PERILYA

31 August 2006

ASX Release

Financial Results for the Full Year Ended 30 June 2006

Highlights

- $67.0 million full year unaudited net profit after tax (2004/05: $6.1 million loss) after $13.3 million write down of Daisy Milano.
- $80.3 million underlying net profit after tax.
- Fully franked final dividend of four cents per share; total annual dividend five cents per share (2004/05: nil).
- $161.6 million cash and receivables (2004/05: $33.3 million). Debt of $7.1 million (2004/05: $12.6 million).
- Net cash flow from operations of $166.0 million (2004/05: $30.2 million).
- Broken Hill zinc production up 9.2 per cent and lead up 22.4 per cent on the previous year.

Summary

	2006	2005	% Var	Jun Half 2006	Dec Half 2005
Revenue (A$m) #	**345.0**	193.2	**78.6**	221.6	123.4
EBITDA (A$m)	**133.0**	13.7	**870.1**	93.9	39.1
NPAT (A$m)	**67.0**	(6.1)	**na**	50.1	16.9
EPS (¢/share)	**35.6**	(3.6)	**na**	26.5	9.1
Dividend (¢/share)	**5.0**	Nil	**na**	4.0	1.0
Zinc (kt) *	**144.1**	132.0	**9.2**	73.4	70.7
Lead (kt) *	**74.8**	61.1	**22.4**	38.4	36.4
Silver (Moz)	**2.1**	1.9	**10.5**	1.1	1.0
Gold produced (koz)	**27.3**	4.8	**468.8**	12.6	14.7

 # Net of concentrate treatment charges
** Contained metal*

CEO comments

Perilya (ASX: PEM) today announced a $67.0 million net profit after tax (including a $13.3 million after tax write down of Daisy Milano), or 35.6 cents per share, for the 2005/06 financial year. This represents an $80.3 million underlying net profit after tax for the year.

In announcing the record result, Perilya's CEO, Len Jubber said "whilst the dramatic turnaround from the previous year's result was driven largely by the strong rise in zinc and lead prices, it also reflected a substantial improvement in the underlying performance of Broken Hill. The earnings from these operations in 2005/06 have more than paid for the purchase of the original asset in 2002."

"The impact of the increased metal prices and production largely flowed through to the bottom line, with productivity improvements and cost containment restricting direct cost increases to less than five per cent at Broken Hill," he said.

In line with its inaugural interim dividend in February 2006, Perilya announced a four cents per share fully franked final dividend, bringing the total dividends for 2005/06 to five cents per share.

"Settlement of the Broken Hill deferred acquisition liability of $55 million four years ahead of schedule, not only highlights the cash generating capability of the operation, but will also facilitate investment in our growth strategy," said Mr Jubber.

"Increasing the ore reserves and further extending the mine life at Broken Hill to beyond 10 years are important cornerstones in positioning Perilya for sustainable long term growth."

"In this regard, we will pursue development of the Potosi exploration decline and the technical evaluation of North Mine Deeps project, whilst focusing exploration on extending the Southern Operation and North Mine ore reserves," he said.

"This has been an outstanding year for shareholders and employees. Our confidence in the zinc market coupled with our people and asset development activities and strong financial position with net cash and receivables of $155 million augers well for all stakeholders in Perilya," Mr Jubber concluded.

Profit

Perilya Limited recorded a $67.0 million net profit after tax, or 35.6 cents per share, for the year ended 30 June 2006.

The profit result includes a $19.0 million pre tax write down of the Daisy Milano asset value ($13.3 million after tax). This follows a review of the carrying value of the project at current production levels and operating efficiencies.

EBITDA increased by 870.1 per cent over the previous year from $13.7 million to $133.0 million.

Net profit in the second half increased almost fourfold on the first half result (before write downs).

Cash Flow

Perilya generated total net cash flow of $113.0 million in the past year, including $46.8 million from the sale of future silver production from the Broken Hill operation in September 2005. Significant expenditures included the payment of the outstanding deferred acquisition liability of $30.1 million, mine development of $29.8 million, capital expenditures of $11.7 million and $5.6 million on exploration.

Cash and receivables at year end totaled $161.6 million (2004/05: $33.3 million).

Operations

Broken Hill

Year on year, Broken Hill zinc production was up 9.2 per cent to 144,100 tonnes and lead 22.4 per cent higher to 74,800 tonnes, largely due to increased mill throughput.

Total direct operating cost increases at Broken Hill were limited to only 4.5 per cent (compared to 2004/05) with gains in mine scheduling efficiency and increased productivity offsetting global operating cost pressures.

Zinc and lead production continued to trend upwards and quarterly variances in total metal production were well below 15 per cent.

The 18 per cent increase in ore reserves extended the current mine life to six years.

Project Development

Daisy Milano

Daisy Milano produced 27,298 ounces of gold as production ramped up during the year.

The write down of $13.3 million after tax (in line with AIFRS requirements) reflects the current production levels and operating efficiencies. The resulting carrying value therefore does not reflect any of the recent process improvement opportunities identified in the feasibility study for implementation during the current year. The feasibility study is due for completion in September 2006.

Exploration

The Mount Oxide Mineral Resource estimate increased by 23 per cent to 100,000 tonnes copper following the re-interpretation of historical data and re-logging of drill core. Drilling will re-commence in the current quarter.

Corporate

The $55.0 million deferred acquisition liability associated with the purchase of the Broken Hill mine in 2002, was settled in full following payment of the outstanding $30.1 million, four years ahead of schedule.

Borrowings were reduced to $7.1 million at year end.

Dividends

The Board has declared a fully franked final dividend of four cents per share in addition to the one cent per share interim dividend paid in April. The distribution to shareholders balances the commitment to paying sustainable dividends from operating profits with the retention of cash to fund Perilya’s base metals growth strategy.

The record date for determining entitlements to the final dividend is 14 September 2006.

Positioning for sustainable long term growth

The past year has seen a substantial focus on positioning Perilya for sustainable long term growth. Initiatives included:

- Strengthening the balance sheet - 17.2 Moz of future silver production was sold to Coeur d'Alene for an upfront payment of $46.8 million in September 2005. A further US$2.31/oz is due on delivery, and US$5.25 million of contingent receipts pending achievement of annual silver production thresholds.
- Capitalising on historic highs in zinc and lead prices. Forward sales positions covering 25 per cent of monthly production extending to mid 2008 have been put in place.
- Increasing Broken Hill ore reserves. Inclusion of remnant high grade pillars after extensive trial mining and extension drilling increased reserves by 18 per cent.
- Engaging in leadership development programs throughout the organisation. These initiatives coupled with business improvement projects resulted in significant operational improvements at Broken Hill.

These efforts will continue in the current year, complemented by value accretive project development and acquisition activities aimed at augmenting and diversifying the current substantial cash flow generated from the Broken Hill operations.

Outlook

The outlook is for continuing strong production and financial performances in 2006/07. Production levels at Broken Hill are expected to be similar to 2005/06. Perilya will be focused on progressing its planned development pipeline including the Flinders zinc project in South Australia, and Potosi and North Deeps projects at Broken Hill.

FOR FURTHER INFORMATION:

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Perilya is an expanding diversified resources company. The Company owns and operates the Broken Hill zinc, lead and silver mine in New South Wales, Australia, making it one of Australia's largest base metal miners. The Company is also producing from its Daisy Milano Gold project located in Western Australia. It has an extensive portfolio of gold and base metal exploration properties, and investments in the mining sector.

