



**INTERNATIONAL FERRO
METALS LIMITED**

**HALF-YEAR FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED
31 DECEMBER 2006**

Corporate Information

ABN 31 099 355 790

This half-year report covers International Ferro Metals Limited and its wholly owned subsidiary (“the Group”). The Group’s functional and presentation currency is South African Rand (“ZAR” or “R”).

A description of the Group’s operations and of its principal activities is included in the review of operations and activities in the directors’ report on page 3. The directors’ report is not part of the financial report.

Directors

A. Grey
S. Turner
I. Watson
X. Yang
T. Willsteed
T. Xia
S. Oke

Company Secretary

W J Kernaghan

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Share Register

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Grant Thornton Corporate Finance
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Auditors

Ernst & Young
680 George Street
Sydney NSW 2000
Australia

Directors' Report

Your directors submit their report for the half-year ended 31 December 2006.

DIRECTORS

The names of the company's directors in office during the six months ended 31 December 2006 and until the date of this report are as below. Directors were in office for this entire period.

- Anthony Grey
- Stephen Turner
- Ian Watson
- Xiaoping Yang
- Terence Willstead
- Stephen Oke
- Tian Xia

OPERATING AND FINANCIAL REVIEW

The IFM Group reported a loss of R70.9 million for the period ended 31 December 2006. This loss was in accordance with budgeted expenditure for this period in which IFM was constructing its ferrochrome facility in South Africa.

Highlights

- The Lesedi chromite mine was successfully commissioned in July 2006. Chromite production at Lesedi is progressing well and is in line with the production schedule.
- The first and second furnace were commissioned in January 2007 and operated at their design capacity following a ramp-up period of two weeks; and
- The construction of the overall integrated ferrochrome facility remains ahead of schedule with the facility's ore beneficiation plant commissioned during January 2007. This plant is currently operating at full capacity.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

Other than the above there were no significant changes in the state of affairs of the Group for the half-year ended 31 December 2006.

ROUNDING

The amounts contained in the half-year financial report have been rounded to the nearest ZAR1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

AUDITORS' INDEPENDENCE DECLARATION

We have obtained the Auditors' Independence Declaration from our auditors, Ernst & Young, which immediately follows this Directors report.

Signed in accordance with a resolution of the directors.



Stephen Turner
Director
Sydney,
5 March 2007



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Auditor's Independence Declaration to the Directors of International Ferro Metals Limited

In relation to our audit of the financial report of International Ferro Metals Limited for the half-year ended 31 December 2006, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act* 2001 or any applicable code of professional conduct.

Michael Elliott
Partner
Sydney

5 March 2007

Ernst & Young

Condensed Income Statement

FOR THE HALF-YEAR ENDING 31 DECEMBER 2006

	CONSOLIDATED	
	Audited	Unaudited
	2006 ZAR'000	2005 ZAR'000
Revenue		
Sales Revenue	4,441	635
Cost of goods sold	(3,600)	(123)
Gross profit	<u>841</u>	<u>512</u>
Other income/(expenses)		
Interest Income	17,709	12,305
Other Income	2,031	-
Finance costs	(31,818)	(4,718)
Other expenses	(60,391)	(223,207)
Loss before income tax	<u>(71,628)</u>	<u>(215,108)</u>
Loss attributable to minority interests	701	-
Net loss attributable to members of parent	<u>(70,927)</u>	<u>(215,108)</u>
Earnings / (loss) per share (cents per share)		
– basic loss per share	(17.29)	(90.81)
– diluted loss per share	(17.29)	(90.81)

