered resources comes to the market.

ERA's Ranger lease is located in one of the world's premier uranium provinces, and with the brighter prospects for the industry ERA has significantly increased exploration spending which, it is hoped, will in time lead to an increase in the presently known ore reserves and resources, and the discovery of new deposits.

While ERA's production in 2005 was a record, ERA can sell as much uranium as it can produce and the forward order book is strong. Production and sales in 2006 are anticipated to be at similar levels to 2005.

ERA's customers are international power companies that are concerned to ensure fuel supply security for considerable periods into the future, and virtually all of ERA's production is under long-term contracts. The prices ERA received for its production in 2005 therefore were for the most part negotiated several years ago when prices were at lower levels and ERA was concerned to ensure that the company retained its economic viability. Thus many contracts entered into at that time have pricing floors and ceilings that, while protecting ERA on the downside, also limit the price participation on the upside. These legacy contracts will progressively expire in future years beyond 2006 and new contracts will reflect the significantly higher price levels that have developed over the past three years.

With a view to strengthening ERA's marketing presence and depth, ERA entered a marketing agreement with Rio Tinto Uranium in the course of 2005.

A very significant development for ERA in late 2005 was the simplification of the company's structure and the widening of public ownership which resulted from the exit of the B and C class shareholders. These shareholders, Cameco, Cogema and Japan Australia Uranium Resources Development Company (JAURD), decided for their individual strategic reasons to sell their shares in ERA. The B and C class shares they held were a result of the formation of ERA 25 years ago. All shareholders now have the same class of share and the increased public shareholding from 6.5 per cent to 31.6 per cent has led to increased and wider trading of the company's shares.

ERA's operating performance lifted markedly in 2005 and the record production is clear evidence of this. ERA is committed to continuous improvement and there will be no let-up in striving for even better performance. Equally satisfying was the significant improvement in safety. The water treatment plant was constructed on time and within budget. Control of process and run-off water is a key environmental factor for ERA and the construction of the plant at the considerable capital cost of $28 million is testament to ERA's commitment to first class environmental standards.

Relationships with Traditional Owners and other key Northern Territory stakeholders continue to strengthen, reinforcing the wisdom of the decision to move ERA's head office to Darwin in 2004.

# Directors' Report
for the year ended 31 December 2005

**The Directors of Energy Resources of Australia Ltd ("ERA") present their report together with the financial report of the company and the consolidated financial report of the consolidated entity, being the company and its controlled entity, for the year ended 31 December 2005.**

## DIRECTORS
The Directors of the company at any time during or since the end of the financial period are:

## CURRENT DIRECTORS

| NAME & QUALIFICATIONS | AGE | EXPERIENCE AND SPECIAL RESPONSIBILITIES |
|---|---|---|
| **Dr D Klingner**<br>BSc(Hons), PhD, FAusIMM<br>Chairman | 62 | Appointed as a Director in July 2004 and as Chairman in January 2005. Dr Klingner is a Director of Codan Limited. |
| **Mr H Kenyon-Slaney**<br>BSc<br>Chief Executive | 44 | Appointed Chief Executive and a Director of ERA in January 2004. |
| **Mr R Carter**<br>CitWA, BCom, FTSE, FAusIMM, FAIM, FAICD<br>Director | 63 | Appointed as a Director in November 1999. Mr Carter is Chairman of Macmahon Holdings Ltd, Zeal Consulting and Prahran Mission – UnitingCare and a Director of Consolidated Minerals Limited. |
| **Mr P Chiaro**<br>BSc, M.Eng<br>Director | 52 | Appointed as a Director in October 2003. Mr Chiaro is Chief Executive Energy of Rio Tinto plc in London. He is also a Director of Coal & Allied Industries Limited. |
| **Prof. H Garnett**<br>BSc(Hons), PhD, FTSE, FAICD<br>Director | 59 | Appointed as a Director in January 2005. Professor Garnett is Vice Chancellor at Charles Darwin University, Director of the Business Higher Education Round Table Board, Director IDP Education Australia Limited. |
| **Mr A Lloyd**<br>BNatRes, MBA, MAICD<br>Director | 49 | Appointed as a Director in October 2003. Mr Lloyd is Mining Executive Energy Services with Rio Tinto Limited and an alternate Director for Preston Chiaro of Coal and Allied Industries Limited. |
| **Mr C Lenegan**<br>BSc(Econs) (Hons) (Lon), ACA<br>Director | 54 | Appointed as a Director in July 2005. Mr Lenegan is Managing Director Rio Tinto Australia. He is also a Director of various other Rio Tinto subsidiary companies and Industry Associations. |

## PREVIOUS DIRECTORS

| | | |
|---|---|---|
| **Mr S Mann**<br>BSc(Hons)<br>Director | 47 | Appointed as a Director in April 2003 at the nomination of B Class shareholders.<br>Mr Mann is General Manager at the Cogema Australia Group.<br>Mr Mann resigned as a Director of the Board on 27 April 2005 |
| **Mr B Horwood**<br>BCom, FCPA, FAICD<br>Former Chairman | 63 | Appointed as a Director in May 2001 and as Chairman in April 2002. Mr Horwood was Managing Director of Rio Tinto Australia. He was also the Chairman of Coal & Allied Industries Limited and a Director of a number of other Rio Tinto subsidiaries. He is also Chairman of Oil Search Limited.<br>Mr Horwood resigned as Director and Chairman of the Board on 27 January 2005. |
| **Dr R Matthews** | 56 | Appointed as a Director in April 2005. Dr Matthews is Manager Exploration, Cameco Australia Ltd.<br>Dr Matthews resigned as a Director of the Board on 14 October 2005. |
| **Mr H Toyomatsu**<br>Director | 52 | Appointed as a Director in June 2003 at the nomination of C Class shareholders.<br>Mr Toyomatsu is President of Japan Australia Uranium Resources Development Co., Ltd.(JAURD).<br>Mr Toyomatsu resigned as a Director of the Board on 14 October 2005. On the same date his alternates, Mr Takada and Mr Furusawa resigned. |

Top L-R
Dr David Klingner,
Chairman
Mr Harry Kenyon-Slaney,
Chief Executive

Middle L-R
Mr Richard Carter
Mr Preston Chiaro
Prof. Helen Garnett

Bottom L-R
Mr Charlie Lenegan
Mr Andy Lloyd

The number of Directors and Audit Committee meetings held and the number of meetings attended by each of the Directors of the company during the financial year are shown below:

| DIRECTOR | DIRECTORS' MEETINGS | | AUDIT COMMITTEE MEETINGS | |
|---|---|---|---|---|
| | ATTENDED | HELD* | ATTENDED | HELD* |
| R Carter | 6 | 6 | 4 | 4 |
| P Chiaro | 6 | 6 | – | – |
| B Horwood | 1 | 1 | 1 | 1 |
| A Lloyd | 6 | 6 | – | – |
| S Mann | 2 | 2 | – | – |
| C Lenegan | 3 | 3 | – | – |
| R Mathews | 3 | 3 | – | – |
| H Toyomatsu | 3 | 5 | – | – |
| D Klingner | 6 | 6 | 4 | 4 |
| H Garnett | 6 | 6 | 3 | 3 |
| H Kenyon-Slaney | 6 | 6 | 4 | 4 |
| ALTERNATES | | | | |
| M Takada (alternate for H Toyomatsu) | 1 | 1 | – | – |
| Y Furusawa (alternate for H Toyomatsu) | 1 | 1 | – | – |

** Reflects the number of meetings held during the time the Director held office in the 2005 year.*

*Note: On the occasions that "B" and "C" class appointed Directors could not attend a meeting of Directors, their alternates attended as required by the Constitution.*

# DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2005

The interests of each Director in the share capital of the company, other companies within the consolidated entity or in a related party as at the date of this report are shown below:

**Shares in Energy Resources of Australia Ltd**

| | |
|---|---|
| R Carter | 25,000 ordinary shares |

**Shares in a Related Body Corporate**

| | |
|---|---|
| **Rio Tinto Limited** | |
| D Klingner | 4,000 ordinary shares |
| C Lenegan | 319 |
| **Rio Tinto plc** | |
| H Kenyon-Slaney | 5,277 ordinary shares |

**Options in Ordinary Shares of a Related Body Corporate**

| | |
|---|---|
| **Rio Tinto Limited** | |
| D Klingner | 42,468 |
| A Lloyd | 9,897 |
| C Lenegan | 27,954 |
| **Rio Tinto plc** | |
| H Kenyon-Slaney | 23,680 |

**Conditional Interests in Ordinary Shares of a Related Body Corporate**

| | |
|---|---|
| **Rio Tinto Limited** | |
| A Lloyd | 2,598 |
| D Klingner | 32,355 |
| C Lenegan | 11,912 |
| **Rio Tinto plc** | |
| H Kenyon-Slaney | 10,717 |

## REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional Information

The information provided under headings A–D includes remuneration disclosures that are required under Accounting Standard AASB 124 Related Party Disclosures. As allowed under Class Order (CO 06/50), these disclosures have been transferred from the financial report and have been audited. The disclosures in Section E are additional disclosures required by the Corporations Regulations 2001 which have not been audited.

### A Principles used to determine the nature and amount of remuneration (audited)

The remuneration of executives is set by reference to the wider Rio Tinto context, determined following review by the Rio Tinto Board Remuneration Committee. Executive remuneration and other terms of employment are reviewed annually by ERA and Rio Tinto Limited having regard to performance against goals set at the start of the year, relevant comparative information and independent expert advice. As well as base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

#### Non-executive Directors

Fees and payments to non-executive Directors reflect the demands which are made on, and the responsibilities of, the Directors. Non-executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined separately to the fees of non-executive Directors. The Chairman does not participate in any discussions relating to the determination of his own remuneration.

#### Directors' fees

At the 2001 Annual General Meeting, shareholders determined that the aggregate remuneration for non-executive Directors of ERA would be $500,000 per annum.

The aggregate amount of non-executive Directors' remuneration paid was $414,880. The following principles are applied in determining the amount of remuneration for non-executive Directors:

- The amount of time required for Directors to consider ERA Board matters including preparation time;
- Acknowledgement of the personal risk borne as a Director;
- Comparison with professional market rates of remuneration and those offered by comparative companies to remain competitive with the market having regard to companies of similar size and complexity; and
- The desire to attract Directors of a high calibre with appropriate levels of expertise and experience.

The current base remuneration was last revised in April 2004.

#### Retirement Allowances for Directors

The entering into of contracts with Directors for the provision of a retirement allowance was approved by shareholders on 18 October 1990. A retirement allowance provides benefits to certain non-executive Directors who have served for three years or less, an amount equal to the fees; or longer than three years, an amount equal to the statutory three years emoluments plus for each year or part of a year of service exceeding three years, an additional amount equal to 5 per cent of the statutory three years emoluments.

In April 2004, the Board resolved to remove this retirement allowance for non-executive Directors appointed after this date and for existing Directors with accrued entitlements, freeze those entitlements until that Director retires where it will be paid out. Non-executive Directors after this date are only entitled to statutory superannuation contributions.

The Company's liability for Directors' retirement benefits, which is based on the number of years service provided at the balance date, has been included in employee entitlements.

#### Other Executive Remuneration

The executive pay and reward framework has four components:

- Base pay and benefits
- Short-term incentive performance incentives (STIP)
- Long-term incentives through participation in the Rio Tinto share option plan (SOP) and performance shares (MCCP) and
- Other remuneration such as superannuation.

The short term and long term incentive plans are variable components of the total remuneration package as they are tied to achievement of specific measures of personal and/or business performance and are therefore at risk. The other components of the package are referred to as "fixed" as they are not at risk, although some, e.g. base salary, are also related to performance.

The composition of the total remuneration package is designed to provide an appropriate balance between fixed and variable components in line with Rio Tinto's and ERA's objective of aligning total remuneration with delivered personal and business performance.

### Base Salary

Base salary is set at a level consistent with market expectations within the wider Rio Tinto remuneration framework and may be delivered as a mix of cash and prescribed non-financial benefits.

### Short Term Incentive Plan (STIP)

STIP provides a cash bonus opportunity for participants and is designed to support the overall remuneration policy by:

- Focusing participants on achieving goals which contribute to sustainable shareholder value, and
- Providing a significant bonus differential based on delivered performance against personal, business and other targets including environment, safety and health.

All executives have a significant percentage (up to 17 per cent) of their performance-based remuneration linked to the safety performance of Energy Resources of Australia. The financial performance and saleable production at the operating site constitutes at least another 35 per cent of the performance-based remuneration. The success of value creation projects and the addressing of key strategic issues are also used to measure performance.

### Share Option Plan (SOP)

An annual grant of options to purchase shares (in Rio Tinto Limited and Rio Tinto plc) in the future at current market prices is made to eligible senior executives.

No options will become exercisable unless the Rio Tinto Group has met stretching performance conditions. In addition, before approving any vesting and irrespective of the performance against the respective performance conditions, the Rio Tinto Remuneration Committee retains discretion to satisfy itself that the Total Shareholder Return (TSR) performance is a genuine reflection of underlying financial performance.

Under the plan, vesting is subject to Rio Tinto's TSR equalling or outperforming the HSBC Global Mining Index, measured over three years. The HSBC Global Mining Index covers the mining industry in 27 countries. If the TSR performance equals the index, the higher of one-third of the original grant or 20,000 options will vest (subject to the actual grant level not being exceeded). The full grant vests if the TSR performance is equal to or greater than the HSBC Global Mining Index plus 5 per cent per annum. TSR performance at this level historically proximates the upper quartile of the index. Between these points, options vest on a sliding scale, with no options becoming exercisable for a three year TSR performance below the index.

Options granted under the new plan before 31 December 2006 will be subject to a single fixed base retest five years after grant if they have not vested after the initial three year performance period, with options granted after 31 December 2006 not subject to any retest. These latter options will, therefore, lapse if they do not vest at the conclusion of the three year performance period. Options granted during 2006 will be the last which will be subject to a potential re-test.

Prior to any options being released to participants for exercise, the Rio Tinto Group's performance against the criteria relevant to the SOP is examined and verified by the external auditors. If there were a change of control or a company restructuring, options would become exercisable subject to the satisfaction of the performance condition measured at the time of the takeover or restructuring.

Where an option holder dies in service, qualifying options vest immediately, regardless of whether the performance conditions have been satisfied. The estate will have 12 months in which to exercise the options.

The maximum grant under the SOP is three times salary, based on the average share price over the previous financial year. Under the SOP, no options are granted at a discount and no amount is paid or payable by the recipient on receipt of the options. Executives may, however, be granted options at a discount under the Rio Tinto Share Savings Plan.

For SOP grants made prior to 2004:

- two-thirds of options vest when the Rio Tinto Group's adjusted earnings per share growth for a three year performance period is at least nine percentage points higher than US inflation over the same period, as measured by the US Consumer Price Index;
- the balance of the grant vests when growth of at least 12 percentage points above US inflation has been achieved;
- Rio Tinto performance is tested against the performance condition after three years; and
- there is an annual retest on a three year rolling basis until options fully vest or lapse at the end of the option period.

All remaining open options granted on this basis (under the Plan approved in 1998) will have vested by 7 March 2006.

### Mining Companies Comparative Plan (MCCP)

Under this plan, a conditional right to receive shares is granted annually to eligible senior executives. The conditional awards only vest if performance conditions are satisfied. The performance conditions compare Rio Tinto's TSR with the TSR of a comparator group of 15 other international mining companies over the same four year period. Rio Tinto's TSR is calculated as a weighted average of the TSR of Rio Tinto plc and Rio Tinto Limited.

The maximum conditional award size under the current MCCP for Harry Kenyon-Slaney is 60% of base salary calculated using the average share price over the previous financial year and for the other executives is 20%.

### Other Share Plans

ERA executives may participate in the Rio Tinto Limited Share Savings Plan as per note 1(u).

# DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2004

## REMUNERATION REPORT CONTINUED

**B Details of Remuneration (audited)**
Details of the remuneration of each Director of Energy Resources of Australia Ltd and each of the specified executives of the consolidated and parent entity, are set out in the following tables.

### Directors of Energy Resources of Australia Ltd

| 2005 | SHORT TERM BENEFITS | | | POST-EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SHARE BASED PAYMENTS | |
|---|---|---|---|---|---|---|---|
| | CASH SALARY AND FEES $ | CASH BONUS (STIP) $ | NON-MONETARY BENEFITS $ | SUPER-ANNUATION $ | RETIREMENT BENEFITS $ | EQUITY SETTLED $ | TOTAL $ |
| D Klingner | 87,750 | – | – | – | – | – | 87,750 |
| B Horwood | 7,000 | – | – | 630 | – | – | 7,630 |
| H Kenyon-Slaney | 312,790 | 81,010 | 78,800 | 22,640 | – | 171,410 | 666,650 |
| H Garnett | 55,500 | – | – | – | – | – | 55,500 |
| P Chiaro[1] | 50,000 | – | – | – | – | – | 50,000 |
| A Lloyd[1] | 50,000 | – | – | – | – | – | 50,000 |
| R Carter | 65,000 | – | – | 5,850 | – | – | 70,850 |
| C Lenegan[1] | 20,830 | – | – | – | – | – | 20,830 |
| S Mann[2] | 16,210 | – | – | – | – | – | 16,210 |
| H Toyomatsu[3] | 39,400 | – | – | – | – | – | 39,400 |
| R Matthews[4] | 23,190 | – | – | – | – | – | 23,190 |
| Total | 727,670 | 81,010 | 78,800 | 29,120 | – | 171,410 | 1,088,010 |

1 Amounts paid directly to Rio Tinto Limited
2 Amounts paid directly to Cogema Australia Pty Ltd
3 Amounts paid directly to Japan Australia Uranium Resources Development Co Ltd
4 Amounts paid directly to Cameco Australia Pty Ltd

| 2004 | SHORT TERM BENEFITS | | | POST-EMPLOYMENT BENEFITS | TERMINATION BENEFITS | SHARE BASED PAYMENTS | |
|---|---|---|---|---|---|---|---|
| | CASH SALARY AND FEES $ | CASH BONUS (STIP) $ | NON-MONETARY BENEFITS $ | SUPER-ANNUATION $ | RETIREMENT BENEFITS $ | EQUITY SETTLED $ | TOTAL $ |
| H Kenyon-Slaney | 228,220 | – | 82,020 | 10,800 | – | 74,630 | 395,670 |
| B Horwood | 83,750 | – | – | 6,268 | – | – | 90,018 |
| B Cleary | 39,940 | – | 2,380 | 5,730 | 381,870 | – | 429,920 |
| P Chiaro[1] | 45,625 | – | – | – | – | – | 45,625 |
| A Lloyd[1] | 45,625 | – | – | – | – | – | 45,625 |
| R Carter | 56,458 | – | – | 5,081 | – | – | 61,539 |
| B Hickman | 44,701 | – | – | 4,023 | 131,656 | – | 180,380 |
| D Klingner | 22,312 | – | – | – | – | – | 22,312 |
| S Mann[2] | 45,625 | – | – | – | – | – | 45,625 |
| H Toyomatsu[3] | 45,625 | – | – | – | – | – | 45,625 |
| Total | 657,881 | – | 84,400 | 31,902 | 513,526 | 74,630 | 1,362,339 |

**B Details of Remuneration (audited) continued**

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| R Antal | 224,300 | 34,960[1] | 22,420 | 47,430 | – | 27,060 | 356,170 |
| C Kinnell (from 1/01/05 to 30/06/05) | 183,630 | 47,360[2] | 57,230 | 9,970 | – | 21,440 | 319,630 |
| A Milnes | 209,290 | 35,140[3] | 22,420 | 46,310 | – | 37,310 | 350,470 |
| D Paterson | 214,260 | 6,260[4] | 22,450 | 40,070 | – | 35,040 | 318,080 |
| C Salisbury | 294,060 | –[5] | 22,420 | 57,520 | – | 39,740 | 413,740 |
| D Gibson (from 1/05/05) | 172,840 | –[6] | 17,530 | 13,890 | – | – | 204,260 |
| Total | 1,298,380 | 123,720 | 164,470 | 215,190 | – | 160,590 | 1,962,350 |

1 43% of cash bonus paid on achievement of 2004 performance criteria; 57% forfeited
2 45% of cash bonus paid on achievement of 2004 performance criteria; 55% forfeited
3 38% of cash bonus paid on achievement of 2004 performance criteria; 62% forfeited
4 37% of cash bonus paid on achievement of 2004 performance criteria; 63% forfeited
5 No cash bonus was paid because employment only commenced on 20 December 2004
6 No cash bonus was paid because employment only commenced on 1 May 2005

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| R Antal | 197,970 | 14,220 | 21,300 | 35,980 | – | 7,790 | 277,260 |
| M Coulter (from 1/1/04 to 17/9/04) | 163,580 | 45,080 | 18,750 | 71,250 | – | 24,620 | 323,280 |
| C Kinnell | 264,200 | 61,480 | 107,710 | 9,970 | – | 27,230 | 470,590 |
| A Milnes | 193,940 | 46,500 | 26,320 | 45,440 | – | 24,360 | 336,560 |
| S Prebble (from 1/1/04 to 03/12/04) | 269,120 | 41,360 | 24,300 | 45,650 | – | 29,360 | 409,790 |
| D Paterson (from 18/10/04) | 69,510 | – | 5,340 | 9,590 | – | 5,070 | 89,510 |
| C Salisbury (from 20/12/04) | 50,040 | – | 790 | 1,950 | – | 787 | 53,567 |
| Total | 1,208,360 | 208,640 | 204,510 | 219,830 | – | 119,217 | 1,960,557 |

# DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2005

## REMUNERATION REPORT CONTINUED

**C Service agreements (audited)**
Remuneration and other terms of employment for the Chief Executive and other executives are formalised in service agreements. Each of these agreements provides for the provision of performance-related cash bonuses, performance-related share plans within the wider Rio Tinto context and other benefits including car allowances.