PERILYA

(ABN 85 009 193 695)

PRELIMINARY FINAL REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

This Preliminary Final Report is provided to the Australian Stock Exchange (ASX) under ASX Listing Rule 4.3A

Current Reporting Period:	Financial Year ending 30 June 2006
Previous Reporting Period:	Financial Year ending 30 June 2005

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RESULTS FOR ANNOUNCEMENT TO THE MARKET

				2005 $A'000		2006 $A'000
Revenue	up	78.6%	from	193,156	to	344,969
Profit/(Loss) after tax from ordinary activities	up		from	(6,110)	to	67,006
Profit/(Loss) after tax attributable to members	up		from	(6,110)	to	67,006

DIVIDENDS/DISTRIBUTIONS

	Amount per security	**Franked amount per security**
Interim dividend (paid 7 April 2006)	1 cent	1 cent
Final dividend (payable 2 October 2006)	4 cents	4 cents

A fully franked interim dividend of 1 cent per share was paid to shareholders on 7 April 2006. Subsequent to the end of the financial year the directors have declared the payment of a fully franked final dividend of 4 cents per share. The record date for determining entitlement to the final dividend is 14 September 2006 and the final dividend is payable on 2 October 2006.

The financial impact of the final dividend is not included in the results for the year ended 30 June 2006.

NET TANGIBLE ASSETS PER SHARE

	2005 $	**2006 $**
Net tangible assets per share	0.62	**0.69**

EXPLANATION OF REVENUE

Revenue for the current year was $345.0 million. This represents an increase of 79% over the prior year (2005: $193.2 million) due to:

- higher base metal prices
- an 8% increase in product sales from Broken Hill; and
- the first full year revenue contribution from Daisy Milano.

Base metal prices have risen considerably over the past 12 months. The zinc price has increased by 167% over the year from US$1,211 per tonne to US$3,239 per tonne. Similarly, the lead price has increased by 11% from US$892 per tonne to US$991 per tonne during the same period.

Higher production from the Broken Hill operation during 2006 led to base metal sales increasing by 8% over the prior year. Zinc concentrate sales were up 4% to 274,467 tonnes (2005: 264,923 tonnes) and lead concentrate sales were up 22% to 103,127 tonnes (2005: 84,555 tonnes).

Sales revenue from the Broken Hill operation for 2006 was $323.0 million (2005: $188.4 million) and is net of refining and treatment charges of $136.8 million (2005: $79.5 million).

Sales revenue from the company's Daisy Milano gold operation increased by 489% to $15.9 million in its first full year of operation (2005:$2.7 million).

EXPLANATION OF PROFIT

The net profit after tax was $67.0 million, or 35.6 cents per share (2005: $6.1 million loss). The increase in profit is attributable to higher base metal prices and improved productivity at Broken Hill. The profit result includes a $19.0 million write down of the Daisy Milano asset ($13.3 million after tax).

Prior to the impairment of the Daisy Milano assets, the net profit after tax attributable to members of Perilya Limited was $80.3 million.

DETAILS OF ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST IN THE PERIOD

There are no entities over which control has been gained or lost over the period.

AUDIT REPORT

This preliminary final report is based on accounts which are in the process of being audited.

CONSOLIDATED INCOME STATEMENT

For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Revenue	3	**344,969**	193,156
Other income	3	**6,600**	5,349
Changes in inventories of finished goods and work in progress		**6,237**	546
Raw materials, power and consumables used		**(60,943)**	(50,542)
Employee benefits expense		**(51,116)**	(45,821)
Depreciation and amortisation expense		**(35,820)**	(20,102)
External services and consultants		**(37,118)**	(28,367)
Freight and handling		**(26,189)**	(22,315)
Royalties		**(11,111)**	(5,366)
Foreign exchange loss		**(1,344)**	-
Price linked payments		**-**	(7,338)
Impairment of mine properties		**(18,989)**	-
Exploration written off		**(1,132)**	(13,715)
Other expenses from ordinary activities		**(13,323)**	(10,340)
Borrowing costs		**(2,872)**	(3,527)
Share of loss from associates		**(162)**	(145)
Profit/(Loss) before income tax		**97,687**	(8,527)
Income tax (expense)/benefit		**(30,681)**	2,417
Profit/(Loss) for the year		**67,006**	(6,110)
Profit/(Loss) attributable to members of Perilya Limited		**67,006**	(6,110)

		Cents	Cents
Earnings per share for profit/(loss) attributable to the ordinary equity holders of the company			
Basic earnings/(loss) per share	12	**35.6**	(3.6)
Diluted earnings/(loss) per share	12	**35.1**	(3.6)

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

CONSOLIDATED BALANCE SHEET
As at 30 June 2006

	Notes	2006 $'000	2005 $'000
ASSETS			
Current assets			
Cash and cash equivalents		**125,048**	12,022
Receivables		**25,994**	11,680
Inventories		**21,700**	12,751
Available-for-sale financial assets		**5,381**	-
Other financial assets		**-**	8,724
Derivative financial instruments	5	**1,715**	-
Total current assets		**179,838**	45,177
Non-current assets			
Restricted cash		**10,560**	9,588
Receivables		**26**	11
Investments accounted for using the equity method		**53**	90
Available-for-sale financial assets		**4,942**	-
Other financial assets		**-**	869
Deferred tax assets		**30,082**	1,692
Exploration and evaluation expenditure		**22,223**	15,756
Mine properties in use		**48,866**	63,779
Property, plant and equipment		**54,194**	49,894
Total non-current assets		**170,946**	141,679
Total assets		**350,784**	186,856
LIABILITIES			
Current liabilities			
Payables		**36,525**	25,350
Interest bearing liabilities		**4,301**	4,965
Current tax liabilities		**27,523**	316
Provisions		**5,682**	12,058
Prepaid income	4	**5,368**	-
Derivative financial instruments	5	**45,143**	-
Total current liabilities		**124,542**	42,689
Non-current liabilities			
Interest bearing liabilities		**2,769**	7,660
Deferred tax liabilities		**8,820**	-
Provisions		**20,855**	20,232
Prepaid income	4	**37,038**	-
Derivative financial instruments	5	**23,932**	-
Other		**1,407**	-
Total non-current liabilities		**94,821**	27,892
Total liabilities		**219,363**	70,581
Net assets		**131,421**	116,275
EQUITY			
Contributed equity	6	**102,970**	99,286
Reserves	7	**(39,141)**	639
Retained profits	8	**67,592**	16,350
Total equity		**131,421**	116,275

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Notes	2006 $'000	2005 $'000
Total equity at the beginning of the financial year		**116,275**	100,553
Adjustment on adoption of AASB 132 and AASB 139, net of tax, to:			
Retained profits	13(5)	**(13,854)**	-
Reserves	13(5)	**1,194**	-
Restated total equity at the beginning of the financial year		**103,615**	100,553
Changes in the fair value of available-for-sale financial assets, net of tax		**945**	-
Changes in the fair value of cash flow hedges, net of tax	7	**(42,109)**	-
Net expense recognised directly in equity		**(41,164)**	-
Profit/(loss) for the year		**67,006**	(6,110)
Total recognised income and expense for the year		**25,842**	(6,110)
Transactions with equity holders in their capacity as equity holders:			
Contributions of equity, net of transaction costs	6	**3,048**	21,241
Dividends provided for or paid	8	**(1,910)**	-
Employee share options		**826**	591
		1,964	21,832
Total equity at the end of the financial year		**131,421**	116,275

The above statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 $'000	2005 $'000
Cash flows from operating activities		
Cash receipts in the course of operations (inclusive of goods and services tax)	**394,949**	207,172
Cash payments in the course of operations (inclusive of goods and services tax)	**(208,757)**	(167,148)
	186,192	40,024
Payment for price linked payment	**(21,880)**	(7,338)
Interest received	**2,974**	1,444
Interest and other finance costs paid	**(1,088)**	(3,599)
Income taxes paid	**(159)**	(370)
Net cash inflow from operating activities	**166,039**	30,161
Cash flows from investing activities		
Payments for mine properties	**(29,750)**	(16,401)
Payment for production linked payment	**(8,309)**	(6,183)
Payments for property plant and equipment	**(11,740)**	(10,229)
Payments for exploration and evaluation	**(5,596)**	(15,563)
Payments for deferred stamp duty	**-**	(801)
Payments for purchase of available-for-sale financial assets	**(1,971)**	-
Payments for performance guarantee bonds	**(972)**	(4)
Proceeds from sale of property, plant and equipment	**26**	-
Proceeds from sale of available for sale financial assets	**10,849**	1,235
Repayment of funds advanced to other entities	**150**	(150)
Net cash outflow from investing activities	**(47,313)**	(48,096)
Cash flows from financing activities		
Proceeds from issues of shares and other equity securities	**3,048**	20,442
Dividends paid to company's shareholders	**(1,892)**	-
Proceeds from borrowings	**14,871**	2,000
Repayment of borrowings	**(16,299)**	-
Repayment of hire purchase liabilities	**(5,303)**	(4,094)
Repayment of convertible notes	**-**	(19,352)
Funds advanced to associates	**(125)**	(150)
Net cash outflow from financing activities	**(5,700)**	(1,154)
Net increase/(decrease) in cash and cash equivalents	**113,026**	(19,089)
Cash and cash equivalents at the beginning of the financial year	**12,022**	31,111
Cash and cash equivalents at end of year	**125,048**	12,022

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

Financial Results

Perilya Limited recorded a net profit after tax attributable to members of $67.0 million (2004/05: $6.1 million loss). The increase in profit was attributable to higher base metal prices and improved productivity at Broken Hill. This equates to earnings of 35.6 cents per share (2005: loss of 3.6 cents per share).