Condensed Balance Sheet

AS AT 31 December 2006

CONSOLIDATED

	Notes	Audited 31 Dec 2006 ZAR'000	Audited 30 June 2006 ZAR'000
ASSETS			
Current Assets			
Cash and cash equivalents		11,197	85,348
Trade and other receivables		31,034	51,945
Inventories		20,472	772
Other current assets		35,522	198,530
Total Current Assets		98,225	336,596
Non-current Assets			
Receivables		16,656	13,797
Property, plant and equipment		1,448,173	882,723
Mineral Resources		61,601	65,775
Other non current assets		274,780	236,576
Total Non-current Assets		1,801,210	1,198,871
TOTAL ASSETS		1,899,434	1,535,467
LIABILITIES			
Current Liabilities			
Trade and other payables		119,461	208,414
Derivative liability		26,472	-
Provisions		15,850	5,852
Total Current Liabilities		161,783	214,266
Non-current Liabilities			
Interest Bearing Loans and Borrowings	5.	706,129	224,381
Non Current Provisions		7,414	5,022
Derivative liability		21,975	19,598
Total Non-current Liabilities		735,518	249,002
TOTAL LIABILITIES		897,301	463,268
NET ASSETS		1,002,133	1,072,199
EQUITY			
Share Capital	6.	1,341,463	1,340,492
Share based payments reserve		(3,618)	(4,209)
Accumulated losses		(354,401)	(283,474)
Parent Entity Interests		983,444	1,052,808
Minority Interests		18,689	19,390
Total Shareholders equity		1,002,133	1,072,199

Condensed Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 December 2006

	CONSOLIDATED	
	Audited 2006 ZAR'000	Unaudited 2005 ZAR'000
Cash flows from operating activities		
Receipts from customers	4,441	635
Payments and advances to suppliers and employees (inclusive of GST)	(53,378)	(25,271)
Interest paid	(15,418)	(2,686)
	<u>(64,355)</u>	<u>(27,322)</u>
Net cash flows used in operating activities		
Cash flows from investing activities		
Payments for property, plant and equipment	(492,096)	(415,064)
Investment in Mineral Resources	(7,168)	(3,729)
Interest received	16,053	12,305
	<u>(483,211)</u>	<u>(406,488)</u>
Net cash flows used in investing activities		
Cash flows from financing activities		
Proceeds from issue of shares (net of issue costs)	-	1,055,978
Payment for Treasury shares	(10,365)	-
Repayment of shareholder loans	-	(16,512)
Environmental deposit	-	(11,700)
Proceeds from borrowings	480,669	(11,881)
	<u>470,304</u>	<u>1,015,885</u>
Net cash flows from financing activities		
Net increase/(decrease) in cash and cash equivalents	(77,262)	582,075
Cash and cash equivalents at beginning of the period	85,348	15,574
Effects of exchange rate changes on cash	3,105	2,538
	<u>11,191</u>	<u>600,187</u>
Cash and cash equivalents at end of period		

Condensed Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED	Attributable to equity holders of the parent					Minority Interest ZAR'000	Total equity ZAR'000
	Share Capital ZAR'000	Convertible note ZAR'000	Accumulated losses ZAR'000	Share-Based Payments Reserve ZAR'000	Total ZAR'000		
At 1 July 2005	48,212	5,977	(65,080)	410	(10,481)	-	(10,481)
Loss for the period	-	-	(215,108)	-	(215,108)	-	(215,108)
Share placement costs	(55,538)	-	-	-	(55,538)	-	(55,538)
Total income / (expense) for the period	(55,538)	-	(215,108)	-	(270,646)	-	(270,646)
Cost of share based payments	-	-	-	7,472	7,472	-	7,472
Issue of shares	1,328,158	-	-	-	1,328,158	-	1,328,158
Conversion of Global Eagle convertible note	-	-	-	-	-	20,000	20,000
Conversion of RAB convertible note	19,659	(5,977)	-	-	13,682	-	13,682
At 31 December 2005	1,340,492	-	(280,188)	7,882	1,068,185	20,000	1,088,185
At 1 July 2006	1,340,492	-	(283,474)	(4,209)	1,052,808	19,390	1,072,199
Loss for the period	-	-	(70,927)	-	(70,927)	(701)	(71,627)
Total income / (expense) for the period	-	-	(70,927)	-	(70,927)	(701)	(71,627)
Cost of share based payments	-	-	-	591	591	-	591
Purchase of Treasury shares	(10,366)	-	-	-	(10,366)	-	(10,366)
Issue of Treasury shares	11,337	-	-	-	11,337	-	11,337
At 31 December 2006	1,341,463	-	(354,401)	(3,618)	983,444	18,689	1,002,133

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The financial report of International Ferro Metals Limited (the Company) for the half year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 5 March 2007.