Other major provisions of the agreements relating to remuneration are set out below.

### H Kenyon-Slaney – Chief Executive

Term of agreement –
Open and anticipated to be for a period of up to three years subject to extension by mutual agreement, appointed 20 January 2004.

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 31 December 2005 of $309,200 to be reviewed annually by the remuneration committee.

Termination by the employee is with three months' written notice to the company or six months' written notice to Rio Tinto or by the employer giving three months' written notice or equivalent salary in lieu of notice.

### R Antal – Chief Financial Officer & Company Secretary

Term of agreement –
Open, commenced 1 September 2003

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 31 December 2005 of $188,000 to be reviewed annually.

Termination by the employee is a months' notice in writing or by the employer giving three months' notice or equivalent notice in lieu.

### C Kinnell – General Manager Marketing

Term of agreement –
Three year secondment with option of extension, appointed 27 August 2002. Terminated due to transfer to another Rio Tinto company on 30 June 2005.

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 30 June 2005 of $138,000.

### A Milnes – General Manager EWL Sciences

Term of agreement –
Open, commenced 1 July 1996

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 31 December 2005 of $208,000 to be reviewed annually.

Termination by the employee is a month's notice in writing or by the employer giving three months' notice or equivalent notice in lieu.

### D Paterson – General Manager Business Development

Term of agreement –
Open, commenced 18 October 2004

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 31 December 2005 of $182,000, salary to be reviewed annually.

Termination by the employee is a months notice in writing or by the employer giving three months' notice or equivalent notice in lieu.

### C Salisbury – General Manager Operations

Term of agreement –
Open, commenced 20 December 2004

Base salary (excluding superannuation, allowances and other benefits) paid for the period ended 31 December 2005 of $267,000, salary to be reviewed annually.

Termination by the employee is a month's notice in writing or by the employer giving three months' notice or equivalent notice in lieu.

### D Gibson – General Manager Technical Projects

Term of agreement –
Open, commenced 1 May 2005

Base salary (excluding superannuation, allowances and other benefits) paid for the period 1 May 2005 to 31 December 2005 of $121,000, salary to be reviewed annually.

Termination by the employee is a month's notice in writing or by the employer giving three months' notice or equivalent notice in lieu.

Due to the parameters applied in calculating the performance share plans related to Rio Tinto, it is not possible to reliably estimate the minimum and maximum amount of the share bonus.

With respect to the performance-related cash bonuses, the following table sets out the maximum percentage of the base salary that may be achieved:

**Maximum percentage of the base salary**

| | |
|---|---|
| H Kenyon-Slaney | 67.8% |
| C Salisbury | 53.8% |
| R Antal | 49.8% |
| D Paterson | 49.8% |
| D Gibson | 49.8% |
| T Milnes | 49.8% |

## Remuneration Report continued

### D Share-Based Compensation (audited)

The terms and conditions of each grant of options affecting remuneration in this or future reporting periods are as follows:

| | | | | |
|---|---|---|---|---|
| **Rio Tinto Ltd** | | | | |
| 13 March 2002 | 13 March 2012 | $39.87 | $13.71 | 13 March 2005 |
| 7 March 2003 | 7 March 2013 | $33.33 | $6.68 | 7 March 2006 |
| 22 April 2004 | 22 April 2014 | $34.41 | $6.17 | 22 April 2007 |
| 9 March 2005 | 9 March 2015 | $47.04 | $8.93 | 9 March 2008 |
| **Rio Tinto plc** | | | | |
| 13 March 2002 | 13 March 2012 | £14.59 | £4.99 | 13 March 2005 |
| 7 March 2003 | 7 March 2013 | £12.63 | £2.97 | 7 March 2006 |
| 22 April 2004 | 22 April 2014 | £13.29 | £2.81 | 22 April 2007 |
| 9 March 2005 | 9 March 2015 | £18.26 | £4.09 | 9 March 2008 |

Options are granted at the discretion of the Rio Tinto remuneration committee in line with Rio Tinto guidelines.

The terms and conditions of each right to shares affecting remuneration in this or future reporting periods are as follows:

| | | |
|---|---|---|
| **Rio Tinto plc** | | |
| 1 January 2001 | 1 January 2005 | £26.56 |
| 1 January 2002 | 1 January 2006 | £26.56 |
| 1 January 2003 | 1 January 2007 | £26.56 |
| 1 January 2004 | 1 January 2008 | £26.56 |
| 1 January 2005 | 1 January 2009 | £26.56 |
| **Rio Tinto Ltd** | | |
| 1 January 2001 | 1 January 2005 | $69.00 |
| 1 January 2002 | 1 January 2006 | $69.00 |
| 1 January 2003 | 1 January 2007 | $69.00 |
| 1 January 2004 | 1 January 2008 | $69.00 |
| 1 January 2005 | 1 January 2009 | $69.00 |

Details of the Directors of the consolidated entity and other executives who have elected to participate in the Rio Tinto Employee Share Scheme as at 31 December 2005 are set out below.

| | |
|---|---|
| H Kenyon-Slaney | 2002 Rio Tinto plc scheme commencing 1 January 2002 |
| | 2004 Rio Tinto plc scheme commencing 1 January 2004 |
| D Paterson | 2002 Rio Tinto Limited scheme commencing 1 January 2003 |
| R Antal | 2004 Rio Tinto Limited scheme commencing 1 January 2005 |
| | 2005 Rio Tinto Limited scheme commencing 1 January 2006 |
| A Milnes | 2005 Rio Tinto Limited scheme commencing 1 January 2006 |
| D Gibson | 2001 Rio Tinto Limited scheme commencing 1 January 2002 |
| | 2002 Rio Tinto Limited scheme commencing 1 January 2003 |
| | 2004 Rio Tinto Limited scheme commencing 1 January 2005 |
| | 2005 Rio Tinto Limited scheme commencing 1 January 2006 |

# DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2005

## REMUNERATION REPORT CONTINUED

**D Share-Based Compensation (audited)** continued

Equity instrument disclosures relating to Directors and executives

### Options provided as remuneration
Details of options over ordinary shares in Rio Tinto Limited and Rio Tinto plc (a related company) provided as remuneration to each Director in respect of their duties as officers of the consolidated entity and each of the other executives of the consolidated and parent entity are set out below. When exercisable, each option is convertible into one ordinary share of Rio Tinto Limited or Rio Tinto plc.

| | | |
|---|---|---|
| **Rio Tinto plc** | | |
| **Directors of Energy Resources of Australia Ltd** | | |
| H Kenyon-Slaney | 5,462 | 5,159 |
| **Other executives of the consolidated and parent entity** | | |
| C Kinnell | 1,415 | 2,534 |
| **Rio Tinto Limited** | | |
| **Other executives of the consolidated and parent entity** | | |
| R Antal | 1,055 | – |
| A Milnes | 1,162 | 2,238 |
| C Salisbury | 1,355 | 2,195 |
| D Paterson | 1,017 | 2,311 |
| D Gibson | – | – |

*No options were provided to D Gibson as he was ineligible, having been recently promoted to the executive level.*

| | | |
|---|---|---|
| **Rio Tinto plc** | | |
| **Directors of Energy Resources of Australia Ltd** | | |
| H Kenyon-Slaney | 5,255 | – |
| **Other executives of the consolidated and parent entity** | | |
| C Kinnell | 1,362 | – |
| **Rio Tinto Ltd** | | |
| **Other executives of the consolidated and parent entity** | | |
| R Antal | 961 | – |
| M Coulter | 1,192 | – |
| A Milnes | 1,180 | – |
| S Prebble | 1,143 | – |

## REMUNERATION REPORT CONTINUED

### D Share-Based Compensation (audited) continued

Conditional awards provided as remuneration

Details of conditional awards of ordinary shares in Rio Tinto Limited and Rio Tinto plc (a related company) provided as remuneration to each Director in respect of their duties as officers of the consolidated entity and each of the other executives of the consolidated and parent entity are set out below. When exercisable, each award converts into one ordinary share of Rio Tinto Ltd or Rio Tinto plc.

| | | | |
|---|---|---|---|
| **Rio Tinto plc** | | | |
| **Directors of Energy Resources of Australia Ltd** | | | |
| H Kenyon-Slaney | 5,462 | – | – |
| **Other executives of the consolidated and parent entity** | | | |
| C Kinnell | 1,415 | – | – |
| **Rio Tinto Ltd** | | | |
| **Other executives of the consolidated and parent entity** | | | |
| R Antal | 1,055 | – | – |
| A Milnes | 1,162 | – | – |
| C Salisbury | 1,355 | – | – |
| D Paterson | 1,017 | – | – |
| D Gibson | – | – | – |

| | | | |
|---|---|---|---|
| **Rio Tinto Plc** | | | |
| **Directors of Energy Resources of Australia Ltd** | | | |
| H Kenyon-Slaney | 5,255 | – | – |
| **Other executives of the consolidated and parent entity** | | | |
| C Kinnell | 1,362 | – | – |
| **Rio Tinto Ltd** | | | |
| **Other executives of the consolidated and parent entity** | | | |
| R Antal | 961 | – | – |
| M Coulter | 1,192 | – | – |
| A Milnes | 1,180 | – | – |
| S Prebble | 1,143 | – | – |

# DIRECTORS' REPORT CONTINUED
for the year ended 31 December 2005

## REMUNERATION REPORT CONTINUED

**E Additional information (unaudited)**
Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

### Executive Remuneration

The company's remuneration policy provides an overview of ERA's policy with respect to the remuneration of senior executives. The remuneration of executive officers is set by reference to the wider Rio Tinto context and determined following review by the Rio Tinto Board remuneration Committee. Executive remuneration and other terms of employment are reviewed annually by ERA and Rio Tinto having regard to performance against goals set at the start of the year, relevant comparative information, and independent expert advice. As well as base salary, remuneration packages include superannuation, retirement and termination entitlements, performance-related bonuses and fringe benefits.

### Directors' Remuneration

The remuneration paid to each Director during the year ended 31 December 2005 is set out in the Remuneration Report and note 25 to the financial report. The aggregate amount of non-executive Directors' remuneration paid was $414,880. The following principles are applied in determining the amount of remuneration for non-executive Directors:

- the amount of time required for Directors to consider ERA Board matters including preparation time;
- acknowledgement of the personal risk borne as a Director;
- comparison with professional market rates of remuneration and those offered by comparative companies to remain competitive with the market having regard to companies of similar size and complexity; and
- the desire to attract Directors of a high calibre with appropriate levels of expertise and experience.

**Loans and other transactions with Directors and specified Directors**
There are no loans with Directors and specified Directors. Other transactions with Director-related entities are disclosed in note 27 – related parties

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the year consisted of:

(i) mining, processing and the sale of uranium oxide; and
(ii) providing environmental consulting services by Earth Water Life (EWL) Sciences Pty Ltd.

## DIVIDENDS

| Dividends paid to members by the company during the financial year were as follows: | $000 |
|---|---|
| In respect of the previous financial year | |
| – As proposed in last year's financial report, a final dividend of 11.0 cents per share, franked to 100 per cent with (30 per cent) franking credits was declared on 31 January 2005, and paid on 28 February 2005 | 20,981 |
| In respect of the current financial year | |
| – An interim dividend of 6.0 cents per share, franked to 100 per cent with (30 per cent) franking credits was declared on 22 July 2005 and paid on 31 August 2005 | 11,444 |
| Total dividends paid to members in 2005 | 32,425 |

In addition to the above dividend, since the end of the financial year the Directors have declared the payment of a final ordinary dividend of 11.0 cents per share, fully franked at 30 per cent. The dividend payment of $20,981,173 will be paid on 1 March 2006 with a record date of 15 February 2006.

## REVIEW AND RESULTS OF OPERATIONS

The net profit after tax for the consolidated entity for the year ended 31 December 2005 was $40.7 million (2004: $37.0 million). Earnings before interest and tax (EBIT) were $65.3 million (2004: $44.3 million).

Sales for the year were 5,688 tonnes (2004: 5,605 tonnes) including 136 tonnes (2004: 581 tonnes) of third party material purchased in 2004. Operating revenue for the year was $262.0 million (2004:$236.3 million). ERA's contractual sale price is only partially influenced by the spot market because of its diversified sale contract portfolio and the average realised sale price of uranium oxide was US$16.00/lb (2004: US$13.68/lb). On 31 December 2005 the spot market price was US$36.13/lb (2004: US$20.43/lb). The strength of the Australian dollar has negatively impacted revenue by approximately A$7.3 million in comparison with the effective exchange rate for 2004.

A number of short term uranium loans were required during the year to manage inventory levels at converters. Only one had not been repaid at year end and this involved the sale to, and loan back from, an existing customer of 181 tonnes of uranium oxide. The accounting treatment of this transaction requires that the revenue of A$10.2 million and the associated net income of A$4.9 million be deferred until the physical loan is repaid. Repayment of the loan is expected to take place in 2008.

The company settled US$45 million (2004: US$47 million) in forward exchange contracts during the year at an average A$:US$ exchange rate of 64 cents (2004: 64 cents). No new currency exchange contracts were entered into during the year.

Drummed production for the year was 5,910 tonnes of uranium oxide (2004: 5,137 tonnes) and represents a new annual production record.

Employee numbers increased and, combined with the widespread pressure on salaries that is prevalent across the mining industry, contractor and employee costs rose. The number of employees increased to meet the higher mining and processing rates and associated maintenance requirements for both the processing plant and the additional heavy mobile equipment. However, total operating costs on a unit of production basis did not increase and are similar to the corresponding period last year.

The 2004 comparative tax expense included the benefit of a High Court decision that provided the company a tax refund from a trading stock case.

The company's shareholding structure changed following the sale by former B and C class shareholders in December 2005 of their shareholdings in the company. As a result of the sale, the company now has only A class shares on issue totalling 190,737,934 shares. Rio Tinto continues to hold 68.39 per cent of the company's shares with the balance of shares being publicly held.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the Directors, other than matters reported in the Directors' Report and in the Chairman and Chief Executive's Report, there were no significant changes in the state of affairs of the consolidated entity during the year ended 31 December 2005.

## ENVIRONMENTAL REGULATION AND POLICY

ERA is subject to significant environmental regulation in respect of its mining operations. Under its authorisation to operate, ERA is required to report to the Minister for Primary Industry, Fisheries and Mines (NT), the Commonwealth Office of the Supervising Scientist (OSS), the Commonwealth Department of Industry, Tourism and Resources and the Northern Land Council, any infringements of the conditions and requirements of the authorisation. This includes any incident that is a divergence from strict compliance with statutory requirements, even if this incident has no detrimental environmental impact.

The OSS reports on these incidents, and any investigations arising from them, in its Annual Report obtainable on its website www.deh.gov.au/ssd/. As well, ERA reports every six months at meetings of the Alligator Rivers Region Advisory Committee, which comprises representatives from ERA, Parks Australia North, the OSS, the NT Government, the Commonwealth Department of Industry, Tourism and Resources, the Northern Land Council, the Jabiru Town Council, local Aboriginal organisations and the Environment Centre of the NT, among others. Public observers may also attend. ERA and the OSS report to the committee on incidents and investigations and the minutes of these meetings are posted on the OSS website www.deh.gov.au/ssd/communication/committees/arrac.

# DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2005

## ENVIRONMENTAL REGULATION AND POLICY CONTINUED

ERA strives to be at the forefront of environmental management and the company's environmental management system is ISO 14001 compliant. Further details of ERA's environmental performance are included in the Environment Section of the Annual Report page 15.

The company was fined $150,000 during the year after pleading guilty to two charges brought by the Northern Territory Government over a water contamination incident in 2004, and several unrelated radiation clearance incidents involving mobile equipment in 2003 and 2004. For further information see the company's website www.energyres.com.au/news.

## NON-AUDIT SERVICES

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors expertise and experience with the company are important.

Details of the amount paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services are set out below.

The board of Directors has considered the position and, in accordance with the advice received from the audit committee is satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The Directors are satisfied that the provision of non-audit services by the auditors, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- All non-audit services have been reviewed by the audit committee to ensure they do not impact on the impartiality and objectivity of the auditor
- None of the services undermines the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditors own work, acting in a management or decision making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

A copy of the auditors' independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 34.

During the year, the following fees were paid or payable for services provided by the auditors of the company, its related practices and non-audit related firms.

| | CONSOLIDATED | |
|---|---|---|
| | 2005 $'000 | 2004 $'000 |
| PricewaterhouseCoopers – Australian firm | 206 | 167 |
| Audit and review of financial reports and other audit work under the *Corporations Act 2001* | | |
| Other assurance services | 158 | 28 |
| Taxation Services | – | – |
| Advisory Services | – | – |
| | 364 | 195 |

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

There has not arisen in the interval between the end of the year and the date of this report any item, transaction or event of a material nature, that has significantly affected or may significantly affect:

(i) the operations of the consolidated entity;
(ii) the results of those operations; or
(iii) the state of affairs of the consolidated entity subsequent to the financial year ended 31 December 2005.

## ROUNDING OF AMOUNTS

The company is of a kind referred to in ASIC Class Order 98/0100 dated 10 July 1998 and in accordance with that Class Order amounts in this financial report and Directors' Report have been rounded to the nearest thousand dollars, unless otherwise indicated.

## LIKELY DEVELOPMENTS

In the opinion of the Directors, any other likely developments in the operations of the consolidated entity known at the date of this report have been covered within the Annual Report and notes to the financial statements.

A general review of developments for ERA is presented in the sections entitled Chairman and Chief Executive's Report and Production in this Annual Report.

Further information as to likely developments in the operations of the consolidated entity and the expected results of those operations in subsequent financial years has not been included in this report because, the Directors believe, on reasonable grounds, that to include such information would be likely to result in unreasonable prejudice to the consolidated entity.