The profit result includes a $19.0 million write down to the carrying value of the Daisy Milano gold asset ($13.3 million after tax). The impairment test on Daisy Milano, as required under AIFRS, was based on current production levels and operating efficiencies. The resultant carrying value therefore does not reflect any of the recent process improvement initiatives identified by the Company for implementation at Daisy Milano during financial year 2006/07.

The underlying profit result for the company was $80.3 million after tax.

Broken Hill contributed $126.4 million in earnings before interest and tax (EBIT) during the year (2005: $7.8 million), from product sales of $323.0 million. The increase in EBIT was due to higher metal prices and higher sales of both zinc and lead concentrate.

Cashflow from operating activities was $166.0 million, an increase of 451% over the prior year (2005: $30.2 million). This was due to higher base metal prices and the receipt in September 2005, of $46.8 million from the forward sale of 17.2 million ounces of silver production. The cashflow from operating activities was net of $21.9 million in price linked payments associated with the deferred acquisition liabilities of the Broken Hill mine (see below).

The cash outflow from investing activities of $47.3 million (2004/05: $48.1 million) comprised payments for mine properties and development of $29.8 million and property plant and equipment totalling $11.7 million. It also included $8.3 million in production linked payments associated with the deferred acquisition liabilities of the Broken Hill mine (see below).

Net cashflow for 2006, was an inflow of $113.0 million (2005: $19.1 million outflow), with cash and receivables at year end totalling $161.6 million (2005: $33.3 million).

Total borrowings as at 30 June 2006, were A$7.1 million comprising mobile equipment hire purchase commitments and short term insurance premium funding (30 June 2005: $12.6 million).

Broken Hill deferred price and production linked acquisition payments

The Broken Hill deferred acquisition liability of $55.0 million was paid in full following the final quarterly price and production linked payment of $8.5 million in June. Price and production payments for the 2005/06 financial year totalled $30.1 million. The completion of the final instalment of the $55.0 million deferred acquisition liability was a significant milestone and was paid off four years ahead of schedule.

Dividends

An interim dividend of 1 cent per share was paid on 7 April 2006 and a fully franked final dividend of 4 cents per share for the period ending 30 June 2006 was declared on 30 August 2006. The record date for determining entitlement to the final dividend is 14 September 2006 and the final dividend is payable on 2 October 2006.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of this preliminary financial report are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(a) Basis of preparation of preliminary financial report

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

Statement of Compliance
Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards. Compliance with AIFRSs ensures that the preliminary financial report and notes of Perilya Limited comply with International Financial Reporting Standards (IFRSs).

Application of AASB 1 First time Adoption of Australian Equivalents to International Financial Reporting Standards
While the interim half year report for December 2005 was prepared in accordance with AIFRSs, this preliminary financial report is the first full year financial report to be prepared in accordance with AIFRSs. AASB 1 *First time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing this report.

Financial statements of Perilya Limited until 30 June 2005 had been prepared in accordance with previous Australian Generally Accepted Accounting Principles (AGAAP). AGAAP differs in certain respects from AIFRS. When preparing this report, management has amended certain accounting and valuation methods applied in the previous AGAAP financial statements to comply with AIFRS. With the exception of financial instruments, the comparative figures in respect of 2005 were restated to reflect these adjustments. The Group has taken the exemption available under AASB 1 to only apply AASB 132 and AASB 139 from 1 July 2005.

Reconciliations and descriptions of the effect of transition from previous AGAAP to AIFRSs on the Group's equity and its net income are given in note 13.

Early adoption of standard
The Group has elected to apply AASB 119 *Employee Benefits* (issued in December 2004) to the annual reporting period beginning 1 July 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

(i) Subsidiaries
The preliminary financial report incorporates the assets and liabilities of all subsidiaries of Perilya Limited (the "company'' or the "parent entity'') as at 30 June 2006 and the results of all subsidiaries for the year then ended. Perilya Limited and its subsidiaries together are referred to in this preliminary financial report as "the Group" or "the consolidated entity".

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

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

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

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

(ii) Associates
Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post acquisition profits or losses is recognised in the income statement, and its share of post acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

(b) Principles of consolidation (cont.)

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Joint ventures
The proportionate interests in the assets, liabilities and expenses of a joint venture operation have been incorporated in the financial statements under the appropriate headings. Details of joint ventures are set out in note 11.

(c) Segment reporting

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

(d) Foreign currency translation

(i) Functional and presentation currency
Items included in the financial statements of each of the Group's operations are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Perilya Limited's functional and presentation currency.

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

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

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

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

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

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

(e) Revenue recognition

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

(i) Base metals
Base metal revenue is recognised, based on a provisional metal price, when the significant risks and rewards of the concentrate pass to the customer. The provisional metal price is the spot metal price at the time of delivery. An adjustment is subsequently made to the provisional revenue amount to reflect the replacement of the provisional metal price with the final metal price, which is the average metal price for the month of delivery or the first or second month following the month of delivery.

(ii) Gold
Prior to December 2005 gold revenue was derived from the sale of gold ores direct to third parties with revenue recognised when the title and the significant risks and rewards of the ore passes to the buyer at the buyers' premises at the price per ounce of contained gold agreed with the buyer. From December 2005 the Group entered into a milling agreement for the treatment of ore through to production of bullion with revenue then derived from the subsequent sale of gold bullion. Revenue from the subsequent sale of bullion is recognised when title and the significant risks and rewards of ownership of the bullion passes to the buyer.

(e) Revenue recognition (cont.)

(iii) Interest income
Interest income is recognised as it accrues based on the effective interest method, being the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(iv) Prepaid income
Prepaid income is recognised as a liability when received. It is recognised as revenue in the income statement when the benefits of ownership of the underlying sale of product have passed to the buyer.

(f) Income tax

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or 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 foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

Tax consolidation legislation
Perilya Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation retrospectively as of 18 October 2002. As a consequence, Perilya Limited, as the head entity in the tax consolidated group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly-owned Australian controlled entities in this group as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under an accounting tax sharing agreement with the tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreement are recognised as a component of income tax expense (revenue).

The deferred tax balances recognised by the parent entity in relation to wholly-owned entities joining the tax consolidated group are measured based on the carrying amount of the entities' assets and liabilities at the tax-consolidated group level and their tax values as applicable under the tax consolidation legislation.

(g) Leases

Leases of property, plant and equipment where the company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other long term payables. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

(h) Business combinations

The purchase method of accounting is used to account for all acquisitions of assets (including business combinations) regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the value of the instruments is their fair value as at the acquisition date based on the best available evidence of the price at which the instruments could be exchanged between knowledgeable, willing parties in an arm's length transaction. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

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

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

From 1 July 2004 the Group elected to take the exemption under AASB 1 *First Time Adoption of Australian Equivalents to International Financial Reporting Standards* to not apply AASB 3 *Business Combinations* retrospectively.