International Ferro Metals Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Alternative Investment Market of the London Stock Exchange.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of International Ferro Metals Limited as at 30 June 2006.

It is also recommended that the half-year financial report be considered together with any public announcements made by International Ferro Metals Limited and its controlled entities during the half-year ended 31 December 2006 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

(b) Basis of accounting

This half-year general purpose financial report has been prepared in accordance with applicable Accounting Standards including AASB 134 "Interim Financial Reporting", other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

This financial report has been prepared in accordance with the historical cost convention, except for certain assets, which, as noted, are at fair value. For the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

The financial report is presented in South African Rand and all values are rounded to the nearest thousand rands (ZAR'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

In the application of AIFRS, management is required to make judgements, estimates, and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. Actual results may differ from estimate.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of AIFRS that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable in the relevant notes to the financial statements.

No Australian Accounting Standards issued but not yet effective have been early adopted. It is not considered early adoption of these standards would have a material impact on the results of the Group.

INTERNATIONAL FERRO METALS LIMITED – HALF-YEAR FINANCIAL STATEMENTS

(c) Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2006 except as noted in paragraph (e) below.

(d) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by International Ferro Metals Limited (IFM) at the end of the reporting period. The Company and its controlled entities together are referred to as the Group. The effects of all transactions between entities in the Group are eliminated in full. Outside equity interests in the results and equity of controlled entities are shown separately in the consolidated statement of financial performance and statement of financial position respectively.

Where control of an entity is obtained during a financial period, its results are included in the consolidated statement of financial performance from the date on which control commences. Where control of an entity ceases during a financial period its results are included for that part of the period during which control existed.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

(e) Prior period adjustment – JISCO anti-dilution clause

The company had entered into a Share Subscription Agreement with Jiuquan Iron and Steel Group Company Limited ("JISCO") ("the agreement") on 25 August 2005 whereby JISCO agreed to subscribe for such number of ordinary shares as represents 26.1% of the issues ordinary shares immediately after the company's Admission to the AIM exchange.

Under this agreement, if an option is exercised, JISCO are entitled to be offered and issued shares at the same strike price at which such options were exercised to enable JISCO to continue holding 26.1%. In substance, JISCO are deemed to be granted a pro rated number of options on the same terms and conditions of all other option holders existing at the time of the AIM Admission and thereafter.

As there were options outstanding at the time of the AIM admission, JISCO are deemed to also hold an amount of options necessary for them to maintain their 26.1% interest. The value of these options was required to be expensed at this time. Furthermore, these options are considered a derivative liability rather than an equity instrument pursuant to a statement made by the International Financial Reporting Interpretations Committee ("IFRIC") which deems options denominated in a foreign currency to be derivative liabilities. Accordingly, the value of these options is required to be measured at fair value, with movements in fair value being recorded in the income statement.

In the preparation of the 31 December 2005 half year financial statements and the 30 June 2006 year end financial statements, the value of these options has not been accounted for.