## INDEMNIFICATION AND INSURANCE OF OFFICERS AND AUDITORS

**Indemnification**

Clause 11 of the company's constitution provides that every Director, manager, officer, employee or auditor of the company shall be indemnified out of the funds of the company against all liability incurred by them in defending any proceedings in which they are successful.

The *Corporations Act 2001* prohibits a company from indemnifying Directors, secretaries, executive officers and auditors from liability except for liability to a party, other than the company or a related body corporate, where the liability does not arise out of conduct involving a lack of good faith and except for liability for costs and expenses incurred in defending proceedings in which the officer or auditor is successful. An indemnity for officers or employees, who are not Directors, secretaries or executive officers, is not expressly prohibited by the *Corporations Act 2001*.

The Directors and secretaries of the company, and all former Directors and secretaries have the benefit of the indemnity in Clause 11 of the company's constitution.

The indemnity also applies to executive officers of the company (being the Chief Financial Officer and General Managers and other executives and managers who are concerned with, or take part in the management of the company) as well as other employees.

**Insurance**

Since the end of the previous financial year, the company has paid insurance premiums in respect of Directors' and officers' liability.

The policy indemnifies all Directors and officers of ERA and its controlled entities (including the Directors, secretaries, and executive officers referred to above) against certain liabilities.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of Directors' and officers' liability as such disclosure is prohibited under the terms of the contract.

## INFORMATION ON AUDITORS

PricewaterhouseCoopers continues in office in accordance with Section 327 of the *Corporations Act 2001*.

Signed at Melbourne this 24th day of February 2006 in accordance with a resolution of the Directors.

# AUDITORS' INDEPENDENCE DECLARATION

**PricewaterhouseCoopers**
**ABN 52 780 433 757**

333 Collins Street
MELBOURNE VIC 3000
GPO t 1331L
MELBOURNE VIC 3001
DX 77 Melbourne
Australia
www.pwc.com/au
Telephone +61 3 8603 1000
Facsimile +61 3 8603 1999

## AUDITORS' INDEPENDENCE DECLARATION

As lead auditor for the audit of Energy Resources of Australia Ltd for the year ended 31 December 2005, I declare that to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Energy Resources of Australia Ltd and the entities it controlled during the period.

Tim Goldsmith

Tim Goldsmith
Partner
Pricewaterhouse Coopers

Melbourne
24 February 2006

# CORPORATE GOVERNANCE STATEMENT

## CORPORATE GOVERNANCE

The Board of ERA considers high standards of corporate governance critical to business integrity and performance.

The Board ensures that ERA meets the objectives of all its shareholders, while paying proper regard to the interests of employees and external stakeholders. The corporate governance structures and practices in place at ERA are substantially in compliance with recommendations of the Australian Stock Exchange ("ASX") Corporate Governance Council ('Council').

Areas where the corporate governance practices do not follow the recommendations of the Council arise due to Rio Tinto's 68.39 per cent ownership and the management direction and services this provides.

The Board has considered the Council's recommendations and ERA does not comply with the following:

- Recommendation 2.1 and 2.2 – There is not a majority of independent Directors nor an independent Chairman;
- Recommendation 2.4 – There is no established Nominations Committee; and
- Recommendation 9.2 – There is no Remuneration Committee

The company's Corporate Governance section on its website (www.energyres.com.au) sets out the information required by the Council's recommendations.

## SHAREHOLDERS' AGREEMENT

The listing of ERA on the ASX in 1980 involved the issue of A Class shares to members of the public, as well as B and C Class shares to ERA's major customers. Prior to the listing, the major shareholders and ERA entered into a Shareholders' Agreement to govern certain aspects of the conduct of ERA's affairs and their relationship with each other in the future. The Shareholders' Agreement was terminated on 10 October 2005 following the announcement that the ex B and C Class Shareholders would transfer their shares to A Class shares and subsequently sell those converted A Class shares.

On the 6 December 2005 ERA announced that the 47,872,488 A Class shares had been sold to domestic and international professional investors by the ex B and C Class Shareholders. Following this sale, Rio Tinto continued to hold 68.39% with the balance being publicly held.

## BOARD RESPONSIBILITIES & CHARTER

In carrying out its responsibilities and powers, the Board at all times recognises its overriding responsibility to act honestly, fairly, diligently and in accordance with the law in serving the interests of the company's shareholders and employees and the community. The Board's charter underpins the strategic guidance and effective management oversight provided by the Board. The charter is available on ERA's website.

The Board charter defines the division of responsibility by formal delegation and a system of Board reserve powers.

The Board reviews the Charter on an annual basis.

The Directors approve strategy and business plans and monitor the performance of the company against these plans. The Directors also monitor compliance with policies prescribed by the Board in areas such as health and safety, environment, business ethics, internal control and risk management. These policies are designed to ensure that ERA meets or exceeds the regulatory requirements governing its operations.

## BOARD COMPOSITION

The composition of the Board recognises the majority ownership position of Rio Tinto Limited. It is considered appropriate that Directors associated with the controlling shareholder constitute a majority of Directors on the Board. Notwithstanding this, the Directors discharge their duties in the interests of all shareholders.

The Audit Committee is comprised of a majority of independent Directors. Among other matters, the Audit Committee considers related party transactions. Directors associated with the relevant related party neither consider nor approve transactions involving the related party.

At the date of this report, the Board of ERA consists of seven Directors, six of whom are non-executive. The Chairman is Dr D. Klingner. Mr H. Kenyon-Slaney is an executive Director and holds the position of Chief Executive. This is consistent with recommendation 2.3 of the Council that the Chief Executive and Chairman be different people. Three non-executive Directors, Mr P. Chiaro, Mr C. Lenegan and Mr A. Lloyd, are executives of Rio Tinto. Mr R. Carter and Prof H. Garnett are independent non-executive Directors.

Details of the Directors, their qualifications and other appointments are set out on page 20.

Qualification for Board membership is related to the mix of skills and knowledge that the Board considers will best serve the interests of ERA and all of its shareholders. Decisions relating to appointment of Directors are made by the full Board. Directors appointed by the Board are required by ERA's constitution to submit themselves for election by shareholders at the Annual General Meeting following their appointment. There is no share ownership qualification for appointment as a Director. The Board has not established a nominations committee. The Board recognises that this is not compliant with recommendation 2.4 of the Council, but considers existing practices satisfactory in view of the company's ownership structure.

Non-executive Directors are subject to retirement by rotation every three years in accordance with ERA's constitution, but may offer themselves for re-election.

## INDEPENDENCE

The Board of Directors does not consist of a majority of independent Directors. This is not in compliance with recommendation 2.1 of the Council. As stated above, the composition of the Board recognises Rio Tinto's majority shareholding. The Directors are required to, and do, act in accordance with their statutory duties of good faith and for a proper purpose. All related party transactions, including those with Rio Tinto, have been determined to be in the interests of ERA.

# DIRECTORS' REPORT CONTINUED

for the year ended 31 December 2005

## CORPORATE GOVERNANCE STATEMENT CONTINUED

The Chairman, Dr D. Klingner, was until recently a Rio Tinto executive. Whilst this is not compliant with recommendation 2.2 of the Council, the Board considers that Rio Tinto's 68.39 per cent shareholding warrants this position.

### AUDIT COMMITTEE

The Audit Committee is appointed by the Board and comprises three non-executive Directors of whom two are required to be independent. Two Directors constitute a quorum. The present members of the Audit Committee are Mr R. Carter (Chairman), Prof. H. Garnett and Dr D. Klingner.

The Audit Committee charter sets out the role and terms of reference of the Audit Committee and is reviewed at least annually.

The committee provides a formal structure for reviewing ERA's financial statements, accounting policies, control systems, risk management practices, taxation and liaison with the external and internal auditors. The committee also reviews the adequacy of internal and external audit arrangements.

The committee advises the Board of any matters that might have a significant impact on the financial condition of ERA and has the authority to investigate any matters within the terms of reference, having full access to the information and resources of ERA to fulfill its function. Related party transactions are considered by the Audit Committee and, where they relate to Rio Tinto, by the independent members of the Audit Committee only.

The committee reviews compliance with the Corporations Act, and the requirements of the Australian Stock Exchange and other regulatory requirements.

Attendance details of the 2005 meetings of the Audit Committee are set out on page 21.

Any work to be conducted by the external auditor other than the audit is approved by the Audit Committee.

### RISK IDENTIFICATION AND MANAGEMENT

ERA has in place a range of policies and procedures to manage the risks associated with its operating activities. These policies have been adopted by the Board to ensure that potential business risks are identified and appropriate action taken. The management of risk is an integral part of the responsibility of both the Board and management and is carried out through an integrated risk management assurance process. ERA benefits from the knowledge, policies and practices adopted by Rio Tinto to manage its diverse business activities covering a variety of commodities and operation locations.

The Board has in place a number of systems to identify and manage risk. These include:

- the identification and regular review of all of the significant business risks facing the company;
- the provision of information by management to the Board, on a periodic basis, as to the status of any plans, controls, policies and/or procedures to manage the significant business risks;
- guidelines for ensuring that capital expenditure and revenue commitments exceeding certain approved limits are placed before the Board for approval;
- limits and controls for all financial exposures, including the use of derivatives;
- a regulatory compliance program; and
- safety, health and environmental policies which are supported by a set of standards and management systems which recognise the company's commitment to achieving high standards of performance in all its activities in these areas.

The Chief Executive and the Chief Financial Officer state, in writing, to the Board that:

- the financial reporting and operational results are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board;
- ERA's risk management and internal compliance and control system is operating efficiently and effectively in all material respects; and
- The statements present a true and fair view of the results of operations

### BOARD MEETINGS

The Board normally has five scheduled meetings per year and may meet at other times to deal with urgent issues. The Board meeting attendance details for Directors in 2005 are set out on page 21.

### INDEPENDENT PROFESSIONAL ADVICE

There is no formal Board procedure laid down for Directors wishing to seek independent professional advice at the company's expense in the furtherance of their duties. However, the Board recognises that there may be circumstances in which individual Directors are entitled to independent professional advice at the company's expense, in the furtherance of their duties. Any such matter would be for the Board to consider at the time, in the light of the specific circumstance, and having in mind the constitution of the company.

## DIRECTORS' REMUNERATION

At the 2001 Annual General Meeting shareholders determined that the aggregate remuneration for non-executive Directors of ERA would be $500,000 per annum.

## PURCHASE AND SALE OF COMPANY SECURITIES

ERA has in place a formal policy that reinforces to all Directors, officers and employees the prohibition against insider trading. The share trading policy is available for inspection on the company's website in compliance with recommendation 3.2 of the Council.

Under the policy:

- Directors and senior managers must advise the Chairman in writing, and receive approval in writing from the Chairman, if they intend to purchase or sell securities in the company or any other company with which ERA is conducting business. In regard to his own dealings, the Chairman is required to notify the Chairman of the Audit Committee; and
- no dealings in securities of the company may take place for the period from the end of any relevant financial period to the trading day following announcement of ERA's annual results or half year results.

## PERFORMANCE SELF-ASSESSMENT

In 2005 the Board performed an annual evaluation of itself that:

(a) compares the requirements of the Board charter with the performance of the Board;
(b) sets out goals and objectives of the Board for the upcoming year; and
(c) considers any improvements or changes to the Board charter deemed necessary or desirable.

## CODE OF BUSINESS CONDUCT

ERA has a Code of Business Conduct to be met by all employees and Directors. All employees are required to maintain high standards of ethical behaviour in the execution of their duties and comply with all applicable laws and regulations in Australia and in every other country in which the company engages in business. In addition to the Code of Business Conduct, the company's employees are required to comply with Rio Tinto's statement of business practice – The Way We Work.

The Code of Business Conduct is reviewed annually to ensure it adequately addresses the issues facing the company and is available for inspection on the company's website, www.energyres.com.au under the corporate governance section.

The company has a confidential whistleblower program known as 'Speak-Out'. Employees are encouraged to report any suspicion of unethical or illegal practices.

## PUBLIC STATEMENTS AND DISCLOSURE MATTERS

ERA makes full and timely disclosures to its shareholders and the market in accordance with its legal and regulatory obligations. Established systems are in place to ensure compliance and any matter that may have a material impact on the price or value of ERA's securities is reported to the market. The Chief Executive and the Chief Financial Officer are responsible to the Board for recommending such disclosures.

## SHAREHOLDER COMMUNICATION

The Board informs shareholders and others of all major developments and complies with its continuous disclosure requirements. Any material information is announced to the ASX in accordance with the listing rules. The company has developed communication strategies to achieve effective communications with its stakeholders.

PricewaterhouseCoopers, the external auditor, attends the Annual General Meeting to answer shareholder questions.

## INVESTORS' INFORMATION

for the year ended 31 December 2005

**Annual General Meeting**
The next AGM will be held at 10:00 am on Wednesday, 26 April 2006 at The Shangri-la Hotel, 176 Cumberland Street, Sydney.

**Tax File Numbers**
Tax file numbers or exemption details are recorded from shareholders who wish to provide the information. Dividend advice statements, when issued to shareholders, indicate whether or not a shareholder's tax file number has been recorded. ERA normally pays fully franked dividends. In the event of an unfranked dividend being paid, ERA will be required to deduct tax at the top marginal rate from the dividend paid to shareholders resident in Australia who have not supplied a tax file number or exemption form.

**Information on Shareholding**
Shareholders who require information about their shareholding or dividend payment should contact ERA's principal registry.

Shareholders who have changed their address should advise the change in writing to:

ERA SHARE REGISTRY
Computershare Investor Services
Pty Ltd
Level 3
60 Carrington Street
SYDNEY NSW 2000
Telephone: (02) 8234 5000
Facsimile: (02) 8234 5050

Sponsored shareholders should note however, that they should contact their sponsored broker to initiate a change of address.

# CONSOLIDATED INCOME STATEMENTS

for the year ended 31 December 2005

| | | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| Operating revenues | | **262,036** | 236,270 | **261,602** | 235,477 |
| Other revenue from outside the operating activities | | **3,892** | 5,571 | **3,887** | 5,565 |
| **Revenue from ordinary activities** | 3 | **265,928** | **241,841** | **265,489** | **241,042** |
| Changes in inventories of finished goods and work in progress | | **10,755** | (160) | **10,755** | (160) |
| Raw materials and consumables used | | **(57,810)** | (68,275) | **(57,810)** | (68,275) |
| Employee benefits and contractor expenses | | **(58,012)** | (45,120) | **(57,385)** | (44,395) |
| Government and other royalties | | **(13,223)** | (10,571) | **(13,223)** | (10,571) |
| Commission and shipping expenses | | **(9,229)** | (7,627) | **(9,229)** | (7,627) |
| Depreciation and amortisation expenses | 4 | **(47,832)** | (42,355) | **(47,706)** | (42,223) |
| Borrowing costs | 4 | **(9,971)** | (9,105) | **(9,971)** | (9,105) |
| Statutory and corporate expense | | **(20,456)** | (15,339) | **(20,456)** | (15,339) |
| Other expenses from ordinary activities | | **(968)** | (4,050) | **(968)** | (4,055) |
| **Profit (loss) from ordinary activities before income tax expense** | 4 | **59,182** | **39,239** | **59,496** | **39,292** |
| Income tax relating to ordinary activities | 5 | **(18,480)** | (2,193) | **(18,556)** | (2,209) |
| **Net profit (loss) attributable to members of ERA Ltd** | | **40,702** | 37,046 | **40,940** | 37,083 |

*The above income statements are to be read in conjunction with the accompanying notes.*

| | | CENTS | CENTS |
|---|---|---|---|
| Basic earnings per share | 33 | **21.3** | 19.4 |
| Diluted earnings per share | 33 | **21.3** | 19.4 |

# CONSOLIDATED BALANCE SHEETS

as at 31 December 2005

| | | | | | |
|---|---|---|---|---|---|
| **Current Assets** | | | | | |
| Cash and cash equivalents | 7 | **18,123** | 55,064 | **18,121** | 54,989 |
| Receivables | 8 | **100,093** | 53,942 | **100,740** | 54,020 |
| Inventories | 9 | **109,936** | 95,253 | **109,936** | 95,253 |
| Hedge book asset | 18 | **–** | 4,855 | **–** | 4,855 |
| Derivative financial instruments | 12 | **7,363** | – | **7,363** | – |
| Other | 10 | **750** | 1,087 | **735** | 1,069 |
| Total Current Assets | | **236,265** | 210,201 | **236,895** | 210,186 |
| **Non-Current Assets** | | | | | |
| Held to maturity investments | | **–** | – | **100** | 100 |
| Inventories | 9 | **39,648** | 24,407 | **39,648** | 24,407 |
| Exploration, evaluation and development expenditure | 11 | **203,017** | 203,017 | **203,017** | 203,017 |
| Property, plant and equipment | 13 | **327,158** | 317,809 | **326,741** | 317,372 |
| Non-current investment – trust fund | | **42,576** | 40,289 | **42,576** | 40,289 |
| Deferred tax assets | 14 | **45,003** | 39,761 | **44,941** | 39,717 |
| Derivative financial instruments | 12 | **15,840** | – | **15,840** | – |
| Hedge book asset | 18 | **–** | 27,391 | **–** | 27,391 |
| Total Non-Current Assets | | **673,242** | 652,674 | **672,863** | 652,293 |
| Total Assets | | **909,507** | 862,875 | **909,758** | 862,479 |
| **Current Liabilities** | | | | | |
| Payables | 15 | **26,666** | 25,211 | **27,069** | 25,256 |
| Interest bearing liability | | **10,000** | – | **10,000** | – |
| Current tax liabilities | | **18,613** | 7,257 | **18,613** | 7,192 |
| Provisions | 16 | **6,843** | 3,014 | **6,763** | 2,932 |
| Deferred gain on hedge book | 18 | **–** | 4,855 | **–** | 4,855 |
| Total Current Liabilities | | **62,122** | 40,337 | **62,445** | 40,235 |
| **Non-Current Liabilities** | | | | | |
| Other liabilities | 15 | **10,207** | 17 | **10,207** | 17 |
| Deferred tax liabilities | 17 | **118,055** | 118,381 | **118,068** | 118,402 |
| Provisions | 16 | **184,273** | 166,930 | **184,175** | 166,840 |
| Deferred gain on hedge book | 18 | **–** | 27,391 | **–** | 27,391 |
| Total Non-Current liabilities | | **312,535** | 312,719 | **312,450** | 312,650 |
| Total Liabilities | | **374,657** | 353,056 | **374,895** | 352,885 |
| Net Assets | | **534,850** | 509,819 | **534,863** | 509,594 |
| **Shareholders' Equity** | | | | | |
| Contributed equity | 20 | **214,585** | 214,585 | **214,585** | 214,585 |
| Reserves | 21 | **406,440** | 389,686 | **406,440** | 389,686 |
| Retained profits | 22 | **(86,175)** | (94,452) | **(86,162)** | (94,677) |
| Total Shareholders' Equity | | **534,850** | 509,819 | **534,863** | 509,594 |

*The above balance sheets are to be read in conjunction with the accompanying notes.*

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

as at 31 December 2005

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | **2005 $000** | 2004 $000 | **2005 $000** | 2004 $000 |
| Total equity at the beginning of the year | **509,819** | 493,634 | **509,594** | 493,372 |
| Adjustment on adoption of AIFRS to reserves | **22,597** | – | **22,597** | – |
| Cashflow hedges, net of tax | **(6,355)** | – | **(6,355)** | – |
| **Net income recognised directly in equity** | **16,242** | – | **16,242** | – |
| **Profit for the year** | **40,702** | 37,046 | **40,940** | 37,083 |
| **Total recognised income and expense for the year** | **56,944** | 37,046 | **57,182** | 37,083 |
| Employee share options | **512** | 120 | **512** | 120 |
| Dividends paid | **(32,425)** | (20,981) | **(32,425)** | (20,981) |
| **Total equity at the end of the year** | **534,850** | 509,819 | **534,863** | 509,594 |

*The above statements of changes in equity should be read in conjunction with the accompanying notes*

# CONSOLIDATED STATEMENTS OF CASH FLOWS

for the year ended 31 December 2005

| | | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|---|
| | NOTE | 2005 $000 INFLOWS/ (OUTFLOWS) | 2004 $000 INFLOWS/ (OUTFLOWS) | 2005 $000 INFLOWS/ (OUTFLOWS) | 2004 $000 INFLOWS/ (OUTFLOWS) |
| **Cash flows from operating activities** | | | | | |
| Receipts from customers | | **244,479** | 245,419 | **244,121** | 244,220 |
| Payments to suppliers and employees | | **(192,453)** | (177,729) | **(192,222)** | (176,612) |
| | | **52,026** | 67,690 | **51,899** | 67,608 |
| Interest received | | **1,575** | 1,415 | **1,569** | 1,409 |
| Borrowing costs paid | | **(545)** | (187) | **(545)** | (187) |
| Income taxes paid | | **(19,653)** | (22,647) | **(19,553)** | (22,663) |
| Income tax refund – trading stock case | | **–** | 5,485 | **–** | 5,485 |
| **Net cash inflow from operating activities** | 31 | **33,403** | 51,756 | **33,370** | 51,652 |
| **Cash flows from investing activities** | | | | | |
| Payments for property, plant and equipment | | **(46,171)** | (8,359) | **(46,065)** | (8,329) |
| Proceeds from sale of property, plant and equipment | | **96** | 171 | **96** | 171 |
| **Net cash outflow from investing activities** | | **(46,075)** | (8,188) | **(45,969)** | (8,158) |
| **Cash flows from financing activities** | | | | | |
| Proceeds from borrowings | | **10,000** | – | **10,000** | – |
| Dividends paid | | **(32,425)** | (20,981) | **(32,425)** | (20,981) |
| **Net cash outflow from financing activities** | | **(22,425)** | (20,981) | **(22,425)** | (20,981) |
| **Net increase/(decrease) in cash held** | | **(35,097)** | 22,587 | **(35,024)** | 22,513 |
| Cash at the beginning of the financial year | | **55,064** | 31,080 | **54,989** | 31,079 |
| Effects of exchange rate changes on cash | | **(1,844)** | 1,397 | **(1,844)** | 1,397 |
| **Cash at the end of the financial year** | 7 | **18,123** | 55,064 | **18,121** | 54,989 |

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

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

## 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).

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

This financial report is the first Energy Resources of Australia Ltd financial report to be prepared in accordance with AIFRS. AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards has been applied in preparing these financial statements.