(i) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and 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). Where there is no binding sale agreement or active market, fair value less costs to sell is based on the best information available to reflect the amount the Group could receive for the cash generating unit in an arms length transaction.

Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

(j) Cash and cash equivalents

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

Restricted cash, which is excluded from cash and cash equivalents, represents deposits and commercial bills that are used for monetary backing of performance guarantees, and is disclosed as either a current or non-current asset.

(k) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Except for non current receivables which include tenement bonds, trade receivables are generally due for settlement no more than 30 days.

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

(l) Inventories

Inventories of work in progress and finished goods are physically measured or estimated and valued at the lower of cost and net realisable value. Cost comprises direct material, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Costs are assigned to individual items of stock on the basis of weighted average costs in getting such inventories to their existing location and condition, based on weighted average costs incurred during the period in which such inventories were produced. Inventories of consumable supplies and spare parts expected to be used in production are valued at weighted average cost. Obsolete or damaged inventories of such items are valued at net realisable value.

(m) Investments and other financial assets

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 only from 1 July 2005. The company has applied previous AGAAP to 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 30 June 2005.

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

For further information concerning the adjustments on transition date reference should be made to section 5 of note 13 which details the explanation of transition to AIFRS and discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005
The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

(i) Financial assets at fair value through profit or loss
This category has two sub categories: financial assets held for trading, and those designated at fair value through profit or loss on initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. The policy of management is to designate a financial asset if there exists the possibility it will be sold in the short term and the asset is subject to frequent changes in fair value. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

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

(iii) Available-for-sale financial assets
Available-for-sale financial assets, comprising principally marketable equity securities, are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Unrealised gains and losses arising from changes in the fair value of non monetary securities classified as available-for-sale are recognised in equity in the other financial assets fair value reserve. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains and losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include reference to the fair values of recent arm's length transactions, involving the same instruments or other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses, at each balance date, whether there is objective evidence that a financial asset or group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of a security below its cost is considered in determining whether the security is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit and loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(n) Derivatives

From 1 July 2004 to 30 June 2005
The Group has taken the exemption available under AASB 1 to apply AASB 132 and AASB 139 from 1 July 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 30 June 2005.

Adjustments on transition date: 1 July 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 July 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.

For further information concerning the adjustments on transition date reference should be made to section 5 of note 13 which details the explanation of transition to AIFRS and discloses the adjustment to each line item in the financial statements on transition date.

From 1 July 2005
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group designates certain derivatives as either; (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (ii) hedges of highly probable forecast transactions (cash flow hedges).

The Group 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 Group 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 in offsetting changes in fair values or cash flows of hedged items.

(i) Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of forward metal sale contract is recognised in the income statement within "sale of goods" with a corresponding offsetting amount to the carrying amount of the asset or liability being the fair value movement of the hedged asset or liability.

The gain or loss relating to the ineffective portion is recognised immediately in the income statement as other income or other expense.

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

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). The gain or loss relating to the effective portion of forward metal sale contracts is recognised in the income statement within "sale of goods". However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the measurement of the initial cost or carrying amount of the asset or liability.

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

When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(iii) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the income statement.

(o) Fair value estimation

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

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

(o) Fair value estimation (cont.)

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

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

(p) Property, plant and equipment

Land and buildings and all other property, plant and equipment are stated at historical cost less depreciation.

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the company and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

The cost of mine based plant and equipment is written off over its expected economic life on a units of production method, in the establishment of which, due regard is given to the life of the related area of interest.

Depreciation or amortisation of plant and equipment, excluding mine based plant and equipment, is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, as follows:

Motor vehicles and heavy mobile equipment	
- Underground	2-5 years
- Surface	5 years
Office equipment	3-5 years

Other non-mine plant and equipment typically have the following estimated useful lives:

Plant and equipment	3 years
Office furniture	3-5 years
Leasehold improvements	3-5 years

The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate, and an asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount.

(q) Maintenance and repairs

Plant of the Group is required to be overhauled on a regular basis. This is managed as part of an ongoing major cyclical maintenance program. The costs of this maintenance are charged as expenses as incurred, except where they relate to the replacement of a component or modification of an asset which will generate future economic benefits in excess of the assets original designed capacity. In these instances, the costs are capitalised and depreciated in accordance with note 1(p) above.

Other routine operating maintenance, repair costs and minor renewals are also charged as expenses as incurred.

(r) Exploration and evaluation expenditure

Exploration and evaluation costs relating to areas of interest with current tenure are carried forward to the extent that:

- such costs are expected to be recouped through successful development and exploitation of the area of interest, or alternatively by its sale; or
- exploration and/or evaluation activities in the area have not, at reporting date, reached a stage which permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in, or in relation to, the areas of interest are continuing.

In the event that an area of interest is abandoned or, if facts and circumstances suggest that the carrying value of an exploration and evaluation asset is impaired (as outlined in 1(i)) then the accumulated costs carried forward are written off in the year in which that assessment is made.

Identifiable exploration assets acquired from another mining company are recognised as assets at their cost of acquisition. Exploration assets acquired are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions above is met.

(s) Mine properties

Mine properties represent the accumulation of all exploration, evaluation and development expenditure incurred by or on behalf of the entity in relation to areas of interest in which mining of a mineral resource has commenced. Mine properties acquired from another mining company are recognised as assets at their cost of acquisition, as determined by the requirements of AASB 3 Business Combinations. When further development expenditure is incurred in respect of a mine property after the commencement of production, such expenditure is carried forward as part of the cost of that mine property only when future economic benefits are established, otherwise such expenditure is classified as part of the cost of production. Amortisation of costs is provided on the unit of production method, with separate calculations being made for each mineral resource. Estimated future capital development costs to be incurred in accessing the reserves and measured resources are taken into account in determining amortisation charges. The unit of production basis results in an amortisation charge proportional to the depletion of the economically recoverable mineral resources (comprising proven and probable reserves plus measured resources).

(t) Restoration and rehabilitation

The Group records the present value of the estimated cost of legal and constructive obligations to restore operating locations in the period in which the obligation is incurred. The nature of restoration activities includes dismantling and removing structures, rehabilitating mines, dismantling operating facilities, closure of plant and waste sites and restoration, reclamation, revegetation and monitoring of affected areas.

Typically the obligation arises when the asset is installed at the production location. When the liability is initially recorded, the estimated cost is capitalised by increasing the carrying amount of the related mining assets. Over time, the liability is increased for the change in the present value based on the discount rates that reflect the current market assessments and the risks specific to the liability. Additional disturbances arising from mine extensions or changes in rehabilitation costs, whether due to changed legal requirements or anticipated technological advancements, will be recognised as additions or changes to the corresponding asset and rehabilitation liability when incurred.

The unwinding of the effect of discounting on the provision is recorded as a borrowing cost in the income statement. The carrying amount capitalised is depreciated over the life of the related asset.

In respect of both Broken Hill and Daisy Milano, the Group recognised, on acquisition, full provisions for estimated costs of rehabilitation with these provisions reviewed annually in accordance with the above policy to determine whether the amount carried represents the present value of the expected cost of rehabilitation.

In determining present obligations, the Group has assumed no significant future changes will occur in relevant Federal and State legislation in relation to restoration of such mineral properties.

(u) Trade and other payables

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

(v) Borrowings

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

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

(w) Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed. Borrowing costs include:

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

(x) Provisions

Provisions for legal claims are recognised when:

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

Provisions are not recognised for future operating losses.

(y) Employee benefits

(i) Wages and salaries, annual leave and sick leave
Liabilities for wages and salaries, including non monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as a current provision in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities expected to be settled post 12 months of the reporting date are recognised as a non-current provision and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long service leave
The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Retirement benefit obligations
Contributions to employees defined contribution funds are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(iv) Share based payments
Share based compensation benefits are provided to employees via the Perilya Limited Employee Share Option Plan.

Shares options granted before 7 November 2002 and/or vested before 1 January 2005
No expense is recognised in respect of these options. The shares are recognised when the options are exercised and the proceeds received allocated to share capital.