The impact of applying the above accounting treatment for the six months to 31 December 2005 and for the year ended 30 June 2006 is as follows:

	As previously recorded (ZAR'000)	Adjustment (ZAR'000)	Adjusted Balance (ZAR'000)
31 December 2005			
Net assets	1,095,142	(6,957)	1,088,185
Shareholders equity			
- Share capital	1,340,491	-	1,340,491
- Share based payment reserve	7,882	-	7,882
- Opening retained earnings	(65,080)	-	(65,080)
- loss for the period (6 months)	(208,151)	(6,957)	(215,108)
- Minority interest	20,000	-	20,000
	1,095,142	(6,957)	1,088,185

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	(ZAR'000)	(ZAR'000)	(ZAR'000)
30 June 2006			
Net assets	1,079,309	(7,109)	1,072,200
Shareholders equity			
- Share capital	1,340,492	-	1,340,492
- Share based payment reserve	(4,209)	-	(4,209)
- Opening retained earnings	(65,080)	-	(65,080)
- loss for the period (12 months)	(211,285)	(7,109)	(218,394)
- Minority interest	19,390	-	19,390
	1,079,308	(7,109)	1,072,199

3. LOSS PER SHARE

	CONSOLIDATED	
	2006	2005
Basic loss per share (cents per share)	(17.29)	(90.81)
Diluted loss per share	(17.29)	(90.81)
Loss used in calculating basic and diluted loss per share (Rm)	(70,927)	(215,108)
Weighted number of ordinary shares in issue in calculation of basic loss per share	410,283,623	236,883,621
Number of potential ordinary shares that are not dilutive and not used in calculation of diluted loss per share	21,632,982	21,632,982
Weighted number of ordinary shares in issue used in calculation of diluted loss per share	410,283,623	236,883,621

4. DIVIDENDS PAID AND PROPOSED

No dividends have been paid or proposed.

5. INTEREST BEARING LIABILITIES

	CONSOLIDATED	
	2006	2005
	(ZAR'000)	(ZAR'000)
Standard Bank Junior Debt	150,000	150,000
Standard Bank Senior Debt	500,669	1,246
Debt establishment costs	(18,532)	-
Finance lease liability	73,992	73,135
	706,129	224,381

INTERNATIONAL FERRO METALS LIMITED – HALF-YEAR FINANCIAL STATEMENTS

Junior debt

Junior debt of R150 million (excl interest) is made available by SAAB supporter ETTAB,

Senior debt

Senior debt of R556 million is made available by Standard Bank Ltd and Nedbank Ltd.

Interest rate

The loans are secured and carry interest as follows:

* Junior Debt – JIBAR + 1%

* Senior Debt – JIBAR + 3%

Security

The loans are secured over a session of all project accounts, debtors, all LSTK performance guarantees and the land and mineral rights.

Repayment terms

Both loans have quarterly repayment terms which commences by no later than 30 June 2008. The junior debt has fixed repayments of 4.55% per quarter, while repayments on the senior debt varies between 3.26% and 5.87% per quarter. Final payment is expected to be made by 30 September 2013.

Finance lease

The amount is secured over electricity supply infrastructure and included in Property Plant and Equipment.

Repayment commences on the date that electricity is made available to the company for a period of 300 months.

Monthly payments will approximate R984,384. If the agreement is cancelled before 14 years have lapsed there is a pro-rata penalty clause. Interest is calculated at 11.5% per annum.

Cost Overrun facility

There has been no draw down on the existing capital contingency facility of R85 million.

6. CONTRIBUTED EQUITY

	<i>31 Dec 2006</i> <i>ZAR'000</i>	<i>30 June 2006</i> <i>ZAR'000</i>
Ordinary shares	1,340,492	1,340,492
Treasury shares	971	-
At 31 December 2006	<u>1,341,463</u>	<u>1,340,492</u>
	<i>Number of Shares</i>	<i>ZAR'000</i>
<i>Movements in shares on issue</i>		
At 1 July 2006	410,283,623	1,340,492
Treasury shares purchased	(2,000,000)	(10,366)
Treasury shares issued	2,000,000	11,337
At 31 December 2006	<u>410,283,623</u>	<u>1,341,463</u>

The company announced on the 13 December 2006 that it had established an Employee Share Trust that, in conjunction with the Executive Performance Rights Plan (see note 7), allowed key executives to elect to receive shares in the Company in lieu of receiving a bonus payment under its existing employee bonus scheme. The Trust acquired 2,000,000 shares in the Company at £0.375 to satisfy elections arising under the bonus scheme.