Financial statements of Energy Resources of Australia Ltd until 31 December 2004 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing the Energy Resources of Australia Ltd financial report for the year ended 31 December 2005, management has amended certain accounting, valuation and consolidation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* from 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRS on the Group's equity and its net income are given in note 37.

The Group has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the reporting periods beginning 1 January 2005. This includes applying AASB 119 to the comparatives in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

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.

**(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**

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 the case where a sale occurs and after which (part of) the goods are borrowed back by ERA under a separate agreement, the revenue is deferred until repayment of the borrowed goods occurs.

Rendering of Services

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

Asset Sales

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

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 Energy Resources of Australia Ltd'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.

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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.

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 Ltd 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.

This differs from the previous accounting policy, under which the current and deferred tax balances of the company are assumed by the head entity of the tax consolidated group as if those transactions, events and balances were its own.

As from 1 January 2004, the company derecognised the tax related non-current intercompany receivable or payable balances and recognised deferred tax assets and liabilities. There was no impact on the net assets or tax expense of the 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.

### (h) Inventories – continued
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 from 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, plant and equipment including mine properties, along with development expenditure, the relevant cashflows have been discounted to their present value.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (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 – three years
- Office equipment: general – five years
- Plant and equipment – five years
- Furniture and fittings – ten years
- Motor vehicles – five 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, evaluation and development costs are accumulated in respect of each separate area of interest.

Exploration and evaluation costs are carried forward where right of tenure of the area of interest is current and they are expected to be recovered through sale or successful development and exploitation of the area of interest or where exploration and evaluation activities in the area of interest have not yet reached a stage that permits reasonable assessment of the existence of economically recoverable resources.

Costs incurred in conducting exploration activities are carried forward and a provision equal in amount is created by charging the income statement. The provision is reversed where it is determined that the related area of interest has economically recoverable resources and is to be developed.

Development costs related to an area of interest are carried forward to the extent that they are expected to be recovered either through sale or successful exploitation of the area of interest. The Jabiluka project commenced development and was subsequently put under a long-term care and maintenance regime, with all subsequent care and maintenance costs expensed. Exploration and development costs incurred on Jabiluka are carried forward and tested for impairment in line with policy (i) above.

When an area of interest is abandoned or the Directors decide that it is not commercially viable, any accumulated costs in respect of that area are written off in the financial period the decision is made. Each area of interest is also reviewed at the end of each accounting period and accumulated costs written off to the extent that they will not be recoverable in the future.

Amortisation is not charged on costs carried forward in respect of areas of interest in the development phase until production commences.

When production commences, carried forward exploration, evaluation and development costs are transferred to mine properties and are amortised on a units of production basis over the life of the economically recoverable resources.

### (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

ERA is required to rehabilitate the Ranger Project Area upon cessation of mining operations. Closedown and restoration costs include the costs of dismantling and demolition of infrastructure or decommissioning, the removal of residual material and the remediation of disturbed areas. Closedown and restoration costs are provided for in the accounting period when the obligation arising from the related disturbance occurs, whether this occurs during the mine development or during the production phase, based on the net present value of estimated future costs.

The 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 closedown 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.

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Each year ERA 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.

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.

ERA 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

From 1 January 2004 to 31 December 2004 – Comparatives

The company has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 January 2005. The company has applied previous AGAAP in the comparative information on financial instruments within the scope of AASB 132 and AASB 139. For further information on previous AGAAP refer to the annual report for the year ended 31 December 2004.

#### Adjustments on transition date: 1 January 2005

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

#### From 1 January 2005

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently 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

#### (i) 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.

#### (ii) 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 (i) 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 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.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

## 1. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

### (iii) Superannuation plan

The company has elected to adopt early the revised version of AASB 119 Employee Benefits under s.334(5) of the *Corporations Act, 2001*.

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

#### (i) Basic earnings per share

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

#### (ii) Diluted earnings per share

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

### (t) 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 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. Plans in which a parent entity grants rights to equity instruments direct to its subsidiary employees are generally classified as equity-settled share-based payments in accordance with the guidance contained in IFRIC D17 Group and Treasury Share Transactions. As this Interpretation is draft only there remains potential for alteration to this treatment, however this is considered unlikely.

#### 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.

## 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 company 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:

**(b) Critical judgements in applying the entity's accounting policies**

The calculation of the rehabilitation provision and corresponding capitalised closure cost assets (where necessary), rely on estimates of costs required to rehabilitate and restore disturbed land to their original condition. These estimates are regularly reviewed and adjusted in order to ensure that the most up to date data is used.

The Group estimates its ore reserves and resources based on information supplied by Competent Persons as defined in accordance with the Australasian Code for Reporting of Mineral Resources and Ore Reserves of December 2004 (the JORC Code). Reserves determined in this way are used for the calculation of depreciation, amortisation and impairment charges, the assessment of mine lives and for forecasting the timing of payment of close down and restoration costs.

The Groups balance sheet contains items that are subject to impairment testing. Estimates are required of future production, prices and exchange rates in order to assist in the judgement of impairment.

## 3. REVENUE

| | | | | |
|---|---|---|---|---|
| **Revenue from operating activities** | | | | |
| Sale of goods | **261,602** | 235,477 | **261,602** | 235,477 |
| Rendering of services | **434** | 793 | **–** | – |
| Total sales revenue | **262,036** | 236,270 | **261,602** | 235,477 |
| **Revenue from outside operating activities** | | | | |
| Interest received/receivable, other parties | **3,892** | 5,571 | **3,887** | 5,565 |
| Total revenue from outside operating activities | **3,892** | 5,571 | **3,887** | 5,565 |
| Total revenue | **265,928** | 241,841 | **265,489** | 241,042 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

| | | | | |
|---|---|---|---|---|
| The operating profit before income tax expense includes the following specific net gains and expenses: | | | | |
| Cost of Sales | **157,041** | 162,155 | **157,041** | 162,155 |
| Amortisation of Ranger project rights | **17,467** | 16,291 | **17,467** | 16,291 |
| Amortisation of Rehabilitation asset | **3,496** | 1,934 | **3,496** | 1,934 |
| Depreciation of non-current assets: | | | | |
| Land and buildings | **3,748** | 3,346 | **3,708** | 3,307 |
| Plant and equipment | **23,121** | 20,784 | **23,035** | 20,691 |
| Total depreciation | **26,869** | 24,130 | **26,743** | 23,998 |
| Net exchange loss on translation of US$ bank accounts | **304** | 2,449 | **304** | 2,449 |
| Royalty payments | **2,999** | 2,408 | **2,999** | 2,408 |
| Payments to Aboriginal interests | **10,224** | 8,163 | **10,224** | 8,163 |
| Rental expense relating to operating leases | **261** | 475 | **261** | 475 |
| Borrowing costs: | | | | |
| Related parties | **193** | 138 | **193** | 138 |
| Other parties | **352** | 49 | **352** | 49 |
| Rehabilitation provision | **9,426** | 8,918 | **9,426** | 8,918 |
| Other charges against assets: | | | | |
| Write down of stores to net realisable value | **283** | 428 | **283** | 428 |
| Research and development expenditure | **3,478** | 3,189 | **3,478** | 3,189 |
| Long-term employee benefits expense | **39** | (127) | **39** | (127) |
| Net (gain)/loss on sale of property, plant and equipment | **4** | (35) | **4** | (35) |

## 5. INCOME TAX

| | | | | |
|---|---|---|---|---|
| **(a) Income tax expense** | | | | |
| Current tax | **31,638** | 22,558 | **31,704** | 22,573 |
| Deferred tax | **(12,800)** | (10,208) | **(12,790)** | (10,207) |
| Tax effect of finalisation of trading stock case | **–** | (9,624) | **–** | (9,624) |
| Under (over) provided in prior years | **(358)** | (533) | **(358)** | (533) |
| | **18,480** | 2,193 | **18,556** | 2,209 |
| Deferred income tax (revenue) expense included in income tax expense comprises: | | | | |
| Decrease (increase) in deferred tax assets (note 14) | **(5,345)** | (2,978) | **(5,327)** | (2,984) |
| (Decrease) increase in deferred tax liabilities (note 17) | **(7,455)** | (7,230) | **(7,463)** | (7,223) |
| | **(12,800)** | (10,208) | **(12,790)** | (10,207) |
| **(b) Reconciliation of income tax expense to prima facie tax payable** | | | | |
| Operating profit before income tax | **59,182** | 39,239 | **59,496** | 39,292 |
| *Prima facie* income tax expense @ 30% | **17,754** | 11,772 | **17,849** | 11,788 |
| Tax effect of permanent differences: | | | | |
| Amortisation of rehabilitation asset | **1,049** | 580 | **1,049** | 580 |
| Other non-allowable items | **35** | (2) | **16** | (2) |
| Tax effect of finalisation of trading stock case | **–** | (9,624) | **–** | (9,624) |
| Income tax over provided in prior years | **(358)** | (533) | **(358)** | (533) |
| Income tax expense attributable to operating profit | **18,480** | 2,193 | **18,556** | 2,209 |
| Income tax expense | **18,480** | 2,193 | **18,556** | 2,209 |
| **(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: | | | | |
| Current tax | **–** | – | **–** | – |
| Net deferred tax | **6,961** | – | **6,961** | – |
| | **6,961** | – | **6,961** | – |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

## 6. DIVIDENDS

**Dividends provided for or paid during the year**

| | | | | | |
|---|---|---|---|---|---|
| Final 2004 – ordinary | 11.0 | 20,981 | 28 February 2005 | 30% | 100% |
| Interim 2005 – ordinary | 6.0 | 11,444 | 31 August 2005 | 30% | 100% |

**Dividends not recognised at the end of the year**

Since the end of the year the Directors declared the payment of a final dividend of 11.0 cents (2004: 11.0) fully paid per ordinary share, fully franked based on tax paid at 30%. The aggregate amount of the proposed final dividend will be paid on 1 March 2006 out of retained profits at the end of the year but not recognised as a liability is $20,981,173.

| | | | | |
|---|---|---|---|---|
| **Dividend Franking Account** | | | | |
| Balance of franking account adjusted for franking credits which will arise from the payment of income tax provided for in the financial statements, and after deducting franking credits used in payment of the above dividends: | | | | |
| 30% franking credits (2004: 30%) | **49,820** | 44,520 | **49,820** | 44,520 |
| The ability to utilise the franking account credits is dependent upon there being sufficient available profits to declare dividends. | | | | |

## 7. CASH AND CASH EQUIVALENTS

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Cash at bank and on hand | **3,403** | 6,862 | **3,401** | 6,787 |
| Deposits on call | **14,720** | 48,202 | **14,720** | 48,202 |
| Cash Assets | **18,123** | 55,064 | **18,121** | 54,989 |

Deposits at call:
The deposits are bearing floating interest rates between 5.20% and 5.45% (2004: 5.20%)

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Trade debtors | **89,509** | 39,936 | **89,411** | 39,211 |
| | **89,509** | 39,936 | **89,411** | 39,211 |
| Other debtors | **10,571** | 7,346 | **11,316** | 8,149 |
| Less provision for doubtful debts | **(36)** | (36) | **(36)** | (36) |
| | **10,535** | 7,310 | **11,280** | 8,113 |
| Foreign exchange hedge asset on debtors | **–** | 6,552 | **–** | 6,552 |
| Related entity | **49** | 144 | **49** | 144 |
| | **100,093** | 53,942 | **100,740** | 54,020 |

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Stores and spares at cost | **17,704** | 14,921 | **17,704** | 14,921 |
| Stores and spares at NRV | **2,959** | 1,371 | **2,959** | 1,371 |
| | **20,663** | 16,292 | **20,663** | 16,292 |
| Ore stockpiles at cost | **12,717** | 14,006 | **12,717** | 14,006 |
| Work in progress at cost | **8,295** | 7,113 | **8,295** | 7,113 |
| Finished product U3O8 at cost | **68,261** | 57,842 | **68,261** | 57,842 |
| | **109,936** | 95,253 | **109,936** | 95,253 |
| **Non-current** | | | | |
| Ore stockpiles at cost | **39,648** | 24,407 | **39,648** | 24,407 |

| | | | | |
|---|---|---|---|---|
| **Current** | | | | |
| Prepayments | **750** | 1,087 | **735** | 1,069 |
| | **750** | 1,087 | **735** | 1,069 |

| | | | | |
|---|---|---|---|---|
| **Non-current** | | | | |
| Balance brought forward | **203,017** | 203,017 | **203,017** | 203,017 |
| Total exploration, evaluation and development expenditure | **203,017** | 203,017 | **203,017** | 203,017 |

The recoverable amount of the cash generating unit (CGU) is determined based on estimated future prices, exchange rates and capital and production costs.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

| | | | | |
|---|---|---|---|---|
| **Current assets** | | | | |
| Forward exchange contracts – cashflow hedges | **7,363** | – | **7,363** | – |
| | **7,363** | – | **7,363** | – |
| **Non-current** | | | | |
| Forward exchange contracts – cashflow hedges | **15,840** | – | **15,840** | – |
| | **15,840** | – | **15,840** | – |

**(a) Transition to AASB 132 and AASB 139**
The Group has taken the exemption available under AASB1 to apply AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurements* from 1 January 2005. At the date of transition to these standards of 1 January 2005:

An increase in net assets was recognised representing:

- The reclassification of foreign currency cash flow hedges under AASB 139 from offsetting hedge-book commitment asset and liabilities.
- An increase in the deferred tax liability related to the cash flow hedges.

**(b) Instruments used by the group**
The consolidated entity derives most of its revenue in United States dollars and incurs most of its costs in Australian dollars.

The consolidated entity utilises a combination of forward exchange and currency options to protect against adverse exchange rate movements. Hedging gains and losses including option premiums are brought to account as part of the underlying transactions.

The contracts are hedged against highly probable forecasted sales. At balance date, the details of the outstanding contracts are:

| | | | | | |
|---|---|---|---|---|---|
| **Forwards** | | | | | |
| Sell US$/Buy A$ | Less than 1 year | **24,000** | **0.61** | 27,000 | 0.61 |
| | 1 to 5 years | **56,000** | **0.61** | 80,000 | 0.61 |
| | Total | **80,000** | **0.61** | 107,000 | 0.61 |
| **Options** | | | | | |
| Purchased US$ Put options | Less than 1 year | **18,000** | **0.70** | 18,000 | 0.70 |
| | 1 to 5 years | **36,000** | **0.70** | 54,000 | 0.70 |
| | Total | **54,000** | **0.70** | 72,000 | 0.70 |

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cash flows occur, the initial measurement of the component recognised in the balance sheet is adjusted by the related amount deferred in equity.

### (c) Commodity price risk

The consolidated entity is exposed to uranium price risk. In the absence of uranium being traded on global futures exchanges, the consolidated entity uses a combination of both fixed and market price related contracts for future sales to manage this exposure.

### (d) Credit risk exposures

Credit risk refers to the likelihood of a loss being incurred as a direct result of failure by a counterparty to perform as contracted. The consolidated entity manages its credit risks through the use of allocated counterparty limits based on independent agency ratings.