Shares options granted after 7 November 2002 and vested after 1 January 2005
The fair value of options granted under the Perilya Limited Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity.

The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of options granted is adjusted to reflect market vesting conditions but excludes the impact of any non market vesting conditions (for example, profitability and sales growth targets). Non market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the group revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of any directly attributable transaction costs, are credited to share capital.

(z) Contributed equity

Ordinary shares are classified as equity and incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

If the entity reacquires its own equity instruments for the purpose of reducing its issued capital, eg as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

(aa) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the financial year but not distributed at balance date.

(ab) Earnings per share

(i) Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half year, adjusted for bonus elements in ordinary shares issued during the half 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.

(ac) Financial instrument transaction costs

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

(ad) Goods and services tax

Revenue, expenses and assets are recognised, net of the amount of associated goods and services tax (GST), unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable.

The net amount of GST recoverable from, or payable to, the Australian Taxation Office (ATO) is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO are classified as operating cash flow.

(ae) New accounting standards issued but not mandatory for 30 June 2006

The following standards and amendments were available for early adoption but have not been applied by the Group in these financial statements:

- AASB 7 *Financial Instruments: Disclosures (August 2005)* replacing the presentation requirements of financial instruments in AASB 132. AASB 7 is applicable for annual reporting periods beginning on or after 1 January 2007.
- AASB 2005-9 *Amendments to Australian Accounting Standards [AASB 4, AASB 1023, AASB 139 & AASB 132]* (September 2005) requires that liabilities arising from the issue of financial guarantee contracts are recognised in the balance sheet. AASB 2005-9 is applicable for annual reporting periods beginning on or after 1 January 2006.
- *AASB 2005-10 Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]* (September 2005) makes consequential amendments to the indicated standards arising from the release of AASB 7. AASB 2005-10 is applicable for annual reporting periods beginning on or after 1 January 2007.

The Group plans to adopt AASB 7, AASB 2005-9 and AASB 2005-10 in the 2007 financial year.

The initial application of AASB 7 and AASB 2005-10 is not expected to have an impact on the financial results of the Group or the parent entity as the standard and the amendment are concerned only with disclosures.

The initial application of the revised rules under AASB 2005-9 may result in the recognition of financial liabilities in the financial statements of the parent entity, Perilya Limited, under guarantees given pursuant to the deed of cross guarantee in respect of amounts payable by wholly-owned subsidiaries but is not expected to have an impact on the financial results of the Group. An assessment of the fair value of these guarantees has not yet been performed. The new rules will be implemented retrospectively with a restatement of the comparatives as required by AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors.*

(af) Rounding of amounts

The company is of a kind referred to in Class order 98/0100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial report. Amounts in the preliminary financial report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

2. SEGMENT INFORMATION

(a) Description of segments

Business segments

The Group is organised on a global basis into the following divisions by product and service type.

Base metals mining
Mining and extraction of base metal ores primarily for zinc, lead and silver

Gold mining
Mining and extraction of gold ore

Exploration
Exploration for and evaluation of gold and base metal ore deposits

Investment and administration
Investment and administration of the corporate office

Geographical segments

The consolidated entity operates in two main geographical areas with primary operations been undertaken in Australia, the home country of the parent entity and secondary operations (exploration) and principal customers in the South East Asia region.

(b) Primary reporting format – business segments

2006	Base metals mining $'000	Gold mining $'000	Exploration $'000	Investment & administration $'000	Consolidated $'000
Total sale of goods revenue	325,151	15,962	-	-	341,113
Other revenue/income	671	183	-	9,602	10,456
Total segment revenue/income	325,822	16,145	-	9,602	351,569
Segment result	123,912	(25,194)	(1,132)	263	97,849
Share of net losses of associates					(162)
Profit before income tax					97,687
Income tax expense					(30,681)
Profit for the year					67,006
Segment assets	152,015	11,683	22,223	# 134,781	320,702
Unallocated assets					30,082
Total assets					350,784
Segment liabilities *	*164,701	4,748	-	3,198	172,647
Unallocated liabilities					46,716
Total liabilities					219,363
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	28,237	15,511	-	797	44,545
Depreciation and amortisation expense	27,430	8,206	-	184	35,820
Other non-cash expenses	1,838	18,989	1,132	348	22,307

** Base metals mining segment liabilities include derivative financial instrument liabilities and prepaid silver income.*
 # Investment and administration segment assets includes cash on deposit.

2. SEGMENT INFORMATION (CONTINUED)

(b) Primary reporting format – business segments (cont.)

2005	Base metals mining $'000	Gold mining $'000	Exploration $'000	Investment & administration $'000	Consolidated $'000
Total sales revenue	188,390	2,721	-	-	191,111
Other revenue/income	(491)	341	-	7,544	7,394
Total segment revenue/income	187,899	3,062	-	7,544	198,505
Segment result	7,766	(1,390)	(13,715)	(1,043)	(8,382)
Share of net losses of associates					(145)
Profit before income tax					(8,527)
Income tax expense					2,417
Profit for the year					(6,110)
Segment assets	117,266	24,135	15,756	29,699	186,856
Unallocated assets					-
Total assets					186,856
Segment liabilities	36,462	2,899	-	2,061	41,422
Unallocated liabilities					29,159
Total liabilities					70,581
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	26,200	19,330	2,255	298	48,083
Depreciation and amortisation expense	18,788	1,201	-	113	20,102

(c) Secondary reporting – geographical segments

	Segment revenues from sales to external customers		Segment assets		Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	
	2006	2005	**2006**	2005	**2006**	2005
	$'000	$'000	**$'000**	$'000	**$'000**	$'000
Australia	**178,294**	100,168	**320,421**	186,730	**44,545**	48,083
South East Asia	**162,819**	90,943	**281**	126	**-**	-
	341,113	191,111	**320,702**	186,856	**44,545**	48,083
Unallocated assets			**30,082**	-		
Total assets			**350,784**	186,856		

3. REVENUE AND OTHER INCOME

	2006 $'000	2005 $'000
Revenue		
Sale of goods	**341,113**	191,111
Interest	**3,384**	1,444
Rents and sub-lease rentals	**289**	291
Other revenue	**183**	310
	344,969	193,156
Other income		
Profit on sale of available-for-sale financial assets	**5,812**	3,556
Profit on sale of tenements	**478**	-
Foreign exchange gains (net)	**-**	821
Other income	**310**	972
	6,600	5,349

4. CURRENT AND NON-CURRENT PREPAID INCOME

	2006 $'000	2005 $'000
Current prepaid silver income	**5,368**	-
Non-current prepaid silver income	**37,038**	-
Total prepaid silver income	**42,406**	-

In September 2005, the Group sold 17.2 million ounces of payable silver from Broken Hill to a wholly owned Australian subsidiary of Coeur d'Alene Mines Corporation (Coeur) for an upfront part payment, net of GST, of AUD $46.8 million (USD $36.0 million). This prepaid income was recognised as a liability on receipt and is recognised as revenue in the income statement when the benefits of ownership of the underlying sale of the silver have passed to Coeur.

5. DERIVATIVE FINANCIAL INSTRUMENTS

	2006 $'000	2005 $'000
Current assets		
Forward metal sale contracts - cashflow hedges	**1,715**	-
Total current derivative financial instrument assets	**1,715**	-
Total derivative financial instrument assets	**1,715**	-
Current liabilities		
Forward metal sale contracts - fair value hedges	**4,020**	
Forward metal sale contracts - cashflow hedges	**41,123**	-
Total current derivative financial instrument liabilities	**45,143**	-
Non-current liabilities		
Forward metal sale contracts - cashflow hedges	**23,932**	-
Total non-current derivative financial instrument liabilities	**23,932**	-
Total derivative financial instrument liabilities	**69,075**	-

5. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

(a) Instruments used by the company

The company is party to derivative financial instruments in the normal course of business in order to hedge exposure to price fluctuations in the primary commodity markets in which it operates. This is done in accordance with the Group's financial risk management policies.