All employee elections were received by 19 December 2006, totalling 2,000,000 shares. These shares will be transferred from the Employee Share Trust to employees (or sold on their behalf) following the lodgement of the Financial Statements with the AIM exchange.

Whilst the above shares are treated as Treasury shares for accounting purposes there has been no buy-back or cancellation of such shares in accordance with the Corporations Act.

7. SHARE-BASED PAYMENT PLANS

a. IFM Executive Performance Rights Plan

On 13 December 2006, 2,000,000 performance rights were granted to senior executives under the IFM Executive Employee Share Option Plan. These rights vest and are exercisable if executives become entitled to a bonus under the Company's existing employee bonus scheme. Upon exercise executives can elect to receive a share or the net proceeds of sale of such share for each right exercised. Employees elected to exercise their rights during the period which will result in the release of 2,000,000 shares from the Executive Share Trust (refer note 6.). The fair value of the options granted is estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006:

	2006
Expected volatility (%)	60%
Risk-free interest rate (%)	6.5%

The estimated fair value of each option at grant date is R1.10.

b. Phantom Share Option Plan

On 15 November 2006, 5,439,000 options were granted to employees of IFM. An option grants the eligible employee, subject to the satisfaction of certain vesting and exercise conditions, a cash amount determined by reference to the excess of the market price of an ordinary share in the Company at the time of exercise of the Options (capped at an imposed maximum price of £1.50) and the exercise price of the Options. The Options vest in equal tranches over three years. The options expire five years after the grant date.

The fair value of the options granted is estimated as at the date of grant, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the half-year ended 31 December 2006:

	2006
Expected volatility (%)	60%
Risk-free interest rate (%)	6.5%

The estimated fair value of each option at grant date is R3.73.

8. SEGMENT INFORMATION

The group operates predominantly in one business segment and in the one geographical area, that being the development of an integrated chromite mine and processing facility in South Africa.

9. CAPITAL COMMITMENTS

On 16 November 2006, the Company committed to construct a Metal Recovery plant for an amount of R30 million. It is anticipated that the commissioning of this plant will take place on or about 31 March 2007. Payment of this commitment will be under a lease arrangement over 5 years.

10. CONTINGENT ASSETS AND LIABILITIES

Since the last annual reporting date, there has been no material change of any contingent liabilities or contingent assets.

11. EVENTS AFTER THE BALANCE SHEET DATE

The following events occurred after the year end:

- The first and second furnace were commissioned on 8 January 2007 and 30 January 2007, respectively and is operating at its design capacity following a ramp-up period of two weeks; and
- The construction of the overall integrated ferrochrome facility remains ahead of schedule with the facility's ore beneficiation plant commissioned during January 2007. This plant is currently operating at full capacity.

Directors' Declaration

In accordance with a resolution of the directors of International Ferro Metals Limited, I state that:

1. In the opinion of the directors:
 - (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2006 and of the performance for the period ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 Interim Financial Reporting and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Stephen Turner
Director

Sydney,
5 March 2007



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Independent audit report to members of International Ferro Metals Limited

Scope

The financial report and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for International Ferro Metals Limited (the company) and the consolidated entity, for the period ended 31 December 2006. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standard AASB 134 "Interim Financial Reporting", in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standard AASB 134 "Interim Financial Reporting", and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated entity's financial position, and of their performance as represented by the results of their operations and cash flows.

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

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

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

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

Liability limited by a scheme approved under Professional Standards Legislation.

INTERNATIONAL FERRO METALS LIMITED – HALF-YEAR FINANCIAL STATEMENTS

Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration a copy of which follows the Directors' Report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Audit opinion

In our opinion the financial report of International Ferro Metals Limited is in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of International Ferro Metals Limited and the consolidated entity at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Michael Elliott
Partner
Sydney
5 March 2007