The consolidated entity is not materially exposed to any individual customer. Material concentrations of credit risk on trade debts due from customers (on a basis of geographical location) are United States 38%, Europe 28%, and Asia 34%.

| | | | | |
|---|---|---|---|---|
| **(a) Non-current** | | | | |
| **Mine land and buildings** | | | | |
| Mine land and buildings at cost | **94,163** | 92,968 | **93,617** | 92,452 |
| Less accumulated depreciation | **(68,717)** | (64,970) | **(68,423)** | (64,714) |
| | **25,446** | 27,998 | **25,194** | 27,738 |
| **Plant and equipment** | | | | |
| Plant and equipment at cost | **499,917** | 454,806 | **499,217** | 454,088 |
| Less accumulated depreciation | **(328,439)** | (305,621) | **(327,904)** | (305,080) |
| | **171,478** | 149,185 | **171,313** | 149,008 |
| **Mine properties** | | | | |
| Ranger Project Rights at cost | **407,000** | 407,000 | **407,000** | 407,000 |
| Less accumulated amortisation | **(298,280)** | (280,813) | **(298,280)** | (280,813) |
| | **108,720** | 126,187 | **108,720** | 126,187 |
| **Rehabilitation** | | | | |
| Closure at cost | **54,289** | 43,717 | **54,289** | 43,717 |
| Less accumulated depreciation | **(32,775)** | (29,278) | **(32,775)** | (29,278) |
| | **21,514** | 14,439 | **21,514** | 14,439 |
| Total property, plant and equipment | **327,158** | 317,809 | **326,741** | 317,372 |

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

**(b) Reconciliations of the carrying amounts of each class of property, plant and equipment at the beginning and end of the current financial year are set out below:**

| | | | | |
|---|---|---|---|---|
| **Mine land and buildings** | | | | |
| Carrying amount at 31 December 2004 | **27,998** | 31,344 | **27,738** | 31,045 |
| Additions | **1,196** | – | **1,164** | – |
| Depreciation | **(3,748)** | (3,346) | **(3,708)** | (3,307) |
| Carrying amount at 31 December 2005 | **25,446** | 27,998 | **25,194** | 27,738 |
| **Plant and equipment** | | | | |
| Carrying amount at 31 December 2004 | **149,185** | 161,746 | **149,008** | 161,506 |
| Additions | **45,514** | 8,359 | **45,440** | 8,329 |
| Write back of assets disposed | **(100)** | (136) | **(100)** | (136) |
| Depreciation | **(23,121)** | (20,784) | **(23,035)** | (20,691) |
| Carrying amount at 31 December 2005 | **171,478** | 149,185 | **171,313** | 149,008 |
| **Mine properties** | | | | |
| Carrying amount at 31 December 2004 | **126,187** | 142,478 | **126,187** | 142,478 |
| Amortisation | **(17,467)** | (16,291) | **(17,467)** | (16,291) |
| Carrying amount at 31 December 2005 | **108,720** | 126,187 | **108,720** | 126,187 |
| **Rehabilitation** | | | | |
| Carrying amount at 31 December 2004 | **14,439** | 16,373 | **14,439** | 16,373 |
| Additional disturbance | **10,571** | – | **10,571** | – |
| Amortisation | **(3,496)** | (1,934) | **(3,496)** | (1,934) |
| Carrying amount at 31 December 2005 | **21,514** | 14,439 | **21,514** | 14,439 |

## 14. DEFERRED TAX ASSETS

| | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | THE COMPANY 2005 $000 | THE COMPANY 2004 $000 |
|---|---|---|---|---|
| **The balance comprises temporary differences attributable to:** | | | | |
| Amounts recognised in profit or loss | | | | |
| Rehabilitation | **39,283** | 36,495 | **39,283** | 36,495 |
| Employee provisions | **1,506** | 1,126 | **1,444** | 1,082 |
| Other payables | **3,766** | 2,140 | **3,766** | 2,140 |
| | **44,555** | 39,761 | **44,493** | 39,717 |
| **Amount recognised directly in equity** | | | | |
| Share benefits | **448** | – | **448** | – |
| | **45,003** | 39,761 | **44,941** | 39,717 |
| **Movements:** | | | | |
| Opening balance at 1 January | **39,761** | 35,998 | **39,717** | 35,948 |
| Credited/(charged) to the income statement | **5,345** | 2,978 | **5,327** | 2,984 |
| Credited/(charged) to equity | **448** | – | **448** | – |
| Under/(over) provided in prior years | **(551)** | 785 | **(551)** | 785 |
| Closing balance at 31 December | **45,003** | 39,761 | **44,941** | 39,717 |

## 15. PAYABLES

| | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | THE COMPANY 2005 $000 | THE COMPANY 2004 $000 |
|---|---|---|---|---|
| **Current** | | | | |
| Amount owing to related entities | **1,661** | 1,788 | **2,427** | 1,831 |
| Trade creditors | **23,774** | 22,774 | **23,560** | 22,944 |
| Other creditors | **1,231** | 649 | **1,082** | 481 |
| | **26,666** | 25,211 | **27,069** | 25,256 |
| **Non-Current** | | | | |
| Other Creditors | **15** | 17 | **15** | 17 |
| Deferred income | **10,192** | – | **10,192** | – |
| | **10,207** | 17 | **10,207** | 17 |

## 16. PROVISIONS

| | CONSOLIDATED 2005 $000 | CONSOLIDATED 2004 $000 | THE COMPANY 2005 $000 | THE COMPANY 2004 $000 |
|---|---|---|---|---|
| **Current** | | | | |
| Employee entitlements | **4,273** | 3,014 | **4,193** | 2,932 |
| Rehabilitation | **2,570** | – | **2,570** | – |
| | **6,843** | 3,014 | **6,763** | 2,932 |
| **Non-current** | | | | |
| Employee entitlements | **612** | 565 | **514** | 475 |
| Rehabilitation | **183,661** | 166,365 | **183,661** | 166,365 |
| | **184,273** | 166,930 | **184,175** | 166,840 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

## 16. PROVISIONS CONTINUED

**Movements in provisions**
Movements in provisions during the financial year, other than employee benefits are set out below.

| | | | |
|---|---|---|---|
| Carrying amount at the start of the year | **–** | **166,365** | **166,365** |
| Payments | **(133)** | **–** | **(133)** |
| Additional provision recognised | **2,703** | **17,296** | **19,999** |
| Carrying amount at the end of the year | **2,570** | **183,661** | **186,231** |

| | | | |
|---|---|---|---|
| Carrying amount at the start of the year | – | 159,111 | 159,111 |
| Payments | – | (1,664) | (1,664) |
| Additional provision recognised | – | 8,918 | 8,918 |
| Carrying amount at the end of the year | – | 166,365 | 166,365 |

## 17. DEFERRED TAX LIABILITIES

| | | | | |
|---|---|---|---|---|
| **The balance comprises temporary differences attributable to:** | | | | |
| Amounts recognised in profit or loss | | | | |
| Investment | **12,773** | 12,087 | **12,773** | 12,087 |
| Property, plant and equipment | **46,450** | 50,837 | **46,450** | 50,837 |
| Mining rights | **40,387** | 45,627 | **40,387** | 45,627 |
| Inventories | **10,856** | 7,941 | **10,856** | 7,941 |
| Other receivables | **628** | 1,889 | **641** | 1,910 |
| | **111,094** | 118,381 | **111,107** | 118,402 |
| Amount recognised directly in equity | | | | |
| Cashflow hedges | **6,961** | – | **6,961** | – |
| | **118,055** | 118,381 | **118,068** | 118,402 |
| **Movements:** | | | | |
| Opening balance at 1 January | **118,381** | 125,719 | **118,402** | 125,733 |
| Change on adoption of AASB 132 and AASB 139 | **9,652** | – | **9,652** | – |
| Charged/(credited) to the income statement | **(7,455)** | (7,230) | **(7,463)** | (7,223) |
| Charged/(credited) to equity | **(2,691)** | – | **(2,691)** | – |
| (Under)/over provided in prior years | **168** | (108) | **168** | (108) |
| Closing balance at 31 December | **118,055** | 118,381 | **118,068** | 118,402 |

## 18. HEDGE BOOK COMMITMENTS

| | Note | | | | |
|---|---|---|---|---|---|
| **Current asset** | | | | | |
| Hedge asset | | – | 4,855 | – | 4,855 |
| | | – | 4,855 | – | 4,855 |
| **Current liability** | | | | | |
| Deferred gain on hedge book | | – | 4,855 | – | 4,855 |
| | | – | 4,855 | – | 4,855 |
| **Non-current asset** | | | | | |
| Hedge asset | | – | 27,391 | – | 27,391 |
| | | – | 27,391 | – | 27,391 |
| **Non-current liability** | | | | | |
| Deferred gain on hedge book | | – | 27,391 | – | 27,391 |
| | | – | 27,391 | – | 27,391 |

Under note 12(a) the group has reclassified foreign currency cashflow hedges from offsetting hedge-book commitment assets and liabilities

## 19. EMPLOYEE ENTITLEMENTS

| | Note | | | | |
|---|---|---|---|---|---|
| Aggregate employee entitlements, including on-costs | | | | | |
| Current | 16 | **4,273** | 3,014 | **4,193** | 2,932 |
| Non-current | 16 | **612** | 565 | **514** | 475 |
| | | **4,885** | 3,579 | **4,707** | 3,407 |
| Employee numbers | | | | | |
| Number of employees at year end | | **354** | 273 | **334** | 254 |

The present values of employee entitlements not expected to be settled within twelve months of balance date have been calculated using the following weighted averages:

| | | | | |
|---|---|---|---|---|
| Assumed rate of increase in wage and salary rates (%) | 3.00 | 3.00 | 3.00 | 3.00 |
| Discount rate (%) | 5.38 | 5.33 | 5.38 | 5.33 |
| Settlement terms (years) | 7 | 7 | 7 | 7 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

## 19. EMPLOYEE ENTITLEMENTS CONTINUED

### Superannuation
The company's employees are members of the Rio Tinto Staff Superannuation Fund (the Fund) which provides benefits on retirement, death, disablement or leaving service. The principal benefits are lump sum accumulation benefits.

During 2005 the government's "Choice of Fund" superannuation legislation came into force. A small percentage of ERA's employees elected to exercise their right of choice, opting out of the Rio Tinto Superannuation Fund and into a preferred complying fund. In addition, several new employees chose not to join the Rio Tinto Superannuation Fund, rather staying with a previously established complying fund.

The Fund also provides defined benefits to a closed group of members, two of whom are employees of the company.

The assets attributable to ERA employees who are members of the Fund equal the accumulation account balances in respect of these members.

Contributions are made by the company as a percentage of salary as specified by the company. The contributions are legally enforceable up to the date upon which such obligation is terminated pursuant to the Trust Deed and negotiated agreements.

As noted in note 1(o), many employees of the company are members of the Rio Tinto Staff Superannuation Fund ("the Fund"). The Fund has both a defined benefit and defined contribution section. The defined benefit section provides lump sum benefits based on years of service and final average salary. Due to the terms of the agreement between the members of the defined benefit section of the Fund it will be accounted for as a defined contribution plan. Further relevant details of the Fund are noted below:

| | | |
|---|---|---|
| **Principal actuarial assumptions** | | |
| Price Inflation | **2.80%** | 2.70% |
| Discount rate | **4.40%** | 4.50% |
| Pension increases in payment | **2.80%** | 2.70% |
| General salary/wage increases | **4.80%** | 4.70% |
| Expected return on assets | | |
| Equities | **6.80%** | 7.20% |
| Bonds | **4.60%** | 4.70% |
| Property | **5.60%** | 5.85% |
| Other | **3.20%** | 3.15% |
| **Categories of plan assets** | | |
| The current allocation of plan assets is as follows: | | |
| Equities | **1,212,358** | 1,043,617 |
| Fixed interest government bonds | **446,563** | 364,000 |
| Property/Real estate | **113,694** | 109,000 |
| Other | **91,197** | 56,000 |
| Total | **1,863,812** | **1,572,617** |

## 15 EMPLOYEE ENTITLEMENTS CONTINUED

| | $000<br>31 DEC 2005 | $000<br>31 DEC 2004 |
|---|---|---|
| **Reconciliations** | | |
| Reconciliation of present value of total fund obligation: | | |
| Opening defined benefit obligation | **1,584,177** | 1,239,177 |
| Employer's part of current Service Cost | **105.054** | 89,000 |
| Interest cost | **95,005** | 75,000 |
| Contributions by plan participants | **36,837** | 33,000 |
| Actuarial gains and losses on liability | **172,324** | 139,000 |
| Benefits paid | **(127,300)** | (49,000) |
| Transfers in | **–** | 58,000 |
| Closing defined benefit obligation | **1,866,097** | 1,584,177 |
| | | |
| Reconciliation of fair value of plan assets: | | |
| Opening fair value of plan assets | **1,572,617** | 1,227,617 |
| Expected return on plan assets | **100,997** | 81,000 |
| Actuarial gains and losses on assets | **171,411** | 119,000 |
| Contributions by the employer | **109,250** | 103,000 |
| Contributions by plan participants | **36,837** | 33,000 |
| Benefits paid | **(127,300)** | (49,000) |
| Transfers paid | **–** | 58,000 |
| Closing fair value of plan assets | **1,863,812** | 1,572,617 |

**Employer Contributions**

Employer contributions to the defined benefit section of the Fund are based on recommendations by the Fund's actuary. A review of the funding position is undertaken every six months. The Trustee and Rio Tinto have agreed a Contribution Management Strategy that seeks to minimise volatility in the position of the fund, avoid the need for lump-sum contributions and to ensure that any deficiency of assets compared with vested benefits is rectified within three years. Based on this strategy, the actuary recommended that as from 1 January 2006 contributions be made at 19.2% of eligible employee salaries. This was an increase from the previous contribution rate of 15.0%. Contributions to the Fund by member companies for 2006 are estimated to be $109,867,000.

**Net Financial Position of the Plan**

In accordance with AAS25 Financial Reporting by Superannuation Plans the plans net financial position is determined as the difference between the present value of the accrued benefits and the net market value of the plan assets. This was published in the most recent financial report of the superannuation fund (30 June 2005) based on the last actuarial review of the accrued benefits (as at 1 July 2002) as a surplus of $46,636,000.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

## 20 SHARE CAPITAL

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2005 Shares | 2004 Shares | 2005 $000 | 2004 $000 |
| **Issued and paid up capital comprises:** | | | | |
| A Class shares fully paid | **190,737,934** | 142,865,446 | | |
| B Class shares fully paid | | 27,573,468 | | |
| C Class shares fully paid | | 20,299,020 | | |
| | **190,737,934** | 190,737,934 | **214,585** | 214,585 |

47,872,488 B and C class shares were converted into A class shares on 10 October 2005.

## 21 RESERVES

| | Consolidated | | Parent Entity | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| Share-based payments reserve | **698** | 186 | **698** | 186 |
| Cashflow reserve | **16,242** | – | **16,242** | – |
| Capital reconstruction | **389,500** | 389,500 | **389,500** | 389,500 |
| | **406,440** | 389,686 | **406,440** | 389,686 |

In June 1995, ERA reduced its share capital by cancelling $0.95 of the capital paid up on each issued share and reducing the par value of each issued share from $1.00 to $0.05. The cancelled capital (comprising $389,500,000 in total) was credited to a Capital Reconstruction Reserve. The Company has the ability to distribute capital to shareholders from this reserve.

| | | | | |
|---|---|---|---|---|
| **Movements:** | | | | |
| Share-based payments reserve | | | | |
| Balance 1 January | **186** | 66 | **186** | 66 |
| Option expense | **512** | 120 | **512** | 120 |
| Balance 31 December | **698** | 186 | **698** | 186 |
| Cashflow reserve | | | | |
| Balance 1 January | **–** | – | **–** | – |
| Adjustment on adoption of AASB 132 and AASB 139, net of tax | **22,597** | – | **22,597** | – |
| Revaluation – gross | **(4,239)** | – | **(4,239)** | – |
| Deferred tax | **1,272** | – | **1,272** | – |
| Transfer to net profit | **(4,839)** | – | **(4,839)** | – |
| Deferred tax | **1,451** | – | **1,451** | – |
| Balance 31 December | **16,242** | – | **16,242** | – |
| Capital reconstruction reserve | | | | |
| Balance 1 January | **389,500** | 389,500 | **389,500** | 389,500 |
| Movements | **–** | – | **–** | – |
| Balance 31 December | **389,500** | 389,500 | **389,500** | 389,500 |

## 22 RETAINED PROFITS

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| Retained profits at the beginning of the financial year. | **(94,452)** | (110,517) | **(94,677)** | (110,779) |
| Net profits attributable to members of Energy Resources of Australia. | **40,702** | 37,046 | **40,940** | 37,083 |
| Dividends provided for or paid | **(32,425)** | (20,981) | **(32,425)** | (20,981) |
| Retained profits at the end of the financial year | **(86,175)** | (94,452) | **(86,162)** | (94,677) |

## 23 CONTINGENT LIABILITIES

**Rehabilitation**

As per note 1(m), ERA has given an undertaking to the Commonwealth Government to rehabilitate the Ranger Project Area after cessation of mining operations. The latest estimated cost of rehabilitation, should ERA have been required to cease mining at 31 March 2005, was $64,275,000 (including a 5% contingency). At 31 March 2005 the Ranger Rehabilitation Trust Fund held funds in deficit of the assessed liability. The temporary deficit in the trust fund has been met by a bank guarantee to the value of $23,627,125.

It should be noted, that the basis of the Ranger Rehabilitation Trust Fund required balance is different to that of the provision for mine closure under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*.

**Bank Guarantee**

ERA has issued a bank guarantee as security for the Jabiluka Rehabilitation Trust for A$1,000,000. This bank guarantee is required to be in place until the next assessment of the trust fund, when the amount will be adjusted in line with the new requirement. The expected rehabilitation cost has been fully provided for in the statement of financial position.

**Legal actions against ERA**

The remaining argument in the action listed in the Federal Court against the former Federal Minister for Resources and ERA claiming that due process was not followed in granting approvals for the Jabiluka Mill Alternative is dormant. Should ERA proceed with the Jabiluka Mill Alternative, notice will be given to the applicant who may or may not wish to pursue the argument further.

No material losses are anticipated in respect of any of the above contingent liabilities or legal disputes.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

| | Consolidated | | The Company | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **24. COMMITMENTS** | | | | |
| (a) Capital expenditure commitments contracted but not provided for and payable: | | | | |
| Not later than 1 year | **6,737** | 1,873 | **6,737** | 1,873 |
| (b) Lease commitments | | | | |
| (i) Operating leases | | | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | | | |
| Not later than 1 year | **290** | 3,776 | **282** | 3,776 |
| Later than 1 year but not later than 5 years | **645** | 662 | **645** | 662 |
| | **935** | 4,438 | **927** | 4,438 |

The consolidated entity leases property, plant and equipment under operating leases expiring from two to four years. Some leases provide the consolidated entity with a right of renewal at which time all terms are renegotiated. Lease payments comprise a base amount and may include an incremental contingent rental.

| | Consolidated | | The Company | |
|---|---|---|---|---|
| (ii) Mineral tenement leases | | | | |
| Future mineral tenement lease payment not provided for in the financial statements and payable: | | | | |
| Not later than 1 year | **73** | 73 | **73** | 73 |
| Later than 1 year but not later than 5 years | **291** | 291 | **291** | 291 |
| Later than 5 years | **989** | 1,066 | **989** | 1,066 |
| | **1,353** | 1,430 | **1,353** | 1,430 |

In order to maintain current rights of tenure to mining tenements, the consolidated entity will be required to outlay an amount of approximately $73,000 in the year ending 31 December 2006 in respect of tenement lease rentals.

(c) ERA is liable to make payments to the Commonwealth as listed below:

(i) An amount equal to the sum payable by the Commonwealth to the Northern Land Council pursuant to the Section 44 Agreement *(Aboriginal Land Rights (NT) Act 1976)*. This amounts to $200,000 per annum during the currency of the Agreement;

(ii) Amounts equal to the sums payable by the Commonwealth to the Aboriginals Benefit Account pursuant to a determination under Section 63(5)(b) of the *Aboriginal Land Rights (NT) Act 1976*. These amounts are calculated at 4.25% of Ranger net sales revenue (amounts paid during 2005: $10,224,000. 2004: $8,163,000);

(iii) Amounts equal to sums payable by the Commonwealth to the Northern Territory pursuant to an understanding in respect of financial arrangements between the Commonwealth and the Government of the Northern Territory. These amounts are also calculated as though they were royalties and the relevant rate is 1.25% of Ranger net sales revenue (amounts paid during 2005: $2,999,000. 2004: $2,408,000);

(iv) Amounts such that the Ranger Rehabilitation Trust Fund as at 31 March each year is equal to the independently assessed rehabilitation liability at Ranger. In 2005 a bank guarantee of $23,627,125 (2004: $9,999,537) was raised to cover the deficit to the Trust Fund.

## 24. COMMITMENTS CONTINUED

(d) ERA is liable to make payments to the Northern Land Council (NLC) pursuant to the Section 43 Agreement *(Aboriginal Land Rights (NT) Act 1976)* between Pancontinental Mining Limited and Getty Oil Development Company Limited and the NLC dated 21 July 1982, which was assigned to ERA with the consent of the NLC, as listed below:
- (i) Up front royalty payment of $3,400,000 on the commencement of production at Jabiluka.
- (ii) Annual royalty payments calculated at 4.5% of net sales revenue less $500,000 less any amounts paid to the Aboriginals Benefit Reserve by the Commonwealth under the conditions specified in the mining lease for the first 10 years and thereafter at 5 per cent of net sales revenue less any amounts paid to the Aboriginals Benefit Reserve by the Commonwealth under the conditions specified in the mining lease (refer commitment (e) below).
- (e) ERA is liable to make payments to the Commonwealth in respect of the Jabiluka project pursuant to the conditions attached to the Mining Lease. The amount payable was, until 30 June 1990, calculated at the rate of 5.25% of net sales revenue from the Jabiluka project.