The Group is exposed to risks related to the movements in base metal prices on sales and the Group uses:

(i) forward metal sales contracts – cashflow hedges to hedge its AUD metal price risk; and
(ii) forward metal sales contracts – fair value hedges for hedging of its open sales positions to secure sale prices on a shipment by shipment basis to eliminate the short term price risk that exists during the quotation period of each sale.

All contracts have been entered into on an unsecured basis and are not subject to any margin calls. All forward metal sales contracts are compliant with the hedge effectiveness requirements of AIFRSs.

As at 30 June 2006 the group had the following forward metal contracts

(i) forward metal sales contracts – cashflow hedges:

	Sell Zinc		Sell Lead	
Maturity	**Tonnes**	**Average Price (AUD)**	**Tonnes**	**Average Price (AUD)**
0 – 1 year	30,444	2,914	22,040	1,426
1 – 2 years	24,000	2,451	19,410	1,324

(ii) forward metal sales contracts – fair value hedges in place of four contracts for 5,322 tonnes of zinc at A$3,933 per tonne and 11,200 tonnes of lead at A$1,241 per tonne expiring within 2 months.

(b) Fair values of forward metal sale contracts – cashflow hedges

The gain or loss from remeasuring the fair values of cashflow hedges is deferred in equity in the hedging reserve to the extent that it is effective. When the contract is settled the gain or loss relating to the effective portion of forward metal sale contracts is recognised in the income statement within 'sale of goods'.

The net carrying amount and fair value of forward metal sale contracts - cashflow hedges used as hedges of forecasted transactions at 30 June 2006 was $60.2 million comprising assets of $1.7 million and liabilities of $61.9 million (30 June 2005: nil).

Included in current financial instrument liabilities is the amount of $3.2 million which related to June 2006 forward metal sales contracts settled in July 2006 and included in the income statement.

(c) Fair values of forward metal sale contracts – fair value hedges

The gain or loss from remeasuring the fair values of fair value hedges is recognised in the income statement within 'sale of goods'.

The net carrying amount and fair value of forward metal sale contracts - fair value hedges used to hedge open sales positions at 30 June 2006 was $2.8 million comprising liabilities of $2.8 million (30 June 2005: nil).

Included in current financial instrument liabilities is the amount of $1.2 million which related to June 2006 forward metal sales contracts settled in July 2006 and included in the income statement.

6. CONTRIBUTED EQUITY

	2006 Shares	2005 Shares	2006 $'000	2005 $'000
Opening balance of issued and fully paid shares	**186,522,239**	164,020,332	**99,286**	78,044
Share placements	**-**	20,026,907	**-**	20,152
Options exercised	**4,525,000**	2,475,000	**3,048**	1,090
Transfers from share based payments reserve	**-**	-	**636**	-
30 June closing balance of issued and fully paid shares	**191,047,239**	186,522,239	**102,970**	99,286

7. RESERVES

	2006 $'000	2005 $'000
Available-for-sale financial assets fair value reserve (net of tax)	**2,139**	-
Share based payments reserve	**829**	639
Hedging reserve - cash flow hedges (net of tax)	**(42,109)**	-
Balance 30 June	**(39,141)**	639

8. RETAINED PROFITS

Movements in retained profits were as follows:

	Note	2006 $'000	2005 $'000
Balance 1 July		**16,350**	22,460
Adjustment on adoption of AASB 132 and AASB 139 (net of tax)	13(5)	**(13,854)**	-
Net profit for the year		**67,006**	(6,110)
Dividends		**(1,910)**	-
Balance 30 June		**67,592**	16,350

9. CONTINGENCIES

There were no known contingent assets or liabilities which were not provided for in the financial statements of the Group as at 30 June 2006, other than:

(a) Contingent liabilities

Potential Daisy Milano cash flow payments and production royalty payments
On 31 January 2005 Perilya Daisy Milano Ltd exercised its option to acquire the Daisy Milano mine. The acquisition cost of the Daisy Milano mine and surrounding tenements comprised $5.2 million, made up of $4.4 million cash and $0.8 million represented by 828,157 Perilya Limited shares, plus a $5 million cash flow payment and a $5 million production royalty payment. $4.1 million of the acquisition cost of the Daisy Milano mine and surrounding tenements was attributed to the exploration tenements and capitalised as exploration and evaluation expenditure.

(i) The $5 million cash flow payment payable to the Ridgeview Group commences once Perilya has recouped all past operating and capital expenditure, exploration expenditure and acquisition costs. The cash flow payments are to be paid monthly at the rate of 30% of the mine's net positive cashflow up to the point in time Perilya has mined in aggregate 250,000 tonnes of ore, then at a rate of 35% until the $5 million has been paid.

Potential payments pursuant to this arrangement cannot be reliably measured and have not been recognised in the statement of financial position.

9. CONTINGENCIES (CONTINUED)

(ii) After payment of the $5 million cash flow payment, Perilya is also required to pay the Ridgeview Group a production royalty up to $5 million. The production royalty payment is payable at the rate of:

- $15/oz if the gold price and the head grade is less than A$600/oz and 13 g/t respectively.
- $30/oz if either the gold price or the head grade exceed the above amounts.
- $50/oz if both the gold price and head grade exceed the above amounts.

Potential payments pursuant to this production royalty payment arrangement cannot be reliably measured and have not been recognised in the statement of financial position.

(b) Contingent assets

Fortnum Mine sale proceeds
As part payment for the Fortnum Gold project sold to Gleneagle Gold Limited in July 2003, Perilya was to receive $500,000 upon commencement of production at the Fortnum mine by Gleneagle and, after the first 50,000 ounces of production, a royalty at the rate of $10 per ounce, up to a maximum of $2 million.

Gleneagle announced that production had commenced in the week beginning 9 July 2006. The initial $500,000 due to Perilya on commencement of production was made on 21 July 2006 and is not recognised in these financial statements. In relation to the ongoing production royalty payment arrangement the potential receipts pursuant to this arrangement cannot be reliably measured and have not been recognised in the statement of financial position.

10. INVESTMENTS IN ASSOCIATES

Information relating to the associates is set out below. These shareholdings are treated as investments in associates and are accounted for in the consolidated financial statements using the equity method of accounting.

Name of company	Principal activity	Ownership interest		Consolidated carrying amount	
				2006	2005
		2006	2005	**$'000**	$'000
Southstar Diamonds	Explorer	**50%**	50%	**53**	90
				53	90

Southstar Diamonds Limited is an Australian incorporated company and is a non-listed investment as at 30 June 2006

11. INTERESTS IN JOINT VENTURES

Joint venture operations
Companies within the economic entity are participants in the following joint ventures as at 30 June 2006. The percentage interests may vary depending on the monies expended by the joint venturers. The Groups percentage interests in future output if all the venturers fulfil their obligations to the joint ventures are as follows:

			% holding	
Joint venture	**Location**	**Principal activity**	**2006**	2005
Coultra	NSW	Base metal exploration	80	80
Greenshire	NSW	Base metal exploration	90	90
Stirling Vale	NSW	Base metal exploration	70	70
Yancowinna	NSW	Base metal exploration	-	100
Aroona	SA	Base metal exploration	-	90
Beltana Corridor	SA	Base metal exploration	70	85
Blinman (Minotaur)	SA	Base metal exploration	80	80
Mr Frome	SA	Base metal exploration	90	90
Reephook	SA	Base metal exploration	85	85
Jillawarra	WA	Base metal exploration	-	70
Malaysia Wide	Malaysia	Gold and base metal exploration	50	50
Ranau	Malaysia	Gold and base metal exploration	50	50
Dee Range	QLD	Gold and base metal exploration	90	90
Ulam Range	QLD	Gold and base metal exploration	90	90
South Mt Woods	SA	Gold and base metal exploration	50	50
Holleton	WA	Gold exploration	90	90
Honeymoon Well	WA	Gold exploration	70	70
Kalbarra	WA	Gold exploration	27	27
Kanowna	WA	Gold exploration	30	30
Rustenberg	South Africa	PGM exploration	50	50

12. EARNINGS PER SHARE

(a) Basic and diluted earnings per share

	2006 cents	2005 cents
Basic earnings/(loss) per share	**35.6**	(3.6)
Diluted earnings/(loss) per share	**35.1**	(3.6)

(b) Reconciliation of earnings used in calculating earnings per share

	2006 $'000	2005 $'000
Net profit/(loss)	**67,006**	(6,110)

12. EARNINGS PER SHARE (CONTINUED)

(c) Weighted average number of shares used as the denominator

	2006	2005
Weighted average number of ordinary shares used in the denominator in calculating basic earnings per share	188,233,746	168,121,022
Adjustments for calculation of diluted earnings per share		
Unlisted options	2,594,616	-
Weighted average number of ordinary shares used in the denominator in calculating basic earnings per share [(d)]	190,828,362	168,121,022

(d) Information concerning the classification of securities

Options granted to employees under the Perilya Limited Employee Share Option Plan are considered to be potential ordinary shares and have not been included in the determination of diluted earnings per share for the year ended 30 June 2005 as the effect, on the $6.1 million loss, would be anti-dilutive. Options have not been included in the determination of basic earnings per share.

13. EXPLANATION OF TRANSITION TO AUSTRALIAN EQUIVALENTS TO IFRSs

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

(a) At the date of transition to AIFRS: 1 July 2004

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		31,111	-	31,111
Receivables	(g)	8,493	3,614	12,107
Inventories		11,106	-	11,106
Other financial assets		1,857	-	1,857
Other current assets	(g)	5,614	(3,614)	2,000
Total current assets		58,181	-	58,181
Non-current assets				
Restricted cash		9,584	-	9,584
Receivables		1,370	-	1,370
Investments accounted for using the equity method		4,999	-	4,999
Other financial assets		1,314	-	1,314
Exploration and evaluation expenditure		27,216	-	27,216
Mine properties in use	(b)	42,368	(2,901)	39,467
Property, plant and equipment		48,370	-	48,370
Total non-current assets		135,221	(2,901)	132,320
Total assets		193,402	(2,901)	190,501
LIABILITIES				
Current liabilities				
Payables		19,919	-	19,919
Interest bearing liabilities		26,260	-	26,260
Current tax liabilities		307	-	307
Provisions	(c)	11,260	(367)	10,893
Total current liabilities		57,746	(367)	57,379
Non-current liabilities				
Interest bearing liabilities		9,029	-	9,029
Deferred tax liabilities	(b) (i)	4,099	(2,995)	1,104
Provisions	(b) (c)	23,704	(1,268)	22,436
Total non-current liabilities		36,832	(4,263)	32,569
Total liabilities		94,578	(4,630)	89,948
Net assets		98,824	1,729	100,553
EQUITY				
Contributed equity		78,044	-	78,044
Reserves	(a)	-	48	48
Retained profits	(a) (b) (i) (j)	20,780	1,681	22,461
Total equity		98,824	1,729	100,553

(b) At the end of the last reporting period under previous AGAAP: 30 June 2005

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
ASSETS				
Current assets				
Cash and cash equivalents		12,022	-	12,022
Receivables	(g)	9,608	2,072	11,680
Inventories		12,751	-	12,751
Other financial assets		8,724	-	8,724
Other current assets	(g)	2,072	(2,072)	-
Total current assets		45,177	-	45,177
Non-current assets				
Restricted cash		9,588	-	9,588
Receivables		11	-	11
Investments accounted for using the equity method		90	-	90
Other financial assets		869	-	869
Deferred tax assets	(b) (i)	-	1,692	1,692
Exploration and evaluation expenditure		15,756	-	15,756
Mine properties in use	(b)	66,350	(2,571)	63,779
Property, plant and equipment		49,894	-	49,894
Total non-current assets		142,558	(879)	141,679
Total assets		187,735	(879)	186,856
LIABILITIES				
Current liabilities				
Payables		25,350	-	25,350
Interest bearing liabilities		4,965	-	4,965
Current tax liabilities		316	-	316
Provisions	(c)	12,592	(534)	12,058
Total current liabilities		43,223	(534)	42,689
Non-current liabilities				
Interest bearing liabilities		7,660	-	7,660
Deferred tax liabilities	(i)	1,649	(1,649)	-
Provisions	(b) (c)	19,850	382	20,232
Total non-current liabilities		29,159	(1,267)	27,892
Total liabilities		72,382	(1,801)	70,581
Net assets		115,353	922	116,275
EQUITY				
Contributed equity		99,286	-	99,286
Reserves	(a)	-	639	639
Retained profits	(a) (b) (i) (j)	16,067	283	16,350
Total equity		115,353	922	116,275

(2) Reconciliation of profit for the year ended 30 June 2005

	Notes	Previous AGAAP $'000	Effect of transition to AIFRS $'000	AIFRS $'000
Revenue	(e)	191,111	2,045	193,156
Other income	(d) (e) (f)	7,252	(1,903)	5,349
Changes in inventories of finished goods and work in progress		546	-	546
Raw materials, power and consumables used		(50,542)	-	(50,542)
Employee benefits expense	(a)	(45,230)	(591)	(45,821)
Depreciation and amortisation expense	(b)	(20,454)	352	(20,102)
External services and consultants		(28,367)	-	(28,367)
Insurance expense		(5,000)	-	(5,000)
Rates and property taxes		(2,696)	-	(2,696)
Rental expense on operating leases		(163)	-	(163)
Royalties		(5,366)	-	(5,366)
Foreign exchange loss	(f)	(1,600)	1,600	-
Freight and handling		(22,315)	-	(22,315)
Price linked payments		(7,338)	-	(7,338)
Exploration written off		(13,715)	-	(13,715)
WDV of investments disposed of	(d)	(679)	679	-
Other expenses from ordinary activities		(2,481)	-	(2,481)
Borrowing costs	(b) (f)	398	(3,925)	(3,527)
Share of profit (loss) from associates		(145)	-	(145)
Loss before income tax		(6,784)	(1,743)	(8,527)
Income tax expense	(b)	2,071	346	2,417
Loss for the year		(4,713)	(1,397)	(6,110)
Loss attributable to members of Perilya Limited		(4,713)	(1,397)	(6,110)

(3) Reconciliation of cash flow statement for the year ended 30 June 2005

The adoption of AIFRSs has not resulted in any material adjustments to the cash flow statement.

(4) Notes to the reconciliations

(a) Share based payments

Under AASB 2 *Share-based Payment* from 1 July 2004 the Group is required to recognise an expense for those options that were issued to employees under the Perilya Limited Employee Share Option Plan after 7 November 2002 but that had not vested by 1 January 2005. The effect of this is:

(i) At 1 July 2004
For the Group here has been a decrease in retained profits of $48,000 and a corresponding increase in reserves.

(ii) For and at the year ended 30 June 2005
For the Group there has been an increase in employee benefits expense of $591,000, a decrease in retained profits of $639,000 and a corresponding increase in reserves.

(b) Restoration and rehabilitation provisions

Under AASB 137 *Provisions, Contingent Liabilities and Contingent Assets*, where the effect of the time value of money is material, then the provision is required to be discounted to its present value. This is based on discount rates that reflect current market assessments and risks specific to the liability. The subsequent unwinding of the discount on the provision is recorded as a borrowing cost in the income statement.

In line with this, the Group has reviewed is restoration and rehabilitation provisions and associated mine property amortisation for both Broken Hill and Daisy Milano. The effect of this is:

(i) At 1 July 2004
For the Group there has been a net decrease in mine properties of $2,901,000; a net decrease in non current provisions of $1,635,000; a net decrease in deferred tax liabilities of $380,000 and a net decrease in retained profits of $886,000.

(ii) For and at the year ended 30 June 2005
For the Group there has been a increase in borrowing costs of $1,504,000; a decrease in amortisation expense of $352,000; a net decrease in income tax expense of $346,000; a net decrease in mine properties of $2,571,000; a net decrease in non current provisions of $152,000; a net increase in deferred tax assets of $726,000; and a net decrease of $1,693,000 in retained profits.