## 25. KEY MANAGEMENT PERSONNEL DISCLOSURES

The following persons were the Directors and other executives with the greatest authority for strategic direction and management of the consolidated entity ("key management personnel") during the financial year ended 31 December 2005.

**Chairman – non-executive**
B Horwood – from 01 January 2004 to 28 January 2005
D Klingner – from 28 January 2005

**Executive Directors**
H Kenyon-Slaney, Chief Executive

**Non-executive Directors**
R Carter
P Chiaro
A Lloyd
S Mann
H Garnett – from 28 January 2005
H Toyomatsu
C Lenegan – from 21 July 2005
R Matthews – from 27 April 2005

S Mann resigned from the position of non-executive Director on 27 April 2005.
R Matthews resigned from the position of non-executive Director on 14 October 2005.
H Toyomatsu resigned from the position of non-executive Director on 14 October 2005.

The company has taken advantage of the relief provided by ASIC Class Order 06/50 and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in sections A-D of the remuneration report on pages 22 to 29.

**Executives (other than Directors) with the greatest authority for strategic direction and management**

| | | |
|---|---|---|
| R Antal | Chief Financial Officer | Energy Resources of Australia Ltd |
| C Kinnell | GM – Marketing (from 1 January to 30 June 2005) | Energy Resources of Australia Ltd |
| A Milnes | GM – EWLS | EWL Sciences Pty Ltd |
| D Paterson | GM Business Development | Energy Resources of Australia Ltd |
| C Salisbury | GM Operations | Energy Resources of Australia Ltd |
| D Gibson | GM Technical Projects (from 1 May 2005) | Energy Resources of Australia Ltd |

All of the above executives were also other executives during the year ended 31 December 2004, except for D Gibson who commenced employment with the company during 2005.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

**Option holdings**
The number of options over ordinary shares in Rio Tinto Ltd or Rio Tinto plc held during the financial year by each Director of Energy Resources of Australia and each of the other executives of the consolidated and parent entity are set out below.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Rio Tinto plc** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| H Kenyon-Slaney | **18,218** | **5,462** | **–** | **–** | **5,159** | **18,521** |
| Other executives of the consolidated and parent entity | | | | | | |
| C Kinnell++ | **7,115** | **1,415** | **–** | **–** | **2,534** | **5,996** |
| **Rio Tinto Ltd** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| B Horwood*+ | **14,819** | **–** | **(4,439)** | **–** | **4,816** | **5,564** |
| D Klingner* | **71,039** | **–** | **(28,571)** | **–** | **17,395** | **25,073** |
| A Lloyd* | **25,148** | **–** | **(16,542)** | **1,291** | **2,554** | **7,343** |
| C Lenegan* | **24,051** | **–** | **–** | **3,903** | **12,360** | **15,594** |
| Other executives of the consolidated and parent entity | | | | | | |
| R Antal | **1,606** | **1,203** | **–** | **–** | **–** | **2,809** |
| A Milnes | **6,207** | **1,347** | **–** | **–** | **2,238** | **5,316** |
| C Salisbury | **6,124** | **1,335** | **–** | **–** | **2,195** | **5,264** |
| D Paterson | **6,726** | **1,017** | **–** | **–** | **2,311** | **5,432** |
| D Gibson | **1,108** | **121** | **–** | **–** | **–** | **1,229** |

* Note: Other changes during the year represents the granting of options in respect of their duties to the wider Rio Tinto Group.
** Note: Includes commencement of employment with ERA
\+ Note: Balance as at 28 January 2005 when ceased acting as a Director
++ Note: Balance as at 30 June 2005 when ceased employment

| | | | | | | |
|---|---|---|---|---|---|---|
| **Rio Tinto plc** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| H Kenyon-Slaney | 11,413 | 5,255 | – | – | – | 16,668 |
| Other executives of the consolidated and parent entity | | | | | | |
| C Kinnell++ | 5,753 | 1,362 | – | – | – | 7,115 |
| **Rio Tinto Ltd** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| B Horwood* | 14,819 | – | – | – | – | 14,819 |
| D Klingner* | 137,718 | – | (70,796) | 4,117 | – | 71,039 |
| A Lloyd* | 24,170 | – | (2,000) | 1,307 | 1,755 | 21,722 |
| Other executives of the consolidated and parent entity | | | | | | |
| R Antal | – | 961 | – | – | – | 961 |
| M Coulter | 7,607 | 1,192 | – | – | – | 8,799 |
| A Milnes | 5,027 | 1,180 | – | – | – | 6,207 |
| S Prebble | 6,268 | 1,143 | – | – | – | 7,411 |
| D Paterson | 6,242 | – | – | – | – | 6,242 |
| C Salisbury | 6,124 | – | – | – | – | 6,124 |

## 25 KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

**Conditional Awards**

The number of conditional awards of ordinary shares in Rio Tinto Limited or Rio Tinto plc held during the financial year by each Director of Energy Resources of Australia Ltd and each of the other executives of the consolidated and parent entity are set out below.

| | | | | | | |
|---|---|---|---|---|---|---|
| **Rio Tinto plc** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| H Kenyon-Slaney | **5,255** | **5,462** | **–** | **–** | **–** | **10,717** |
| Other executives of the consolidated and parent entity | | | | | | |
| C Kinnell++ | **1,362** | **1,415** | **–** | **–** | **–** | **2,777** |
| **Rio Tinto Ltd** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| B Horwood*+ | **10,965** | **–** | **(451)** | **(3,164)** | **–** | **7,350** |
| D Klingner* | **44,738** | **–** | **(1,547)** | **(10,836)** | **–** | **32,355** |
| A Lloyd* | **1,307** | **1,291** | **–** | **–** | **–** | **2,598** |
| C Lenegan* | **10,567** | **3,903** | **(319)** | **(2,239)** | **–** | **11,912** |
| Other executives of the consolidated and parent entity | | | | | | |
| R Antal | **961** | **1,055** | **–** | **–** | **–** | **2,016** |
| A Milnes | **1,192** | **1,162** | **–** | **–** | **–** | **2,354** |
| C Salisbury | **1,153** | **1,335** | **–** | **–** | **–** | **2,488** |
| D Paterson | **1,195** | **1,017** | **–** | **–** | **–** | **2,212** |

| | | | | | | |
|---|---|---|---|---|---|---|
| **Rio Tinto plc** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| H Kenyon-Slaney | – | 5,255 | – | – | – | 5,255 |
| Other executives of the consolidated and parent entity | | | | | | |
| C Kinnell | – | 1,362 | – | – | – | 1,362 |
| **Rio Tinto Ltd** | | | | | | |
| Directors of Energy Resources of Australia Ltd | | | | | | |
| B Horwood* | 13,598 | 1,013 | (2,278) | (1,368) | – | 10,965 |
| D Klingner* | 41,378 | 21,463 | (4,570) | (2,743) | (10,790) | 44,738 |
| A Lloyd* | – | 1,307 | – | – | – | 1,307 |
| Other executives of the consolidated and parent entity | | | | | | |
| R Antal | – | 961 | – | – | – | 961 |
| M Coulter | – | 1,192 | – | – | – | 1,192 |
| A Milnes | – | 1,180 | – | – | – | 1,180 |
| S Prebble | – | 1,143 | – | – | – | 1,143 |
| D Paterson | 1,195 | – | – | – | – | 1,195 |
| C Salisbury | 1,153 | – | – | – | – | 1,153 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

## 25 KEY MANAGEMENT PERSONNEL DISCLOSURES CONTINUED

**Share Holdings**

The number of shares held in Energy Resources of Australia, Rio Tinto Limited or Rio Tinto plc held during the financial year by each Director of Energy Resources of Australia Ltd and each of the other executives of the consolidated and parent entity are set out below.

2005

| Name | | | | |
|---|---|---|---|---|
| **Energy Resources of Australia Ltd** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| R Carter | **25,000** | **–** | **–** | **25,000** |
| **Rio Tinto Limited** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| B Horwood | **5,278** | **–** | **–** | **5,278** |
| D Klingner | **12,253** | **–** | **(8,253)** | **4,000** |
| A Lloyd | **–** | **16,542** | **(16,542)** | **–** |
| C Lenegan | **319** | **–** | **–** | **319** |
| **Rio Tinto plc** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| H Kenyon-Slaney | **5,085** | **–** | **192** | **5,277** |

2004

| Name | | | | |
|---|---|---|---|---|
| **Energy Resources of Australia Ltd** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| R Carter | 25,000 | – | – | 25,000 |
| **Rio Tinto Limited** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| B Horwood | 3,000 | 2,278 | – | 5,278 |
| D Klingner | 20,253 | – | (8,000) | 12,253 |
| A Lloyd | – | 2,000 | (2,000) | – |
| **Rio Tinto plc** | | | | |
| Directors of Energy Resources of Australia Ltd | | | | |
| H Kenyon-Slaney | 4,846 | – | 239 | 5,085 |

**Loans and other transactions with Directors and specified Directors**

There are no loans with Directors and specified Directors. Other transactions with Director related entities are disclosed in note 27 – related parties

## 26. AUDITOR'S REMUNERATION

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| During the year the auditor of the parent entity and its related practices earned the following remuneration: | | | | |
| PricewaterhouseCoopers – Australian Firm | | | | |
| Audit or review of financial reports of the entity or entity in the consolidated entity | **206** | 167 | **206** | 167 |
| Other audit related work | **158** | 28 | **158** | 28 |
| Total audit and other assurance services | **364** | 195 | **364** | 195 |
| Advisory services and tax | **–** | – | **–** | – |
| Total remuneration | **364** | 195 | **364** | 195 |

## 27. RELATED PARTIES

**Directors**
The names of persons who were Directors of ERA at any time during the financial period are as follows:

R Carter, H Kenyon-Slaney, B Horwood, D Klingner (Alternate: F Nicholls), A Lloyd (Alternate: F Nicholls), P Chiaro (Alternate: F Nicholls),S Mann (Alternate: R Matthews), H Toyomatsu (Alternates: Y Furusawa, Y Matsukawa, M Araya, M Takada, T Zempuku), H Garnett, R Matthews (Alternate S Mann), C Lenegan.

Information relating to Directors' compensation, shareholdings and retirement benefits is set out in the remuneration report in the Directors report and note 25.

**Transactions with Directors and Director-related Entities**
Mr H Toyomatsu was a Director of ERA until 14 October 2005. Japan Australia Uranium Resources Development Co Ltd (JAURD) is considered to be a Director-related entity of Mr H Toyomatsu.

JAURD purchased drummed $U_3O_8$ from ERA during the year. All purchases were conducted on commercial terms and conditions.

Sales revenue derived from JAURD up to 14 October 2005 totalled $26,114,063 (2004: $31,904,173).

Commission paid to JAURD up to 14 October 2005 totalled $423,153 (2004: $251,016)

In September 2002 ERA signed a uranium loan agreement with JAURD. The agreement provides ERA with a facility to borrow up to 1,184 tonnes of $U_3O_8$. The agreement is on commercial terms. Drawdowns on the facility totalling 113.4 tonnes occurred during the year and were repaid prior to year end.

Interest paid in respect of the uranium loan up to 14 October 2005 totalled $17,868 (2004: $Nil).

Facility fee paid in respect of the uranium loan up to 14 October 2005 totalled $81,437 (2004: $121,782)

**Controlled Entity**
Information relating to the controlled entity is set out in note 29 and note 35.

**Ultimate parent entity**
The ultimate parent entity is Rio Tinto Limited. This interest is held through North Limited (incorporated in Victoria, Australia) which has beneficial ownership of 68.4 per cent of the issued ordinary shares of the company. North Limited owns 34.1 per cent directly and the remaining 34.3 per cent through its subsidiary, Peko Wallsend Ltd.

**Loan from Related Party**
During the period ERA entered into a A$10,000,000 short term loan arrangement which is due to be repaid in January 2006 with North Finance Limited, a wholly owned subsidiary of Rio Tinto Limited. This facility was negotiated on commercial terms and conditions.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

**Uranium Loan from Related Party**
During the period ERA entered into a uranium loan agreement with Rossing Uranium Ltd, a subsidiary of Rio Tinto Limited for 45.52 tonnes in April and 163.3 tonnes in June. These loans were undertaken on commercial terms and conditions and were repaid prior to year end.

Interest paid in respect of the uranium loan totalled $106,184.

**Uranium Loan to Related Party**
During the period, ERA entered into a uranium loan agreement with Rossing Uranium Ltd, a subsidiary of Rio Tinto Limited for 29.03 tonnes in December. This loan was undertaken on commercial terms and conditions and is scheduled to be repaid in January 2006.

Interest owed in respect of the uranium loan totalled $16,848

**Superannuation Fund**
Information relating to the consolidated entity's superannuation fund is set out in note 19.

**Interest Income**
Interest income is received from Rio Tinto Finance Ltd who holds cash on behalf of the company.

**Intercompany Foreign Exchange Contracts**
Foreign currency forwards and options, as per note 12 have been taken out with North Finance Limited.

| | | | | |
|---|---|---|---|---|
| **Related Party Transactions** | | | | |
| Management fees paid to ultimate parent entity: | | | | |
| Rio Tinto Limited | **1,500** | 1,350 | **1,500** | 1,350 |
| Consulting fees paid to: | | | | |
| EWL Sciences Pty Ltd – controlled entity | **–** | – | **2,621** | 2,831 |
| Rio Tinto Limited | **5,988** | 2,731 | **5,988** | 2,731 |
| Other reimbursements for commercial services: | | | | |
| Rio Tinto Limited | **5,875** | 4,200 | **5,875** | 4,200 |
| JAURD | **634** | 373 | **634** | 373 |
| Amounts received from related parties: | | | | |
| Rio Tinto Limited – fees | **316** | 138 | **316** | 138 |
| Rio Tinto Limited – interest | **1,213** | 1,015 | **1,213** | 1,015 |
| EWLS | **–** | – | **195** | 88 |
| JAURD | **26,114** | 31,904 | **26,114** | 31,904 |
| Aggregate amounts recognised in relation to other transactions with each class of other related parties: | | | | |
| Dividends paid/payable to | | | | |
| Parent entity – North Limited | **11,057** | 7,155 | **11,057** | 7,155 |
| Related parties – Peko Wallsend Ltd | **11,119** | 7,195 | **11,119** | 7,195 |

## 27 RELATED PARTIES CONTINUED

| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
|---|---|---|---|---|
| Aggregate amounts receivable from and payable to each class of other related parties at balance date were as follows: | | | | |
| Assets – derivative financial instruments | | | | |
| Related parties – North Finance Limited | **23,203** | – | **23,203** | – |
| Current assets – cash assets | | | | |
| Related parties – Rio Tinto Finance Ltd | **14,720** | 48,202 | **14,720** | 48,202 |
| Current assets – receivables | | | | |
| Related parties – Other | **37** | 144 | **37** | 144 |
| Controlled entities – EWL Sciences Pty Ltd | **–** | – | **11** | – |
| Current liabilities – creditors | | | | |
| Related parties – Rio Tinto Limited | **11,661** | 1,788 | **11,661** | 1,788 |
| Controlled entities – EWL Sciences Pty Ltd | **–** | – | **665** | 43 |

All related party transactions were conducted on commercial terms and conditions and at market rates.

## 28 SHAREHOLDER RELATED CUSTOMER TRANSACTIONS

All sales were conducted on commercial terms and conditions.

Revenue derived from shareholder related customer transactions up to 14 October 2005 totalled $26,114,063 (2004: $31,904,173).

## 29 INVESTMENT IN CONTROLLED ENTITY

| | | | | |
|---|---|---|---|---|
| EWL Sciences Pty Ltd | NSW | Ordinary | 100% | 100% |

The above controlled entity is wholly-owned and no dividends were paid to the parent entity (2004: $Nil).

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

## 30. SEGMENT INFORMATION

**Primary Reporting – Business Segments**

| 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 – interest | **3,887** | **5** | **–** | **3,892** |
| Total segment revenue | **265,489** | **3,726** | **(3,287)** | **265,928** |
| Segment result before interest and tax | **65,580** | **(319)** | **–** | **65,261** |
| Net interest income/(expense) | **(6,084)** | **5** | **–** | **(6,079)** |
| Income tax expense | **18,556** | **(76)** | | **18,480** |
| Segment result 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** |
| Acquisition 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** |

| 2004 | URANIUM $000 | CONSULTING $000 | ELIMINATIONS $000 | CONSOLIDATED $000 |
|---|---|---|---|---|
| Sales to external customers | 235,477 | 793 | – | 236,270 |
| Inter-segment sales | – | 2,831 | (2,831) | – |
| Total sales revenue | 235,477 | 3,624 | (2,831) | 236,270 |
| Other revenue – interest | 5,565 | 6 | – | 5,571 |
| Total segment revenue | 241,042 | 3,630 | (2,831) | 241,841 |
| Segment result before interest and tax | 42,832 | (59) | – | 42,773 |
| Net interest income/(expense) | (3,540) | 6 | – | (3,534) |
| Income tax expense | 2,209 | (16) | – | 2,193 |
| Segment result after tax | 37,083 | (37) | – | 37,046 |
| Total assets (exc. tax) | 822,762 | 1,327 | (975) | 823,114 |
| Total liabilities (exc. tax) | 227,291 | 127 | – | 227,418 |
| Acquisition of non-current assets | 8,329 | 30 | – | 8,359 |
| Depreciation and amortisation expense | 42,223 | 132 | – | 42,355 |
| Other non-cash expenses | (1,038) | 23 | – | (1,015) |
| Net cash inflow from operating activities | 51,652 | 104 | – | 51,756 |

**Secondary reporting – geographical segments**

| | |
|---|---|
| Segment revenues from sales to external customers: | |
| Asia | **88,653** |
| United States | **99,826** |
| Europe | **73,123** |
| Africa | **–** |
| Australia | **434** |
| | **262,036** |

| | |
|---|---|
| Segment revenues from sales to external customers: | |
| Asia | 89,268 |
| United States | 107,519 |
| Europe | 38,548 |
| Africa | 142 |
| Australia | 793 |
| | 236,270 |

All consolidated assets are in Australia.

(a) Business segments
The consolidated entity is organised into the following divisions by service with uranium being the primary division:
Uranium – mining, processing and sale of uranium
Consulting – providing environmental consulting services

(b) Accounting policies
Segment information is prepared in conformity with the accounting policies of the entity as disclosed in note 1. The business segments identified in the primary reporting disclosures and the geographical segments are not materially different to the industry and geographical segments identified in previous years.

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 other intangible assets, net of provisions. While most of these assets can be directly attributable to individual segments, the carrying amounts of certain assets used jointly by segments are allocated based on reasonable estimates of usage. Segment liabilities consist primarily of trade and other creditors, employee entitlements and provisions. Segment assets and liabilities do not include income taxes.

(c) Inter-segment transfers
Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an "arms-length" basis and are eliminated on consolidation.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

## 31. NOTES TO THE STATEMENTS OF CASH FLOWS

| | CONSOLIDATED | | THE COMPANY | |
|---|---|---|---|---|
| | 2005 $000 | 2004 $000 | 2005 $000 | 2004 $000 |
| **(a) Reconciliation of operating profit after income tax to net cash inflow from operating activities** | | | | |
| Operating profit after income tax | **40,702** | 37,046 | **40,940** | 37,083 |
| Add/(less) items classified as investing/financing activities: | | | | |
| (Profit)/loss on sale of non-current assets | **4** | (35) | **4** | (35) |
| Add/(less) non-cash items: | | | | |
| Depreciation and amortisation | **47,832** | 42,355 | **47,706** | 42,223 |
| Closure interest expense | **9,426** | 8,918 | **9,426** | 8,918 |
| Employee benefits – share scheme | **140** | 80 | **140** | 80 |
| Unrealised foreign exchange in cash | **(301)** | (499) | **(303)** | (499) |
| Net exchange differences | **1,844** | (1,397) | **1,844** | (1,397) |
| Increase in deferred tax – hedges | **(6,961)** | – | **(6,961)** | – |
| Change in operating assets and liabilities: | | | | |
| (Increase)/decrease in trade and other debtors | **(46,785)** | (8,126) | **(46,688)** | (8,420) |
| (Increase)/decrease in inventories | **(29,922)** | (6,869) | **(29,922)** | (6,869) |
| (Increase)/decrease in prepayments | **336** | 1,007 | **334** | 1,011 |
| (Increase)/decrease in interest receivable | **(2,318)** | (4,156) | **(2,318)** | (4,156) |
| (Decrease)/increase in trade creditors | **2,120** | 1,118 | **1,713** | 1,422 |
| (Decrease)/increase in provision for income taxes payable | **11,356** | (3,906) | **11,522** | (3,907) |
| (Decrease)/increase in net provision for deferred income tax liability and deferred tax asset | **(5,567)** | (11,101) | **(5,558)** | (11,100) |
| (Decrease)/increase in other provisions/liabilities | **11,497** | (2,679) | **11,491** | (2,702) |
| Net cash inflow provided by operating activities | **33,403** | 51,756 | **33,370** | 51,652 |

## 32. FINANCING ARRANGEMENTS

| | | | | |
|---|---|---|---|---|
| The consolidated entity has access to the following lines of credit: | | | | |
| Total facilities available: | | | | |
| Bank overdrafts | **500** | 1,500 | **500** | 1,500 |
| Loan from related party | **15,000** | – | **15,000** | – |
| | **15,500** | 1,500 | **15,500** | 1,500 |
| Facilities not utilised at balance date: | | | | |
| Bank overdrafts | **500** | 1,500 | **500** | 1,500 |
| Loan from related party | **5,000** | – | **5,000** | – |
| | **5,500** | 1,500 | **5,500** | 1,500 |

**Bank overdrafts**
The bank overdrafts are unsecured and may be drawn at anytime. The bank overdrafts are payable on demand and are subject to annual review. The interest rate applicable at balance date was 8.75% p.a. (2004: 8.0% p.a.).

**Loan from related party**
The loan is unsecured and denominated in Australian currency. The rate applicable at balance date was 6.2 per cent.

## 33. EARNINGS PER SHARE

| | 2005 CENTS | 2004 CENTS |
|---|---|---|
| Basic earnings per share | **21.3** | 19.4 |
| Diluted Earnings per share | **21.3** | 19.4 |

Earnings used in the calculation of basic and diluted earnings per share: 2005: $40,702,000; (2004: $37,046,000).
Weighted average number of ordinary shares on issue used in the calculation of basic and diluted earnings per share: 2005: 190,737,934 shares; (2004: 190,737,934 shares).

### (a) Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| | | | | | |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash | 7 | **18,123** | **–** | **18,123** | **5.6** |
| Receivables | 8 | **–** | **100,093** | **100,093** | |
| Total | | **18,123** | **100,093** | **118,216** | |
| Financial liabilities | | | | | |
| Accounts payable | 15 | **–** | **26,666** | **26,666** | |
| Interest bearing liability | | **10,000** | **–** | **10,000** | |
| Total | | **10,000** | **26,666** | **36,666** | |

| | | | | | |
|---|---|---|---|---|---|
| Financial assets | | | | | |
| Cash | 7 | 55,064 | – | 55,064 | 5.1 |
| Receivables | 8 | – | 53,942 | 53,942 | |
| Foreign Exchange hedge asset | 18 | – | 32,246 | 32,246 | |
| Total | | 55,064 | 86,188 | 141,252 | |
| Financial liabilities | | | | | |
| Accounts payable | 15 | – | 25,228 | 25,228 | |
| Hedge book liability | 18 | – | 32,246 | 32,246 | |
| Total | | – | 57,474 | 57,474 | |

### (b) Net fair values of financial assets and liabilities

Net fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties, other than in a forced or liquidation sale, net of transaction costs.

Net fair values of financial assets and liabilities are determined by the consolidated entity on the following bases:

(i) On-balance sheet financial instruments
Short term instruments and other loans

The carrying amounts of cash, short term deposits, trade debtors, term debtors, other debtors, bank overdrafts, accounts payable, lease liabilities, employee share scheme loans, dividends payable and employee entitlements approximate net fair value.

Net fair value of floating rate loans is considered to approximate the carrying amount due to the frequency of interest rate re-setting. The fair value of fixed rate loans is determined on a mark-to-market basis.

The net fair value of financial instruments is determined on a mark-to-market basis. This represents the estimated amounts at reporting date that the consolidated entity would have received (or paid) to terminate the contracts or replace the contracts at their current market rates at that date.

A controlled entity, EWL Sciences Pty Ltd (EWLS), depends on Energy Resources of Australia Ltd (ERA) for a significant source of revenue. During the 2005 reporting period, 88% of EWLS revenue (2004: 78%) was derived from services provided to ERA.

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

No matters or circumstances have arisen since the end of the financial year that have significantly affected, or may significantly affect the operations or state of affairs of the consolidated entity in subsequent financial years.

**(1) Reconciliation of equity reported under previous Australian Generally Accepted Accounting Principles (AGAAP) to equity under Australian equivalents to International Financial Reporting Standards (AIFRS).**

| | | | | |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash asset | | 31,080 | – | 31,080 |
| Receivables | | 43,452 | – | 43,452 |
| Inventories | | 88,097 | – | 88,097 |
| Hedge book asset | | 3,696 | – | 3,696 |
| Other | | 2,094 | – | 2,094 |
| Total Current Assets | | 168,419 | – | 168,419 |
| **Non-Current Assets** | | | | |
| Receivables | | 192 | – | 192 |
| Inventories | | 24,694 | – | 24,694 |
| Exploration, evaluation and development expenditure | | 203,017 | – | 203,017 |
| Property, plant and equipment | 4(a) | 335,568 | 16,373 | 351,941 |
| Non-current investment | 4(a) | – | 37,767 | 37,767 |
| Deferred tax asset | 4(b) | 2,950 | 33,048 | 35,998 |
| Hedge book asset | | 21,487 | – | 21,487 |
| Total Non-Current Assets | | 587,908 | 87,188 | 675,096 |
| Total Assets | | 756,327 | 87,188 | 843,515 |
| **Current Liabilities** | | | | |
| Payables | | 24,093 | – | 24,093 |
| Current tax liabilities | 4(b) | 10,471 | 692 | 11,163 |
| Provisions | | 3,935 | – | 3,935 |
| Deferred gain on hedge book | | 3,696 | – | 3,696 |
| Total Current Liabilities | | 42,195 | 692 | 42,887 |
| **Non-Current Liabilities** | | | | |
| Payables | | 19 | – | 19 |
| Deferred tax liabilities | 4(b) | 74,960 | 50,759 | 125,719 |
| Provisions | 4(a) | 3,321 | 156,448 | 159,769 |
| Deferred gain on hedge book | | 21,487 | – | 21,487 |
| Total Non-Current Liabilities | | 99,787 | 207,207 | 306,994 |
| Total Liabilities | | 141,982 | 207,899 | 349,881 |
| Net Assets | | 614,345 | (120,711) | 493,634 |
| **Shareholders' Equity** | | | | |
| Share Capital | | 214,585 | – | 214,585 |
| Reserves | | 389,500 | – | 389,500 |
| Option Reserve | 4(c) | – | 66 | 66 |
| Retained Profits | 4(d) | 10,260 | (120,777) | (110,517) |
| Total Shareholders' Equity | | 614,345 | (120,711) | 493,634 |

| | | | | |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | | 31,079 | – | 31,079 |
| Receivables | | 43,236 | – | 43,236 |
| Inventories | | 88,097 | – | 88,097 |
| Hedge book asset | | 3,696 | – | 3,696 |
| Other | | 2,080 | – | 2,080 |
| Total Current Assets | | 168,188 | – | 168,188 |
| **Non-Current Assets** | | | | |
| Receivables | | 192 | – | 192 |
| Held to maturity investments | | 100 | – | 100 |
| Inventories | | 24,694 | – | 24,694 |
| Exploration, evaluation and development expenditure | | 203,017 | – | 203,017 |
| Property, plant and equipment | 4(a) | 335,029 | 16,373 | 351,402 |
| Non-current investment | 4(a) | – | 37,767 | 37,767 |
| Deferred tax asset | 4(b) | 2,950 | 32,998 | 35,948 |
| Hedge book asset | | 21,487 | – | 21,487 |
| Total Non-Current Assets | | 587,469 | 87,138 | 674,607 |
| Total Assets | | 755,657 | 87,138 | 842,795 |
| **Current Liabilities** | | | | |
| Payables | | 23,834 | – | 23,834 |
| Current tax liabilities | 4(b) | 10,471 | 628 | 11,099 |
| Provisions | | 3,841 | – | 3,841 |
| Deferred gain on hedge book | | 3,696 | – | 3,696 |
| Total Current Liabilities | | 41,842 | 628 | 42,470 |
| **Non-Current Liabilities** | | | | |
| Payables | | 19 | – | 19 |
| Deferred tax liabilities | 4(b) | 74,960 | 50,773 | 125,733 |
| Provisions | 4(a) | 3,266 | 156,448 | 159,714 |
| Deferred gain on hedge book | | 21,487 | – | 21,487 |
| Total Non-Current Liabilities | | 99,732 | 207,221 | 306,953 |
| Total Liabilities | | 141,574 | 207,849 | 349,423 |
| Net Assets | | 614,083 | (120,711) | 493,372 |
| **Shareholders' Equity** | | | | |
| Share Capital | | 214,585 | – | 214,585 |
| Reserves | | 389,500 | – | 389,500 |
| Option reserve | 4(c) | – | 66 | 66 |
| Retained Profits | 4(d) | 9,998 | (120,777) | (110,779) |
| Total Shareholders' Equity | | 614,083 | (120,711) | 493,372 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED
for the year ended 31 December 2005

| | | | | |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | | 55,064 | – | 55,064 |
| Receivables | | 53,942 | – | 53,942 |
| Inventories | | 95,253 | – | 95,253 |
| Hedge book asset | | 4,855 | – | 4,855 |
| Other | | 1,087 | – | 1,087 |
| Total Current Assets | | 210,201 | – | 210,201 |
| **Non-Current Assets** | | | | |
| Inventories | | 24,407 | – | 24,407 |
| Exploration, evaluation and development expenditure | | 203,017 | – | 203,017 |
| Property, plant and equipment | 4(a) | 303,370 | 14,439 | 317,809 |
| Non-current investment | 4(a) | – | 40,289 | 40,289 |
| Deferred tax asset | 4(b) | 3,526 | 36,235 | 39,761 |
| Hedge book asset | | 27,391 | – | 27,391 |
| Total Non-Current Assets | | 561,711 | 90,963 | 652,674 |
| Total Assets | | 771,912 | 90,963 | 862,875 |
| Current Liabilities | | | | |
| Payables | | 25,211 | – | 25,211 |
| Current tax liabilities | 4(b) | 6,944 | 313 | 7,257 |
| Provisions | | 3,014 | – | 3,014 |
| Deferred gain on hedge book | | 4,855 | – | 4,855 |
| Total Current Liabilities | | 40,024 | 313 | 40,337 |
| **Non-Current Liabilities** | | | | |
| Payables | | 17 | – | 17 |
| Deferred tax liabilities | 4(b) | 70,936 | 47,445 | 118,381 |
| Provisions | 4(a) | 1,565 | 165,365 | 166,930 |
| Deferred gain on hedge book | | 27,391 | – | 27,391 |
| Total Non-Current Liabilities | | 99,909 | 212,810 | 312,719 |
| Total Liabilities | | 139,933 | 213,123 | 353,056 |
| Net Assets | | 631,979 | (122,160) | 509,819 |
| **Shareholders' Equity** | | | | |
| Share Capital | | 214,585 | – | 214,585 |
| Reserves | | 389,500 | – | 389,500 |
| Option reserve | 4(c) | – | 186 | 186 |
| Retained Profits | 4(d) | 27,894 | (122,346) | (94,452) |
| Total Shareholders' Equity | | 631,979 | (122,160) | 509,819 |

## 37 EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRS CONTINUED

(iii) At the end of the last reporting period under previous AGAAP: 31 December 2004

| The Company | Notes | Previous AGAAP $000 | Effect of transition to AIFRS $000 | AIFRS $000 |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and cash equivalents | | 54,989 | – | 54,989 |
| Receivables | | 54,020 | – | 54,020 |
| Inventories | | 95,253 | – | 95,253 |
| Hedge book asset | | 4,855 | – | 4,855 |
| Other | | 1,069 | – | 1,069 |
| Total Current Assets | | 210,186 | – | 210,186 |
| **Non-Current Assets** | | | | |
| Held to maturity investments | | 100 | – | 100 |
| Inventories | | 24,407 | – | 24,407 |
| Exploration, evaluation and development expenditure | | 203,017 | – | 203,017 |
| Property, plant and equipment | 4(a) | 302,933 | 14,439 | 317,372 |
| Non-current investment | 4(a) | – | 40,289 | 40,289 |
| Deferred tax asset | 4(b) | 3,526 | 36,191 | 39,717 |
| Hedge book asset | | 27,391 | – | 27,391 |
| Total Non-Current Assets | | 561,374 | 90,919 | 652,293 |
| Total Assets | | 771,560 | 90,919 | 862,479 |
| **Current Liabilities** | | | | |
| Payables | | 25,256 | – | 25,256 |
| Current tax liabilities | 4(b) | 6,944 | 248 | 7,192 |
| Provisions | | 2,932 | – | 2,932 |
| Deferred gain on hedge book | | 4,855 | – | 4,855 |
| Total Current Liabilities | | 39,987 | 248 | 40,235 |
| **Non-Current Liabilities** | | | | |
| Payables | | 17 | – | 17 |
| Deferred tax liabilities | 4(b) | 70,936 | 47,466 | 118,402 |
| Provisions | 4(a) | 1,475 | 165,365 | 166,840 |
| Deferred gain on hedge book | | 27,391 | – | 27,391 |
| Total Non-Current Liabilities | | 99,819 | 212,831 | 312,650 |
| Total Liabilities | | 139,806 | 213,079 | 352,885 |
| Net Assets | | 631,754 | (122,160) | 509,594 |
| **Shareholders' Equity** | | | | |
| Share Capital | | 214,585 | – | 214,585 |
| Reserves | | 389,500 | – | 389,500 |
| Option reserve | 4(c) | – | 186 | 186 |
| Retained Profits | 4(d) | 27,669 | (122,346) | (94,677) |
| Total Shareholders' Equity | | 631,754 | (122,160) | 509,594 |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

**(2) Reconciliation of profit under previous AGAAP to profit under Australian equivalents to International Financial Reporting Standards (AIFRS)**

| | | | | |
|---|---|---|---|---|
| Operating revenues | | 236,270 | – | 236,270 |
| Other revenue from outside operating activities | 4(a) | 3,587 | 1,984 | 5,571 |
| **Revenue from ordinary activities** | | 239,857 | 1,984 | 241,841 |
| Changes in inventories of finished goods and WIP | | (160) | – | (160) |
| Raw materials and consumables used | | (68,275) | – | (68,275) |
| Employee benefits and contractor expenses | 4(c) | (45,040) | (80) | (45,120) |
| Government and other royalties | | (10,571) | – | (10,571) |
| Commission and shipping expenses | | (7,627) | – | (7,627) |
| Depreciation and amortisation expenses | 4(a) | (40,421) | (1,934) | (42,355) |
| Borrowing costs | 4(a) | (187) | (8,918) | (9,105) |
| Statutory and corporate expenses | 4(a) | (15,877) | 538 | (15,339) |
| Other expenses from ordinary activities | | (4,050) | – | (4,050) |
| **Profit (loss) from ordinary activities before tax** | | 47,649 | (8,410) | 39,239 |
| Income tax expense on ordinary activities | | (9,034) | 6,841 | (2,193) |
| **Net profit attributable to members of ERA Limited** | | 38,615 | (1,569) | 37,046 |
| Basic earnings per share | | 20.2 | (0.8) | 19.4 |
| Diluted earnings per share | | 20.2 | (0.8) | 19.4 |

| | | | | |
|---|---|---|---|---|
| Operating revenues | | 235,477 | – | 235,477 |
| **Other revenue from outside operating activities** | 4(a) | 3,581 | 1,984 | 5,565 |
| Revenue from ordinary activities | | 239,058 | 1,984 | 241,042 |
| Changes in inventories of finished goods and WIP | | (160) | – | (160) |
| Raw materials and consumables used | | (68,275) | – | (68,275) |
| Employee benefits and contractor expenses | 4(c) | (44,315) | (80) | (44,395) |
| Government and other royalties | | (10,571) | – | (10,571) |
| Commission and shipping expenses | | (7,627) | – | (7,627) |
| Depreciation and amortisation expenses | 4(a) | (40,289) | (1,934) | (42,223) |
| Borrowing costs | 4(a) | (187) | (8,918) | (9,105) |
| Statutory and corporate expenses | 4(a) | (15,877) | 538 | (15,339) |
| Other expenses from ordinary activities | | (4,055) | – | (4,055) |
| **Profit (loss) from ordinary activities before tax** | | 47,702 | (8,410) | 39,292 |
| Income tax expense on ordinary activities | | (9,050) | 6,841 | (2,209) |
| **Net profit attributable to members of ERA Limited** | | 38,652 | (1,569) | 37,083 |
| Basic earnings per share | | 20.2 | (0.8) | 19.4 |
| Diluted earnings per share | | 20.2 | (0.8) | 19.4 |

**(3) Reconciliation of cash flow statement for the year ended 31 December 2004.**
The adoption of Australian equivalents to International Financial Reporting Standards has not resulted in any adjustment to the cash flow statement.

**(4) Notes to the reconciliations**

Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* the company is required to recognise a provision for the rehabilitation and closure of the Ranger project area. A revised rehabilitation provision and asset have been created that will lead to additional amortisation and interest expense.

The Rehabilitation Trust Fund previously held off-balance sheet is now recorded as a restricted cash investment. The increase in the value of the fund is shown as interest income and the previously recorded expense of increasing the cash value of the fund is now shown as an increase in the value of the investment.

AASB 112 *Taxation* is applied to the recognition of the rehabilitation provision and asset and has created a net deferred tax liability.

The effect of recognising a provision for rehabilitation and closure is as follows:

| | | | | |
|---|---|---|---|---|
| PP&E – Rehabilitation Asset | 16,373 | 16,373 | 14,439 | 14,439 |
| Investment – Trust Fund | 37,767 | 37,767 | 40,289 | 40,289 |
| | 54,140 | 54,140 | 54,728 | 54,728 |
| Provision – Rehabilitation and Closure | (156,448) | (156,448) | (165,365) | (165,365) |
| Net Effect | (102,308) | (102,308) | (110,637) | (110,637) |

| | | |
|---|---|---|
| Interest Income | 1,984 | 1,984 |
| Corporate Expense | 538 | 538 |
| Amortisation expense | (1,934) | (1,934) |
| Interest expense | (8,918) | (8,918) |
| Net Effect | (8,330) | (8,330) |

# NOTES TO THE FINANCIAL STATEMENTS CONTINUED

for the year ended 31 December 2005

Under previous AGAAP income tax expense was calculated by reference to the accounting profit after allowing for permanent differences. Deferred tax was not recognised in relation to amounts recognised directly in equity. The adoption of Australian equivalents to International Financial Reporting Standards has resulted in a change in accounting policy.