(c) Annual leave provisioning

Under AASB 19 *Employee Benefits (December 2004)* the Group is required to recognise long term employee benefits on a present value basis where the benefit is expected to be paid beyond a 12 month period. In line with this the Group has determined that there is a non current element in its employee annual leave provisioning but has determined that the discount effect on that element is immaterial (as on average all accrued annual leave is paid out within 15 months) The effect of this is:

(i) At 1 July 2004
For the Group there has been a decrease in current provisions of $367,000 and a corresponding increase in non current provisions of $367,000.

(ii) At 30 June 2005
For the Group there has been a decrease in current provisions of $534,000 and a corresponding increase in non current provisions of $534,000.

(d) Revenue recognition on disposal of non current assets

Under AASB 5 *Non-current Assets Held for Sale and Discontinued Operations* income recognised in relation to the sale on non current assets is required to be disclosed as a single amount on the face of the income statement This contrasts to Australian GAAP treatment where gross proceeds from sale were recognised as revenue and the carrying amount of assets sold was recognised as an expense. In line with this the Group has netted off the carrying amounts of assets sold that were previously shown as an expense against the sale proceeds that were included in the other income line. The effect of this is:

(i) For the year ended 30 June 2005
For the Group there has been a decrease in expenses of $679,000 and a corresponding decrease in other income of $679,000.

(e) Revenue recognition

Under AASB 118 *Revenue* revenue is defined as the gross inflow of economic benefits during the period arising in the course of the ordinary activities of the entity and inclusive of the use by others of entity assets. In line with this the Group has reclassified a number of items, including interest income, from other income to revenue from continuing operations. The effect of this is:

(i) For the year ended 30 June 2005
For the Group there has been a decrease in other income of $2,045,000 and a corresponding increase in revenue from continuing operations of $2,045,000.

(f) Borrowing costs and foreign exchange gains

Under AASB 123 *Borrowing Cost* foreign exchange gains on interest bearing liabilities are not included in borrowing costs except to the extent they are regarded as an adjustment to interest costs. In line with this the Group has subsequently reclassified foreign exchange gains previously classified as borrowing costs and netted these amounts against foreign exchange losses disclosed in the expense line items with the resultant net foreign exchange gain/loss reclassified as other income. The effect of this is:

(i) For the year ended 30 June 2005
For the Group there has been an increase in borrowing costs of $2,421,000; a net decrease of $1,600,000 in foreign exchange loss; and net increase in other income of $821,000.

(g) Reclassification of prepayments to receivables

Under AASB 101 *Presentation of Financial Statements* prepayments are classified as a sub element of receivables on the face of the balance sheet. In line with this the Group has reclassified its prepayments, previously classified under other current assets, to receivables. The effect of this is:

(i) At 1 July 2004
For the Group there has been a decrease in other current assets of $3,614,000 and a corresponding increase in current receivables of $3,614,000.

(ii) At 30 June 2005
For the Group there has been a decrease in other current assets of $2,072,000 and a corresponding increase in current receivables of $2,072,000.

(h) Financial instruments

The Group has elected to apply the exemption from restatement of comparatives for AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. It has therefore continued to apply the previous AGAAP rules to derivatives, financial assets and financial liabilities and also to hedge relationships for the year ended 30 June 2005. The adjustments required for differences between previous AGAAP and AASB 132 and AASB 139 have been determined and recognised at 1 July 2005. Refer to section 5 of this note and note 1 for further details.

(i) Deferred tax liability

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 AIFRS has resulted in a change in accounting policy. The effects on deferred tax of the AIFRS transition adjustments are reflected in the notes (a) through to (g) above.

On applying the balance sheet approach under AIFRS in calculating the net deferred tax balance on transition an additional net adjustment of $2,615,000 to reduce the net deferred tax liability was identified.

(j) Retained profits

The effect on retained profits of the changes set out above are as follows:

	1 July 2004	30 June 2005
Rehabilitation and restoration provisions (net of tax)	(886)	(1,693)
Share based payments	(48)	(639)
Deferred tax	2,615	2,615
Total adjustment	1,681	283

(5) Change in accounting policies

Adjustments on transition to AASB 132 Financial Instruments: Disclosure and Presentation and AASB 139 Financial Instruments: Recognition and Measurement: 1 July 2005

In the current financial year the Group adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement*. This change in accounting policy has been adopted in accordance with the transition rules contained in AASB 1, which does not require the restatement of comparative information for financial instruments within the scope of AASB 132 and AASB 139.

The adoption of AASB 139 has resulted in the Group recognising available-for-sale investments and all derivative instruments as assets or liabilities at fair value. This change has been accounted for by adjusting the opening balance of retained earnings and the related fair value reserves at 1 July 2005.

The impact on the balance sheet in the comparative period is set out below as an adjustment to the opening balance sheet at 1 July 2005. The transitional provisions will not have any effect in future reporting periods.

Adjustments recognised on transition were:

(i) recognition of Broken Hill's price linked payment obligation to the administrators of Pasminco as an embedded derivative. Under this contract an amount will become payable to the administrators of Pasminco if the spot price of zinc averages in excess of US$960/tonne in any one quarter. This obligation extends to either 30 November 2009, or when payments under this arrangement have totalled $30,000,000. Recognition of the price linked payment liability as an embedded derivative resulted in a $12,239,000 increase in the current derivative financial instruments account; a $922,000 decrease in the current provisions account, an $8,474,000 increase in the non current derivative financial instruments account and a $5,937,000 increase in deferred tax assets with a net debit to retained profits of $13,854,000; and

(ii) the reclassification and fair value adjustment of other financial assets that resulted in

(a) current and non-current other financial assets been reclassified as available-for-sale financial assets resulting in a decrease of current other financial assets of $8724,000 and a decrease in non-current other financial assets of $869,000 with respective increases in current and non-current available-for-sale financial assets; and

(b) an increase of $560,000 in current available-for-sale financial assets; a increase of $1,145,000 in non current available-for-sale financial assets; and a $511,000 increase in deferred tax liabilities with a net credit to the available-for-sale financial assets fair value reserve' of $1,194,000

NOTES TO THE PRELIMINARY FINAL REPORT
30 June 2006 (continued)

	30 June 2005 $'000	Adjustment $'000	1 July 2005 $'000
ASSETS			
Current assets			
Cash and cash equivalents	12,022	-	12,022
Receivables	11,680	-	11,680
Inventories	12,751	-	12,751
Available-for-sale financial assets	-	9,284	9,284
Other financial assets	8,724	(8,724)	-
Total current assets	45,177	560	45,737
Non-current assets			
Restricted cash	9,588	-	9,588
Receivables	11	-	11
Investments accounted for using the equity method	90	-	90
Available-for-sale financial assets	-	2,014	2,014
Other financial assets	869	(869)	-
Deferred tax assets	1,692	5,937	7,629
Exploration and evaluation expenditure	15,756	-	15,756
Mine properties in use	63,779	-	63,779
Property, plant and equipment	49,894	-	49,894
Total non-current assets	141,679	7,082	148,761
Total assets	186,856	7,642	194,498
LIABILITIES			
Current liabilities			
Payables	25,350	-	25,350
Interest bearing liabilities	4,965	-	4,965
Current tax liabilities	316	-	316
Provisions	12,058	(922)	11,136
Derivative financial instruments	-	12,239	12,239
Total current liabilities	42,689	11,317	54,006
Non-current liabilities			
Interest bearing liabilities	7,660	-	7,660
Deferred tax liabilities	-	511	511
Provisions	20,232	-	20,232
Derivative financial instruments	-	8,474	8,474
Total non-current liabilities	27,892	8,985	36,877
Total liabilities	70,581	20,302	90,883
Net assets	116,275	(12,660)	103,615
EQUITY			
Contributed equity	99,286	-	99,286
Reserves	639	1,194	1,833
Retained profits	16,350	(13,854)	2,496
Total equity	116,275	(12,660)	103,615

Refer to notes 1(m), 1(n) and 1(o) for further information on the transition to AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* on 1 July 2005.