**(i) At 1 January 2004 and 31 December 2004**

The effects on the net deferred tax liability of adoption of Australian equivalents to International Financial Reporting Standards are as follows (tax rate of 30%):

| | | | | |
|---|---|---|---|---|
| Adjustments arising from adoption of AASB 112 | 40,272 | 40,336 | 35,700 | 35,765 |
| Application of AASB 112 to adjustments arising from adoption of other AASB's | | | | |
| Rehabilitation and closedown | (22,519) | (22,519) | (24,408) | (24,408) |
| Share-based payments | (42) | (42) | (82) | (82) |
| Increase/(decrease) in net deferred tax liability | 17,711 | 17,775 | 11,210 | 11,275 |
| Disclosed in the balance sheet as: | | | | |
| Deferred tax asset | 33,048 | 32,998 | 36,235 | 36,191 |
| Deferred tax liability | (50,759) | (50,773) | (47,445) | (47,466) |
| Net Effect | (17,711) | (17,775) | (11,210) | (11,275) |

The effects on current tax liability of adoption of Australian equivalents to International Financial Reporting Standards has been (tax rate of 30 per cent) as at 1 January 2004 to increase the liability for the consolidated entity by $692,000 and as at 31 December 2004 increase the provision by $313,000. The effect on the company as at 1 January 2004 has been to increase the liability by $628,000 and as at 31 December 2004 by $248,000.

**(ii) For the year ended 31 December 2004**

For the company and consolidated entity this has decreased income tax expense by $6.8 million.

Under AASB 2 *Share-based Payment* from 1 January 2005 the company is required to recognise an expense for those options that were issued to employees under the Rio Tinto Employee Share Scheme after 7 November 2002 but were not vested by 1 January 2005, and to ERA senior management under the Rio Tinto Share Option Plan. The effect of this is:

**(i) At 1 January 2004**

There has been an increase in reserves for the company and consolidated entity of $66,000.

**(ii) At 31 December 2004**

There has been an increase in reserves for the company and consolidated entity of $186,000.

**(iii) For the year ended 31 December 2004**

There has been an increase in employee benefits expense for the company and consolidated entity of $80,000.

The effect on shareholders equity of the changes set out above are as follows:

| | | | | |
|---|---|---|---|---|
| Rehabilitation and Closure | (102,308) | (102,308) | (110,637) | (110,637) |
| Share-based payments | – | – | 80 | 80 |
| Taxation | (17,711) | (17,775) | (11,210) | (11,275) |
| Other | (692) | (628) | (393) | (328) |
| Total adjustment | (120,711) | (120,711) | (122,160) | (122,160) |

# DIRECTORS' DECLARATION

## IN THE DIRECTORS' OPINION:

(a) the financial statements and notes set out on pages 38 to 80 are in accordance with the *Corporations Act 2001* including

- complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2005 and of their performance, as represented by the results of their operations, changes in equity and their cash flows, for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) the audited remuneration disclosures set out on pages 22 to 29 of the Directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures* and Class Order 06/50 issued by the Australian Securities and Investments Commission.

The Directors have been given the declarations by the chief executive and chief financial officer required by section 295A of the *Corporations Act 2001*.

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

Dr D Klingner
Director

Melbourne
24 February 2006

# INDEPENDENT AUDIT REPORT TO THE MEMBERS OF ENERGY RESOURCES OF AUSTRALIA LTD

## MATTERS RELATING TO THE ELECTRONIC PRESENTATION OF THE AUDITED FINANCIAL REPORT

This audit report relates to the financial report and remuneration disclosure of Energy Resources of Australia Ltd (the company) and the Energy Resources of Australia Ltd Group (defined below) for the financial year ended 31 December 2005 included on Energy of Australia Ltd's web site. The company's Directors are responsible for the integrity of the Energy Resources of Australia Ltd web site. We have not been engaged to report on the integrity of this web site. The audit report refers only to the financial report and remuneration disclosures identified below. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remunerations disclosures. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration disclosures to confirm the information included in the audited financial report and remuneration disclosures presented on this web site.

## AUDIT OPINION

In our opinion

1. the financial report of Energy Resources of Australia Ltd:
   - gives a true and fair view, as required by the *Corporations Act 2001* in Australia, of the financial position of Energy Resources of Australia Ltd and the Energy Resources of Australia Ltd Group (defined below) as at 31 December 2005, and of their performance for the year ended on that date, and
   - is presented in accordance with the *Corporations Act 2001*, Accounting Standards and other mandatory financial reporting requirements in Australia, and the Corporations Regulations 2001; and

2. the remuneration disclosures that are contained in pages 22 to 29 of the Directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures* (AASB 124) and Class Order 06/50 issued by the Australian Securities and Investments Commission.

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

## SCOPE

The financial report and Directors' responsibility.

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flow statement, accompanying notes to the financial statements, and the Directors' declaration for both Energy Resources of Australia Ltd and the Energy Resources of Australia Ltd Group (the consolidated entity), for the year ended 31 December 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The company has disclosed information about the remuneration of Directors and executives (remuneration disclosures) as required by AASB 124, under the heading "remuneration of key management personnel" part A to D on pages 22 to 29 of the Directors' report, as permitted by Class Order 06/50.

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. The Directors are also responsible for the remuneration disclosures contained in the Directors' 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 and the remuneration disclosures comply with AASB 124 and Class Order 06/50. 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 also performed procedures to assess whether the remuneration disclosures comply with AASB 124 and Class Order 06/50.

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 remuneration disclosure, 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.

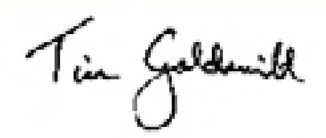
While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

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



Tim Goldsmith
Partner

Melbourne
24 February 2006

# SHAREHOLDER INFORMATION
as at 31 December 2005

## TWENTY LARGEST SHAREHOLDERS
of A Class Ordinary Shares as at 31 December 2005

| | |
|---|---|
| Peko Wallsend | 65,407,896 |
| North Limited | 65,042,208 |
| National Nominees Ltd | 9,061,305 |
| ANZ Nominees Limited Cash Income A/C | 8,511,071 |
| Citicorp Nominees Pty Limited | 6,738,289 |
| HSBC Custody Nominees (Australia) Limited – GSCO ECSA | 6,450,500 |
| Westpac Custodian Nominees Limited | 6,067,211 |
| HSBC Custody Nominees (Australia) Limited – GSI ECSA | 4,618,466 |
| JP Morgan Nominees Australia Limited | 2,046,345 |
| Cogent Nominees Pty Limited | 1,947,509 |
| Warbont Nominees Pty Ltd | 1,257,399 |
| Equity Trustees Limited | 1,167,179 |
| Citicorp Nominees Pty Limited CFS WSLE Imputation Fund | 1,000,608 |
| Citicorp Nominees Pty Limited CFS Imputation Fund | 666,123 |
| HSBC Custody Nominees (Australia) Limited | 613,893 |
| Citicorp Nominees Pty Limited CFS WSLE Aust Share Fund | 482,730 |
| Merrill Lynch (Australia) Nominees Pty Ltd BPB A/C | 400,000 |
| Merrill Lynch (Australia) Pty Ltd | 355,230 |
| UBS Nominees Pty Ltd Prime Broking A/C | 350,935 |
| Ganra Pty Ltd | 240,000 |
| | 182,424,897 |

**Entitlement to Votes**
Subject to any rights or restrictions for the time being attached to any shares on a show of hands, every member present in person or by proxy or by attorney or by representative and entitled to vote shall have one vote.

On a poll, every member present in person or by proxy or by attorney or by representative shall have one vote for each share held by him/her.

## DISTRIBUTION OF SHAREHOLDERS AS AT 31 DECEMBER 2005

**(a) A Class Ordinary Shareholders**

| | NUMBER OF SHAREHOLDERS | % OF SHARE-HOLDERS | NUMBER OF SHARES | % OF ISSUED SHARES |
|---|---|---|---|---|
| 1 – 1,000 | 5,253 | 80.49 | 1,291,660 | 0.68 |
| 1,001 – 5,000 | 969 | 14.85 | 2,451,968 | 1.29 |
| 5,001 – 10,000 | 175 | 2.68 | 1,351,546 | 0.71 |
| 10,001 – 100,000 | 105 | 1.61 | 2,646,623 | 1.39 |
| 100,001 and over | 24 | 0.37 | 182,996,137 | 95.93 |
| | 6,526 | 100.00 | 190,737,934 | 100.00 |

# TEN YEAR PERFORMANCE

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Sales Revenue ($000) | 262,036 | 236,270 | 196,216 | 198,703 | 232,808 | 181,847 | 172,930 | 201,336 | 230,561 | 180,350 |
| Earnings Before Interest and Tax ($000) | 65,261 | 42,773 | 35,298 | 39,214 | 36,467 | 46,312 | 45,831 | 48,810 | 73,759 | 60,839 |
| Profit Before Tax ($000) | 59,182 | 39,239 | 35,546 | 36,675 | 29,652 | 44,280 | 43,152 | 47,617 | 71,572 | 58,560 |
| Income Tax Expense ($000) | 18,480 | 2,193 | 15,674 | 15,490 | 13,624 | 9,597 | 21,254 | 20,885 | 31,147 | 17,831 |
| Profit After Tax ($000) | 40,702 | 37,046 | 19,872 | 21,185 | 16,028 | 34,683 | 21,898 | 26,732 | 40,425 | 40,729 |
| Total Assets ($000) | 909,507 | 862,875 | 756,327 | 830,260 | 810,699 | 807,966 | 928,991 | 907,230 | 924,768 | 865,045 |
| Shareholders' Equity ($000) | 534,850 | 509,819 | 614,345 | 605,917 | 605,713 | 604,945 | 663,723 | 668,528 | 668,499 | 654,777 |
| Long Term Debt ($000) | – | – | – | – | – | – | 81,226 | 27,006 | 31,073 | – |
| Current Ratio | 3.8 | 5.2 | 4.0 | 2.2 | 1.3 | 1.0 | 1.4 | 3.5 | 1.4 | 2.2 |
| Liquid Ratio | 2.3 | 3.1 | 1.9 | 1.1 | 0.6 | 0.3 | 0.5 | 1.2 | 0.7 | 1.1 |
| Gearing Ratio (%) | – | – | – | – | – | – | – | 10.8 | 3.9 | 4.5 |
| Interest Cover (times) | 6.5 | 4.7 | 48.0 | 14.0 | 4.7 | 8.0 | 13.8 | 12.8 | 19.6 | 11.2 |
| Return on Shareholders' Equity (%) | 7.6 | 7.3 | 3.2 | 3.5 | 2.6 | 5.7 | 3.3 | 4.0 | 6.1 | 6.3 |
| Earnings Per Share (cents) | 21 | 19 | 10 | 11 | 8 | 18 | 11 | 14 | 21 | 21 |
| Dividends Per Share (cents) | 17.0 | 17.0 | 11.0 | 11.0 | 8.0 | 49.0 | 14.0 | 14.0 | 14.0 | 14.0 |
| Payout Ratio (%) | 80 | 88 | 106 | 99 | 95 | 270** | 122 | 100 | 66 | 66 |
| Share Price ($) | 10.02 | 6.59 | 3.40 | 1.71 | 1.94 | 2.31 | 1.70 | 3.05 | 5.90 | 4.65 |
| Price-Earning Ratio | 47.70 | 34.7 | 30.9 | 15.4 | 23.1 | 12.8 | 14.8 | 21.8 | 27.8 | 21.8 |
| Dividend Yield (%) | 1.70 | 2.58 | 3.24 | 6.4 | 4.1 | 21.2** | 8.24 | 4.6 | 2.4 | 3.0 |
| Net Tangible Assets per Share ($) | 2.80 | 2.67 | 3.22 | 3.18 | 3.18 | 3.17 | 3.48 | 3.50 | 3.50 | 3.43 |
| No. of employees | 354 | 273 | 238 | 184 | 231 | 257 | 272 | 255 | 246 | 215 |
| Profit After Tax per Employee ($000) | 114.98 | 143.7 | 83.5 | 115.1 | 70.3 | 134.9 | 80.5 | 100.9 | 164.3 | 189.4 |
| Ore Mined (million tonnes) | 2.2 | 0.8 | 1.8 | 0.8 | 3.2 | 2.4 | 2.5 | 2.3 | 0.7 | – |
| Ore Milled (million tonnes) | 2.3 | 2.1 | 2.1 | 1.8 | 2.5 | 1.5 | 1.8 | 1.8 | 1.6 | 1.2 |
| Mill Head Grade (% $U_3O_8$) | 0.29 | 0.28 | 0.28 | 0.28 | 0.29 | 0.30 | 0.27 | 0.27 | 0.31 | 0.35 |
| Mill Recovery (%) | 89.2 | 88.8 | 88.3 | 89.7 | 90.6 | 91.6 | 91.1 | 86.8 | 85.5 | 85.1 |
| Production (tonnes $U_3O_8$) – drummed | 5,910 | 5,137 | 5,065 | 4,470 | 6,564 | 4,144 | 4,375 | 4,162 | 4,237 | 3,453 |
| Sales – Ranger Concentrates (tonnes $U_3O_8$) | 5,552 | 5,024 | 5,241 | 4,517 | 5,937 | 4,511 | 4,006 | 4,635 | 3,956 | 3,364 |
| Sales – Other Concentrates (tonnes $U_3O_8$) | 136 | 581 | 18 | 628 | 408 | 3 | – | 293 | 1,464 | 868 |
| Sales – Total (tonnes $U_3O_8$) | 5,688 | 5,605 | 5,259 | 5,145 | 6,345 | 4,514 | 4,006 | 4,928 | 5,420 | 4,232 |

\+ Change of accounting period to 31 December year end (period of 18 months from 1 July 2000 to 31 December 2001)
++ Calendar year 1 January to 31 December 2002

* Based on reconstructed capital
** Based on special dividend
\# Restated to comply with AIFRS

Current Ratio = current assets/current liabilities

Liquid Ratio = (current assets-inventory-prepayments-foreign exchange hedge asset on borrowings)/(current liabilities-bank overdraft – foreign exchange hedge liability)

Gearing Ratio = (long term debt + term creditors)/(shareholders' equity + long term debt + term creditors)

Interest Cover = earnings before interest and tax/interest expense

Return on Shareholders' Equity = profit after tax/average shareholders' equity

Earnings per Share = profit after tax/weighted average number of shares issued

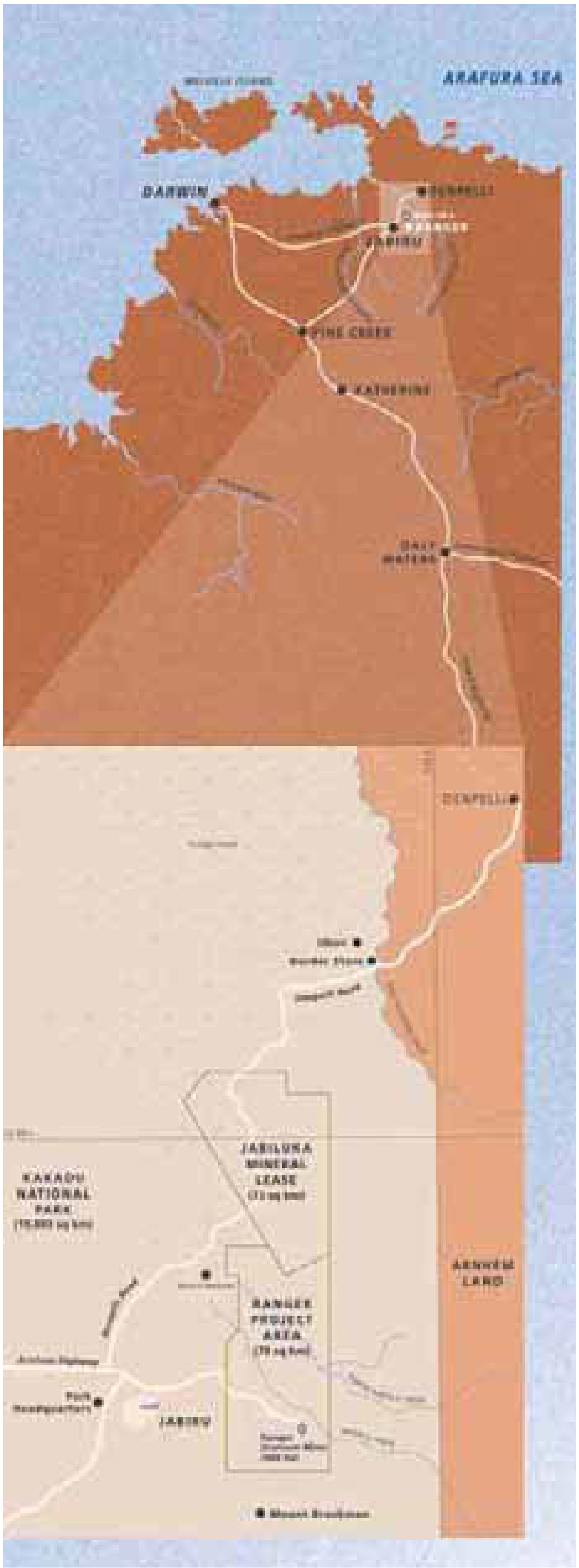
Dividends per Share = dividends paid/number of shares issued

Payout Ratio = dividends paid/profit after tax

Price-Earnings Ratio = share price/earnings per share

Dividend Yield = dividend per share/share price

Net Tangible Assets per Share = net assets/number of shares issued

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**ERA – Ranger Mine**
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Fax 08 8938 1203

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PO Box 39443
Winnellie NT 0821
Tel. 08 8922 5200
Fax 08 8922 5260

**Registered Office**
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St George Centre
60 Marcus Clarke Street
Canberra City ACT 2601
Tel 02 6217 6000

**Management**
H Kenyon-Slaney
Chief Executive
R Antal
Chief Financial Officer and Company Secretary
C Salisbury
General Manager – Operations
Dr A Milnes
General Manager – EWL Sciences Pty Ltd
D Paterson
General Manager Business Development
D Gibson
– from May 2005
General Manager Technical Projects
C Kinnell
– until June 30 2005
General Manager – Marketing

**Auditors**
PricewaterhouseCoopers

**2005 Announcements**

MEDIA RELEASES FOR 2005

| | |
|---|---|
| 28-Oct-2005 | Court Action against ERA |
| 10-Oct-2005 | ERA Announces Capital Restructure |
| 05-Oct-2005 | ERA Signs Marketing Services Agreement with Rio Tinto |
| 22-Jul-2005 | Appointment of Director |
| 11-Jul-2005 | ERA Prosecution |
| 01-Jun-2005 | Court Action against ERA |
| 25-Feb-2005 | Joint Media Statement – Jabiluka Agreement |
| 02-Feb-2005 | New Water Treatment Plant for Ranger Mine |

FINANCIAL MEDIA RELEASES FOR 2005

| | |
|---|---|
| 06-Dec-2005 | Trading Halt |
| 06-Dec-2005 | ERA Announces Changes to Ownership Structure |
| 27-Oct-2005 | Increase in Ranger Mines Reserves and Resources |
| 24-Oct-2005 | Quarterly Production and Exploration Report to 30 September 2005 (unaudited) |
| 14-Oct-2005 | Cessation of Directors |
| 22-Jul-2005 | Quarterly Production and Exploration Report to 30 June 2005 (unaudited) |
| 22-Jul-2005 | Half Year Results 2005 |
| 29-Apr-2005 | Quarterly Production and Exploration Report to 31 March 2005 (unaudited) |
| 04-Feb-2005 | ERA Prosecution |
| 31-Jan-2005 | Increase in Resource and Reserves |
| 31-Jan-2005 | Full Year Results 2004 |
| 31-Jan-2005 | Quarterly Production and Exploration Report to 31 December 2004 (unaudited) |
| 28-Jan-2005 | Board Changes 28 Jan 2005 |
| 20-Jan-2005 | Completion of ERA Audit Process |

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